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

CANADA

Fortis Inc.

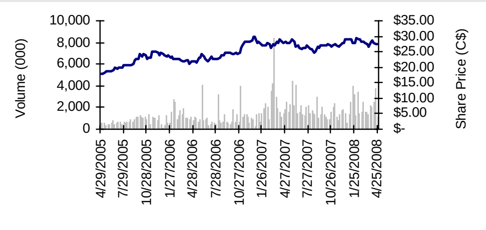
2 May 2008

FTS CN		Underperform
Volatility index		Low
Stock price as of 1 May 08	C$	27.96
12-month target	C$	28.00
12-month TSR	%	4.3
Valuation	C$	28.00
- EV/EBITDA, DDM, P/E		
GICS sector		Utilities
Market cap	C$m	4,386
30-day avg turnover	C$m	11.7
Number shares on issue	m	156.9

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Revenue	m	$2,718	$3,558	$3,703	$3,951
EBITDA	m	$814	$1,008	$1,024	$1,055
Reported profit	m	$192	$243	$253	$270
Adjusted profit	m	$185	$243	$253	$270
EPS adj	C$	$1.35	$1.55	$1.55	$1.65
EPS adj growth	%	-3%	15%	0%	7%
PE adjs	x	20.8	18.0	18.1	17.0
CFPS adj	C$	$3.56	$4.00	$3.97	$4.15
CFPS growth	%	23.1%	12.4%	-0.6%	4.6%
PCF	x	7.9	7.0	7.0	6.7
Total DPS	C$	$0.82	$1.00	$1.10	$1.21
Total div yield	%	2.9%	3.6%	3.9%	4.3%
EV/EBITDA	x	11.0	10.2	10.1	9.8
Debt/capital	%	64.5%	65.4%	64.2%	65.0%
Return on BV	x	9.3%	9.1%	8.8%	9.0%

FTS CN



Source: Bloomberg, Macquarie Research, May 2008

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Strong 1Q as expected

(All figures in CAD unless otherwise noted)

Event

- Fortis reported 1Q08 EPS of $0.58 vs. our estimate of $0.61 and $0.40 in 1Q07.

Impact

- The earnings report should have a neutral impact on the stock.
- Earnings were well above last year but that is because Fortis did not own BC Gas until 2Q07. The gas utility books most of its annual earnings in the first quarter.
- Though the BC Gas acquisition stretched Fortis' balance sheet, it is now clear the deal was accretive to EPS.
- Since Fortis has a strong track record of effectively integrating utility acquisition targets, we believe investors anticipated the accretion.

Earnings revision

- We are not changing our earnings estimates following the 1Q release.
- The small shortfall was caused by seasonal factors in Newfoundland Power that will likely reverse over the next few quarters.
- Our 2009 forecast remains flat to 2008 due to a lower achieved return in Alberta and the loss of earnings from Ontario generation assets.

Price catalyst

- Our 12-month price target of $28 is based on a premium 10.1x EV/EBITDA multiple (Canadian group average 8.5x) and an 18.1x P/E multiple (Canadian group average 17.0x).
- Catalyst: The company's low-risk asset base and strong track record should support a relatively high valuation multiple.

Action and recommendation

- Earnings growth at Fortis will likely slow in 2009 following a strong year in 2008.
- We have confidence management will deliver to expectations, but are concerned valuation could compress absent new growth initiatives.
- Our Underperform ranking is premised on the assumption Fortis shares trade in a tight range while other Canadian energy infrastructure shares will appreciate in value.

Fortis Inc. (FTS CN, Underperform, Target price: C$28.00)

Earnings and Per Share Data (Annual)	2007	2008E	2009E	2010E
Newfoundland Power	$29.9	$30.1	$29.7	$30.5
Alberta & BC Utilities	$79.0	$77.9	$83.4	$94.6
BC Gas	$43.0	$106.6	$107.4	$108.9
Maritime Electric	$11.2	$10.9	$11.0	$11.6
FortisOntario (CNP & Cornwall)	$2.5	$3.5	$3.8	$4.2
Fortis Generation	$24.2	$22.9	$15.5	$16.4
Regulated Electric Utilities - Caribbean	$32.5	$36.0	$39.1	$39.9
Fortis Properties	$24.2	$23.0	$24.9	$25.6
Corporate	($61.0)	($68.2)	($62.2)	($62.2)
Operating Earnings for common shares	**$185.4**	**$242.7**	**$252.6**	**$269.5**
Unusual items	$6.9	$0.0	$0.0	$0.0
Reported Earnings	$192.3	$242.7	$252.6	$269.5
Average shares o/s (mln)	137.7	156.6	163.5	163.7
Operating Earnings per basic share	**$1.35**	**$1.55**	**$1.55**	**$1.65**
Reported Earnings per basic share	$1.40	$1.55	$1.55	$1.65
Dividends Per Share	**$0.82**	**$1.00**	**$1.10**	**$1.21**
EBITDA	$813.9	$1,007.7	$1,023.6	$1,054.7
EBITDA Per Share	$5.91	$6.43	$6.26	$6.44
Cash Flow From Operations	$490.0	$626.2	$649.6	$679.9
Cash Flow Per Share	**$3.56**	**$4.00**	**$3.97**	**$4.15**
Book Value Per Share	$16.74	$17.18	$18.09	$18.54
Return On Book Value	9.3%	9.1%	8.8%	9.0%

Earnings and Per Share Data (Quarterly)	Q1/08	Q2/08E	Q3/08E	Q4/08E
Newfoundland Power	$6.3	$10.2	$5.2	$8.4
Alberta & BC Utilities	$22.7	$22.1	$21.0	$12.1
BC Gas	$58.0	$2.5	($2.0)	$48.1
Maritime Electric	$2.6	$3.3	$3.0	$2.0
FortisOntario (CNP & Cornwall)	$1.4	$0.7	$1.4	($0.0)
Fortis Generation	$5.9	$4.6	$4.9	$7.4
Regulated Electric Utilities - Caribbean	$7.0	$8.9	$9.8	$10.2
Fortis Properties	$3.0	$6.0	$8.0	$6.0
Corporate	($16.0)	($17.0)	($17.5)	($17.7)
Operating Earnings for common shares	**$91.0**	**$41.3**	**$33.9**	**$76.5**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$91.0	$41.3	$33.9	$76.5
Average shares o/s (mln)	156.6	$156.6	156.6	156.6
Operating Earnings per basic share	**$0.58**	**$0.26**	**$0.22**	**$0.49**
Reported Earnings per basic share	$0.58	$0.26	$0.22	$0.49

Cash Flow Statement	2007	2008E	2009E	2010E
Operating Activities				
Earning (before non-controlling interest and disc	$199.0	$242.7	$252.6	$269.5
Depreciation and Amortization	$273.0	$336.5	$349.9	$363.4
Other	$18.0	$47.0	$47.0	$47.0
	$490.0	$626.2	$649.6	$679.9
Changes in non-cash Working Capital	($117.0)	$10.0	$0.0	$0.0
Cash Provided from Operating Activities	**$373.0**	**$636.2**	**$649.6**	**$679.9**
Investment Activities				
Total Capex	($730.0)	($892.0)	($833.0)	($833.0)
Other & Asset Sales	($1,303.0)	$0.0	($20.0)	($20.0)
Cash Used in Investing Activities	**($2,033.0)**	**($892.0)**	**($853.0)**	**($853.0)**
Financing Activities				
Dividends - common/pref shares	($134.0)	($163.1)	($186.3)	($204.5)
Other Financing Activities	$1,814.0	$390.0	$381.0	$381.0
Cash Used in Financing Activities	**$1,680.0**	**$226.9**	**$194.7**	**$176.5**
Foreign Currency Translation	($3.0)	$0.0	$0.0	$0.0
Increase (decrease) in cash	$17.0	($28.9)	($8.8)	$3.4
Cash - Beginning of Year	$40.9	$57.9	$29.0	$20.2
Cash - End of Year	**$57.9**	**$29.0**	**$20.2**	**$23.6**

Consolidated Capitalization	2007	2008E	2009E	2010E
Short-term debt	$475.0	$475.0	$475.0	$475.0
%	5.5%	5.3%	5.0%	4.8%
Long term debt	$5,059.0	$5,439.0	$5,619.0	$5,989.0
%	59.0%	60.1%	59.2%	60.3%
Total debt	**$5,534.0**	**$5,914.0**	**$6,094.0**	**$6,464.0**
Pref shares	$442.0	$442.0	$442.0	$442.0
Common equity	**$2,601.0**	**$2,690.6**	**$2,957.9**	**$3,033.9**
Total capitalization	**$8,577.0**	**$9,046.6**	**$9,493.9**	**$9,939.9**
Weighting				
Total Debt	64.5%	65.4%	64.2%	65.0%
Preferred Shares	5.2%	4.9%	4.7%	4.4%
Common Equity	30.3%	29.7%	31.2%	30.5%
	100.0%	100.0%	100.0%	100.0%

Figures in C$m except per share data.

Source: Macquarie Research, May 2008

Important disclosures:

Recommendation definitions

Macquarie – **Australia/New Zealand**
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – **Asia**
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South – **South Africa**
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – **Canada**
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – USA
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definitions*

This is calculated from the volatility of historical price movements.

Very high–highest risk – stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2008

	AU/NZ	Asia	RSA	USA	CA
Outperform	38.95%	70.56%	64.52%	50.00%	69.72%
Neutral	47.37%	16.32%	27.42%	39.47%	26.06%
Underperform	13.68%	13.12%	8.06%	10.53%	4.22%

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CANADA

Fortis Inc.

2 July 2008

FTS CN		Underperform
Volatility index		Low
Stock price as of 30 Jun 08	C$	27.16
12-month target	C$	27.00
12-month TSR	%	2.4
Valuation	C$	27.00
- EV/EBITDA, DDM, P/E		
GICS sector		Utilities
Market cap	C$m	4,261
30-day avg turnover	C$m	11.7
Number shares on issue	m	156.9

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Adjusted profit	m	$185	$235	$246	$263
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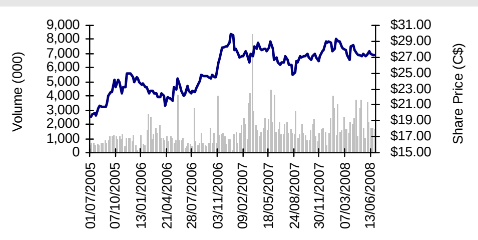
EPS adj growth	%	-3%	11%	0%	7%
PE adjs	x	20.3	18.2	18.1	17.0
CFPS adj	C$	$3.56	$3.95	$3.93	$4.11
CFPS growth	%	23.1%	11.0%	-0.4%	4.5%
PCF	x	7.7	6.9	6.9	6.6
Total DPS	C$	$0.82	$1.00	$1.10	$1.21
Total div yield	%	3.0%	3.7%	4.0%	4.4%
EV/EBITDA	x	11.0	10.2	9.9	9.8
Debt/capital	%	64.5%	65.4%	64.3%	65.2%
Return on BV	x	9.3%	8.9%	8.6%	8.8%

FTS CN



Source: Bloomberg, Macquarie Research, July 2008

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Belize drags down risk profile

(All figures in CAD unless otherwise noted)

Event

- On 26 June, the Public Utilities Commission (PUC) of Belize published its final rates decision for Fortis subsidiary Belize Electricity.
- The PUC approved an automatic monthly adjustment to purchased power costs but retroactively disallowed $12.6m (FTS share) in power costs and reduced the allowed return on assets from 12% to 10%.

Impact

- The final PUC decision should have a slightly negative impact on the stock. Problems with the Belize PUC were disclosed in the company's 1Q report but it appeared Fortis might be able to reverse any negative consequences. We now have less hope Fortis will achieve success in the Belize rates case.
- We believe the 10% return on assets is well below the cost of capital in Belize. Independent experts in the case noted the Belize Government cost of debt is over 9.0%. Given regulatory risk and hurricane risk the cost of equity must be well into the double digits.
- Compressed company valuation could be the most serious impact of the Belize situation. Fortis has generated about 20% of its earnings from utilities in the Caribbean. This regulatory problem highlights that Fortis trades at a premium valuation even though its business mix contains average risk.

Earnings revision

- We are reducing our 2008/9/10 EPS estimates by $0.05. The decision may impact more heavily this year than in future years due to retroactive fuel disallowance costs recorded in 2008.

Price catalyst

- 12-month price target: Our $27 target (down from $28) is still based on a premium 9.7x EV/EBITDA multiple (Canadian group average 9.0x) and an 18.0x P/E multiple (Canadian group average 17.0x). The company's strong track record may support a relatively high valuation multiple despite near-term risks.

Action and recommendation

- Earnings growth has slowed at Fortis. We have confidence management will deliver to expectations, but are concerned valuation could compress absent new growth initiatives. Our Underperform rating (unchanged) is premised on the assumption Fortis shares trade in a tight range while other Canadian energy infrastructure shares will appreciate in value.

Fortis Inc. (FTS CN, Underperform, Target price: C$27.00)

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Reported Earnings	$192.3	$234.8	$246.1	$262.5
Average shares o/s (mln)	137.7	156.6	163.5	163.7
Operating Earnings per basic share	**$1.35**	**$1.50**	**$1.50**	**$1.60**
Reported Earnings per basic share	$1.40	$1.50	$1.50	$1.60
Dividends Per Share	**$0.82**	**$1.00**	**$1.10**	**$1.21**
EBITDA	$813.9	$1,000.2	$1,033.6	$1,054.7
EBITDA Per Share	$5.91	$6.39	$6.32	$6.44
Cash Flow From Operations	$490.0	$618.3	$643.0	$672.9
Cash Flow Per Share	**$3.56**	**$3.95**	**$3.93**	**$4.11**
Book Value Per Share	$16.74	$17.13	$18.00	$18.41
Return On Book Value	9.3%	8.9%	8.6%	8.8%

Earnings and Per Share Data (Quarterly)	Q1/08	Q2/08E	Q3/08E	Q4/08E
Newfoundland Power	$6.3	$10.2	$5.2	$8.4
Alberta & BC Utilities	$22.3	$22.1	$21.0	$12.5
BC Gas	$58.0	$2.5	($2.0)	$48.1
Maritime Electric	$2.6	$3.3	$3.0	$2.0
FortisOntario (CNP & Cornwall)	$1.4	$0.7	$1.4	($0.0)
Fortis Generation	$5.9	$4.6	$4.9	$7.4
Regulated Electric Utilities - Caribbean	$7.0	$8.0	$6.8	$6.2
Fortis Properties	$3.0	$6.0	$8.0	$6.0
Corporate	($16.0)	($17.0)	($17.5)	($17.7)
Operating Earnings for common shares	**$90.5**	**$40.4**	**$30.9**	**$73.0**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$90.5	$40.4	$30.9	$73.0
Average shares o/s (mln)	156.6	$156.6	156.6	156.6
Operating Earnings per basic share	**$0.58**	**$0.26**	**$0.20**	**$0.47**
Reported Earnings per basic share	$0.58	$0.26	$0.20	$0.47

Cash Flow Statement	2007	2008E	2009E	2010E
Operating Activities				
Earning (before non-controlling interest and disc	$199.0	$234.8	$246.1	$262.5
Depreciation and Amortization	$273.0	$336.5	$349.9	$363.4
Other	$18.0	$47.0	$47.0	$47.0
	$490.0	$618.3	$643.0	$672.9
Changes in non-cash Working Capital	($117.0)	$10.0	$0.0	$0.0
Cash Provided from Operating Activities	**$373.0**	**$628.3**	**$643.0**	**$672.9**
Investment Activities				
Total Capex	($730.0)	($892.0)	($833.0)	($833.0)
Other & Asset Sales	($1,303.0)	$0.0	($20.0)	($20.0)
Cash Used in Investing Activities	**($2,033.0)**	**($892.0)**	**($853.0)**	**($853.0)**
Financing Activities				
Dividends - common/pref shares	($134.0)	($163.1)	($186.3)	($204.5)
Other Financing Activities	$1,814.0	$390.0	$381.0	$381.0
Cash Used in Financing Activities	**$1,680.0**	**$226.9**	**$194.7**	**$176.5**
Foreign Currency Translation	($3.0)	$0.0	$0.0	$0.0
Increase (decrease) in cash	$17.0	($36.8)	($15.3)	($3.6)
Cash - Beginning of Year	$40.9	$57.9	$21.1	$5.8
Cash - End of Year	**$57.9**	**$21.1**	**$5.8**	**$2.2**

Consolidated Capitalization	2007	2008E	2009E	2010E
Short-term debt	$475.0	$475.0	$475.0	$475.0
%	5.5%	5.3%	5.0%	4.8%
Long term debt	$5,059.0	$5,439.0	$5,619.0	$5,989.0
%	59.0%	60.2%	59.3%	60.4%
Total debt	**$5,534.0**	**$5,914.0**	**$6,094.0**	**$6,464.0**
Pref shares	$442.0	$442.0	$442.0	$442.0
Common equity	**$2,601.0**	**$2,682.7**	**$2,943.4**	**$3,012.4**
Total capitalization	**$8,577.0**	**$9,038.7**	**$9,479.4**	**$9,918.4**
Weighting				
Total Debt	64.5%	65.4%	64.3%	65.2%
Preferred Shares	5.2%	4.9%	4.7%	4.5%
Common Equity	30.3%	29.7%	31.1%	30.4%
	100.0%	100.0%	100.0%	100.0%

Figures in C$m except per share data.

Source: Macquarie Research, July 2008

Important disclosures:

Recommendation definitions

Macquarie – **Australia/New Zealand**
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – **Asia**
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South – **South Africa**
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – **Canada**
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – USA
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definitions*

This is calculated from the volatility of historical price movements.

Very high–highest risk – stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2008

	AU/NZ	Asia	RSA	USA	CA
Outperform	41.88%	66.96%	66.13%	50.82%	71.01%
Neutral	42.96%	16.30%	22.58%	44.26%	24.64%
Underperform	15.16%	16.74%	11.29%	4.92%	4.35%

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London Tel: (44 20) 7065 2000	**Manila** Tel: (63 2) 857 0888	**Melbourne** Tel: (613) 9635 8139	**Montreal** Tel: (1 514) 925 2850	**Mumbai** Tel: (91 22) 6653 3000	**Perth** Tel: (618) 9224 0888	**Seoul** Tel: (82 2) 3705 8500
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CANADA

Fortis Inc.

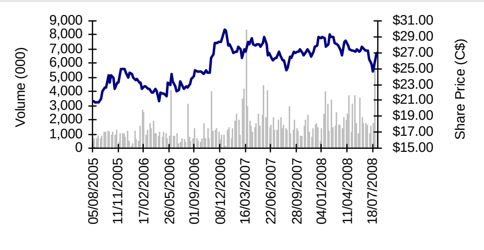
11 August 2008

FTS CN		Underperform
Volatility index		Low
Stock price as of 08 Aug 08	C$	26.80
12-month target	C$	27.00
12-month TSR	%	4.5
Valuation	C$	27.00
- EV/EBITDA, DDM, P/E		
GICS sector		Utilities
Market cap	C$m	4,210
30-day avg turnover	C$m	11.7
Number shares on issue	m	157.1

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Revenue	m	$2,718	$3,448	$3,590	$3,828
EBITDA	m	$814	$1,013	$1,035	$1,055
Reported profit	m	$192	$220	$245	$261
Adjusted profit	m	$185	$235	$245	$261
EPS adj	C$	$1.35	$1.50	$1.50	$1.60
EPS adj growth	%	-3%	12%	0%	7%
PE adjs	x	19.9	17.8	17.9	16.8
CFPS adj	C$	$3.56	$3.86	$3.93	$4.10
CFPS growth	%	23.1%	8.4%	1.8%	4.5%
PCF	x	7.5	7.0	6.8	6.5
Total DPS	C$	$0.82	$1.00	$1.10	$1.21
Total div yield	%	3.1%	3.7%	4.1%	4.5%
EV/EBITDA	x	11.0	10.2	9.7	9.6
Debt/capital	%	64.5%	65.5%	64.5%	65.4%
Return on BV	x	9.3%	8.9%	8.6%	8.8%

FTS CN



Source: Bloomberg, Macquarie Research, August 2008

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Solid result but earnings growth slows

(All figures in CAD unless otherwise noted)

Event

- Fortis reported normalized 2Q08 EPS of $0.28 vs. our estimate of $0.26 and $0.31 in 2Q08.

Impact

- The earnings report should have a neutral impact on the stock. Earnings were slightly ahead of our expectations, but only because of changes in seasonality at Terasen Gas. Full-year gas distribution results should be in line with our expectations.
- The company booked a $13m ($0.08) charge related to rates changes in Belize that we normalized away from ongoing earnings. Going forward, earnings at Belize Electric will be lower than in prior years though.
- Our thesis on Fortis has been that earnings growth would slow due to the phase-out of tax benefits at FortisAlberta, the elimination of earnings from Ontario generation assets and the slow-growth nature of Terasen Gas.
- These factors all contributed to the bottom line result that has been uncommon to Fortis in the past – EPS that is lower on a YoY basis.
- Absent significant acquisitions, we see earnings flat next year and growing only modestly in 2010. Nothing in the earnings release changes those forecasts.

Earnings revision

- We are not changing our earnings estimates following the 2Q release. Seasonal factors at Terasen Gas should reverse in the back half of the year.

Price catalyst

- Our 12-month price target of $27 is based on a premium 9.7x EV/EBITDA multiple (Canadian group average 9.0x) and an 18.0x P/E multiple (Canadian group average 17.0x).
- Catalysts: The company's strong historical track record should support a relatively high valuation multiple. Acquisitions could impact the stock.

Action and recommendation

- We have confidence that management will deliver to expectations, but are concerned valuation could compress absent new growth initiatives.
- Our Underperform ranking is premised on the assumption FTS shares trade in a tight range while other energy infrastructure shares will appreciate in value.

Fortis Inc. (FTS CN, Underperform, Target price: C$27.00)

Earnings and Per Share Data (Annual)	2007	2008E	2009E	2010E
Newfoundland Power	$29.9	$30.1	$29.7	$30.5
Alberta & BC Utilities	$79.0	$77.9	$83.4	$94.6
BC Gas	$43.0	$106.6	$107.4	$108.9
Maritime Electric	$11.2	$10.9	$11.0	$11.6
FortisOntario (CNP & Cornwall)	$2.5	$3.5	$3.8	$4.2
Fortis Generation	$24.2	$25.3	$16.3	$16.4
Regulated Electric Utilities - Caribbean	$32.5	$28.1	$32.5	$33.5
Fortis Properties	$24.2	$23.0	$24.9	$25.6
Corporate	($61.0)	($70.2)	($64.2)	($64.2)
Operating Earnings for common shares	**$185.4**	**$235.2**	**$244.9**	**$261.2**
Unusual items	$6.9	($15.0)	$0.0	$0.0
Reported Earnings	$192.3	$220.2	$244.9	$261.2
Average shares o/s (mln)	137.7	156.6	163.5	163.7
Operating Earnings per basic share	**$1.35**	**$1.50**	**$1.50**	**$1.60**
Reported Earnings per basic share	$1.40	$1.41	$1.50	$1.60
Dividends Per Share	**$0.82**	**$1.00**	**$1.10**	**$1.21**
EBITDA	$813.9	$1,013.4	$1,034.8	$1,054.7
EBITDA Per Share	$5.91	$6.47	$6.33	$6.44
Cash Flow From Operations	$490.0	$603.7	$641.9	$671.6
Cash Flow Per Share	**$3.56**	**$3.86**	**$3.93**	**$4.10**
Book Value Per Share	$16.74	$17.04	$17.91	$18.30
Return On Book Value	9.3%	8.9%	8.6%	8.8%

Earnings and Per Share Data (Quarterly)	Q1/08	Q2/08	Q3/08E	Q4/08E
Newfoundland Power	$6.3	$10.1	$5.2	$8.5
Alberta & BC Utilities	$22.3	$14.0	$21.0	$20.5
BC Gas	$58.0	$12.0	($3.4)	$40.0
Maritime Electric	$2.6	$2.0	$3.0	$3.3
FortisOntario (CNP & Cornwall)	$1.4	$2.0	$0.0	$0.1
Fortis Generation	$5.9	$7.0	$5.4	$6.9
Regulated Electric Utilities - Caribbean	$7.0	$8.0	$6.8	$6.2
Fortis Properties	$3.0	$7.0	$7.0	$6.0
Corporate	($16.0)	($18.0)	($17.5)	($18.7)
Operating Earnings for common shares	**$90.5**	**$44.2**	**$27.6**	**$72.9**
Unusual items	$0.0	($15.0)	$0.0	$0.0
Reported Earnings	$90.5	$29.2	$27.6	$72.9
Average shares o/s (mln)	156.6	$157.0	156.6	156.6
Operating Earnings per basic share	**$0.58**	**$0.28**	**$0.18**	**$0.47**
Reported Earnings per basic share	$0.58	$0.19	$0.18	$0.47

Cash Flow Statement	2007	2008E	2009E	2010E
Operating Activities				
Earning (before non-controlling interest and disco	$199.0	$220.2	$244.9	$261.2
Depreciation and Amortization	$273.0	$336.5	$349.9	$363.4
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Cash Used in Financing Activities	**$1,680.0**	**$226.9**	**$214.7**	**$176.5**
Foreign Currency Translation	($3.0)	$0.0	$0.0	$0.0
Increase (decrease) in cash	$17.0	($51.4)	$3.5	($5.0)
Cash - Beginning of Year	$40.9	$57.9	$6.5	$10.1
Cash - End of Year	**$57.9**	**$6.5**	**$10.1**	**$5.1**

Consolidated Capitalization	2007	2008E	2009E	2010E
Short-term debt	$475.0	$475.0	$475.0	$475.0
%	5.5%	5.3%	5.0%	4.8%
Long term debt	$5,059.0	$5,439.0	$5,639.0	$6,009.0
%	59.0%	60.3%	59.5%	60.6%
Total debt	**$5,534.0**	**$5,914.0**	**$6,114.0**	**$6,484.0**
Pref shares	$442.0	$442.0	$442.0	$442.0
Common equity	**$2,601.0**	**$2,668.1**	**$2,927.7**	**$2,995.3**
Total capitalization	**$8,577.0**	**$9,024.1**	**$9,483.7**	**$9,921.3**
Weighting				
Total Debt	64.5%	65.5%	64.5%	65.4%
Preferred Shares	5.2%	4.9%	4.7%	4.5%
Common Equity	30.3%	29.6%	30.9%	30.2%
	100.0%	100.0%	100.0%	100.0%

Figures in C$m except per share data.

Source: Macquarie Research, August 2008

Important disclosures:

Recommendation definitions

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Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
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Underperform – return >5% below benchmark return

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Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
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Recommendations – 12 months
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This is calculated from the volatility of historical price movements.

Very high–highest risk – stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

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Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2008

	AU/NZ	Asia	RSA	USA	CA
Outperform	41.88%	66.96%	66.13%	50.82%	71.01%
Neutral	42.96%	16.30%	22.58%	44.26%	24.64%
Underperform	15.16%	16.74%	11.29%	4.92%	4.35%

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CANADA

Fortis Inc.

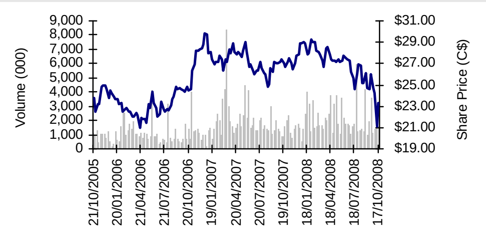
3 November 2008

FTS CN		Underperform
Volatility index		Low
Stock price as of 31 Oct 08	C$	26.30
12-month target	C$	24.00
12-month TSR	%	-4.9
Valuation	C$	24.00
- EV/EBITDA, DDM, P/E		
GICS sector		Utilities
Market cap	C$m	4,213
30-day avg turnover	C$m	11.7
Number shares on issue	m	157.2

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Revenue	m	$2,718	$3,671	$3,704	$3,850
EBITDA	m	$814	$1,021	$1,040	$1,056
Reported profit	m	$192	$243	$253	$263
Adjusted profit	m	$185	$250	$253	$263
EPS adj	C$	1.35	1.60	1.55	1.60
EPS adj growth	%	-3	19	-3	4
PE adjs	x	19.9	16.8	17.3	16.7
CFPS adj	C$	3.56	3.99	3.97	4.11
CFPS growth	%	23.1	12.2	-0.5	3.5
PCF	x	7.5	6.7	6.7	6.5
Total DPS	C$	0.82	1.00	1.10	1.21
Total div yield	%	3.1	3.7	4.1	4.5
EV/EBITDA	x	11.0	10.2	10.0	9.8
Debt/capital	%	64.5	65.4	64.3	65.1
Return on BV	x	9.3%	9.4%	8.8%	8.8%

FTS CN



Source: Bloomberg, Macquarie Research, November 2008

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Defensive and expensive

(All figures in CAD unless otherwise noted)

Event

- Fortis reported normalized 3Q08 EPS of $0.26 vs. our estimate of $0.18 and $0.20 in 3Q07.

Impact

- The strong quarter was largely due to seasonal factors but should also lead to a strong year.
- Earnings from regulated utilities in Newfoundland and Alberta were strong in 3Q but will likely come off in 4Q. However, the full year earnings will be higher than anticipated too because hydrology in Belize is boosting Generation.
- The earnings stability at Fortis is as good as anyone due to the regulated and diversified asset base. We anticipate little negative impact arising from the challenging credit and financial conditions ($1.5bn of unused lines of credit).
- The only damper on the 3Q report was that sales growth at the 'growth engine' Western Canadian utilities was slow even considering weather normalization (actual sales were down YoY).
- We continue to believe that organic growth at Fortis is slowing due to lower achieved ROEs, economic stagnation and the expiry of an Ontario power contract next year.

Earnings revision

- We are taking our 2008 and 2009 EPS up from $1.50 and $1.50 to $1.60 and $1.55 (Belize Hydro). Our 2010 EPS is unchanged at $1.60.

Price catalyst

- Our 12-month price target of $24 is based on a premium 9.5x EV/EBITDA multiple (Canadian group average 8.5x) and a 15.5x P/E multiple (Canadian group average 14.5x).
- Catalysts: Acquisitions and slow but steady growth. At some point next year the company may have to issue equity to fund its organic growth program.

Action and recommendation

- We have confidence that management will deliver to expectations, but are concerned valuation could compress once investors move out of purely defensive stocks or if the company announces a large acquisition. We are maintaining our Underperform rating.

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Fortis Inc. (FTS CN, Underperform, Target price: C$24.00)

Earnings and Per Share Data (Annual)	2007	2008E	2009E	2010E
Newfoundland Power	$29.9	$30.9	$31.7	$31.4
Alberta & BC Utilities	$79.0	$77.9	$83.4	$94.6
BC Gas	$43.0	$109.3	$112.0	$113.5
Maritime Electric	$11.2	$11.4	$11.0	$11.6
FortisOntario (CNP & Cornwall)	$2.5	$4.0	$4.0	$4.2
Fortis Generation	$24.2	$30.1	$18.4	$16.7
Regulated Electric Utilities - Caribbean	$32.5	$28.4	$33.1	$35.1
Fortis Properties	$24.2	$27.6	$27.2	$26.8
Corporate	($61.0)	($69.2)	($68.2)	($71.2)
Operating Earnings for common shares	**$185.4**	**$250.5**	**$252.7**	**$262.7**
Unusual items	$6.9	($7.5)	$0.0	$0.0
Reported Earnings	$192.3	$243.0	$252.7	$262.7
Average shares o/s (mln)	137.7	157.0	163.5	163.7
Operating Earnings per basic share	**$1.35**	**$1.60**	**$1.55**	**$1.60**
Reported Earnings per basic share	$1.40	$1.55	$1.55	$1.60
Dividends Per Share	**$0.82**	**$1.00**	**$1.10**	**$1.21**
EBITDA	$813.9	$1,021.0	$1,040.4	$1,056.2
EBITDA Per Share	$5.91	$6.51	$6.36	$6.45
Cash Flow From Operations	$490.0	$626.5	$649.6	$673.1
Cash Flow Per Share	**$3.56**	**$3.99**	**$3.97**	**$4.11**
Book Value Per Share	$16.74	$17.14	$18.09	$18.49
Return On Book Value	9.3%	9.4%	8.8%	8.8%

Earnings and Per Share Data (Quarterly)	1Q08	2Q08	3Q08	4Q08E
Newfoundland Power	$6.3	$10.1	$8.0	$6.5
Alberta & BC Utilities	$22.3	$13.8	$25.1	$16.8
BC Gas	$58.0	$12.0	($4.5)	$43.8
Maritime Electric	$2.6	$2.0	$3.5	$3.3
FortisOntario (CNP & Cornwall)	$1.4	$2.0	$1.5	($0.9)
Fortis Generation	$5.9	$7.0	$9.0	$8.1
Regulated Electric Utilities - Caribbean	$7.0	$8.0	$7.0	$6.3
Fortis Properties	$3.0	$7.0	$9.0	$8.6
Corporate	($16.0)	($18.0)	($17.0)	($18.2)
Operating Earnings for common shares	**$90.5**	**$43.9**	**$41.5**	**$74.4**
Unusual items	$0.0	($15.0)	$7.5	$0.0
Reported Earnings	$90.5	$28.9	$49.0	$74.4
Average shares o/s (mln)	156.6	$157.0	157.2	157.0
Operating Earnings per basic share	**$0.58**	**$0.28**	**$0.26**	**$0.47**
Reported Earnings per basic share	$0.58	$0.18	$0.31	$0.47

Cash Flow Statement	2007	2008E	2009E	2010E
Operating Activities				
Earning (before non-controlling interest and disc	$199.0	$243.0	$252.7	$262.7
Depreciation and Amortization	$273.0	$336.5	$349.9	$363.4
Other	$18.0	$47.0	$47.0	$47.0
	$490.0	$626.5	$649.6	$673.1
Changes in non-cash Working Capital	($117.0)	$10.0	$0.0	$0.0
Cash Provided from Operating Activities	**$373.0**	**$636.5**	**$649.6**	**$673.1**
Investment Activities				
Total Capex	($730.0)	($892.0)	($833.0)	($833.0)
Other & Asset Sales	($1,303.0)	$0.0	($20.0)	($20.0)
Cash Used in Investing Activities	**($2,033.0)**	**($892.0)**	**($853.0)**	**($853.0)**
Financing Activities				
Dividends - common/pref shares	($134.0)	($163.5)	($186.3)	($204.5)
Other Financing Activities	$1,814.0	$390.0	$401.0	$381.0
Cash Used in Financing Activities	**$1,680.0**	**$226.6**	**$214.7**	**$176.5**
Foreign Currency Translation	($3.0)	$0.0	$0.0	$0.0
Increase (decrease) in cash	$17.0	($29.0)	$11.3	($3.5)
Cash - Beginning of Year	$40.9	$57.9	$28.9	$40.2
Cash - End of Year	**$57.9**	**$28.9**	**$40.2**	**$36.7**

Consolidated Capitalization	2007	2008E	2009E	2010E
Short-term debt	$475.0	$475.0	$475.0	$475.0
%	5.5%	5.3%	5.0%	4.8%
Long term debt	$5,059.0	$5,439.0	$5,639.0	$6,009.0
%	59.0%	60.1%	59.3%	60.4%
Total debt	**$5,534.0**	**$5,914.0**	**$6,114.0**	**$6,484.0**
Pref shares	$442.0	$442.0	$442.0	$442.0
Common equity	**$2,601.0**	**$2,690.5**	**$2,957.8**	**$3,027.0**
Total capitalization	**$8,577.0**	**$9,046.5**	**$9,513.8**	**$9,953.0**
Weighting				
Total Debt	64.5%	65.4%	64.3%	65.1%
Preferred Shares	5.2%	4.9%	4.6%	4.4%
Common Equity	30.3%	29.7%	31.1%	30.4%
	100.0%	100.0%	100.0%	100.0%

Figures in C$m except per share data.

Source: Macquarie Research, November 2008

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Recommendation definitions

Macquarie – Australia/New Zealand
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – Asia
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – USA
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definitions*

This is calculated from the volatility of historical price movements.

Very high–highest risk – stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2008

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	43.17%	61.57%	63.08%	53.60%	71.54%	43.00%
Neutral	41.37%	16.43%	30.77%	37.60%	24.61%	48.00%
Underperform	15.47%	22.00%	6.15%	8.80%	3.85%	9.00%

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Fortis Inc.

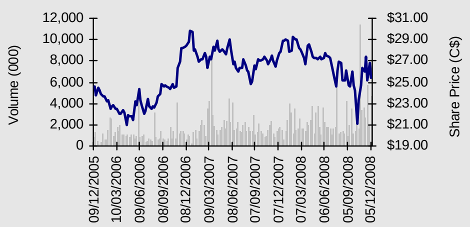
9 December 2008

FTS CN		**Underperform**
Volatility index		Low
Stock price as of 8 Dec 08	C$	25.47
12-month target	C$	24.00
12-month TSR	%	-1.8
Valuation	C$	24.00
- EV/EBITDA, DDM, P/E		
GICS sector		Utilities
Market cap	C$m	4,348
30-day avg turnover	C$m	11.7
Number shares on issue	m	170.7

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Revenue	m	$2,718	$3,671	$3,740	$3,872
EBITDA	m	$814	$1,026	$1,046	$1,052
Reported profit	m	$192	$243	$255	$264
Adjusted profit	m	$185	$250	$255	$264
EPS adj	C$	$1.35	$1.60	$1.50	$1.55
EPS adj growth	%	-3%	19%	-6%	3%
PE adjs	x	18.9	16.0	17.0	16.4
CFPS adj	C$	$3.56	$3.95	$3.65	$3.79
CFPS growth	%	23.1%	11.1%	-7.6%	3.7%
PCF	x	7.2	6.4	7.0	6.7
Total DPS	C$	$0.82	$1.00	$1.10	$1.21
Total div yield	%	3.2%	3.9%	4.3%	4.8%
EV/EBITDA	x	11.0	10.5	10.3	10.1
Debt/capital	%	64.5%	60.5%	60.8%	61.9%
Return on BV	x	9.3%	8.9%	8.0%	8.5%

FTS CN



Source: Bloomberg, Macquarie Research, December 2008

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Earnings headwinds even for ‘defensive’ FTS

(All figures in CAD unless otherwise noted)

Event

- Fortis announced on 2 December that it will issue up to 13.5m new common shares by way of a bought deal.
- Separately, we believe the sharp economic downturn could negatively impact earnings.

Impact

- The combination of equity dilution and a slowing economy will likely negatively impact our prior EPS forecasts.
- The equity itself is not significantly bad news. It increases the shares outstanding by up to 8.5% but should reduce corporate costs (interest expense).
- Equity issuance also positions Fortis well for continued organic growth investments in its regulated utilities and potentially for small acquisitions (but not large ones) without issuing further equity.
- Despite Fortis’ reputation as a purely defensive regulated Canadian utility, we believe earnings could be negatively impacted by the economic downturn.
- The company’s real estate division (makes up about 11% of earnings this year) and its regulated Caribbean utilities (makes up about 12% of earnings this year) could both soften.
- We have previously written (and it is probably now widely known) that the unregulated hydroelectric assets will also produce less earnings in 2009.

Earnings revision

- We are reducing our 2009–10 EPS estimates by $0.05 to $1.50 and $1.55.

Price catalyst

- 12-month price target: Unchanged at $24.00 based on a 15.5x multiple of 2010 forecast EPS and a 9.9x EV/EBITDA multiple.
- Catalyst: Acquisitions and potentially softening earnings.

Action and recommendation

- Fortis shares have performed in line with the group this year despite slowing EPS growth. We attribute the performance to the company’s relatively defensive business mix and proven management. However, the stock could stagnate or depreciate in value due to market saturation, downside EPS surprises and expensive valuation. We recommend selling some shares to buy cheaper utility stocks like ATCO and TransAlta.

List of 2009 headwinds is long

The management team at Fortis has defied sceptics in the past but delivering EPS growth in 2009 without doing a major acquisition would be nothing short of heroic. Several headwinds were already present in the business earlier this year.

- **Loss of Rankin Dam contract –** The company has had a contract to sell about 700GW-hrs to the Ontario market at spot prices. This contract disappears in 2Q09 and probably removes about $10–12m in earnings.
- **Return to normal hydrology in Belize –** Belize is having an exceptional hydrology year in 2008 that will not likely continue in 2009 unless record rainfalls repeat. A return to normal hydrology in Belize could remove $5m in earnings.
- **Equity issuance –** Fortis has long stated that it requires a consistent stream of new equity to fund utility capex. However, we had estimated the company would only issue $200m in 2009 but instead it appears the company will issue about $300m.

Other factors have recently conspired to potentially dampen earnings in the coming quarters.

- **Slowing electricity sales in the Caribbean –** Fortis owns regulated electric utilities in Grand Cayman and Belize. We believe sales will slow – especially in Grand Cayman – in the context of a deep recession. We are now modelling Caribbean Utilities earnings flat for 2009–10 with sales growth at only about 2% compared to normal growth of 4–5%.
- **Lower room rates in properties –** Fortis owns several hotel properties across Canada that generally experience only small fluctuations in occupancy but still must feel some impact from the recession. In 3Q, the company noted that revenue per room was up YTD but down slightly in the quarter. We now anticipate further modest deterioration in occupancy and revenue per room.
- **Potential impact of Abitibi mill closure in Newfoundland –** Fortis is a 51% owner of hydroelectricity assets producing about 590GW-hrs in Newfoundland. Abitibi is the other 49% owner. The Abitibi operations at Grand Falls and Bishop's Falls take 450GW-hrs of the production and Newfoundland Hydro takes the rest. The recent announcement that Abitibi will close the Grand Falls mill in March of 2009 may not have a big impact on the operations if Newfoundland Hydro agrees to take excess energy production, but we doubt the mill closure can be anything but incrementally negative for the hydroelectricity assets.
- **Lower allowed ROEs –** Fortis owns several regulated utilities in Canada that will likely face lower allowed ROEs in 2009. We believe the company is particularly vulnerable to a reduction in British Columbia Utilities Commission (BCUC) allowed ROE. In 2008 the allowed ROE for BC Gas was 8.62% based on a forecast 10-Year Canada Bond yield of about 4.5%. The NEB allowed ROE for 2009 was set using a 3.85% forecast 10-Year Canada Bond yield. That means the BC Gas allowed ROE could drop by about 75 basis points in 2009, translating into an earnings reduction of about $5–6m.

Growth in rate base at the Western Canadian utilities is the one significant factor offsetting these headwinds. But we see rate base additions adding only about $6m in incremental profit next year – materially less than the negative impacts of the headwinds listed above.

In this context, it is difficult to forecast anything but an earnings reduction at Fortis in 2009. Many other companies will face economic headwinds causing earnings reductions next year. But most of those companies are not trading at big premiums. Fortis is trading at almost 17.0x forward earnings and over 10.0x EBITDA vs. a group average of 15.0x and 8.0x. This premium valuation could diminish in the coming quarters if investors realize not even Fortis management can deliver against these headwinds. We continue recommending a reduction in exposure to Fortis and an increase in exposure to cheaper utility/infrastructure stocks like ATCO and TransAlta.

Fortis Inc. (FTS CN, Underperform, Target price: C$24.00)

Earnings and Per Share Data (Annual)	2007	2008E	2009E	2010E
Newfoundland Power	$29.9	$30.9	$31.7	$31.4
Alberta & BC Utilities	$79.0	$77.9	$83.4	$94.6
BC Gas	$43.0	$109.3	$112.0	$111.7
Maritime Electric	$11.2	$11.4	$11.0	$11.6
FortisOntario (CNP & Cornwall)	$2.5	$4.0	$4.0	$4.2
Fortis Generation	$24.2	$30.1	$18.4	$16.7
Regulated Electric Utilities - Caribbean	$32.5	$28.4	$28.7	$30.4
Fortis Properties	$24.2	$27.6	$24.9	$25.6
Corporate	($61.0)	($69.2)	($59.0)	($62.0)
Operating Earnings for common shares	**$185.4**	**$250.5**	**$255.1**	**$264.1**
Unusual items	$6.9	($7.5)	$0.0	$0.0
Reported Earnings	$192.3	$243.0	$255.1	$264.1
Average shares o/s (mln)	137.7	157.0	170.3	170.5
Operating Earnings per basic share	**$1.35**	**$1.60**	**$1.50**	**$1.55**
Reported Earnings per basic share	$1.40	$1.55	$1.50	$1.55
Dividends Per Share	**$0.82**	**$1.00**	**$1.10**	**$1.21**
EBITDA	$813.9	$1,026.0	$1,045.8	$1,052.3
EBITDA Per Share	$5.91	$6.54	$6.14	$6.17
Cash Flow From Operations	$490.0	$620.5	$622.0	$645.6
Cash Flow Per Share	**$3.56**	**$3.95**	**$3.65**	**$3.79**
Book Value Per Share	$16.74	$19.25	$18.16	$18.50
Return On Book Value	9.3%	8.9%	8.0%	8.5%

Earnings and Per Share Data (Quarterly)	1Q08	2Q08	3Q08	4Q08E
Newfoundland Power	$6.3	$10.1	$8.1	$6.4
Alberta & BC Utilities	$22.3	$13.8	$25.6	$16.2
BC Gas	$58.0	$12.0	($4.5)	$43.8
Maritime Electric	$2.6	$2.0	$3.5	$3.3
FortisOntario (CNP & Cornwall)	$1.4	$2.0	$1.5	($0.9)
Fortis Generation	$5.9	$7.0	$9.0	$8.1
Regulated Electric Utilities - Caribbean	$7.0	$8.0	$7.0	$6.4
Fortis Properties	$3.0	$7.0	$9.0	$8.7
Corporate	($16.0)	($18.0)	($17.0)	($18.2)
Operating Earnings for common shares	**$90.5**	**$43.9**	**$42.3**	**$73.8**
Unusual items	$0.0	($15.0)	$7.5	$0.0
Reported Earnings	$90.5	$28.9	$49.8	$73.8
Average shares o/s (mln)	156.6	$157.0	157.2	157.0
Operating Earnings per basic share	**$0.58**	**$0.28**	**$0.27**	**$0.47**
Reported Earnings per basic share	$0.58	$0.18	$0.32	$0.47

Cash Flow Statement	2007	2008E	2009E	2010E
Operating Activities				
Earning (before non-controlling interest and disc	$199.0	$243.0	$255.1	$264.1
Depreciation and Amortization	$273.0	$341.5	$339.9	$354.5
Other	$18.0	$36.0	$27.0	$27.0
	$490.0	$620.5	$622.0	$645.6
Changes in non-cash Working Capital	($117.0)	$0.0	$0.0	$0.0
Cash Provided from Operating Activities	**$373.0**	**$620.5**	**$622.0**	**$645.6**
Investment Activities				
Total Capex	($730.0)	($892.0)	($833.0)	($833.0)
Other & Asset Sales	($1,303.0)	$0.0	($20.0)	($20.0)
Cash Used in Investing Activities	**($2,033.0)**	**($892.0)**	**($853.0)**	**($853.0)**
Financing Activities				
Dividends - common/pref shares	($134.0)	($163.5)	($193.9)	($212.8)
Other Financing Activities	$1,814.0	$663.0	$211.0	$381.0
Cash Used in Financing Activities	**$1,680.0**	**$499.6**	**$17.1**	**$168.2**
Foreign Currency Translation	($3.0)	$0.0	$0.0	$0.0
Increase (decrease) in cash	**$17.0**	**$228.0**	**($213.8)**	**($39.2)**
Cash - Beginning of Year	$40.9	$57.9	$285.9	$72.1
Cash - End of Year	**$57.9**	**$285.9**	**$72.1**	**$32.9**

Consolidated Capitalization	2007	2008E	2009E	2010E
Short-term debt	$475.0	$475.0	$475.0	$475.0
%	5.5%	5.1%	5.0%	4.7%
Long term debt	$5,059.0	$5,159.0	$5,359.0	$5,729.0
%	59.0%	55.4%	55.9%	57.2%
Total debt	**$5,534.0**	**$5,634.0**	**$5,834.0**	**$6,204.0**
Pref shares	$442.0	$665.0	$665.0	$665.0
Common equity	**$2,601.0**	**$3,020.5**	**$3,092.8**	**$3,155.1**
Total capitalization	**$8,577.0**	**$9,319.5**	**$9,591.8**	**$10,024.1**
Weighting				
Total Debt	64.5%	60.5%	60.8%	61.9%
Preferred Shares	5.2%	7.1%	6.9%	6.6%
Common Equity	30.3%	32.4%	32.2%	31.5%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Macquarie Research, December 2008

Important disclosures:

Recommendation definitions

Macquarie – Australia/New Zealand
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – Asia
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – USA
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definitions*

This is calculated from the volatility of historical price movements.

Very high–highest risk – stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2008

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	43.17%	61.57%	63.08%	53.60%	71.54%	43.00%
Neutral	41.37%	16.43%	30.77%	37.60%	24.61%	48.00%
Underperform	15.47%	22.00%	6.15%	8.80%	3.85%	9.00%

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CANADA

Fortis Inc.

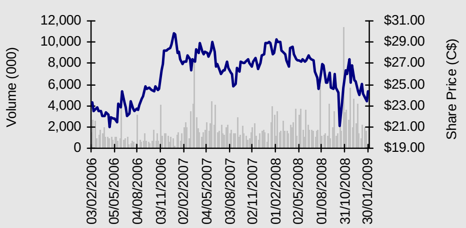
6 February 2009

FTS CN		**Underperform**
Volatility index		Low
Stock price as of 05 Feb 09	C$	23.64
12-month target	C$	24.00
12-month TSR	%	5.9
Valuation	C$	24.00
- EV/EBITDA, DDM, P/E		
GICS sector		Utilities
Market cap	C$m	4,037
30-day avg turnover	C$m	11.7
Number shares on issue	m	170.8

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Revenue	m	$3,903	$3,935	$4,067	$4,343
EBITDA	m	$1,038	$1,096	$1,110	$1,134
Reported profit	m	$246	$255	$264	$282
Adjusted profit	m	$253	$255	$264	$282
EPS adj	C$	$1.61	$1.50	$1.55	$1.65
EPS adj growth	%	19%	-7%	3%	7%
PE adjs	x	14.7	15.8	15.3	14.3
CFPS adj	C$	$3.95	$3.87	$4.01	$4.19
CFPS growth	%	11.1%	-2.0%	3.5%	4.5%
PCF	x	6.0	6.1	5.9	5.6
Total DPS	C$	$1.00	$1.04	$1.08	$1.12
Total div yield	%	4.2%	4.4%	4.6%	4.8%
EV/EBITDA	x	10.0	9.5	9.3	9.1
Debt/capital	%	60.0%	61.8%	62.6%	63.4%
Return on BV	x	9.0%	8.1%	8.5%	8.8%

FTS CN



Source: Bloomberg, Macquarie Research, February 2009

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Not much wrong except slower growth and high valuation

(All figures in CAD unless otherwise noted)

Event

- Fortis reported 4Q08 EPS of $0.48 versus our estimate for $0.47 and compared with $0.45 in 4Q07.

Impact

- The earnings report is Neutral to the stock and in line with expectations.
- Business units are generally running well at Fortis. Regulated utilities are reliable as usual and record hydrology (especially in Belize) boosted results.
- We remain concerned that the Properties division will show cracks as the economy softens. Earnings in the segment were down YoY and this trend will likely continue into 2009.
- Also, allowed returns on equity will likely decline unless regulators across the country alter the ROE formula – something they have been reluctant to do in past years.
- Softness in Properties, a return to normal hydrology, lower allowed returns, and the loss of a power contract in Ontario will probably soften earnings at Fortis, but not crater them.
- Fortis has ample liquidity, but with a $1bn+ capex program in 2009 (compared with cashflow from operations of about $650m), it probably has little balance sheet room to make significant acquisitions, despite the recent equity issuance.

Earnings revision

- We are maintaining our 2009–2010 EPS estimates and introducing a 2011 estimate of $1.65.

Price catalyst

- 12-month price target: Unchanged at $24.00 based on a 15.5x multiple of 2010 forecast EPS and a 9.5x EV/EBITDA multiple.
- Catalyst: Acquisitions and potentially softening earnings.

Action and recommendation

- Fortis shares have underperformed shares of the most directly comparable companies (Enbridge, TransCanada, Emera, CU) over the past year. There is probably some underperformance left to come due to softening earnings and still premium valuation. But we could get comfortable buying the stock on any further significant weakness, given the potential for a return to growth in 2011 and our confidence in management to create future value.

Fortis Inc. (FTS CN, Underperform, Target price: C$24.00)

Earnings and Per Share Data (Annual)	2008	2009E	2010E	2011E
Newfoundland Power	$32.4	$33.0	$33.3	$33.9
Alberta & BC Utilities	$79.6	$86.9	$91.3	$97.2
BC Gas	$112.8	$110.3	$112.8	$121.7
Maritime Electric	$11.4	$11.0	$11.6	$12.3
FortisOntario (CNP & Cornwall)	$5.0	$4.0	$4.2	$4.7
Fortis Generation	$30.0	$19.9	$19.3	$19.3
Regulated Electric Utilities - Caribbean	$29.8	$28.7	$29.9	$31.2
Fortis Properties	$23.0	$22.0	$21.0	$21.2
Corporate	($71.0)	($60.8)	($59.8)	($59.8)
Operating Earnings for common shares	**$253.0**	**$255.1**	**$263.6**	**$281.5**
Unusual items	($7.5)	$0.0	$0.0	$0.0
Reported Earnings	$245.5	$255.1	$263.6	$281.5
Average shares o/s (mln)	157.4	170.3	170.5	170.9
Operating Earnings per basic share	**$1.61**	**$1.50**	**$1.55**	**$1.65**
Reported Earnings per basic share	$1.56	$1.50	$1.55	$1.65
Dividends Per Share	**$1.00**	**$1.04**	**$1.08**	**$1.12**
EBITDA	$1,038.3	$1,096.4	$1,110.4	$1,133.6
EBITDA Per Share	$6.60	$6.44	$6.51	$6.63
Cash Flow From Operations	$622.0	$659.6	$683.6	$716.1
Cash Flow Per Share	**$3.95**	**$3.87**	**$4.01**	**$4.19**
Book Value Per Share	$18.93	$17.98	$18.45	$18.96
Return On Book Value	9.0%	8.1%	8.5%	8.8%

Earnings and Per Share Data (Quarterly)	1Q08	2Q08	3Q08	4Q08
Newfoundland Power	$6.3	$10.1	$8.1	$7.8
Alberta & BC Utilities	$22.3	$13.8	$25.6	$17.9
BC Gas	$58.0	$12.0	($4.5)	$47.3
Maritime Electric	$2.6	$2.0	$3.5	$3.3
FortisOntario (CNP & Cornwall)	$1.4	$2.0	$1.5	$0.1
Fortis Generation	$5.9	$7.0	$9.0	$8.1
Regulated Electric Utilities - Caribbean	$7.0	$8.0	$7.0	$7.8
Fortis Properties	$3.0	$7.0	$9.0	$4.0
Corporate	($16.0)	($18.0)	($17.0)	($20.0)
Operating Earnings for common shares	**$90.5**	**$43.9**	**$42.3**	**$76.3**
Unusual items	$0.0	($15.0)	$7.5	$0.0
Reported Earnings	$90.5	$28.9	$49.8	$76.3
Average shares o/s (mln)	156.6	$157.0	157.2	158.9
Operating Earnings per basic share	**$0.58**	**$0.28**	**$0.27**	**$0.48**
Reported Earnings per basic share	$0.58	$0.18	$0.32	$0.48

Cash Flow Statement	2008	2009E	2010E	2011E
Operating Activities				
Earnings	$259.0	$255.1	$263.6	$281.5
Depreciation and Amortization	$348.0	$377.5	$392.9	$407.5
Other	$15.0	$27.0	$27.0	$27.0
Cash Flow from Operations	$622.0	$659.6	$683.6	$716.1
Changes in non-cash Working Capital	$41.0	$0.0	$0.0	$0.0
Cash Provided from Operating Activities	**$663.0**	**$659.6**	**$683.6**	**$716.1**
Investment Activities				
Total Capex	($904.0)	($1,015.0)	($833.0)	($280.0)
Other & Asset Sales	$50.0	($50.0)	($20.0)	($20.0)
Cash Used in Investing Activities	**($854.0)**	**($1,065.0)**	**($853.0)**	**($300.0)**
Financing Activities				
Dividends - common/pref shares	($176.0)	($183.7)	($190.9)	($198.7)
Other Financing Activities	$372.0	$561.0	$381.0	$381.0
Cash Used in Financing Activities	**$196.0**	**$377.3**	**$190.1**	**$182.3**
Foreign Currency Translation	$3.0	$0.0	$0.0	$0.0
Increase (decrease) in cash	**$8.0**	**($28.0)**	**$20.6**	**$598.4**
Cash - Beginning of Year	$57.9	$65.9	$37.9	$58.5
Cash - End of Year	**$65.9**	**$37.9**	**$58.5**	**$656.9**

Consolidated Capitalization	2008	2009E	2010E	2011E
Short-term debt	$97.0	$147.0	$147.0	$147.0
%	1.1%	1.5%	1.5%	1.4%
Long term debt	$5,290.0	$5,790.0	$6,160.0	$6,530.0
%	58.6%	59.9%	60.9%	61.7%
Total debt	**$5,387.0**	**$5,937.0**	**$6,307.0**	**$6,677.0**
Pref shares	$665.0	$665.0	$665.0	$665.0
Common equity	**$2,980.0**	**$3,062.4**	**$3,146.2**	**$3,240.0**
Total capitalization	**$9,032.0**	**$9,664.4**	**$10,118.2**	**$10,582.0**
Weighting				
Total Debt	59.6%	61.4%	62.3%	63.1%
Preferred Shares	7.4%	6.9%	6.6%	6.3%
Common Equity	33.0%	31.7%	31.1%	30.6%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, February 2009

Important disclosures:

Recommendation definitions

Macquarie – **Australia/New Zealand**
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – **Asia**
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South – **South Africa**
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – **Canada**
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – USA
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definitions*

This is calculated from the volatility of historical price movements.

Very high–highest risk – stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2008

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	38.55%	50.61%	64.52%	53.13%	65.55%	43.00%
Neutral	41.82%	15.92%	25.81%	40.63%	27.73%	48.00%
Underperform	19.64%	33.47%	9.68%	6.25%	6.72%	9.00%

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CANADA

Fortis Inc.

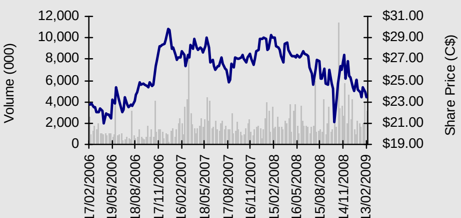
23 February 2009

FTS CN		Neutral
Volatility index		Low
Stock price as of 20 Feb 09	C$	23.51
12-month target	C$	25.00
12-month TSR	%	10.7
Valuation	C$	25.00
- EV/EBITDA, DDM, P/E		
GICS sector		Utilities
Market cap	C$m	4,018
30-day avg turnover	C$m	13.8
Number shares on issue	m	170.8

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Revenue	m	$3,903	$4,065	$4,202	$4,359
EBITDA	m	$1,046	$1,098	$1,112	$1,134
Reported profit	m	$245	$263	$272	$283
Adjusted profit	m	$253	$263	$272	$283
EPS adj	C$	$1.61	$1.55	$1.60	$1.65
EPS adj growth	%	19%	-4%	3%	4%
PE adjs	x	14.6	15.2	14.7	14.2
CFPS adj	C$	$3.95	$3.91	$4.05	$4.19
CFPS growth	%	11.1%	-0.9%	3.5%	3.4%
PCF	x	6.0	6.0	5.8	5.6
Total DPS	C$	$1.00	$1.04	$1.08	$1.12
Total div yield	%	4.2%	4.4%	4.6%	4.8%
EV/EBITDA	x	9.8	9.4	9.3	9.1
Debt/capital	%	60.3%	61.9%	62.8%	63.5%
Return on BV	x	9.0%	8.4%	8.7%	8.8%

FTS CN



Source: Bloomberg, Macquarie Research, February 2009

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Canadian ROE decisions could boost regulated utilities

(All figures in CAD unless otherwise noted)

Event

- Canadian regulators are reviewing methodologies for establishing regulated returns on equity. In a full report published today, we reasoned that allowed returns should be increased because of the rising market cost of utility capital. We are raising our rating on the stock from Underperform to Neutral on this basis.

Impact

- The current ROE formulas across Canada establish returns using the long government bond yield as a benchmark.
- We believe this methodology now fails to meet the key regulatory criterion that regulated returns should be in line with comparable investments.
- Fortis owns regulated utilities across Canada that could benefit from an increase in allowed ROEs.
- Currently the Alberta Utilities Commission (AUC) is holding a generic hearing on the matter and Fortis owns a large regulated utility in that province.
- We believe that other provinces in which Fortis owns utilities – such as Newfoundland and British Columbia – will move in line with the National Energy Board and AUC.
- A 50 basis point increase in the allowed ROE across all of the Fortis' Canadian regulated utilities impacts EPS by about $0.07.

Earnings revision

- We are raising our 2009–10 EPS estimates from $1.50/$1.55 to $1.55/$1.60. We had previously assumed returns would be slightly lower in 2009–10 than they were in 2008. We now assume they will be 25 basis points higher.

Price catalyst

- 12-month price target: $25.00 (up from $24) based on a 15.6x multiple of 2010 forecast EPS and a 9.6x EV/EBITDA multiple.
- Catalyst: Acquisitions and regulatory decisions.

Action and recommendation

- Fortis shares have slightly underperformed shares of the most directly comparable companies (ENB, TRP, EMA, CU) over the past year. The stock should perform in line so we are upgrading it to Neutral. We now recommend holding the stock for safety, the potential for a return to growth in 2011, and our confidence in management to create future value.

Fortis Inc. (FTS CN, Neutral, Target price: C$25.00)

Earnings and Per Share Data (Annual)	2008	2009E	2010E	2011E
Newfoundland Power	$32.3	$33.2	$33.6	$34.1
Alberta & BC Utilities	$79.6	$87.4	$91.8	$96.6
BC Gas	$112.8	$114.9	$117.5	$121.7
Maritime Electric	$11.4	$11.0	$11.6	$12.3
FortisOntario (CNP & Cornwall)	$5.0	$5.0	$5.0	$4.7
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Regulated Electric Utilities - Caribbean	$29.8	$28.7	$29.9	$31.2
Fortis Properties	$23.0	$22.0	$21.5	$21.2
Corporate	($71.0)	($60.8)	($59.8)	($59.8)
Operating Earnings for common shares	**$253.0**	**$263.5**	**$272.4**	**$282.6**
Unusual items	($7.5)	$0.0	$0.0	$0.0
Reported Earnings	$245.5	$263.5	$272.4	$282.6
Average shares o/s (mln)	157.4	170.3	170.5	170.9
Operating Earnings per basic share	**$1.61**	**$1.55**	**$1.60**	**$1.65**
Reported Earnings per basic share	$1.56	$1.55	$1.60	$1.65
Dividends Per Share	**$1.00**	**$1.04**	**$1.08**	**$1.12**
EBITDA	$1,046.2	$1,097.7	$1,111.5	$1,133.6
EBITDA Per Share	$6.65	$6.44	$6.52	$6.63
Cash Flow From Operations	$622.0	$666.8	$691.1	$715.9
Cash Flow Per Share	**$3.95**	**$3.91**	**$4.05**	**$4.19**
Book Value Per Share	$18.93	$18.03	$18.55	$19.07
Return On Book Value	9.0%	8.4%	8.7%	8.8%

Earnings and Per Share Data (Quarterly)	1Q08	2Q08	3Q08	4Q08
Newfoundland Power	$6.3	$10.1	$8.1	$7.8
Alberta & BC Utilities	$22.3	$13.8	$25.6	$17.9
BC Gas	$58.0	$12.0	($4.5)	$47.3
Maritime Electric	$2.6	$2.0	$3.5	$3.3
FortisOntario (CNP & Cornwall)	$1.4	$2.0	$1.5	$0.1
Fortis Generation	$5.9	$7.0	$9.0	$8.1
Regulated Electric Utilities - Caribbean	$7.0	$8.0	$7.0	$7.8
Fortis Properties	$3.0	$7.0	$9.0	$4.0
Corporate	($16.0)	($18.0)	($17.0)	($20.0)
Operating Earnings for common shares	**$90.5**	**$43.9**	**$42.3**	**$76.3**
Unusual items	$0.0	($15.0)	$7.5	$0.0
Reported Earnings	$90.5	$28.9	$49.8	$76.3
Average shares o/s (mln)	156.6	$157.0	157.2	158.9
Operating Earnings per basic share	**$0.58**	**$0.28**	**$0.27**	**$0.48**
Reported Earnings per basic share	$0.58	$0.18	$0.32	$0.48

Cash Flow Statement	2008	2009E	2010E	2011E
Operating Activities				
Earnings	$259.0	$263.5	$272.4	$282.6
Depreciation and Amortization	$348.0	$376.3	$391.7	$406.3
Other	$15.0	$27.0	$27.0	$27.0
Cash Flow from Operations	$622.0	$666.8	$691.1	$715.9
Changes in non-cash Working Capital	$41.0	$0.0	$0.0	$0.0
Cash Provided from Operating Activities	**$663.0**	**$666.8**	**$691.1**	**$715.9**
Investment Activities				
Total Capex	($904.0)	($1,015.0)	($833.0)	($280.0)
Other & Asset Sales	$50.0	($50.0)	($20.0)	($20.0)
Cash Used in Investing Activities	**($854.0)**	**($1,065.0)**	**($853.0)**	**($300.0)**
Financing Activities				
Dividends - common/pref shares	($176.0)	($183.7)	($190.9)	($198.7)
Other Financing Activities	$372.0	$561.0	$381.0	$381.0
Cash Used in Financing Activities	**$196.0**	**$377.3**	**$190.1**	**$182.3**
Foreign Currency Translation	$3.0	$0.0	$0.0	$0.0
Increase (decrease) in cash	$8.0	($20.9)	$28.2	$598.2
Cash - Beginning of Year	$57.9	$65.9	$45.1	$73.2
Cash - End of Year	**$65.9**	**$45.1**	**$73.2**	**$671.4**

Consolidated Capitalization	2008	2009E	2010E	2011E
Short-term debt	$410.0	$460.0	$460.0	$460.0
Long term debt	$5,124.0	$5,624.0	$5,994.0	$6,364.0
Total debt	**$5,534.0**	**$6,084.0**	**$6,454.0**	**$6,824.0**
Pref shares	$667.0	$667.0	$667.0	$667.0
Common equity	**$2,980.0**	**$3,070.8**	**$3,163.3**	**$3,258.2**
Total capitalization	**$9,181.0**	**$9,821.8**	**$10,284.3**	**$10,749.2**
Weighting				
Total Debt	60.3%	61.9%	62.8%	63.5%
Preferred Shares	7.3%	6.8%	6.5%	6.2%
Common Equity	32.5%	31.3%	30.8%	30.3%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, February 2009

Important disclosures:

Recommendation definitions

Macquarie – **Australia/New Zealand**
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – **Asia**
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South – **South Africa**
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – **Canada**
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – USA
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definitions*

This is calculated from the volatility of historical price movements.

Very high–highest risk – stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2008

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	38.55%	50.61%	64.52%	53.13%	65.55%	43.00%
Neutral	41.82%	15.92%	25.81%	40.63%	27.73%	48.00%
Underperform	19.64%	33.47%	9.68%	6.25%	6.72%	9.00%

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Macquarie Research
Equities

MACQUARIE

CANADA

Fortis Inc.

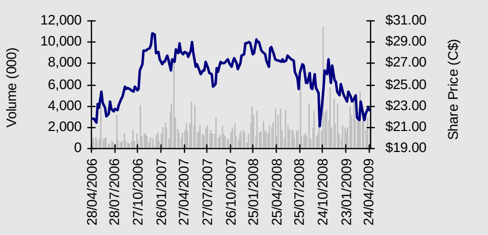
1 May 2009

FTS CN		Neutral
Volatility index		Low
Stock price as of 30 Apr 09	C$	22.15
12-month target	C$	25.00
12-month TSR	%	17.6
Valuation	C$	25.00
- EV/EBITDA, P/E		
GICS sector		Utilities
Market cap	C$m	3,761
30-day avg turnover	C$m	14.2
Number shares on issue	m	169.8

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Revenue	m	$3,903	$4,065	$4,459	$4,734
EBITDA	m	$1,046	$1,106	$1,133	$1,157
Reported profit	m	$245	$266	$289	$307
Adjusted profit	m	$253	$264	$289	$307
EPS adj	C$	$1.61	$1.55	$1.70	$1.80
EPS adj growth	%	19.4%	-3.7%	9.6%	5.9%
PE adjs	x	13.8	14.3	13.1	12.3
CFPS adj	C$	$3.95	$3.91	$4.16	$4.34
CFPS growth	%	11.1%	-1.1%	6.4%	4.4%
PCF	x	5.6	5.7	5.3	5.1
Total DPS	C$	$1.00	$1.04	$1.08	$1.12
Total div yield	%	4.5%	4.7%	4.9%	5.1%
EV/EBITDA	x	10.0	9.1	8.8	8.7
Debt/capital	%	60.4%	62.0%	62.7%	62.3%
Return on BV	x	9.0%	8.4%	9.3%	9.5%

FTS CN



Source: Bloomberg, Macquarie Research, April 2009

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Calm before the storm?

(All figures in CAD unless otherwise noted)

Event

- Fortis reported normalized 1Q09 EPS of $0.53 vs. our estimate of $0.55 and $0.58 in 1Q08.

Impact

- The earnings report is neutral for the stock. Growth at Fortis is in a lull but by now that is largely reflected in the stock price.
- Several headwinds, including lower allowed returns, weaker power prices, political turmoil in the Caribbean, and a weak real estate market conspired to reduce YoY performance.
- The results are not bad, but are uncharacteristic of Fortis. The company has a longstanding track record of posting consistent earnings growth. This year will be an exception.
- Growth should return to the company over the next couple of years, though, largely due to regulated rate base investments in Canada and the potential for higher allowed returns. Yet, we are forecasting growth rates that fall well short of historical growth rates that were at a premium to the utility group.
- The earnings report was eerily quiet and uneventful. Now that credit markets have stabilized (if not significantly improved), we wonder whether Fortis will make a large acquisition to regain its reputation as Canada's growth utility.
- Absent a significant acquisition, we see no need for new equity in the foreseeable future. The Terasen Gas assets are moderating the growth rate but generating sufficient cash to fund the large utility capital program.

Earnings revision

- We are maintaining our EPS estimates.

Price catalyst

- 12-month price target: $25.00 (down from $26.00 due to sector multiple compression) based on a 14.7x multiple of 2010 forecast EPS and a 9.3x EV/EBITDA multiple.
- Catalyst: Acquisitions and regulatory decisions.

Action and recommendation

- Fortis shares should continue performing in line with the Canadian group this year so we are maintaining our Neutral rating. The stock is not cheap, but we recommend holding the stock for safety, the potential for a return to growth in 2011, and our confidence in management to create future value.

Fortis Inc. (FTS CN, Neutral, Target price: C$25.00)

Earnings and Per Share Data (Annual)	2008	2009E	2010E	2011E
Newfoundland Power	$32.3	$34.2	$34.2	$34.4
Alberta & BC Utilities	$79.6	$94.3	$107.9	$113.2
BC Gas	$112.8	$114.9	$121.9	$131.0
Maritime Electric	$11.4	$12.2	$12.6	$13.2
FortisOntario (CNP & Cornwall)	$5.0	$5.5	$5.6	$5.5
Fortis Generation	$30.0	$24.2	$22.6	$22.9
Regulated Electric Utilities - Caribbean	$29.8	$24.3	$28.1	$28.7
Fortis Properties	$23.0	$21.2	$21.5	$21.2
Corporate	($71.0)	($67.3)	($65.3)	($63.3)
Operating Earnings for common shares	**$253.0**	**$263.5**	**$289.0**	**$306.8**
Unusual items	($7.5)	$2.0	$0.0	$0.0
Reported Earnings	$245.5	$265.5	$289.0	$306.8
Average shares o/s (mln)	157.4	170.3	170.5	170.9
Operating Earnings per basic share	**$1.61**	**$1.55**	**$1.70**	**$1.80**
Reported Earnings per basic share	$1.56	$1.56	$1.70	$1.80
Dividends Per Share	**$1.00**	**$1.04**	**$1.08**	**$1.12**
EBITDA	$1,046.2	$1,106.1	$1,133.3	$1,156.9
EBITDA Per Share	$6.65	$6.49	$6.65	$6.77
Cash Flow From Operations	$622.0	$665.7	$709.1	$741.9
Cash Flow Per Share	**$3.95**	**$3.91**	**$4.16**	**$4.34**
Book Value Per Share	$18.84	$17.96	$18.58	$19.24
Return On Book Value	9.0%	8.4%	9.3%	9.5%

Earnings and Per Share Data (Quarterly)	1Q09	2Q09E	3Q09E	4Q09E
Newfoundland Power	$6.0	$11.2	$7.9	$9.1
Alberta & BC Utilities	$26.0	$16.6	$27.3	$24.3
BC Gas	$58.0	$12.5	($4.0)	$48.4
Maritime Electric	$3.2	$2.2	$3.7	$3.1
FortisOntario (CNP & Cornwall)	$1.8	$1.9	$1.4	$0.4
Fortis Generation	$6.0	$5.9	$5.3	$7.0
Regulated Electric Utilities - Caribbean	$4.0	$6.8	$7.3	$6.2
Fortis Properties	$2.0	$6.0	$8.0	$5.1
Corporate	($17.0)	($16.8)	($16.8)	($16.7)
Operating Earnings for common shares	**$90.1**	**$46.3**	**$40.1**	**$87.1**
Unusual items	$2.0	$0.0	$0.0	$0.0
Reported Earnings	$92.1	$46.3	$40.1	$87.1
Average shares o/s (mln)	169.4	170.3	170.3	171.3
Operating Earnings per basic share	**$0.53**	**$0.27**	**$0.24**	**$0.51**
Reported Earnings per basic share	$0.54	$0.27	$0.24	$0.51

Cash Flow Statement	2008	2009E	2010E	2011E
Operating Activities				
Earnings	$245.5	$265.5	$289.0	$306.8
Depreciation and Amortization	$348.0	$373.2	$393.0	$408.1
Other	$28.5	$27.0	$27.0	$27.0
Cash Flow from Operations	$622.0	$665.7	$709.1	$741.9
Changes in non-cash Working Capital	$41.0	$31.0	$0.0	$0.0
Cash Provided from Operating Activities	**$663.0**	**$696.7**	**$709.1**	**$741.9**
Investment Activities				
Total Capex	($904.0)	($1,015.0)	($878.0)	($280.0)
Other & Asset Sales	$50.0	($57.0)	($20.0)	($20.0)
Cash Used in Investing Activities	**($854.0)**	**($1,072.0)**	**($898.0)**	**($300.0)**
Financing Activities				
Dividends - common/pref shares	($176.0)	($183.7)	($190.9)	($198.7)
Other Financing Activities	$372.0	$560.0	$381.0	$111.0
Cash Used in Financing Activities	**$196.0**	**$376.3**	**$190.1**	**($87.7)**
Foreign Currency Translation	$3.0	$0.0	$0.0	$0.0
Increase (decrease) in cash	**$8.0**	**$1.1**	**$1.1**	**$354.2**
Cash - Beginning of Year	$57.9	$65.9	$67.0	$68.1
Cash - End of Year	**$65.9**	**$67.0**	**$68.1**	**$422.3**

Consolidated Capitalization	2008	2009E	2010E	2011E
Short-term debt	$410.0	$460.0	$460.0	$460.0
Long term debt	$5,124.0	$5,618.0	$5,988.0	$6,088.0
Total debt	**$5,534.0**	**$6,078.0**	**$6,448.0**	**$6,548.0**
Pref shares	$667.0	$667.0	$667.0	$667.0
Common equity	**$2,966.5**	**$3,059.3**	**$3,168.5**	**$3,287.6**
Total capitalization	**$9,167.5**	**$9,804.3**	**$10,283.5**	**$10,502.6**
Weighting				
Total Debt	60.4%	62.0%	62.7%	62.3%
Preferred Shares	7.3%	6.8%	6.5%	6.4%
Common Equity	32.4%	31.2%	30.8%	31.3%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, May 2009

Important disclosures:

Recommendation definitions

Macquarie – Australia/New Zealand
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – Asia
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – USA
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definitions*

This is calculated from the volatility of historical price movements.

Very high–highest risk – stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2009

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	40.44%	49.55%	44.83%	38.49%	67.19%	43.84%
Neutral	38.60%	15.57%	39.66%	46.43%	28.12%	39.04%
Underperform	20.96%	34.88%	15.52%	15.08%	4.69%	17.12%

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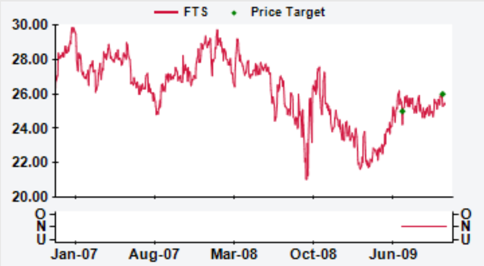
CANADA

FTS CN		Neutral
Stock price		
As of 5 Nov 09		C$25.81
Volatility index		Low/Medium
12-month target	C$	26.00
12-month TSR	%	+4.8
Valuation - EV/EBITDA	C$	26.00
GICS sector		utilities
Market cap	C$m	4,398
30-day avg turnover	C$m	9.9
Number shares on issue	m	170.4

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Sales revenue	m	3,903.0	4,115.5	4,231.0	4,322.6
EBITDA	m	1,046.2	1,103.2	1,134.1	1,158.7
Recurring profit	m	253.0	263.7	290.0	307.6
Reported profit	m	245.5	266.7	290.0	307.6
CFPS	C$	3.95	3.91	4.16	4.35
CFPS growth	%	11.1	-1.0	6.4	4.5
PGCFPS	x	6.5	6.6	6.2	5.9
EPS rec	C$	1.61	1.55	1.70	1.80
EPS rec growth	%	18.1	-3.6	9.9	5.8
PER rec	x	16.1	16.7	15.2	14.3
Total DPS	C$	1.00	1.04	1.08	1.12
Total div yield	%	3.9	4.0	4.2	4.4
EV/EBITDA	x	10.0	9.5	9.5	9.6

FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2009
(all figures in CAD unless noted)

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6 November 2009

Fortis

No unforced errors

Event

- Fortis reported normalized 3Q09 EPS of C$0.21 vs our estimate of C$0.22 and C$0.27 in 3Q08. The anticipated loss of a power sale contract in Ontario reduced earnings relative to last year.

Impact

- The earnings report should have a neutral impact on the stock. Earnings were lower YoY but that should have been anticipated. Importantly, Fortis has experienced few if any significant shocks to the business in what has been a challenging environment for most companies.
- Getting growth rates back to a premium relative to peers is Fortis' challenge. Following years of above-average growth through astute acquisitions, the business has for now slowed, yet the shares continue trading at a premium.
- Expansion of regulated utilities will still drive respectable 4% organic growth (lower this year, higher next year). And, no doubt that business has a lower risk profile than most. But achieving significantly higher growth will require a 100–200bp increase in allowed returns and/or material accretive acquisitions.
- In management's normally proactive way, Fortis utility subsidiaries across the country have applied for higher allowed returns. We have argued that returns should move up, and calculated that every 50bp are worth C$0.07 in EPS for Fortis. Achieving some success is likely but achieving great success on this front is never a foregone conclusion, though.
- At the same time, making accretive acquisitions in Canada is difficult. The income funds have a low cost of capital and remain aggressive on price (witness the AltaGas acquisition of gas distribution assets that could have fit with Fortis). Cross-border acquisitions are possible but fraught with risk and uncertainty.

Earnings and target price revision

- We are maintaining our EPS estimates and target price.

Price catalyst

- 12-month price target: C$26.00 based on an EV/EBITDA methodology.
- Catalyst: Stable earnings and dividends and the potential for acquisitions.

Action and recommendation

- The earnings report shows Fortis is fairly valued. The company has solid growth but is not invulnerable to a flat year from time to time. It trades at a premium EV/EBITDA multiple, but that can probably be justified by the relatively high leverage it can carry in the regulated utility business, and by the potential for modestly higher allowed returns in that business. Our Neutral rating reflects our view that, while holding Fortis shares probably cannot hurt, we see no compelling reason to actively accumulate the stock pending further news on any acquisitions.

Fortis Inc. (FTS CN, Neutral, Target price: C$26.00)

Earnings and Per Share Data (Annual)	2008	2009E	2010E	2011E
Newfoundland Power	$32.3	$34.2	$34.2	$34.4
Alberta & BC Utilities	$79.6	$94.7	$111.2	$119.4
BC Gas	$112.8	$117.4	$120.5	$127.7
Maritime Electric	$11.4	$12.2	$12.6	$13.2
FortisOntario (CNP & Cornwall)	$5.0	$5.5	$5.6	$5.5
Fortis Generation	$30.0	$17.3	$17.4	$17.4
Regulated Electric Utilities - Caribbean	$29.8	$22.0	$28.7	$29.4
Fortis Properties	$23.0	$25.3	$24.6	$22.9
Corporate	($71.0)	($64.8)	($64.8)	($62.3)
Operating Earnings for common shares	**$253.0**	**$263.7**	**$290.0**	**$307.6**
Unusual items	($7.5)	$3.0	$0.0	$0.0
Reported Earnings	$245.5	$266.7	$290.0	$307.6
Average shares o/s (mln)	157.4	170.3	170.5	170.9
Operating Earnings per basic share	**$1.61**	**$1.55**	**$1.70**	**$1.80**
Reported Earnings per basic share	$1.56	$1.57	$1.70	$1.80
Dividends Per Share	**$1.00**	**$1.04**	**$1.08**	**$1.12**
EBITDA	$1,046.2	$1,103.2	$1,134.1	$1,158.7
EBITDA Per Share	$6.65	$6.48	$6.65	$6.78
Cash Flow From Operations	$622.0	$666.5	$709.9	$743.1
Cash Flow Per Share	**$3.95**	**$3.91**	**$4.16**	**$4.35**
Book Value Per Share	$18.84	$17.97	$18.59	$19.26
Return On Book Value	9.0%	8.4%	9.3%	9.5%

Earnings and Per Share Data (Quarterly)	1Q09	2Q09	3Q09	4Q09E
Newfoundland Power	$6.2	$10.8	$7.0	$10.2
Alberta & BC Utilities	$25.5	$24.6	$24.0	$20.6
BC Gas	$58.0	$14.0	($3.0)	$48.4
Maritime Electric	$3.2	$2.0	$3.0	$4.0
FortisOntario (CNP & Cornwall)	$1.8	$2.0	$2.0	($0.3)
Fortis Generation	$6.0	$3.0	$4.0	$4.3
Regulated Electric Utilities - Caribbean	$4.0	$7.0	$7.0	$4.0
Fortis Properties	$2.0	$8.0	$9.0	$6.3
Corporate	($17.0)	($18.0)	($18.0)	($11.8)
Operating Earnings for common shares	**$89.6**	**$53.4**	**$35.0**	**$85.7**
Unusual items	$2.0	$0.0	$1.0	$0.0
Reported Earnings	$91.6	$53.4	$36.0	$85.7
Average shares o/s (mln)	169.4	170.3	170.4	171.3
Operating Earnings per basic share	**$0.53**	**$0.31**	**$0.21**	**$0.50**
Reported Earnings per basic share	$0.54	$0.31	$0.21	$0.50

Cash Flow Statement	2008	2009E	2010E	2011E
Operating Activities				
Earnings	$245.5	$266.7	$290.0	$307.6
Depreciation and Amortization	$348.0	$372.8	$392.8	$408.6
Other	$28.5	$27.0	$27.0	$27.0
Cash Flow from Operations	$622.0	$666.5	$709.9	$743.1
Changes in non-cash Working Capital	$41.0	$59.0	$0.0	$0.0
Cash Provided from Operating Activities	**$663.0**	**$725.5**	**$709.9**	**$743.1**
Investment Activities				
Total Capex	($904.0)	($975.0)	($1,025.0)	($1,043.0)
Other & Asset Sales	$50.0	($61.0)	($20.0)	($20.0)
Cash Used in Investing Activities	**($854.0)**	**($1,036.0)**	**($1,045.0)**	**($1,063.0)**
Financing Activities				
Dividends - common/pref shares	($176.0)	($183.7)	($190.9)	($198.7)
Other Financing Activities	$372.0	$513.0	$511.0	$511.0
Cash Used in Financing Activities	**$196.0**	**$329.3**	**$320.1**	**$312.3**
Foreign Currency Translation	$3.0	($3.0)	$0.0	$0.0
Increase (decrease) in cash	$8.0	$15.9	($15.0)	($7.6)
Cash - Beginning of Year	$57.9	$65.9	$81.8	$66.7
Cash - End of Year	**$65.9**	**$81.8**	**$66.7**	**$59.2**

Consolidated Capitalization	2008	2009E	2010E	2011E
Short-term debt	$410.0	$460.0	$460.0	$460.0
Long term debt	$5,124.0	$5,576.0	$6,076.0	$6,576.0
Total debt	**$5,534.0**	**$6,036.0**	**$6,536.0**	**$7,036.0**
Pref shares	$667.0	$667.0	$667.0	$667.0
Common equity	**$2,966.5**	**$3,060.6**	**$3,170.7**	**$3,290.6**
Total capitalization	**$9,167.5**	**$9,763.6**	**$10,373.7**	**$10,993.6**
Weighting				
Total Debt	60.4%	61.8%	63.0%	64.0%
Preferred Shares	7.3%	6.8%	6.4%	6.1%
Common Equity	32.4%	31.3%	30.6%	29.9%
	100.0%	100.0%	100.0%	100.0%

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Very high–highest risk – stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

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Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

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ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2009

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.08%	54.02%	40.00%	42.31%	62.86%	43.61%	(for US coverage by MCUSA, 0.35% of stocks covered are investment banking clients)
Neutral	39.77%	19.10%	45.00%	43.36%	31.90%	39.85%	(for US coverage by MCUSA, 0.35% of stocks covered are investment banking clients)
Underperform	15.15%	26.88%	15.00%	14.34%	5.24%	16.54%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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CANADA

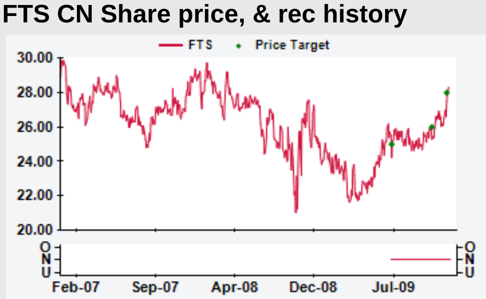
FTS CN	Neutral
Price 17 Dec 09	C$28.84

Volatility index		**Low/Medium**
12-month target	**C$**	**29.00**
12-month TSR	**%**	**+4.2**
Valuation - EV/EBITDA	**C$**	**29.00**
GICS sector		**Utilities**
Market cap	**C$m**	**4,914**
30-day avg turnover	**C$m**	**11.5**
Market cap	**US$m**	**4,552**
Number shares on issue	**m**	**170.4**

Investment fundamentals

Year end 31 Dec		2008A	2009E	2010E	2011E
Sales revenue	m	3,903.0	4,129.0	4,238.8	4,337.0
EBITDA	m	1,046.2	1,106.8	1,136.2	1,162.5
Recurring profit	m	253.0	271.9	299.0	316.9
Reported profit	m	245.5	274.9	299.0	316.9
CFPS	C$	3.95	3.96	4.22	4.41
CFPS growth	%	11.1	0.2	6.5	4.6
PGCFPS	x	7.3	7.3	6.8	6.5
EPS rec	C$	1.61	1.60	1.75	1.85
EPS rec growth	%	18.1	-0.7	9.9	5.8
PER rec	x	17.9	18.1	16.4	15.6
Total DPS	C$	1.00	1.04	1.08	1.12
Total div yield	%	3.5	3.6	3.8	3.9
EV/EBITDA	x	10.5	9.9	10.0	10.0

FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, December 2009

(all figures in CAD unless noted)

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18 December 2009

Fortis

West beats East in ROE Bowl

Event

- The Newfoundland Public Utilities Board (NPUB) and British Columbia Utilities Commission (BCUC) delivered their ROE decisions this week.

Impact

- Regulatory decisions from the East Coast and West Coast regulators stood in stark contrast. While Newfoundland denied many of the company's revenue drivers, British Columbia materially boosted allowed returns.
- The good news for FTS shareholders is that, despite having its roots in Newfoundland, the BC operations in FTS far outweigh those on "The Rock".
- The BCUC was the last in a string of Canadian regulators to abandon prior formulae based solely on government bonds and to boost allowed returns and equity thickness for regulated pipelines and utilities.
- The BCUC raised its allowed ROE by about 100 basis points to 9.5% and also its equity thickness by about 500 basis points to 40.0%. In so-doing, it essentially followed the National Energy Board's logic to a tee, both in the establishment of principles and the application of them to using the US utility costs of capital.
- Unlike the Ontario Energy Board, the BCUC failed to replace the old formula ROE with a new updated adjustment mechanism. Instead, the current allowed ROE will remain in place until it is reviewed in a subsequent hearing. The Board gave FTS subsidiary Terasen Gas until 31 December 2010 to file evidence.

Earnings and target price revision

- We already raised estimates twice on FTS in anticipation of higher allowed ROEs. As recently as 16 November, we raised them by C$0.05. Since then, there have been two relatively negative developments (the NPUB decision and a settlement in BC to eliminate incentive rates) now offset by this positive decision. Therefore, we are not changing our 2010/11 estimates. We are raising our 2009 EPS estimate from C$1.55 to C$1.60 because the decision is effective as of July 2009. We are also raising our target price by C$1.00 now that the higher ROE is certain.

Price catalyst

- 12-month price target: C$29.00 based on an EV/EBITDA methodology.
- Catalyst: Stable earnings and the potential for acquisitions.

Action and recommendation

- Like much of the Canadian energy infrastructure group, Fortis' stock has run up and is expensive. But the appetite for yield and safety will likely keep the stock at higher trading multiples for now. We maintain our Neutral rating.

Fortis Inc. (FTS CN, Neutral, Target price: C$29.00)

Earnings and Per Share Data (Annual)	2008	2009E	2010E	2011E
Newfoundland Power	$32.3	$34.2	$34.2	$34.8
Alberta & BC Utilities	$79.6	$97.6	$112.5	$120.9
BC Gas	$112.8	$122.6	$129.5	$138.9
Maritime Electric	$11.4	$12.2	$12.6	$13.2
FortisOntario (CNP & Cornwall)	$5.0	$5.5	$5.5	$5.5
Fortis Generation	$30.0	$17.3	$17.4	$17.4
Regulated Electric Utilities - Caribbean	$29.8	$22.0	$28.7	$29.4
Fortis Properties	$23.0	$25.3	$24.6	$22.9
Corporate	($71.0)	($64.8)	($66.0)	($66.0)
Operating Earnings for common shares	**$253.0**	**$271.9**	**$299.0**	**$316.9**
Unusual items	($7.5)	$3.0	$0.0	$0.0
Reported Earnings	$245.5	$274.9	$299.0	$316.9
Average shares o/s (mln)	157.4	170.3	170.5	170.9
Operating Earnings per basic share	**$1.61**	**$1.60**	**$1.75**	**$1.85**
Reported Earnings per basic share	$1.56	$1.61	$1.75	$1.85
Dividends Per Share	**$1.00**	**$1.04**	**$1.08**	**$1.12**
EBITDA	$1,046.2	$1,106.8	$1,136.2	$1,162.5
EBITDA Per Share	$6.65	$6.50	$6.66	$6.80
Cash Flow From Operations	$622.0	$674.7	$719.2	$753.6
Cash Flow Per Share	**$3.95**	**$3.96**	**$4.22**	**$4.41**
Book Value Per Share	$18.84	$18.01	$18.69	$19.41
Return On Book Value	9.0%	8.7%	9.6%	9.7%

Earnings and Per Share Data (Quarterly)	1Q09	2Q09	3Q09	4Q09E
Newfoundland Power	$6.2	$10.8	$7.1	$10.2
Alberta & BC Utilities	$25.5	$24.6	$23.7	$23.8
BC Gas	$58.0	$14.0	($3.0)	$53.6
Maritime Electric	$3.2	$2.0	$3.0	$4.0
FortisOntario (CNP & Cornwall)	$1.8	$2.0	$2.0	($0.3)
Fortis Generation	$6.0	$3.0	$4.0	$4.3
Regulated Electric Utilities - Caribbean	$4.0	$7.0	$7.0	$4.0
Fortis Properties	$2.0	$8.0	$9.0	$6.3
Corporate	($17.0)	($18.0)	($17.8)	($12.0)
Operating Earnings for common shares	**$89.6**	**$53.4**	**$35.0**	**$93.9**
Unusual items	$2.0	$0.0	$1.0	$0.0
Reported Earnings	$91.6	$53.4	$36.0	$93.9
Average shares o/s (mln)	169.4	170.3	170.4	171.3
Operating Earnings per basic share	**$0.53**	**$0.31**	**$0.21**	**$0.55**
Reported Earnings per basic share	$0.54	$0.31	$0.21	$0.55

Cash Flow Statement	2008	2009E	2010E	2011E
Operating Activities				
Earnings	$245.5	$274.9	$299.0	$316.9
Depreciation and Amortization	$348.0	$372.8	$393.2	$409.8
Other	$28.5	$27.0	$27.0	$27.0
Cash Flow from Operations	$622.0	$674.7	$719.2	$753.6
Changes in non-cash Working Capital	$41.0	$59.0	$0.0	$0.0
Cash Provided from Operating Activities	**$663.0**	**$733.7**	**$719.2**	**$753.6**
Investment Activities				
Total Capex	($904.0)	($975.0)	($905.0)	($1,163.0)
Other & Asset Sales	$50.0	($61.0)	($20.0)	($20.0)
Cash Used in Investing Activities	**($854.0)**	**($1,036.0)**	**($925.0)**	**($1,183.0)**
Financing Activities				
Dividends - common/pref shares	($176.0)	($183.7)	($190.9)	($198.7)
Other Financing Activities	$372.0	$513.0	$511.0	$511.0
Cash Used in Financing Activities	**$196.0**	**$329.3**	**$320.1**	**$312.3**
Foreign Currency Translation	$3.0	($3.0)	$0.0	$0.0
Increase (decrease) in cash	$8.0	$24.0	$114.3	($117.1)
Cash - Beginning of Year	$57.9	$65.9	$89.9	$204.2
Cash - End of Year	**$65.9**	**$89.9**	**$204.2**	**$87.2**

Consolidated Capitalization	2008	2009E	2010E	2011E
Short-term debt	$410.0	$460.0	$460.0	$460.0
Long term debt	$5,124.0	$5,576.0	$6,076.0	$6,576.0
Total debt	**$5,534.0**	**$6,036.0**	**$6,536.0**	**$7,036.0**
Pref shares	$667.0	$667.0	$667.0	$667.0
Common equity	**$2,966.5**	**$3,068.7**	**$3,187.8**	**$3,316.9**
Total capitalization	**$9,167.5**	**$9,771.7**	**$10,390.8**	**$11,019.9**
Weighting				
Total Debt	60.4%	61.8%	62.9%	63.8%
Preferred Shares	7.3%	6.8%	6.4%	6.1%
Common Equity	32.4%	31.4%	30.7%	30.1%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, December 2009

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Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2009

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.08%	54.02%	40.00%	42.31%	62.86%	43.61%	(for US coverage by MCUSA, 0.35% of stocks covered are investment banking clients)
Neutral	39.77%	19.10%	45.00%	43.36%	31.90%	39.85%	(for US coverage by MCUSA, 0.35% of stocks covered are investment banking clients)
Underperform	15.15%	26.88%	15.00%	14.34%	5.24%	16.54%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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CANADA

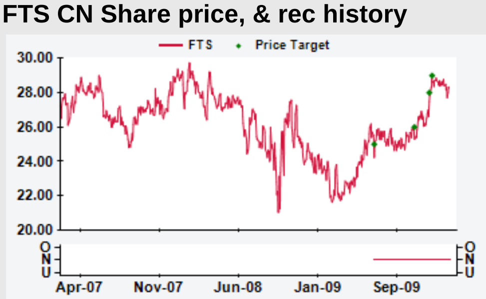
FTS CN	Neutral
Price 4 Feb 10	C$27.76
Volatility index	**Low/Medium**

12-month target	**C$**	**29.00**
12-month TSR	**%**	**+8.4**
Valuation - EV/EBITDA	**C$**	**29.00**
GICS sector		**Utilities**
Market cap	**C$m**	**4,744**
30-day avg turnover	**C$m**	**12.0**
Number shares on issue	**m**	**170.9**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Sales revenue	m	3,970.8	4,386.6	4,580.2	4,835.6
EBITDA	m	1,064.4	1,175.8	1,227.7	1,296.2
Recurring profit	m	259.9	290.9	308.3	331.0
Reported profit	m	262.9	290.9	308.3	331.0
CFPS	C$	3.98	4.22	4.40	4.58
CFPS growth	%	0.8	5.9	4.4	4.0
PGCFPS	x	7.0	6.6	6.3	6.1
EPS rec	C$	1.53	1.70	1.80	1.90
EPS rec growth	%	-5.0	11.4	5.8	5.6
PER rec	x	18.2	16.3	15.4	14.6
Total DPS	C$	1.04	1.12	1.16	1.21
Total div yield	%	3.7	4.0	4.2	4.4
EV/EBITDA	x	10.4	9.7	9.5	9.2

FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, February 2010
(all figures in CAD unless noted)

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5 February 2010

Fortis

Even FTS can't fully escape recession

Event

- Fortis reported normalized 4Q09 EPS of C$0.48 vs our estimate of C$0.55 and C$0.48 in 4Q08.

Impact

- Neutral to slightly negative. Canadian regulated utilities are performing well, but earnings remain contained in the Caribbean and Properties segments.
- It isn't often that FTS reports full year earnings that are lower than the prior year, but that is what happened in 2009. We do not expect this rare phenomenon to recur since regulated assets are growing and allowed returns have risen.
- But growth may not come on at as fast a pace as FTS investors are used to. We attribute this trend to the recession, not to management issues. The Properties division has slightly declining earnings despite making a C$50m acquisition in late 2007 and then spending another C$40m in capital over the past two years.
- And the "Battle for Belize" that Fortis is waging with the local government and that results in suboptimal returns for the regulated assets there has not waned. We view that issue as relating to recession conditions as well. When the economy weakens in the Caribbean, governments tend to seek utility rate reductions.
- There isn't much power price exposure left in FTS, but to the extent there is exposure, it has had a negative impact during the economic downturn and compounded other issues last year.
- Going forward, we see the company as much less sensitive to the economy. In reality, the Generation, Properties and Caribbean earnings will only make up 15–20% of total earnings this year and even less over time.

Earnings and target price revision

- We are reducing our 2010/11 EPS estimates by C$0.05 to C$1.70/C$1.80 due to lower non-regulated earnings and higher corporate expenses. We are also introducing a 2012 EPS estimate of C$1.90 assuming the company issues C$150m of equity over the next 12–18 months (would be C$1.95 without the equity).

Price catalyst

- 12-month price target: C$29.00 based on an EV/EBITDA methodology.
- Catalyst: Stable earnings and potential acquisitions.

Action and recommendation

- Our C$29 target price is based on a premium 9.7x forward EBITDA and 16.1x forward P/E. The stock may not move up much given its relatively high valuation, but owning it probably can't hurt given its relative stability going forward in choppy markets.

Fortis Inc. (FTS CN, Neutral, Target price: C$29.00)

Earnings and Per Share Data (Annual)	2009	2010E	2011E	2012E
Newfoundland Power	$32.3	$32.8	$33.2	$33.4
Alberta & BC Utilities	$96.9	$114.1	$122.3	$135.2
BC Gas	$117.0	$128.5	$135.0	$141.8
Maritime Electric	$12.2	$13.4	$14.0	$14.7
FortisOntario (CNP & Cornwall)	$7.8	$5.5	$5.5	$5.5
Fortis Generation	$16.2	$19.1	$21.0	$21.2
Regulated Electric Utilities - Caribbean	$25.0	$25.6	$25.8	$28.2
Fortis Properties	$24.1	$24.0	$24.0	$24.0
Corporate	($71.8)	($72.0)	($72.5)	($73.0)
Operating Earnings for common shares	**$259.9**	**$290.9**	**$308.3**	**$331.0**
Unusual items	$3.0	$0.0	$0.0	$0.0
Reported Earnings	$262.9	$290.9	$308.3	$331.0
Average shares o/s (mln)	170.2	171.1	171.4	174.2
Operating Earnings per basic share	**$1.53**	**$1.70**	**$1.80**	**$1.90**
Reported Earnings per basic share	$1.54	$1.70	$1.80	$1.90
Dividends Per Share	**$1.04**	**$1.12**	**$1.16**	**$1.21**
EBITDA	$1,064.4	$1,175.8	$1,227.7	$1,296.2
EBITDA Per Share	$6.25	$6.87	$7.16	$7.44
Cash Flow From Operations	$678.0	$721.6	$755.1	$798.3
Cash Flow Per Share	**$3.98**	**$4.22**	**$4.40**	**$4.58**
Book Value Per Share	$18.76	$19.27	$19.89	$21.10
Return On Book Value	8.1%	8.9%	9.2%	9.3%

Earnings and Per Share Data (Quarterly)	1Q10E	2Q10E	3Q10E	4Q10E
Newfoundland Power	$6.6	$10.6	$6.2	$9.4
Alberta & BC Utilities	$33.8	$24.8	$30.4	$25.1
BC Gas	$60.9	$16.9	($0.1)	$50.9
Maritime Electric	$3.5	$2.3	$3.3	$4.3
FortisOntario (CNP & Cornwall)	$1.2	$1.4	$1.4	$1.4
Fortis Generation	$6.4	$4.2	$5.3	$3.2
Regulated Electric Utilities - Caribbean	$3.9	$8.1	$8.8	$4.8
Fortis Properties	$4.0	$6.0	$6.0	$8.1
Corporate	($22.0)	($18.0)	($17.0)	($15.0)
Operating Earnings for common shares	**$98.2**	**$56.3**	**$44.3**	**$92.1**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$98.2	$56.3	$44.3	$92.1
Average shares o/s (mln)	171.1	171.1	171.1	171.1
Operating Earnings per basic share	**$0.57**	**$0.33**	**$0.26**	**$0.54**
Reported Earnings per basic share	$0.57	$0.33	$0.26	$0.54

Cash Flow Statement	2009	2010E	2011E	2012E
Operating Activities				
Earnings	$262.9	$290.9	$308.3	$331.0
Depreciation and Amortization	$364.0	$403.7	$419.7	$440.3
Other	$51.1	$27.0	$27.0	$27.0
Cash Flow from Operations	$678.0	$721.6	$755.1	$798.3
Changes in non-cash Working Capital	($41.0)	$0.0	$0.0	$0.0
Cash Provided from Operating Activities	**$637.0**	**$721.6**	**$755.1**	**$798.3**
Investment Activities				
Total Capex	($1,024.0)	($1,105.0)	($1,028.0)	($804.0)
Other & Asset Sales	($28.0)	($20.0)	($20.0)	($19.0)
Cash Used in Investing Activities	**($1,052.0)**	**($1,125.0)**	**($1,048.0)**	**($823.0)**
Financing Activities				
Dividends - common/pref shares	($151.0)	($198.1)	($206.2)	($217.5)
Other Financing Activities	$589.0	$611.0	$511.0	$352.0
Cash Used in Financing Activities	**$438.0**	**$412.9**	**$304.8**	**$134.5**
Foreign Currency Translation	($4.0)	$0.0	$0.0	$0.0
Increase (decrease) in cash	$19.0	$9.5	$11.9	$109.8
Cash - Beginning of Year	$65.9	$84.9	$94.4	$106.4
Cash - End of Year	**$84.9**	**$94.4**	**$106.4**	**$216.1**

Consolidated Capitalization	2009	2010E	2011E	2012E
Short-term debt	$639.0	$639.0	$639.0	$639.0
Long term debt	$5,276.0	$5,876.0	$6,376.0	$6,576.0
Total debt	**$5,915.0**	**$6,515.0**	**$7,015.0**	**$7,215.0**
Pref shares	$667.0	$667.0	$667.0	$667.0
Common equity	**$3,193.0**	**$3,296.8**	**$3,410.0**	**$3,675.4**
Total capitalization	**$9,775.0**	**$10,478.8**	**$11,092.0**	**$11,557.4**
Weighting				
Total Debt	60.5%	62.2%	63.2%	62.4%
Preferred Shares	6.8%	6.4%	6.0%	5.8%
Common Equity	32.7%	31.5%	30.7%	31.8%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, February 2010

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Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

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Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2009

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.94%	60.52%	37.50%	43.42%	65.26%	41.60%	(for US coverage by MCUSA, 3.76% of stocks covered are investment banking clients)
Neutral	35.58%	18.70%	53.13%	49.06%	29.11%	36.80%	(for US coverage by MCUSA, 4.51% of stocks covered are investment banking clients)
Underperform	16.48%	20.79%	9.38%	7.52%	5.63%	21.60%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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CANADA

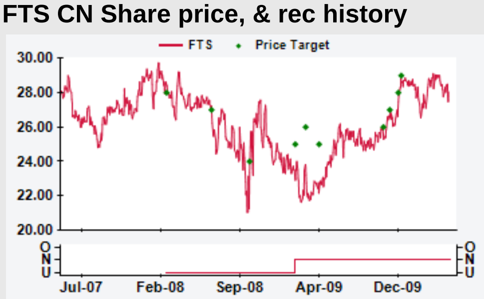
FTS CN	Neutral
Price 30 Apr 10	C$28.05
Volatility index	**Low/Medium**

12-month target	**C$**	**29.00**
12-month TSR	**%**	**+7.2**
Valuation - EV/EBITDA	**C$**	**29.00**
GICS sector		**Utilities**
Market cap	**C$m**	**4,830**
30-day avg turnover	**C$m**	**10.4**
Number shares on issue	**m**	**172.2**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Sales revenue	m	3,980.1	4,406.1	4,626.2	4,883.6
EBITDA	m	1,066.9	1,181.1	1,240.1	1,309.1
Recurring profit	m	259.8	284.4	305.4	327.7
Reported profit	m	262.8	284.4	305.4	327.7
CFPS	C$	3.98	4.15	4.31	4.48
CFPS growth	%	0.8	4.2	3.7	4.1
PGCFPS	x	7.0	6.8	6.5	6.3
EPS rec	C$	1.53	1.65	1.75	1.85
EPS rec growth	%	-5.0	8.2	5.9	5.6
PER rec	x	18.4	17.0	16.0	15.2
Total DPS	C$	1.04	1.12	1.16	1.21
Total div yield	%	3.7	4.0	4.2	4.3
EV/EBITDA	x	10.7	9.7	9.4	9.2

FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, May 2010
(all figures in CAD unless noted)

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3 May 2010

Fortis

Range-bound pending an acquisition

Event

- Fortis reported 1Q10 EPS of C$0.58, in line with our estimate and compared to C$0.53 in 1Q09.

Impact

- The impact of the earnings report is neutral. Profits lifted YoY primarily due to regulatory decisions across Canada last year that boosted allowed returns.
- Growth is steady, if unexciting, across the Canadian regulated utility businesses. Going forward, the C$1.0bn annual capex program should drive annual EPS and dividend growth of around 5.0% absent acquisitions.
- This growth could temporarily accelerate in an economic recovery scenario. Returns have compressed and could rebound in the Properties and Caribbean Utilities segments, two areas that can be considered as economically sensitive.
- Yet on the other hand, it is not inconceivable the company could face some reversal of gains made on regulated utility returns in Canada. Alberta will review the allowed return again in 2011 and BC will review it periodically. Given credit spread compression and continued low bond yields, the 100–150bp gains made on allowed ROEs are more likely to erode slightly than expand, in our view.
- Good news for Fortis shareholders came in the form of a deal not done last week. Fortis was widely rumoured as a front-runner in the LG&E acquisition from European utility giant E.ON. The market reacted negatively to the high price (US$7.6bn) PPL bid for the asset.
- But despite ultimately passing on LG&E, it is clearer than ever that Fortis needs acquisitions to get back to the premium EPS growth roots it left behind in the wake of its 2007 BC Gas acquisition (EPS CAGR only ~ 4.2% since 2006).

Earnings and target price revision

- We are slightly reducing our 2010/11/12 EPS estimates by C$0.05 to C$1.65/C$1.75/C$1.85 due to higher than anticipated corporate costs and an assumed equity issue to finance organic growth in mid-2011.

Price catalyst

- 12-month price target: C$29.00 based on an EV/EBITDA methodology.
- Catalyst: Growth projects, potential acquisitions and regulatory decisions.

Action and recommendation

- Holding Fortis shares for yield and modest appreciation can't hurt. However, given premium valuation (17.0x P/E and 9.4x EBITDA) and lack of catalyst pending acquisitions, we believe it is unlikely to outperform the group. We maintain our Neutral rating and C$29 target price.

Fortis Inc. (FTS CN, Neutral, Target price: C$29.00)

Earnings and Per Share Data (Annual)	2009	2010E	2011E	2012E
Newfoundland Power	$32.6	$33.1	$33.5	$33.7
Alberta & BC Utilities	$96.6	$109.3	$117.6	$130.2
BC Gas	$117.0	$128.5	$135.0	$141.8
Maritime Electric	$12.2	$13.4	$14.0	$14.7
FortisOntario (CNP & Cornwall)	$7.8	$7.0	$7.0	$7.0
Fortis Generation	$16.2	$18.7	$20.6	$21.0
Regulated Electric Utilities - Caribbean	$25.0	$28.4	$30.7	$33.2
Fortis Properties	$24.1	$24.0	$24.0	$24.0
Corporate	($71.8)	($78.0)	($77.0)	($78.0)
Operating Earnings for common shares	**$259.8**	**$284.4**	**$305.4**	**$327.7**
Unusual items	$3.0	$0.0	$0.0	$0.0
Reported Earnings	$262.8	$284.4	$305.4	$327.7
Average shares o/s (mln)	170.2	172.3	174.7	177.5
Operating Earnings per basic share	**$1.53**	**$1.65**	**$1.75**	**$1.85**
Reported Earnings per basic share	$1.54	$1.65	$1.75	$1.85
Dividends Per Share	**$1.04**	**$1.12**	**$1.16**	**$1.21**
EBITDA	$1,066.9	$1,181.1	$1,240.1	$1,309.1
EBITDA Per Share	$6.27	$6.85	$7.10	$7.38
Cash Flow From Operations	$678.0	$715.2	$752.2	$795.0
Cash Flow Per Share	**$3.98**	**$4.15**	**$4.31**	**$4.48**
Book Value Per Share	$18.76	$19.38	$20.12	$20.87
Return On Book Value	8.1%	8.7%	8.9%	9.0%

Earnings and Per Share Data (Quarterly)	1Q10	2Q10E	3Q10E	4Q10E
Newfoundland Power	$7.0	$10.6	$6.2	$9.3
Alberta & BC Utilities	$28.0	$24.8	$30.4	$26.2
BC Gas	$73.0	$16.9	($0.1)	$38.8
Maritime Electric	$3.2	$2.3	$3.3	$4.6
FortisOntario (CNP & Cornwall)	$1.8	$1.8	$1.8	$1.6
Fortis Generation	$2.0	$4.2	$5.3	$7.2
Regulated Electric Utilities - Caribbean	$4.0	$8.1	$8.8	$7.5
Fortis Properties	$2.0	$6.0	$6.0	$10.0
Corporate	($21.0)	($19.5)	($19.5)	($18.0)
Operating Earnings for common shares	**$100.0**	**$55.1**	**$42.1**	**$87.1**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$100.0	$55.1	$42.1	$87.1
Average shares o/s (mln)	171.6	172.1	172.6	172.8
Operating Earnings per basic share	**$0.58**	**$0.32**	**$0.24**	**$0.50**
Reported Earnings per basic share	$0.58	$0.32	$0.24	$0.50

Cash Flow Statement	2009	2010E	2011E	2012E
Operating Activities				
Earnings	$262.8	$284.4	$305.4	$327.7
Depreciation and Amortization	$364.0	$403.8	$419.8	$440.4
Other	$51.2	$27.0	$27.0	$27.0
Cash Flow from Operations	$678.0	$715.2	$752.2	$795.0
Changes in non-cash Working Capital	($41.0)	$45.0	$0.0	$0.0
Cash Provided from Operating Activities	**$637.0**	**$760.2**	**$752.2**	**$795.0**
Investment Activities				
Total Capex	($1,024.0)	($1,105.0)	($1,028.0)	($804.0)
Other & Asset Sales	($28.0)	($18.0)	($20.0)	($19.0)
Cash Used in Investing Activities	**($1,052.0)**	**($1,123.0)**	**($1,048.0)**	**($823.0)**
Financing Activities				
Dividends - common/pref shares	($151.0)	($199.5)	($210.0)	($221.5)
Other Financing Activities	$589.0	$577.0	$531.0	$332.0
Cash Used in Financing Activities	**$438.0**	**$377.5**	**$321.0**	**$110.5**
Foreign Currency Translation	($4.0)	($1.0)	$0.0	$0.0
Increase (decrease) in cash	$19.0	$13.7	$25.2	$82.5
Cash - Beginning of Year	$65.9	$84.9	$98.6	$123.8
Cash - End of Year	**$84.9**	**$98.6**	**$123.8**	**$206.4**

Consolidated Capitalization	2009	2010E	2011E	2012E
Short-term debt	$639.0	$458.0	$458.0	$458.0
Long term debt	$5,276.0	$5,731.0	$6,181.0	$6,431.0
Total debt	**$5,915.0**	**$6,189.0**	**$6,639.0**	**$6,889.0**
Pref shares	$667.0	$909.0	$909.0	$909.0
Common equity	**$3,193.0**	**$3,339.0**	**$3,515.4**	**$3,703.5**
Total capitalization	**$9,775.0**	**$10,437.0**	**$11,063.4**	**$11,501.5**
Weighting				
Total Debt	60.5%	59.3%	60.0%	59.9%
Preferred Shares	6.8%	8.7%	8.2%	7.9%
Common Equity	32.7%	32.0%	31.8%	32.2%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, May 2010

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Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

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Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
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Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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CANADA

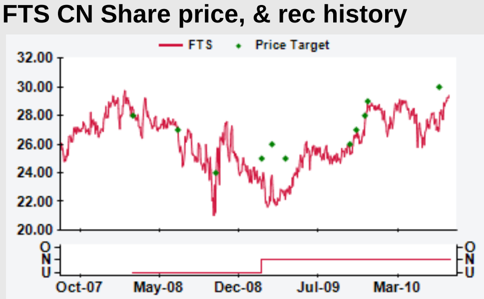
FTS CN	Neutral
Price 4 Aug 10	C$28.84

Volatility index		**Low/Medium**
12-month target	**C$**	**30.00**
12-month TSR	**%**	**+8.0**
Valuation	**C$**	**30.00**
- EV/EBITDA		
GICS sector		**Utilities**
Market cap	**C$m**	**4,972**
30-day avg turnover	**C$m**	**11.7**
Number shares on issue	**m**	**172.4**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Sales revenue	m	3,980.1	4,407.4	4,632.9	4,890.4
EBITDA	m	1,066.9	1,181.4	1,241.8	1,310.9
Recurring profit	m	259.8	284.2	306.9	329.1
Reported profit	m	262.8	284.2	306.9	329.1
CFPS	C$	3.98	4.15	4.31	4.48
CFPS growth	%	0.8	4.1	3.9	4.0
PGCFPS	x	7.2	7.0	6.7	6.4
EPS rec	C$	1.53	1.65	1.75	1.85
EPS rec growth	%	-5.0	8.1	6.3	5.6
PER rec	x	18.9	17.5	16.4	15.6
Total DPS	C$	1.04	1.12	1.16	1.21
Total div yield	%	3.6	3.9	4.0	4.2
EV/EBITDA	x	10.8	9.9	9.7	9.4

FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2010
(all figures in CAD unless noted)

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5 August 2010

Fortis

Uncharacteristic lack of good news

Event

- FTS reported 2Q10 EPS of C$0.32 in line with our estimate and compared to C$0.31 in 2Q09. The stock traded off on the earnings report.

Impact

- The report was neutral to slightly negative for the stock. Earnings were in line but the absence of positive developments in the quarter is uncharacteristic and is a small disappointment due to the market's premium expectations.
- Our primary concern for Fortis is the prospect for slowing growth due to the potential for modest rollback in allowed ROEs and for a continued lack of accretive acquisition activity.
- In our opinion, returns on equity are vulnerable out in Western Canada due to lacklustre utility sales and the recent steep drop in bond yields.
- Lack of sales growth can pressure returns because absent a reduction in returns rates have to rise. In Alberta sales growth was running in the 2–3% range during 2006–08. This year, sales are down 1% YTD. At FortisBC, sales are down 5.5% YTD. These reductions are only partially due to weather impacts.
- Both Alberta and BC are set to review allowed ROEs for 2011. While we are not advocating for lower returns, we believe the reversal of credit spread widening that precipitated higher returns for 2009–10 could pressure returns in 2011.
- Newfoundland, too, will re-set the ROE for 2011 based on a formula linked to government bond yields. The allowed ROE there is only 9.0%, yet we see more downside risk than upside in that jurisdiction's allowed return.
- We believe incentive regulation (IR) in Alberta can help offset any ROE drag. The company can consolidate its recent growth and improve productivity. However, we doubt any decisions on IR will be forthcoming until mid/late 2012.

Earnings and target price revision

- We are maintaining our estimates and target price.

Price catalyst

- 12-month price target: C$30.00 based on an EV/EBITDA methodology.
- Catalyst: Regulatory decision and growth project announcements.

Action and recommendation

- Our opinion on FTS following the 2Q result is unchanged. We do not think holding shares can hurt as risks are relatively low and the yield is solid. However, the potential for outperformance is low as growth may slow again into 2011 as regulators review their allowed return formulas.

Fortis Inc. (FTS CN, Neutral, Target price: C$30.00)

Earnings and Per Share Data (Annual)	2009	2010E	2011E	2012E
Newfoundland Power	$32.6	$33.1	$33.5	$33.7
Alberta & BC Utilities	$96.6	$107.8	$117.5	$130.2
BC Gas	$117.0	$128.5	$135.0	$141.8
Maritime Electric	$12.2	$13.4	$14.0	$14.7
FortisOntario (CNP & Cornwall)	$7.8	$7.0	$7.0	$7.0
Fortis Generation	$16.2	$20.1	$22.1	$22.5
Regulated Electric Utilities - Caribbean	$25.0	$28.3	$30.7	$33.2
Fortis Properties	$24.1	$24.0	$24.0	$24.0
Corporate	($71.8)	($78.0)	($77.0)	($78.0)
Operating Earnings for common shares	**$259.8**	**$284.2**	**$306.9**	**$329.1**
Unusual items	$3.0	$0.0	$0.0	$0.0
Reported Earnings	$262.8	$284.2	$306.9	$329.1
Average shares o/s (mln)	170.2	172.4	174.9	177.7
Operating Earnings per basic share	**$1.53**	**$1.65**	**$1.75**	**$1.85**
Reported Earnings per basic share	$1.54	$1.65	$1.75	$1.85
Dividends Per Share	**$1.04**	**$1.12**	**$1.16**	**$1.21**
EBITDA	$1,066.9	$1,181.4	$1,241.8	$1,310.9
EBITDA Per Share	$6.27	$6.85	$7.10	$7.38
Cash Flow From Operations	$678.0	$715.0	$753.7	$796.5
Cash Flow Per Share	**$3.98**	**$4.15**	**$4.31**	**$4.48**
Book Value Per Share	$18.76	$19.36	$20.10	$20.85
Return On Book Value	8.1%	8.6%	8.9%	9.0%

Earnings and Per Share Data (Quarterly)	1Q10	2Q10	3Q10E	4Q10E
Newfoundland Power	$7.2	$11.0	$6.2	$8.7
Alberta & BC Utilities	$27.8	$25.0	$30.0	$25.0
BC Gas	$73.0	$17.0	($0.1)	$38.6
Maritime Electric	$3.2	$2.2	$3.3	$4.7
FortisOntario (CNP & Cornwall)	$1.8	$1.8	$1.8	$1.6
Fortis Generation	$2.0	$3.0	$5.3	$9.8
Regulated Electric Utilities - Caribbean	$4.0	$7.0	$8.8	$8.5
Fortis Properties	$2.0	$8.0	$6.0	$8.0
Corporate	($21.0)	($20.0)	($19.5)	($17.5)
Operating Earnings for common shares	**$100.0**	**$55.0**	**$41.7**	**$87.5**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$100.0	$55.0	$41.7	$87.5
Average shares o/s (mln)	171.6	172.4	172.9	172.7
Operating Earnings per basic share	**$0.58**	**$0.32**	**$0.24**	**$0.51**
Reported Earnings per basic share	$0.58	$0.32	$0.24	$0.51

Cash Flow Statement	2009	2010E	2011E	2012E
Operating Activities				
Earnings	$262.8	$284.2	$306.9	$329.1
Depreciation and Amortization	$364.0	$403.8	$419.8	$440.4
Other	$51.2	$27.0	$27.0	$27.0
Cash Flow from Operations	$678.0	$715.0	$753.7	$796.5
Changes in non-cash Working Capital	($41.0)	$89.0	$0.0	$0.0
Cash Provided from Operating Activities	**$637.0**	**$804.0**	**$753.7**	**$796.5**
Investment Activities				
Total Capex	($1,024.0)	($1,105.0)	($1,029.0)	($804.0)
Other & Asset Sales	($28.0)	($18.0)	($20.0)	($19.0)
Cash Used in Investing Activities	**($1,052.0)**	**($1,123.0)**	**($1,049.0)**	**($823.0)**
Financing Activities				
Dividends - common/pref shares	($151.0)	($199.6)	($210.3)	($221.8)
Other Financing Activities	$589.0	$622.0	$531.0	$332.0
Cash Used in Financing Activities	**$438.0**	**$422.4**	**$320.7**	**$110.2**
Foreign Currency Translation	($4.0)	$0.0	$0.0	$0.0
Increase (decrease) in cash	$19.0	$103.4	$25.4	$83.7
Cash - Beginning of Year	$65.9	$84.9	$188.3	$213.7
Cash - End of Year	**$84.9**	**$188.3**	**$213.7**	**$297.4**

Consolidated Capitalization	2009	2010E	2011E	2012E
Short-term debt	$639.0	$699.0	$699.0	$699.0
Long term debt	$5,276.0	$5,535.0	$5,985.0	$6,235.0
Total debt	**$5,915.0**	**$6,234.0**	**$6,684.0**	**$6,934.0**
Pref shares	$667.0	$909.0	$909.0	$909.0
Common equity	**$3,193.0**	**$3,338.6**	**$3,516.2**	**$3,705.6**
Total capitalization	**$9,775.0**	**$10,481.6**	**$11,109.2**	**$11,548.6**
Weighting				
Total Debt	60.5%	59.5%	60.2%	60.0%
Preferred Shares	6.8%	8.7%	8.2%	7.9%
Common Equity	32.7%	31.9%	31.7%	32.1%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, August 2010

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Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

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All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	64.29%	54.41%	45.63%	65.08%	50.26%	(for US coverage by MCUSA, 4.58% of stocks covered are investment banking clients)
Neutral	35.16%	17.15%	38.24%	47.91%	30.69%	35.16%	(for US coverage by MCUSA, 5.56% of stocks covered are investment banking clients)
Underperform	14.29%	18.56%	7.35%	6.46%	4.23%	14.58%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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Equities Research

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The Global Utilities Specialist

CANADA

FTS CN Underperform

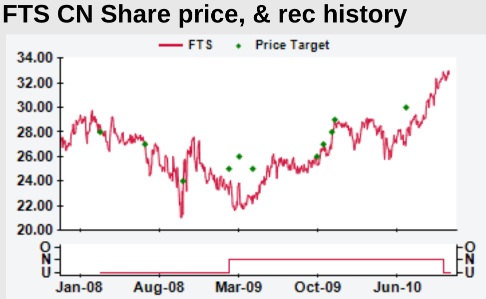
Price 5 Nov 10 C$33.26

Volatility index		**Low**
12-month target	**C$**	**30.00**
12-month TSR	**%**	**-6.4**
Valuation - EV/EBITDA	**C$**	**30.00**
GICS sector		**Utilities**
Market cap	**C$m**	**5,777**
30-day avg turnover	**C$m**	**12.7**
Number shares on issue	**m**	**173.7**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Sales revenue	m	3,980.1	4,544.9	4,725.5	4,939.0
EBITDA	m	1,066.9	1,218.3	1,266.7	1,323.9
Recurring profit	m	259.8	284.1	297.5	311.0
Reported profit	m	262.8	284.1	297.5	311.0
CFPS	C$	3.98	4.38	4.48	4.61
CFPS growth	%	0.8	9.9	2.5	2.8
PGCFPS	x	8.4	7.6	7.4	7.2
EPS rec	C$	1.53	1.65	1.70	1.75
EPS rec growth	%	-5.0	7.9	3.3	2.9
PER rec	x	21.8	20.2	19.6	19.0
Total DPS	C$	1.04	1.12	1.16	1.21
Total div yield	%	3.1	3.4	3.5	3.6
EV/EBITDA	x	11.6	10.4	10.2	10.0

FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2010

(all figures in CAD unless noted)

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8 November 2010

Fortis

ROE-driven growth could reverse in 2011

Event

- Fortis (FTS) reported 3Q10 EPS of $0.26 vs our estimate of $0.24 and $0.21 in 3Q09.

Impact

- We see the earnings report as neutral for the stock. Earnings were slightly ahead of our estimate due to seasonal factors in 3Q (Belize hydrology and Properties revenues) that will likely reverse in 4Q.
- Fortis continues developing regulated and contracted infrastructure projects that deliver solid returns. The latest example is the 335MW Waneta Expansion hydroelectricity project.
- Our main concerns about FTS are the potential for a reduction in allowed returns and the stock's relatively low free cash yield compared to the peer group.
- Last year, regulators in Alberta and BC boosted allowed returns primarily due to widening credit spreads. As those conditions are no longer in place, we see a risk the increase could reverse in 2011/12.
- A 100bp reduction in allowed ROEs in both provinces is not out of the question (we are not advocating for it, but we see it as a risk). Last year, the company's gas utility, which makes up the lion's share of Western Canadian rate base, secured a 103bp increase in the ROE and a 500bp increase in the equity ratio.
- In our estimation, a 100bp reduction in allowed ROEs in Alberta and BC would impact EPS by about $0.14. It appears the allowed return will be examined in Alberta for 2011, while in BC it may take until 2012 (not clear at this time).

Earnings and target price revision

- We are reducing our 2011 EPS estimate by $0.05 to $1.70 on the risk of a 100bp reduction in allowed Alberta ROEs. We are reducing our 2012 estimate by $0.10 to $1.75 considering the potential impact in Alberta and a 50bp reduction in the allowed ROE in BC.

Price catalyst

- 12-month price target: C$30.00 based on an EV/EBITDA methodology.
- Catalyst: Regulatory decision and growth project announcements.

Action and recommendation

- FTS management continues navigating well in its regulatory landscape. However, a reduction in allowed returns may be inescapable. At the same time, the stock has one of the lowest free cash yields in our coverage universe (6.8% on 2012). Therefore, we recommend reducing holdings at these levels.

Fortis Inc. (FTS CN, Underperform, Target price: C$30.00)

Earnings and Per Share Data (Annual)	2009	2010E	2011E	2012E
Newfoundland Power	$32.6	$34.7	$34.7	$34.7
Alberta & BC Utilities	$96.6	$105.9	$107.4	$110.5
BC Gas	$117.0	$129.5	$137.0	$143.8
Maritime Electric	$12.2	$13.4	$14.0	$14.7
FortisOntario (CNP & Cornwall)	$7.8	$7.0	$7.0	$7.0
Fortis Generation	$16.2	$20.0	$20.7	$21.0
Regulated Electric Utilities - Caribbean	$25.0	$27.6	$30.7	$33.2
Fortis Properties	$24.1	$24.0	$24.0	$24.0
Corporate	($71.8)	($78.0)	($78.0)	($78.0)
Operating Earnings for common shares	**$259.8**	**$284.1**	**$297.5**	**$311.0**
Unusual items	$3.0	$0.0	$0.0	$0.0
Reported Earnings	$262.8	$284.1	$297.5	$311.0
Average shares o/s (mln)	170.2	172.6	174.9	177.7
Operating Earnings per basic share	**$1.53**	**$1.65**	**$1.70**	**$1.75**
Reported Earnings per basic share	$1.54	$1.65	$1.70	$1.75
Dividends Per Share	**$1.04**	**$1.12**	**$1.16**	**$1.21**
EBITDA	$1,066.9	$1,218.3	$1,266.7	$1,323.9
EBITDA Per Share	$6.27	$7.06	$7.24	$7.45
Cash Flow From Operations	$678.0	$755.3	$784.4	$819.1
Cash Flow Per Share	**$3.98**	**$4.38**	**$4.48**	**$4.61**
Book Value Per Share	$18.76	$19.18	$19.73	$20.23
Return On Book Value	8.1%	8.7%	8.7%	8.8%

Earnings and Per Share Data (Quarterly)	1Q10	2Q10	3Q10	4Q10E
Newfoundland Power	$7.2	$11.0	$8.0	$8.5
Alberta & BC Utilities	$27.8	$25.0	$30.0	$23.1
BC Gas	$73.0	$17.0	($5.0)	$44.5
Maritime Electric	$3.2	$2.2	$3.0	$5.0
FortisOntario (CNP & Cornwall)	$1.8	$1.8	$2.0	$1.4
Fortis Generation	$2.0	$3.0	$9.0	$5.9
Regulated Electric Utilities - Caribbean	$4.0	$7.0	$8.0	$8.6
Fortis Properties	$2.0	$8.0	$9.0	$5.0
Corporate	($21.0)	($20.0)	($19.0)	($18.0)
Operating Earnings for common shares	**$100.0**	**$55.0**	**$45.1**	**$84.0**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$100.0	$55.0	$45.1	$84.0
Average shares o/s (mln)	171.6	172.4	173.2	173.2
Operating Earnings per basic share	**$0.58**	**$0.32**	**$0.26**	**$0.48**
Reported Earnings per basic share	$0.58	$0.32	$0.26	$0.48

Cash Flow Statement	2009	2010E	2011E	2012E
Operating Activities				
Earnings	$262.8	$284.1	$297.5	$311.0
Depreciation and Amortization	$364.0	$450.7	$458.4	$479.0
Other	$51.2	$20.5	$28.4	$29.2
Cash Flow from Operations	$678.0	$755.3	$784.4	$819.1
Changes in non-cash Working Capital	($41.0)	$53.0	$0.0	$0.0
Cash Provided from Operating Activities	**$637.0**	**$808.3**	**$784.4**	**$819.1**
Investment Activities				
Total Capex	($1,024.0)	($1,157.0)	($1,029.0)	($804.0)
Other & Asset Sales	($28.0)	($18.0)	($20.0)	($19.0)
Cash Used in Investing Activities	**($1,052.0)**	**($1,175.0)**	**($1,049.0)**	**($823.0)**
Financing Activities				
Dividends - common/pref shares	($151.0)	($218.3)	($228.8)	($240.3)
Other Financing Activities	$589.0	$768.0	$522.0	$322.0
Cash Used in Financing Activities	**$438.0**	**$549.7**	**$293.2**	**$81.7**
Foreign Currency Translation	($4.0)	$0.0	$0.0	$0.0
Increase (decrease) in cash	$19.0	$183.0	$28.6	$77.8
Cash - Beginning of Year	$65.9	$84.9	$267.9	$296.5
Cash - End of Year	**$84.9**	**$267.9**	**$296.5**	**$374.3**

Consolidated Capitalization	2009	2010E	2011E	2012E
Short-term debt	$639.0	$857.0	$857.0	$857.0
Long term debt	$5,276.0	$5,532.0	$5,982.0	$6,232.0
Total debt	**$5,915.0**	**$6,389.0**	**$6,839.0**	**$7,089.0**
Pref shares	$667.0	$909.0	$909.0	$909.0
Common equity	**$3,193.0**	**$3,310.8**	**$3,451.6**	**$3,594.3**
Total capitalization	**$9,775.0**	**$10,608.8**	**$11,199.6**	**$11,592.3**
Weighting				
Total Debt	60.5%	60.2%	61.1%	61.2%
Preferred Shares	6.8%	8.6%	8.1%	7.8%
Common Equity	32.7%	31.2%	30.8%	31.0%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, November 2010

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Underperform – expected return <-10%

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Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.06%	64.41%	55.07%	46.58%	66.99%	50.00%	(for US coverage by MCUSA, 13.73% of stocks covered are investment banking clients)
Neutral	34.15%	17.31%	36.23%	48.40%	28.71%	36.81%	(for US coverage by MCUSA, 11.76% of stocks covered are investment banking clients)
Underperform	14.79%	18.28%	8.70%	5.02%	4.31%	13.19%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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CANADA

Ticker	Rating	Target Price	16-Dec-10 Price
ENB CN	O	$65.00	$55.60
FTS CN	U	$31.00	$34.14

Source: Bloomberg, Macquarie Research, December 2010

Canadian Energy Infrastructure

Long ENB vs Short FTS

Event

- We believe the pair trade of long Enbridge (ENB) to short Fortis (FTS) is compelling.

Analysis

- When the dust has settled on the year 2010, we believe ENB will have posted 14% EPS growth and raised its dividend by 15% – almost double the EPS growth rate and more than four times the dividend growth rate of FTS in the same year. Yet, the stocks have essentially performed in line.
- One of three things is driving the inconsistency between growth and share performance: ENB will not continue growing at a premium rate, ENB was relatively expensive in the first place, or there is a market imperfection and a trading opportunity. We believe it is the latter point driving relative performance.
- Our analysis suggests ENB will grow at a premium rate to FTS primarily for two reasons. First, ENB generally achieves higher returns on reinvested capital than FTS. The ENB assets and new investments, particularly intra-Alberta pipelines, often operate under negotiated tolls that drive higher returns than the standard ROEs realized on the FTS heavily-regulated distribution utility assets.
- Second, even to the extent ENB's assets are regulated, the embedded ROEs are at a premium to the nameplate regulated return (eg, Alberta Clipper at a 225bp premium to nameplate ROE). So, since both companies have similar payout ratios (about 70% of earnings), we believe ENB will grow faster than FTS, all else equal.
- Whether we think ENB will grow faster than FTS or not, the companies themselves appear to believe it. ENB has guided to "double-digit" growth through 2014 and, while FTS does not provide guidance, the 3.5% dividend increase for 2011 appears to signal a much slower growth rate.
- Assuming our estimates are correct, ENB is not more expensive than FTS. On the contrary, it is cheaper. It trades at 17.4x our 2012 GAAP EPS vs FTS at 19.5x. Moreover, the gap between the companies' price-to-cash-tax multiples is even wider (13.2x vs 18.5x) since ENB's cash tax rate will probably be half that of FTS'. As important, we estimate ENB's free cash yield at 9.3% vs FTS at 6.2%.
- It is important to highlight that ENB and FTS have comparable balance sheet metrics, since both earnings multiples and free cash yields are levered measures of valuation. Both have about 65% debt-to-capital and 5.5x debt-to-ebitda ratios.

Conclusion

- ENB and FTS are comparable companies due to their relatively low-risk profiles, similar balance sheets and regulated asset bases. On this basis, the stocks make a good pair trade. As ENB's premium growth and discounted valuation relative to FTS emerge as a consensus view, we believe ENB shares will outperform FTS. We would sell FTS to buy ENB shares now before that view fully proves out.

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17 December 2010

Fig 1 Comparative valuation of selected Canadian and US pipeline, utility and power generation companies

December 16, 2010

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Comparative valuation of selected Canadian and U.S. pipeline, midstream, utility and power generation companies

		Analyst/	Price	Earnings per share				P/E ratios				Cash tax earnings per share				P/Cash tax earnings ratios				Dividend		Target	Total
Company	**Ticker**	**Rating**	**12/16/10**	**2009**	**2010E**	**2011E**	**2012E**	**2009**	**2010E**	**2011E**	**2012E**	**2009**	**2010E**	**2011E**	**2012E**	**2009**	**2010E**	**2011E**	**2012E**	**Rate**	**Yield**	**Price**	**Return**
Pipelines & Midstream																							
Enbridge Inc.	ENB	MA / O	$55.60	$2.35	$2.70	$2.95	$3.20	23.7	20.6	18.8	17.4	$2.95	$3.39	$3.87	$4.21	18.8	16.4	14.4	13.2	$1.96	3.5%	$65.00	20.4%
Fort Chicago Energy Partners L.P.	FCE.UN	MA / O	$12.12	$0.69	$0.71	$0.63	$0.77	17.6	17.1	19.2	15.7	$0.69	$0.79	$0.78	$0.96	17.6	15.3	15.5	12.6	$1.00	8.2%	$14.00	23.8%
Inter Pipeline Fund	IPL.UN	MA / N	$15.11	$0.86	$0.87	$0.64	$0.62	17.6	17.4	23.6	24.4	$0.79	$0.87	$0.74	$0.70	19.1	17.4	20.4	21.6	$0.96	6.4%	$16.00	12.2%
Keyera Facilities Income Fund	KEY.UN	MA / N	$35.64	$2.48	$2.11	$1.57	$1.67	14.4	16.9	22.7	21.3	$2.47	$2.14	$2.09	$2.22	14.4	16.7	17.1	16.1	$1.80	5.1%	$36.00	6.1%
Pembina Pipeline Corp.	PPL	MA / U	$21.91	$1.09	$1.00	$0.73	$0.69	20.1	21.9	30.0	31.8	$1.06	$1.04	$0.99	$0.95	20.7	21.1	22.1	23.1	$1.56	7.1%	$18.00	-10.7%
Provident Energy Trust	PVE.UN	MA / O	$7.90	nm	nm	$0.42	$0.46	nm	nm	18.8	17.2	nm	nm	$0.61	$0.66	nm	nm	13.0	12.0	$0.54	6.8%	$9.00	20.8%
Spectra Energy Corp. (US$)	SE	MA / O	$24.48	$1.18	$1.50	$1.65	$1.80	20.7	16.3	14.8	13.6	$1.46	$1.70	$1.90	$2.07	16.8	14.4	12.9	11.8	$1.04	4.2%	$28.00	18.6%
TransCanada Corp.	TRP	MA / N	$38.00	$2.03	$1.95	$2.20	$2.40	18.7	19.5	17.3	15.8	$2.58	$2.64	$2.70	$2.88	14.7	14.4	14.1	13.2	$1.60	4.2%	$40.00	9.5%
Pipelines & Midstream average								***19.0***	***18.5***	***20.7***	***19.6***					***17.4***	***16.5***	***16.2***	***15.4***		***5.7%***		
Power & Utilities																							
AltaGas Ltd.	ALA	MA / U	$21.20	$1.76	$1.30	$0.85	$0.95	12.0	16.3	24.9	22.3	$1.76	$1.33	$1.15	$1.29	12.0	15.9	18.4	16.4	$1.32	6.2%	$19.00	-4.2%
ATCO Ltd.	ACO.X	MA / N	$60.35	$4.64	$5.00	$5.00	$5.20	13.0	12.1	12.1	11.6	$4.74	$5.00	$5.00	$5.20	12.7	12.1	12.1	11.6	$1.06	1.8%	$60.00	1.2%
Atlantic Power Corp.*	ATP	GC / N	$14.49	nm	$0.32	$0.45	$0.47	nm	45.4	32.0	30.6	nm	$0.46	$0.65	$0.68	nm	31.7	22.4	21.4	$1.09	7.5%	$14.00	4.1%
Boralex Inc.	BLX	MA / O	$8.32	$0.38	$0.05	$0.30	$0.35	21.9	166.4	27.7	23.8	$0.46	$0.07	$0.40	$0.48	18.1	118.9	20.8	17.3	$0.00	0.0%	$12.00	44.2%
Canadian Utilities Ltd.	CU	MA / N	$54.49	$3.25	$3.45	$3.45	$3.65	16.8	15.8	15.8	14.9	$3.25	$3.45	$3.45	$3.65	16.8	15.8	15.8	14.9	$1.51	2.8%	$54.00	1.9%
Capital Power Corp.	CPX	MA / U	$23.94	nm	$1.30	$1.15	$1.10	nm	18.4	20.8	21.8	nm	$1.62	$1.44	$1.38	nm	14.8	16.6	17.3	$1.26	5.3%	$22.00	-2.8%
Capital Power Income L.P.	CPA.UN	MA / N	$17.41	$1.07	$0.54	$0.64	$0.64	16.3	32.2	27.2	27.2	$0.84	$0.72	$0.83	$0.83	20.7	24.2	21.0	21.0	$1.76	10.1%	$20.00	25.0%
Emera Inc.	EMA	MA / O	$32.30	$1.55	$1.65	$1.75	$1.85	20.8	19.6	18.5	17.5	$1.54	$1.74	$1.84	$1.95	21.0	18.6	17.6	16.6	$1.30	4.0%	$34.00	9.3%
Fortis Inc.	FTS	MA / U	$34.14	$1.53	$1.65	$1.70	$1.75	22.3	20.7	20.1	19.5	$1.56	$1.70	$1.79	$1.85	21.9	20.1	19.1	18.5	$1.16	3.4%	$31.00	-5.8%
Innergex Renewable Energy Inc.	INE	MA / N	$9.90	nm	$0.25	$0.26	$0.30	nm	39.6	38.1	33.0	nm	$0.16	$0.36	$0.41	nm	61.9	27.5	24.1	$0.58	5.9%	$10.50	11.9%
Northland Power Income Fund	NPI.UN	MA / O	$15.76	$0.64	$0.33	$0.39	$0.33	24.6	47.8	40.4	47.8	$0.57	$0.44	$0.51	$0.43	27.6	35.8	30.9	36.7	$1.08	6.9%	$16.50	11.5%
TransAlta Corp.	TA	MA / N	$21.71	$0.88	$0.95	$1.00	$0.95	24.7	22.9	21.7	22.9	$1.00	$1.13	$1.19	$1.14	21.7	19.2	18.2	19.0	$1.16	5.3%	$22.00	6.7%
Power & Utilities average								***20.2***	***38.1***	***24.9***	***24.4***					***19.2***	***32.4***	***20.0***	***19.6***		***5.2%***		

Notes:
Estimates are from Macquarie Capital Markets Canada Ltd. (Sources: Macquarie research, Company reports, Thomson Reuters).
Analyst: Matthew Akman (MA), Gilbert Chan (GC)
Figures for Canadian companies in C$; figures for US companies in US$.
*Atlantic Power is listed on a Canadian exchange but reports earnings in US$ and distributable cash/dividends in CAD$. We convert EPS numbers to CAD$, which may differ from published results.

Source: Company data, Thomson, Macquarie Research, December 2010

Fig 2 Comparative valuation of selected Canadian and US pipeline, utility and power generation companies

December 16, 2010

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Comparative valuation of selected Canadian and U.S. pipeline, midstream, utility and power generation companies

						52-week range		52-week % change		Free cashflow per share			Free cashflow yield						Debt to cap	EV/EBITDA			
Company	**Ticker**	**Analyst/ Rating**	**Price 12/16/10**	**Shares Out (m)**	**MC ($b)**	**High**	**Low**	**High**	**Low**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**Book value**	**Price/ book**	**ROE 2010E**	**2010E**	**2009**	**2010E**	**2011E**	**2012E**
Pipelines & Midstream																							
Enbridge Inc.	ENB	MA / O	$55.60	383.9	$21.3	$58.25	$46.03	-4.5%	20.8%	$4.30	$4.78	$5.17	7.7%	8.6%	9.3%	$18.93	2.9	14.3%	57.6%	10.9	10.4	9.9	9.9
Fort Chicago Energy Partners L.P.	FCE.UN	MA / O	$12.12	144.7	$1.8	$13.27	$7.75	-8.7%	56.4%	$1.21	$1.05	$1.24	10.0%	8.7%	10.2%	$5.02	2.4	14.1%	70.4%	9.7	9.1	9.4	8.6
Inter Pipeline Fund	IPL.UN	MA / N	$15.11	257.3	$3.9	$15.39	$9.00	-1.8%	67.9%	$1.20	$1.07	$1.10	7.9%	7.1%	7.3%	$5.21	2.9	16.7%	40.7%	14.0	12.7	13.0	13.3
Keyera Facilities Income Fund	KEY.UN	MA / N	$35.64	69.1	$2.5	$36.42	$23.33	-2.1%	52.8%	$2.93	$2.60	$2.74	8.2%	7.3%	7.7%	$11.10	3.2	19.0%	41.8%	12.7	13.8	13.3	12.6
Pembina Pipeline Corp.	PPL	MA / U	$21.91	164.9	$3.6	$22.39	$16.49	-2.1%	32.9%	$1.38	$1.39	$1.39	6.3%	6.3%	6.3%	$7.02	3.1	14.2%	52.6%	16.8	15.9	15.5	15.7
Provident Energy Trust	PVE.UN	MA / O	$7.90	267.5	$2.1	$8.61	$5.14	-8.2%	53.7%	nm	$0.74	$0.80	nm	9.4%	10.2%	$2.08	3.8	nm	49.7%	nm	13.3	11.2	10.3
Spectra Energy Corp. (US$)	SE	MA / O	$24.48	648.0	$15.9	$25.13	$18.57	-2.6%	31.8%	$1.94	$2.02	$2.19	7.9%	8.3%	8.9%	$12.39	2.0	12.1%	54.7%	9.7	8.8	8.4	8.2
TransCanada Corp.	TRP	MA / N	$38.00	696.0	$26.4	$39.28	$30.01	-3.3%	26.6%	$3.02	$3.12	$3.41	7.9%	8.2%	9.0%	$23.96	1.6	8.1%	54.4%	10.2	12.0	11.7	11.0
Pipelines & Midstream average													***8.0%***	***8.0%***	***8.6%***		***2.7***	***14.1%***	***52.7%***	***12.0***	***12.0***	***11.5***	***11.2***
Power & Utilities																							
AltaGas Ltd.	ALA	MA / U	$21.20	81.9	$1.7	$22.27	$16.28	-4.8%	30.2%	$2.12	$1.86	$2.05	10.0%	8.8%	9.7%	$12.32	1.7	10.5%	42.3%	12.1	11.4	11.5	11.6
ATCO Ltd.	ACO.X	MA / N	$60.35	58.2	$3.5	$60.48	$44.35	-0.2%	36.1%	$3.90	$4.07	$4.43	6.5%	6.7%	7.3%	$37.11	1.6	13.5%	61.2%	7.4	6.9	7.2	6.9
Atlantic Power Corp.	ATP	GC / N	$14.49	66.6	$1.0	$14.60	$10.31	-0.8%	40.5%	$1.11	$1.29	$1.33	7.6%	8.9%	9.2%	$5.68	2.6	5.6%	45.7%	14.7	12.7	11.2	11.3
Boralex Inc.	BLX	MA / O	$8.32	37.7	$0.3	$10.74	$7.28	-22.5%	14.3%	$1.15	$1.50	$1.29	13.9%	18.0%	15.5%	$12.17	0.7	0.4%	60.5%	7.5	14.4	8.3	8.4
Canadian Utilities Ltd.	CU	MA / N	$54.49	125.8	$6.9	$53.60	$41.69	1.7%	30.7%	$3.77	$3.84	$3.96	6.9%	7.1%	7.3%	$25.42	2.1	13.6%	44.8%	8.1	7.5	7.7	7.3
Capital Power Corp.	CPX	MA / U	$23.94	78.4	$1.9	$24.84	$20.97	-3.6%	14.2%	$2.26	$2.00	$1.82	9.4%	8.4%	7.6%	$6.11	3.9	21.3%	63.7%	nm	9.1	9.5	9.8
Capital Power Income L.P.	CPA.UN	MA / N	$17.41	55.6	$1.0	$19.02	$15.05	-8.5%	15.7%	$2.32	$2.14	$2.17	13.3%	12.3%	12.5%	$7.62	2.3	7.1%	51.0%	9.7	10.0	9.4	9.3
Emera Inc.	EMA	MA / O	$32.30	114.0	$3.7	$32.78	$22.98	-1.5%	40.6%	$1.99	$2.13	$2.33	6.2%	6.6%	7.2%	$13.70	2.4	12.0%	61.2%	11.5	11.9	10.5	10.2
Fortis Inc.	FTS	MA / U	$34.14	173.6	$5.9	$34.36	$21.60	-0.6%	58.1%	$2.03	$1.91	$2.13	5.9%	5.6%	6.2%	$18.75	1.8	8.8%	58.5%	11.7	10.5	10.2	10.1
Innergex Renewable Energy Inc.	INE	MA / N	$9.90	59.5	$0.6	$9.98	$5.01	-0.8%	97.6%	$0.64	$0.68	$0.77	6.5%	6.9%	7.8%	$4.37	2.3	5.7%	48.3%	nm	13.2	11.7	11.1
Northland Power Income Fund	NPI.UN	MA / O	$15.76	74.4	$1.2	$16.43	$11.32	-4.1%	39.2%	$1.18	$1.35	$1.15	7.5%	8.6%	7.3%	$8.47	1.9	3.9%	50.2%	18.7	13.0	11.2	13.6
TransAlta Corp.	TA	MA / N	$21.71	219.1	$4.8	$24.00	$19.55	-9.5%	11.0%	$2.16	$1.77	$1.75	9.9%	8.2%	8.1%	$14.02	1.5	6.8%	52.3%	10.4	9.9	9.6	9.7
Power & Utilities average													***8.6%***	***8.8%***	***8.8%***		***2.0***	***9.1%***	***53.3%***	***11.2***	***10.9***	***9.8***	***9.9***

Notes:
Estimates are from Macquarie Capital Markets Canada Ltd. (Sources: Macquarie research, Company reports, Thomson Reuters).
Figures for Canadian companies in C$; figures for US companies in US$.
*Atlantic Power is listed on a Canadian exchange but reports earnings in US$ and distributable cash/dividends in CAD$. We convert EPS numbers to CAD$, which may differ from published results.
Free cashflow is defined as cashflow from operations after maintenance capex.

Source: Company data, Thomson, Macquarie Research, December 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.06%	64.41%	55.07%	46.58%	66.99%	50.00%	(for US coverage by MCUSA, 13.73% of stocks covered are investment banking clients)
Neutral	34.15%	17.31%	36.23%	48.40%	28.71%	36.81%	(for US coverage by MCUSA, 11.76% of stocks covered are investment banking clients)
Underperform	14.79%	18.28%	8.70%	5.02%	4.31%	13.19%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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CANADA

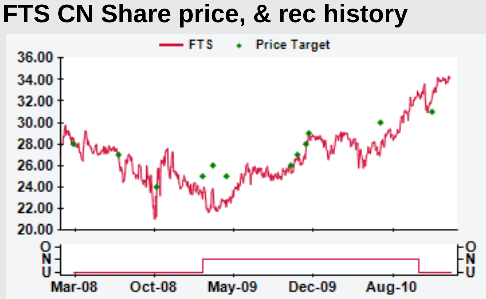
FTS CN	Underperform
Price 18 Jan 11	C$34.25

Volatility index		**Low**
12-month target	**C$**	**31.00**
12-month TSR	**%**	**-6.2**
Valuation - EV/EBITDA	**C$**	**31.00**
GICS sector		**Utilities**
Market cap	**C$m**	**5,949**
30-day avg turnover	**C$m**	**8.3**
Number shares on issue	**m**	**173.7**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Revenue	m	3,980.1	4,544.9	4,725.5	4,939.0
EBITDA	m	1,066.9	1,218.3	1,266.7	1,323.9
Recurring profit	m	259.8	284.1	297.5	311.0
Reported profit	m	262.8	284.1	297.5	311.0
CFPS	C$	3.98	4.38	4.48	4.61
CFPS growth	%	0.8	9.9	2.5	2.8
PGCFPS	x	8.6	7.8	7.6	7.4
EPS rec	C$	1.53	1.65	1.70	1.75
EPS rec growth	%	-5.0	7.9	3.3	2.9
PER rec	x	22.4	20.8	20.1	19.6
Total DPS	C$	1.04	1.12	1.16	1.21
Total div yield	%	3.0	3.3	3.4	3.5
EV/EBITDA	x	11.7	10.5	10.2	10.1

FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, January 2011
(all figures in CAD unless noted)

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19 January 2011

Fortis

Return roulette

Event

- We are forecasting reductions in allowed returns between 2010 and 2012. Cost of capital filings have now been made in Alberta and British Columbia.

Impact

- It is too early to judge the outcome of allowed return proceedings but we remain cautious on potential outcomes because credit spreads – a key driver of higher allowed returns on 2009/10 – have narrowed.
- In Alberta, a generic hearing has commenced in earnest with round 1 evidence filings this winter (hearing in May). In 2009, The AUC boosted FTS Alberta's allowed return from 8.51% ROE on 37% equity to 9.0% ROE on 41% equity.
- In BC, the regulator directed Terasen Gas (the FTS gas utility) to study alternative ROE formulae and report back. On 8 December, FTS recommended that the regulator not adopt a formula return nor re-examine cost of capital at this time. That is not totally surprising since the BCUC had boosted the company's allowed return from 8.47% ROE on 35% equity to 9.5% ROE on 40% equity.
- We believe that any potential reductions in allowed returns on Alberta and BC will be based on perceived changes in the cost of risk and corporate credit spreads between mid-2009 and now.
- The Alberta regulator's decision specifically cited uncertainty over whether credit spreads would normalize as a rationale for boosting allowed returns for the 2009 and 2010 periods. Since those spreads have indeed normalized, at least one rationale for having boosted returns is gone.
- The BC regulator's decision relied primarily on DCF-based cost of equity tests on US utilities whose stocks were depressed during the credit crisis. Re-doing those tests today would likely result in lower required returns on equity.

Earnings and target price revision

- We are maintaining our estimates as we have already reduced them (on 5 November 2010) to factor our forecast reductions in allowed returns.

Price catalyst

- 12-month price target: C$31.00 based on an EV/EBITDA methodology.
- Catalyst: Regulatory decisions and growth project announcements

Action and recommendation

- FTS management continues navigating well in its regulatory landscape, in our view. However, a reduction in allowed returns may be inescapable. At the same time, the stock has one of the lowest free cash yields in our coverage universe (6.2% on 2012). Therefore, we recommend reducing holdings at these levels.

Fortis Inc. (FTS CN, Underperform, Target price: C$31.00)

Earnings and Per Share Data (Annual)	2009	2010E	2011E	2012E
Newfoundland Power	$32.6	$34.7	$34.7	$34.7
Alberta & BC Utilities	$96.6	$105.9	$107.4	$110.5
BC Gas	$117.0	$129.5	$137.0	$143.8
Maritime Electric	$12.2	$13.4	$14.0	$14.7
FortisOntario (CNP & Cornwall)	$7.8	$7.0	$7.0	$7.0
Fortis Generation	$16.2	$20.0	$20.7	$21.0
Regulated Electric Utilities - Caribbean	$25.0	$27.6	$30.7	$33.2
Fortis Properties	$24.1	$24.0	$24.0	$24.0
Corporate	($71.8)	($78.0)	($78.0)	($78.0)
Operating Earnings for common shares	**$259.8**	**$284.1**	**$297.5**	**$311.0**
Unusual items	$3.0	$0.0	$0.0	$0.0
Reported Earnings	$262.8	$284.1	$297.5	$311.0
Average shares o/s (mln)	170.2	172.6	174.9	177.7
Operating Earnings per basic share	**$1.53**	**$1.65**	**$1.70**	**$1.75**
Reported Earnings per basic share	$1.54	$1.65	$1.70	$1.75
Dividends Per Share	**$1.04**	**$1.12**	**$1.16**	**$1.21**
EBITDA	$1,066.9	$1,218.3	$1,266.7	$1,323.9
EBITDA Per Share	$6.27	$7.06	$7.24	$7.45
Cash Flow From Operations	$678.0	$755.3	$784.4	$819.1
Cash Flow Per Share	**$3.98**	**$4.38**	**$4.48**	**$4.61**
Book Value Per Share	$18.76	$19.18	$19.73	$20.23
Return On Book Value	8.1%	8.7%	8.7%	8.8%

Earnings and Per Share Data (Quarterly)	1Q10	2Q10	3Q10	4Q10E
Newfoundland Power	$7.2	$11.0	$8.0	$8.5
Alberta & BC Utilities	$27.8	$25.0	$30.0	$23.1
BC Gas	$73.0	$17.0	($5.0)	$44.5
Maritime Electric	$3.2	$2.2	$3.0	$5.0
FortisOntario (CNP & Cornwall)	$1.8	$1.8	$2.0	$1.4
Fortis Generation	$2.0	$3.0	$9.0	$5.9
Regulated Electric Utilities - Caribbean	$4.0	$7.0	$8.0	$8.6
Fortis Properties	$2.0	$8.0	$9.0	$5.0
Corporate	($21.0)	($20.0)	($19.0)	($18.0)
Operating Earnings for common shares	**$100.0**	**$55.0**	**$45.1**	**$84.0**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$100.0	$55.0	$45.1	$84.0
Average shares o/s (mln)	171.6	172.4	173.2	173.2
Operating Earnings per basic share	**$0.58**	**$0.32**	**$0.26**	**$0.48**
Reported Earnings per basic share	$0.58	$0.32	$0.26	$0.48

Cash Flow Statement	2009	2010E	2011E	2012E
Operating Activities				
Earnings	$262.8	$284.1	$297.5	$311.0
Depreciation and Amortization	$364.0	$450.7	$458.4	$479.0
Other	$51.2	$20.5	$28.4	$29.2
Cash Flow from Operations	$678.0	$755.3	$784.4	$819.1
Changes in non-cash Working Capital	($41.0)	$53.0	$0.0	$0.0
Cash Provided from Operating Activities	**$637.0**	**$808.3**	**$784.4**	**$819.1**
Investment Activities				
Total Capex	($1,024.0)	($1,157.0)	($1,029.0)	($804.0)
Other & Asset Sales	($28.0)	($18.0)	($20.0)	($19.0)
Cash Used in Investing Activities	**($1,052.0)**	**($1,175.0)**	**($1,049.0)**	**($823.0)**
Financing Activities				
Dividends - common/pref shares	($151.0)	($218.3)	($228.8)	($240.3)
Other Financing Activities	$589.0	$768.0	$522.0	$322.0
Cash Used in Financing Activities	**$438.0**	**$549.7**	**$293.2**	**$81.7**
Foreign Currency Translation	($4.0)	$0.0	$0.0	$0.0
Increase (decrease) in cash	$19.0	$183.0	$28.6	$77.8
Cash - Beginning of Year	$65.9	$84.9	$267.9	$296.5
Cash - End of Year	**$84.9**	**$267.9**	**$296.5**	**$374.3**

Consolidated Capitalization	2009	2010E	2011E	2012E
Short-term debt	$639.0	$857.0	$857.0	$857.0
Long term debt	$5,276.0	$5,532.0	$5,982.0	$6,232.0
Total debt	**$5,915.0**	**$6,389.0**	**$6,839.0**	**$7,089.0**
Pref shares	$667.0	$909.0	$909.0	$909.0
Common equity	**$3,193.0**	**$3,310.8**	**$3,451.6**	**$3,594.3**
Total capitalization	**$9,775.0**	**$10,608.8**	**$11,199.6**	**$11,592.3**
Weighting				
Total Debt	60.5%	60.2%	61.1%	61.2%
Preferred Shares	6.8%	8.6%	8.1%	7.8%
Common Equity	32.7%	31.2%	30.8%	31.0%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, January 2011

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	46.38%	62.62%	52.17%	44.99%	67.57%	50.90%	(for US coverage by MCUSA, 13.59% of stocks covered are investment banking clients)
Neutral	37.68%	18.58%	34.78%	50.61%	28.83%	35.48%	(for US coverage by MCUSA, 15.22% of stocks covered are investment banking clients)
Underperform	15.94%	18.80%	13.04%	4.40%	3.60%	13.62%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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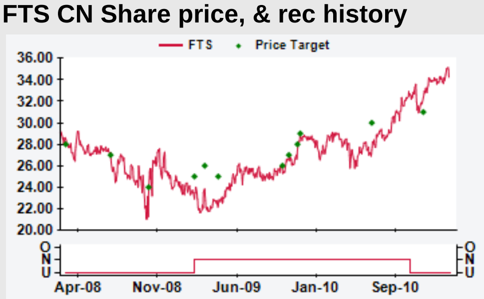
CANADA

FTS CN		Underperform
Price 10 Feb 11		C$33.81
Volatility index		Low
12-month target	C$	31.00
12-month TSR	%	-4.9
Valuation - EV/EBITDA	C$	31.00
GICS sector		Utilities
Market cap	C$m	5,883
30-day avg turnover	C$m	15.2
Number shares on issue	m	174.0

Investment fundamentals

Year end 31 Dec		2010A	2011E	2012E	2013E
Revenue	m	3,664.0	3,868.7	4,005.1	4,096.7
EBITDA	m	1,150.0	1,214.2	1,257.0	1,285.8
Recurring profit	m	284.6	299.2	312.0	325.9
Reported profit	m	284.6	299.2	312.0	325.9
CFPS	C$	4.25	4.57	4.73	4.82
CFPS growth	%	6.7	7.5	3.6	1.8
PGCFPS	x	8.0	7.4	7.1	7.0
EPS rec	C$	1.65	1.70	1.75	1.80
EPS rec growth	%	7.9	3.3	2.7	2.8
PER rec	x	20.5	19.9	19.3	18.8
Total DPS	C$	1.12	1.16	1.21	1.25
Total div yield	%	3.3	3.4	3.6	3.7
EV/EBITDA	x	10.3	9.8	9.5	9.4

FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2011

(all figures in CAD unless noted)

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11 February 2011

Fortis

Reliable but expensive

Event

- FTS reported 4Q10 EPS of $0.49 vs our estimate of $0.48 and $0.48 in 4Q09.

Impact

- The earnings report may be slightly negative for the stock in that earnings came in below consensus ($0.51) and the stock trades at a premium. Relative to our expectations, there were no real surprises though. The Canadian regulated assets are performing as they should as FTS usually manages to earn slightly above their allowed returns due to an efficient operating model. On the other hand, sales and earnings in the Caribbean continue to lag.
- Following the 4Q report, our view is unchanged. We believe that, given potential headwinds on allowed returns, there is insufficient growth in earnings and dividends to justify the share valuation premium.
- So far, ROE headwinds have cropped up only in Newfoundland. A hearing is underway in Alberta, though. Whether there will be any review in BC is still up in the air, so we only assume a 50 basis point reduction starting in 2012.
- In this context, FTS may need a recovery in Belize Electricity earnings to get EPS growth back up above 5%. With only $1.5m in reported net income there last year, we believe the company has not been treated fairly. There may be $0.05 upside to our estimates if the Belize courts and government implement a regulatory policy that is fair and balanced to customers and the company (court decision 1H11).
- The company's capital program continues marching on and up with about $1.2bn of expenditure slated for 2011. Cashflow has strengthened and the DRIP take-up is strong ($80m common shares issued through DRIP last year). Therefore, we are not building any equity issuance into our model over and above the DRIP.
- With that type of organic growth – most of which entails investing in safe Canadian regulated utilities at 1.0x BV – one wonders why FTS continues seeking acquisitions that would undoubtedly be done at a premium to BV.

Earnings and target price revision

- We are maintaining our EPS estimates and introducing a 2013 estimate of $1.80. Our target price is unchanged.

Price catalyst

- 12-month price target: C$31.00 based on an EV/EBITDA methodology.
- Catalyst: Regulatory decisions and growth project announcements.

Action and recommendation

- We view FTS as a solid company. But given the growth profile (one of the slower dividend growers among its direct peers now) and premium valuation, we believe the shares will underperform on a relative basis in 2011.

Fortis Inc. (FTS CN, Underperform, Target price: C$31.00)

Earnings and Per Share Data (Annual)	2010	2011E	2012E	2013E
Newfoundland Power	$35.3	$34.2	$34.2	$34.2
Alberta & BC Utilities	$110.0	$116.3	$123.5	$130.7
BC Gas	$129.5	$136.0	$137.6	$139.2
Maritime Electric	$12.3	$12.6	$13.3	$14.0
FortisOntario (CNP & Cornwall)	$7.0	$7.0	$7.0	$7.0
Fortis Generation	$19.1	$19.1	$19.9	$20.3
Regulated Electric Utilities - Caribbean	$23.3	$26.5	$29.4	$31.2
Fortis Properties	$26.1	$26.5	$27.2	$29.3
Corporate	($78.0)	($79.0)	($80.0)	($80.0)
Operating Earnings for common shares	**$284.6**	**$299.2**	**$312.0**	**$325.9**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$284.6	$299.2	$312.0	$325.9
Average shares o/s (mln)	172.8	175.7	178.5	181.2
Operating Earnings per basic share	**$1.65**	**$1.70**	**$1.75**	**$1.80**
Reported Earnings per basic share	$1.65	$1.70	$1.75	$1.80
Dividends Per Share	**$1.12**	**$1.16**	**$1.21**	**$1.25**
EBITDA	$1,150.0	$1,214.2	$1,257.0	$1,285.8
EBITDA Per Share	$6.66	$6.91	$7.04	$7.09
Cash Flow From Operations	$734.0	$802.5	$844.4	$873.1
Cash Flow Per Share	**$4.25**	**$4.57**	**$4.73**	**$4.82**
Book Value Per Share	$19.13	$19.49	$19.88	$20.25
Return On Book Value	8.7%	8.8%	8.9%	9.0%

Earnings and Per Share Data (Quarterly)	1Q11E	2Q11E	3Q11E	4Q11E
Newfoundland Power	$6.8	$9.8	$8.6	$9.0
Alberta & BC Utilities	$27.1	$27.2	$30.7	$31.3
BC Gas	$74.6	$18.6	($3.4)	$46.1
Maritime Electric	$3.3	$2.3	$3.1	$4.0
FortisOntario (CNP & Cornwall)	$1.8	$1.8	$2.0	$1.4
Fortis Generation	$1.8	$3.5	$8.7	$5.1
Regulated Electric Utilities - Caribbean	$5.4	$7.0	$7.9	$6.1
Fortis Properties	$6.0	$6.0	$6.0	$8.3
Corporate	($19.8)	($19.8)	($19.8)	($19.8)
Operating Earnings for common shares	**$107.1**	**$56.6**	**$44.0**	**$91.6**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$107.1	$56.6	$44.0	$91.6
Average shares o/s (mln)	175.7	175.7	175.7	175.7
Operating Earnings per basic share	**$0.61**	**$0.32**	**$0.25**	**$0.52**
Reported Earnings per basic share	$0.61	$0.32	$0.25	$0.52

Cash Flow Statement	2010	2011E	2012E	2013E
Operating Activities				
Earnings	$284.6	$299.2	$312.0	$325.9
Depreciation and Amortization	$410.0	$469.8	$498.2	$512.3
Other	$39.4	$33.5	$34.2	$35.0
Cash Flow from Operations	$734.0	$802.5	$844.4	$873.1
Changes in non-cash Working Capital	$49.0	$0.0	$0.0	$0.0
Cash Provided from Operating Activities	**$783.0**	**$802.5**	**$844.4**	**$873.1**
Investment Activities				
Total Capex	($1,073.0)	($1,212.0)	($779.0)	($559.0)
Other & Asset Sales	$82.0	$30.0	$0.0	$0.0
Cash Used in Investing Activities	**($991.0)**	**($1,182.0)**	**($779.0)**	**($559.0)**
Financing Activities				
Dividends - common/pref shares	($244.0)	($228.8)	($240.3)	($252.4)
Other Financing Activities	$476.0	$550.0	$350.0	$100.0
Cash Used in Financing Activities	**$232.0**	**$321.2**	**$109.7**	**($152.4)**
Foreign Currency Translation	$0.0	$0.0	$0.0	$0.0
Increase (decrease) in cash	$24.0	($58.3)	$175.1	$161.8
Cash - Beginning of Year	$84.9	$108.9	$50.6	$225.7
Cash - End of Year	**$108.9**	**$50.6**	**$225.7**	**$387.5**

Consolidated Capitalization	2010	2011E	2012E	2013E
Short-term debt	$414.0	$414.0	$414.0	$414.0
Long term debt	$5,609.0	$6,109.0	$6,409.0	$6,459.0
Total debt	**$6,023.0**	**$6,523.0**	**$6,823.0**	**$6,873.0**
Pref shares	$912.0	$912.0	$912.0	$912.0
Common equity	**$3,305.0**	**$3,425.4**	**$3,547.1**	**$3,670.6**
Total capitalization	**$10,240.0**	**$10,860.4**	**$11,282.1**	**$11,455.6**
Weighting				
Total Debt	58.8%	60.1%	60.5%	60.0%
Preferred Shares	8.9%	8.4%	8.1%	8.0%
Common Equity	32.3%	31.5%	31.4%	32.0%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, February 2011

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	46.38%	62.62%	52.17%	44.99%	67.57%	50.90%	(for US coverage by MCUSA, 13.59% of stocks covered are investment banking clients)
Neutral	37.68%	18.58%	34.78%	50.61%	28.83%	35.48%	(for US coverage by MCUSA, 15.22% of stocks covered are investment banking clients)
Underperform	15.94%	18.80%	13.04%	4.40%	3.60%	13.62%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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CANADA

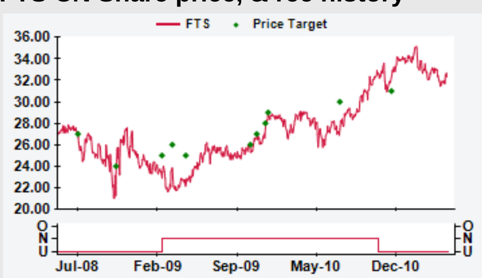
FTS CN	Underperform
Price 4 May 11	C$32.35

Volatility index		**Low**
12-month target	**C$**	**31.00**
12-month TSR	**%**	**-0.5**
Valuation - EV/EBITDA	**C$**	**31.00**
GICS sector		**Utilities**
Market cap	**C$m**	**5,674**
30-day avg turnover	**C$m**	**8.1**
Number shares on issue	**m**	**175.4**

Investment fundamentals

Year end 31 Dec		2010A	2011E	2012E	2013E
Revenue	m	3,664.0	3,877.9	4,014.5	4,106.3
EBITDA	m	1,150.0	1,217.1	1,260.0	1,288.8
Recurring profit	m	284.6	298.5	313.1	327.0
Reported profit	m	284.6	298.5	313.1	327.0
CFPS	C$	4.25	4.56	4.73	4.81
CFPS growth	%	21.3	7.4	3.7	1.7
PGCFPS	x	7.6	7.1	6.8	6.7
EPS rec	C$	1.65	1.70	1.75	1.80
EPS rec growth	%	7.9	3.1	3.1	2.8
PER rec	x	19.6	19.0	18.5	17.9
Total DPS	C$	1.12	1.16	1.21	1.25
Total div yield	%	3.5	3.6	3.7	3.9
EV/EBITDA	x	11.0	10.7	10.6	10.5

FTS CN Share price, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, May 2011
(all figures in CAD unless noted)

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5 May 2011
Macquarie Capital Markets Canada Ltd.

Fortis

Upside surprise may not sustain

Event

- FTS reported 1Q11 EPS of $0.67 vs our estimate of $0.61 and $0.58 in 1Q10.

Impact

- The earnings report could be positive for the stock in the near term, but we caution that upside surprises may not sustain. In particular, achieved returns on the fast-growing Alberta utility may compress over the next two years.
- FTS Alberta and all other Alberta electric utilities have experienced accelerated growth recently. Asset expansion is likely sustainable as oil production activity drives asset expansion and extension. Nevertheless, we remain concerned that achieved returns on that growing asset base are unsustainable.
- We have highlighted a risk that the Alberta regulator will reduce allowed returns in the current cost of capital proceeding. Though returns for comparable companies are not lower than the allowed return for FTS Alberta, risk-free rates and credit spreads have both come in since the last hearing on this issue.
- Regulators rarely grant consumer groups (or the companies) everything they are asking for but we note the consumer advocate has proposed an allowed return that could reduce EPS by about $0.10 relative to reported results.
- Outside of the Canadian regulated utility growth, there is not a lot to get excited about in the earnings report. Other businesses such as Caribbean, generation and properties lack growth at this time (though we acknowledge management has wisely avoided significant capital investment in the Caribbean lately).
- Business development costs are down $2m YoY in the quarter, which may just mean the company is looking at smaller deals than last year but we believe FTS remains active in seeking acquisition targets.

Earnings and target price revision

- Despite the variance to our forecast in 1Q, we are maintaining our estimates and target price. We expect regulated utility earnings growth will decelerate through the year due to timing issues and a potential reduction in the Alberta allowed ROE.

Price catalyst

- 12-month price target: C$31.00 based on an EV/EBITDA methodology.
- Catalyst: Regulatory decisions and growth project announcements.

Action and recommendation

- FTS management continues to achieve the best possible results from its utility assets. But given the risk of compression in ROEs combined with the company's relatively low free cash yield (7.5% vs group at 9.0%), and dividend yield, we believe the stock will continue to underperform in 2011.

Fortis Inc. (FTS CN, Underperform, Target price: C$31.00)

Earnings and Per Share Data (Annual)	2010	2011E	2012E	2013E
Newfoundland Power	$35.3	$34.2	$34.2	$34.2
Alberta & BC Utilities	$110.0	$119.8	$126.5	$133.8
BC Gas	$129.5	$136.0	$137.6	$139.2
Maritime Electric	$12.3	$12.6	$13.3	$14.0
FortisOntario (CNP & Cornwall)	$7.0	$7.0	$7.0	$7.0
Fortis Generation	$19.1	$19.1	$19.9	$20.3
Regulated Electric Utilities - Caribbean	$23.3	$23.3	$27.4	$29.2
Fortis Properties	$26.1	$26.5	$27.2	$29.3
Corporate	($78.0)	($80.0)	($80.0)	($80.0)
Operating Earnings for common shares	**$284.6**	**$298.5**	**$313.1**	**$327.0**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$284.6	$298.5	$313.1	$327.0
Average shares o/s (mln)	172.8	175.8	178.6	181.4
Operating Earnings per basic share	**$1.65**	**$1.70**	**$1.75**	**$1.80**
Reported Earnings per basic share	$1.65	$1.70	$1.75	$1.80
Dividends Per Share	**$1.12**	**$1.16**	**$1.21**	**$1.25**
EBITDA	$1,150.0	$1,217.1	$1,260.0	$1,288.8
EBITDA Per Share	$6.66	$6.92	$7.05	$7.10
Cash Flow From Operations	$734.0	$802.3	$845.3	$873.2
Cash Flow Per Share	**$4.25**	**$4.56**	**$4.73**	**$4.81**
Book Value Per Share	$19.13	$19.51	$19.88	$20.27
Return On Book Value	8.7%	8.8%	8.9%	9.0%

Earnings and Per Share Data (Quarterly)	1Q11	2Q11E	3Q11E	4Q11E
Newfoundland Power	$7.0	$10.0	$8.6	$8.6
Alberta & BC Utilities	$40.0	$28.0	$31.8	$20.0
BC Gas	$76.0	$18.6	($3.4)	$44.7
Maritime Electric	$4.0	$2.3	$3.1	$3.3
FortisOntario (CNP & Cornwall)	$2.0	$1.8	$2.0	$1.2
Fortis Generation	$3.0	$4.5	$7.1	$4.5
Regulated Electric Utilities - Caribbean	$4.0	$6.3	$7.2	$5.8
Fortis Properties	$1.0	$7.0	$6.0	$12.4
Corporate	($20.0)	($20.0)	($20.0)	($20.0)
Operating Earnings for common shares	**$117.0**	**$58.4**	**$42.5**	**$80.6**
Unusual items	$0.0	$0.0	$0.0	$0.0
Reported Earnings	$117.0	$58.4	$42.5	$80.6
Average shares o/s (mln)	175.0	175.8	176.0	176.4
Operating Earnings per basic share	**$0.67**	**$0.33**	**$0.24**	**$0.46**
Reported Earnings per basic share	$0.67	$0.33	$0.24	$0.46

Cash Flow Statement	2010	2011E	2012E	2013E
Operating Activities				
Earnings	$284.6	$298.5	$313.1	$327.0
Depreciation and Amortization	$410.0	$469.8	$498.2	$512.3
Other	$39.4	$34.0	$34.0	$34.0
Cash Flow from Operations	$734.0	$802.3	$845.3	$873.2
Changes in non-cash Working Capital	$49.0	$0.0	$0.0	$0.0
Cash Provided from Operating Activities	**$783.0**	**$802.3**	**$845.3**	**$873.2**
Investment Activities				
Total Capex	($1,073.0)	($1,212.0)	($814.0)	($799.0)
Other & Asset Sales	$82.0	$35.0	$0.0	$0.0
Cash Used in Investing Activities	**($991.0)**	**($1,177.0)**	**($814.0)**	**($799.0)**
Financing Activities				
Dividends - common/pref shares	($244.0)	($228.9)	($240.5)	($252.6)
Other Financing Activities	$476.0	$555.0	$350.0	$100.0
Cash Used in Financing Activities	**$232.0**	**$326.1**	**$109.5**	**($152.6)**
Foreign Currency Translation	$0.0	$0.0	$0.0	$0.0
Increase (decrease) in cash	$24.0	($48.6)	$140.8	($78.4)
Cash - Beginning of Year	$84.9	$108.9	$60.3	$201.0
Cash - End of Year	**$108.9**	**$60.3**	**$201.0**	**$122.7**

Consolidated Capitalization	2010	2011E	2012E	2013E
Short-term debt	$414.0	$414.0	$414.0	$414.0
Long term debt	$5,609.0	$6,109.0	$6,409.0	$6,459.0
Total debt	**$6,023.0**	**$6,523.0**	**$6,823.0**	**$6,873.0**
Pref shares	$912.0	$912.0	$912.0	$912.0
Common equity	**$3,305.0**	**$3,429.6**	**$3,552.2**	**$3,676.6**
Total capitalization	**$10,240.0**	**$10,864.6**	**$11,287.2**	**$11,461.6**
Weighting				
Total Debt	58.8%	60.0%	60.4%	60.0%
Preferred Shares	8.9%	8.4%	8.1%	8.0%
Common Equity	32.3%	31.6%	31.5%	32.1%
	100.0%	100.0%	100.0%	100.0%

All figures in CAD unless noted.

Source: Company data, Macquarie Research, May 2011

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2011

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.65%	65.72%	59.70%	43.02%	68.91%	51.16%	(for US coverage by MCUSA, 14.36% of stocks covered are investment banking clients)
Neutral	39.49%	19.00%	29.85%	53.09%	26.43%	35.73%	(for US coverage by MCUSA, 17.55% of stocks covered are investment banking clients)
Underperform	14.86%	15.28%	10.45%	3.89%	4.66%	13.11%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

A regulated revenue mix offers investors a stable dividend profile and earnings.

Updated Forecasts and Estimates from 03 Jan 2012

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The primary analyst covering this company does not own its stock.

Research as of 03 Jan 2012
Estimates as of 03 Jan 2012
Pricing data through 02 Jan 2012
Rating updated as of 03 Jan 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

Vital Statistics

Market Cap (CAD Mil)	6,288
52-Week High (CAD)	35.45
52-Week Low (CAD)	28.24
52-Week Total Return %	1.6
YTD Total Return %	1.6
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.15

Valuation Summary and Forecasts

Fiscal Year:	2009	2010	*2011(E)*	*2012(E)*
Price/Earnings	18.6	20.6	*19.5*	*18.6*
EV/EBITDA	10.4	10.8	*9.9*	*9.2*
EV/EBIT	15.8	16.8	*15.5*	*14.1*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-6.0*
Dividend Yield %	3.6	3.3	*3.3*	*3.6*

Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2009	2010	*2011(E)*	*2012(E)*
Revenue	3,637	3,664	*3,814*	*3,950*
Revenue YoY %	-6.8	0.7	*4.1*	*3.6*
EBIT	701	740	*812*	*893*
EBIT YoY %	0.1	5.6	*9.7*	*10.1*
Net Income, Adjusted	262	285	*309*	*337*
Net Income YoY %	6.9	8.8	*8.3*	*9.2*
Diluted EPS	1.54	1.65	*1.71*	*1.79*
Diluted EPS YoY %	-1.1	7.0	*3.5*	*4.7*
Free Cash Flow	-331	-274	*-81*	*-377*
Free Cash Flow YoY %	244.8	-17.2	*-70.6*	*367.9*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note:

Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of

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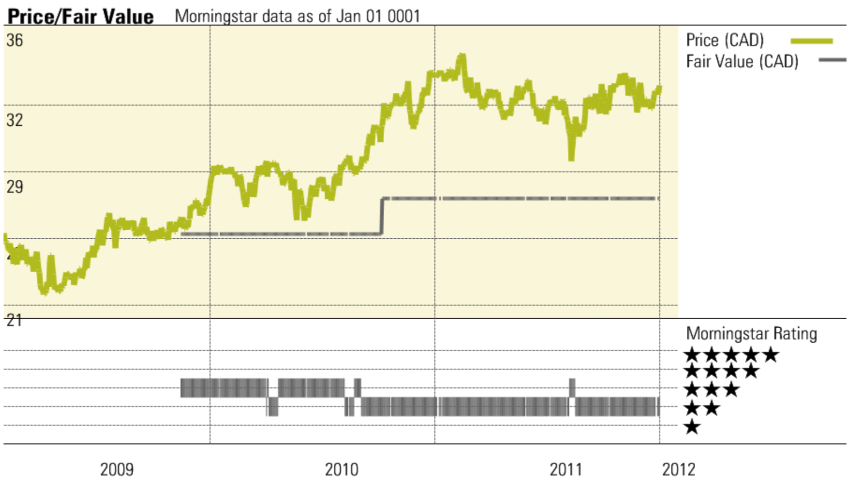

CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

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Bulls Say/Bears Say

Bulls Say

- The company operates a stable business profile, offering a strong base for consistent earnings.
- With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

Bears Say

- The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

Fortis, Inc. FTS (TSE) | ★★

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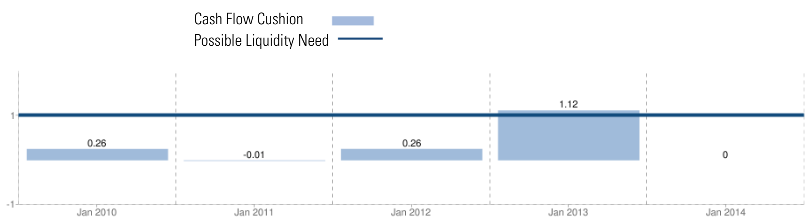
Credit Analysis

Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

Credit Rating Pillars–Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

Fortis, Inc. FTS (TSE) | ★★

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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

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

Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was $4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	*Forecast* Dec 2011	*Forecast* Dec 2012	5-Year Proj. CAGR
Revenue	*10.5*	43.6	-6.8	0.7	*4.1*	*3.6*	—
EBIT	*11.0*	29.4	0.1	5.6	*9.7*	*10.1*	*8.0*
EBITDA	*12.2*	36.1	-3.9	8.0	*10.7*	*7.6*	*6.8*
Net Income	*17.2*	38.4	6.9	8.8	*8.3*	*9.2*	*8.1*
Diluted EPS	*8.6*	21.0	-1.1	7.0	*3.5*	*4.7*	*5.0*
Earnings Before Interest, after Tax	*16.1*	38.2	89.7	-40.3	*-2.2*	*0.4*	*4.0*
Free Cash Flow to the Firm	*-135.9*	-112.8	-45.5	-33.3	*167.0*	*-158.3*	*52.6*

Profitability	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Operating margin %	*19.1*	17.9	19.3	20.2	*21.3*	*22.6*	*23.5*
EBITDA margin %	*29.7*	28.4	29.3	31.4	*33.4*	*34.7*	*35.5*
Net margin %	*7.1*	6.3	7.2	7.8	*8.1*	*8.5*	*9.0*
Free Cash Flow to the Firm margin %	*2.8*	4.2	2.5	1.6	*4.2*	*-2.4*	*4.1*
ROIC with Goodwill %	*8.9*	7.3	12.6	6.9	*6.5*	*6.1*	*6.4*
ROIC w/out Goodwill %	*10.6*	8.8	14.9	8.1	*7.5*	*7.0*	*7.3*
Return on Assets, pretax %	*6.2*	6.5	6.0	5.9	*6.1*	*6.3*	*6.4*
Return on Equity %	*9.7*	9.6	9.4	9.9	*9.9*	*9.9*	*10.2*

Leverage	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Debt/Capital	*0.62*	0.62	0.63	0.61	*0.59*	*0.59*	*0.59*
Total Debt/EBITDA	*5.26*	—	5.55	5.24	*4.91*	*4.78*	*4.89*
EBITDA/Interest Expense	*3.10*	3.05	2.96	3.29	*3.40*	*3.30*	*3.34*

Valuation Summary and Forecasts

	2009	2010	2011(E)	2012(E)
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	*19.5*	*18.6*
EV/EBITDA	10.4	10.8	*9.9*	*9.2*
EV/EBIT	15.8	16.8	*15.5*	*14.1*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-6.0*
Dividend Yield %	3.6	3.3	*3.3*	*3.6*

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
Total Firm Value	**11,185**	**100.0**	**—**
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
Equity Value	**5,068**	**—**	**28.67**
Projected Diluted Shares	187		
Fair Value per Share (CAD)	**29.00**		

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.

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Income Statement (CAD Mil)

	Dec 2008	Dec 2009	Dec 2010	*Forecast* Dec 2011	*Forecast* Dec 2012
Total Revenue	**3,903**	**3,637**	**3,664**	**3,814**	**3,950**
Cost of Goods Sold	2,112	1,799	1,686	*1,737*	*1,763*
Gross Profit	**1,791**	**1,838**	**1,978**	**2,078**	**2,188**
Selling, General & Administrative Expenses	743	773	828	*846*	*860*
Research & Development Expenses	0	0	0	*0*	*0*
Other Operating Expenses (Income)	0	0	0	*0*	*0*
Restructuring & Other Charges (Gains)	0	0	0	*0*	*0*
Depreciation Expense (if reported separately)	348	364	410	*420*	*435*
Amortization of Other Intangibles (if reported seperately)	0	0	0	*0*	*0*
Amortization/Impairment of Goodwill	0	0	0	*0*	*0*
Total Expenses	**3,203**	**2,936**	**2,924**	**3,003**	**3,057**
Operating Income (EBIT)	**700**	**701**	**740**	**812**	**893**
Interest Expense	363	360	350	*375*	*415*
Interest & Other Income (Expense)	0	0	0	*0*	*0*
Pre-Tax Income	**337**	**341**	**390**	**437**	**478**
Income Tax Expense (Benefit)	65	49	67	*85*	*93*
Income After Taxes	**272**	**292**	**323**	**352**	**385**
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	*-10*	*-10*
(Preferred Dividends)	-14	-18	-28	*-33*	*-38*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	*0*	*0*
Net Income (Loss)	**245**	**262**	**285**	**309**	**337**
Net Income (Loss) Excluding Charges	245	262	285	*309*	*337*
Diluted Shares Outstanding (Mil)	157	170	173	*181*	*189*
Diluted EPS Including Charges	1.56	1.54	1.65	*1.71*	*1.79*
Diluted EPS Excluding Charges	1.56	1.54	1.65	*1.71*	*1.79*
Dividends Per Common Share	0.00	0.00	0.00	*0.00*	*0.00*
EBITDA	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**
EBITDA without restructuring	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Balance Sheet (CAD Mil)

				Forecast	
Assets	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Excess Cash & Investments	0	0	0	*251*	*0*
Operating Cash & Equivalents	66	85	109	*114*	*119*
Accounts Receivable	681	595	655	*523*	*541*
Inventory	229	178	168	*143*	*145*
Other Short Term Operating Assets	174	268	272	*270*	*280*
Total Current Assets	**1,150**	**1,126**	**1,204**	**1,300**	**1,085**
Property Plant & Equipment, Net	7,367	7,687	8,202	*8,994*	*9,772*
Property Plant & Equipment, Gross	7,367	11,408	12,109	*13,321*	*14,533*
(Accumulated Depreciation)	0	-3,721	-3,907	*-4,327*	*-4,761*
Goodwill, Net	1,575	1,560	1,553	*1,553*	*1,553*
Other Intangibles	9	279	324	*282*	*240*
Other Long-Term Operating Assets	1,023	1,491	1,604	*1,700*	*1,750*
Deferred Tax Assets	54	17	16	*20*	*20*
Long-Term Non-Operating Assets, including Pension items	0	0	0	*0*	*0*
Total Assets	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Liabilities					
Accounts Payable	874	852	953	*1,078*	*1,112*
Short-Term Debt	650	639	414	*500*	*500*
Other Current Liabilities	173	103	150	*150*	*150*
Total Current Liabilities	**1,697**	**1,594**	**1,517**	**1,728**	**1,762**
Long-Term Debt	4,884	5,276	5,609	*5,750*	*6,050*
Incremental Debt Requirements	—	—	—	*0*	*0*
Total Long-Term Debt	**4,884**	**5,276**	**5,609**	**5,750**	**6,050**
Long-Term Operating Liabilities	678	731	775	*810*	*810*
Deferred Tax Liabilities	61	576	623	*670*	*650*
Long-Term Non-Operating Liabilities	320	320	320	*320*	*320*
Total Liabilities	**7,640**	**8,497**	**8,844**	**9,278**	**9,593**
Preferred Stock	**347**	**347**	**592**	**592**	**592**
Minority Interest	**145**	**123**	**162**	**205**	**220**
Shareholders' Equity					
Common Stock	157	170	173	*185*	*196*
Additional Paid in Capital	2,301	2,338	2,417	*2,776*	*2,895*
Retained Earnings (Deficit)	634	763	804	*903*	*1,013*
(Treasury Stock)	0	0	0	*0*	*0*
Other Equity	-46	-78	-89	*-89*	*-89*
Total Shareholders' Equity	**3,046**	**3,193**	**3,305**	**3,774**	**4,015**
Total Liabilities + Shareholders' Equity	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Cash Flow (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Net Income from Continuing Operations	259	280	323	*342*	*375*
Depreciation Expense	399	317	368	*420*	*435*
Amortization of Other Intangibles	9	47	42	*42*	*42*
Impairment of Goodwill	0	0	0	*0*	*0*
Other Non-Cash Adjustments to Operating Income	38	9	-8	*0*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	*43*	*-20*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	*132*	*-19*
(Increase) Decrease in Inventory	0	0	0	*25*	*-2*
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	*2*	*-10*
Increase (Decrease) in Accounts Payable	0	0	0	*125*	*34*
Increase (Decrease) in Other Current Liabilities	18	-16	7	*0*	*0*
Cash from Operations	**723**	**637**	**732**	**1,131**	**835**
(Capital Expenditures)	-819	-968	-1,006	*-1,212*	*-1,212*
(Acquisitions)	-22	-77	0	*0*	*0*
Asset Sales & Dispositions of Discontinued Operations	18	1	15	*0*	*0*
Other Investing Cash Flows (Outlays)	-31	-8	0	*-61*	*-50*
Cash from Investing	**-854**	**-1,052**	**-991**	**-1,273**	**-1,262**
Common Stock (Purchase) or Sale	308	46	80	*371*	*130*
Common Stock (Dividends)	-162	-177	-193	*-210*	*-227*
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	*-33*	*-38*
Short Term Debt Issuance and (Retirement)	-378	-6	-48	*86*	*0*
Long Term Debt Issuance and (Retirement)	231	557	194	*141*	*300*
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	*43*	*15*
Other Financing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash From Financing	**196**	**394**	**283**	**398**	**181**
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	0	0	0	*0*	*0*
Net Change in Cash	**65**	**-21**	**24**	**256**	**-246**
Change in Cash on Balance Sheet	8	19	24	*256*	*-246*
Difference, from analyst adjustments and restatements	57	-40	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

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

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.13	11.0	13.8	13.5	7.9	9.4	9.0	24.7	NM	NM	1.5	1.7	1.6	1.4	1.6	1.6
TransAlta Corporation TAC USA	0.90	21.1	17.2	16.5	9.0	7.4	8.1	221.1	32.2	20.7	1.6	1.6	1.5	1.6	1.6	1.5
Average		16.1	15.5	15.0	8.5	8.4	8.6	122.9	32.2	20.7	1.6	1.7	1.6	1.5	1.6	1.6
Fortis, Inc. FTS CA	**1.24**	**19.5**	**18.6**	**17.0**	**9.9**	**9.2**	**8.6**	**NM**	**NM**	**NM**	**1.7**	**1.6**	**1.5**	**1.6**	**1.6**	**1.5**

Returns Analysis

		ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	6.9	6.7	6.0	6.9	6.7	14.3	12.2	11.5	6.4	5.7	5.5	3.8	3.6	3.8
TransAlta Corporation TAC USA	9,893 CAD	5.7	5.7	6.0	6.1	6.1	6.3	8.2	10.6	11.0	4.2	6.1	5.8	4.7	5.7	5.8
Average		5.9	6.3	6.4	6.1	6.5	6.5	11.3	11.4	11.3	5.3	5.9	5.7	4.3	4.7	4.8
Fortis, Inc. FTS CA	**13,850** CAD	**6.5**	**6.1**	**6.4**	**7.5**	**7.0**	**7.3**	**9.9**	**9.9**	**10.4**	**6.1**	**6.3**	**6.6**	**3.3**	**3.6**	**4.0**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	5.5	2.0	25.0	-1.0	4.9	19.5	-6.7	1.8	-46.1	-326.6	13.2	5.9	10.9	5.5
TransAlta Corporation TAC USA	2,819 CAD	1.8	6.4	1.9	31.5	25.3	-5.9	9.7	21.7	3.6	-106.5	593.4	55.8	-12.3	22.2	1.0
Average		-0.2	6.0	2.0	28.3	12.2	-0.5	14.6	7.5	2.7	-76.3	133.4	34.5	-3.2	16.6	3.3
Fortis, Inc. FTS CA	**3,814** CAD	**4.1**	**3.6**	**3.3**	**9.7**	**10.1**	**8.7**	**3.5**	**4.7**	**10.0**	**-70.6**	**367.9**	**-19.7**	**4.0**	**3.5**	**8.0**

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.37 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

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

	Last Historical Year	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Net Income (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
Fortis, Inc. FTS CA	**309** CAD	**54.5**	**55.4**	**56.2**	**33.4**	**34.7**	**35.8**	**21.3**	**22.6**	**23.8**	**8.1**	**8.5**	**9.3**	**-2.1**	**-9.6**	**-7.4**

Leverage Analysis

	Last Historical Year	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Total Debt (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
Fortis, Inc. FTS CA	**6,250** CAD	**165.6**	**163.2**	**166.3**	**58.9**	**58.7**	**59.4**	**3.4**	**3.3**	**3.4**	**4.9**	**4.8**	**4.9**	**3.7**	**3.6**	**3.6**

Liquidity Analysis

		Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,724 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,611 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
Fortis, Inc. FTS CA	**6,288** CAD	**2.02**	**0.63**	**0.77**	**-32.52**	**-34.08**	**-36.11**	**6.25**	**4.42**	**4.72**	**-0.45**	**-2.00**	**-1.58**	**68.0**	**67.2**	**66.0**

Research Methodology for Valuing Companies

Components of Our Methodology

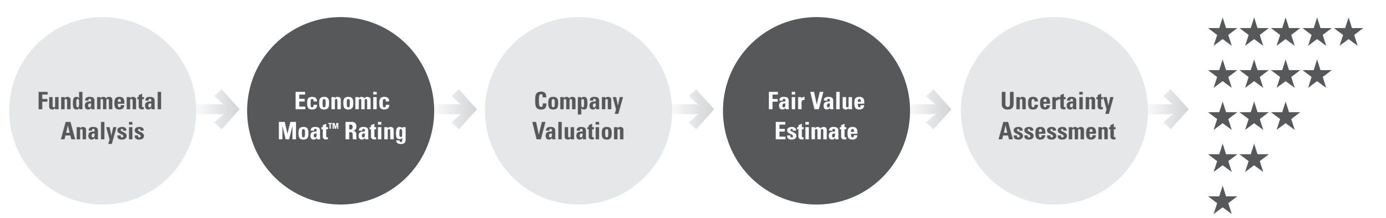
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Grades
- Financial Health Grades

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



Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs (Microsoft)

Cost advantage (Wal-Mart)

Intangible assets (Johnson & Johnson)

Network Effect (Mastercard)

Efficient Scale (Lockheed Martin)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

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 Grade Methodology
- ► Stock Grade Methodology for Financial Health

* Please contact a sales representative for more information.

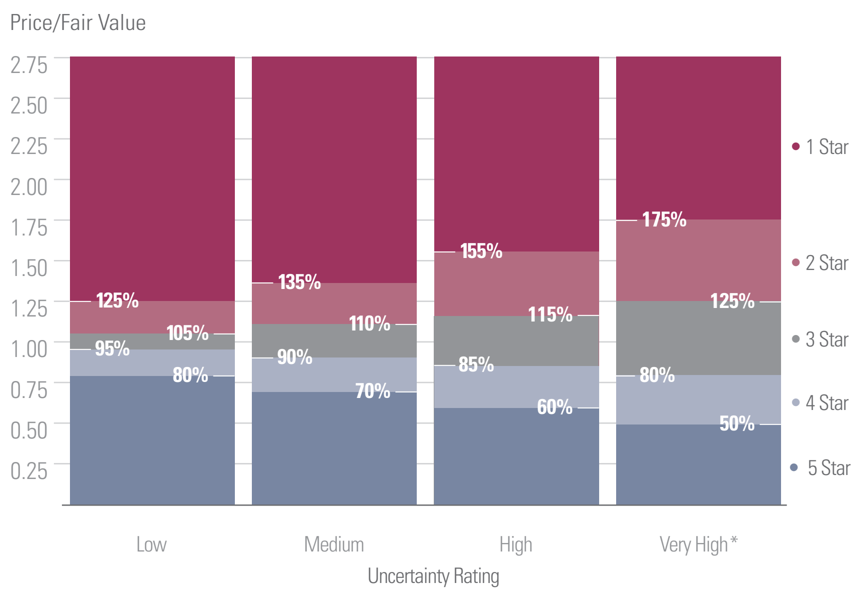
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue 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 Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

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.

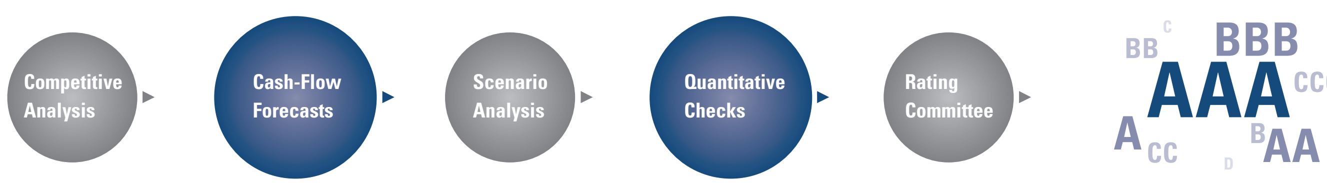
Business Risk

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



Competitive Analysis: Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Cash-Flow Forecasts: Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Stress Test Score™

Scenario Analysis: Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, forecasts, and scenario analysis, the analyst assigns Business Risk.

Quantitative Checks: We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Bank Solvency Score™
- Distance to Default

Rating Committee: Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

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, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

A regulated revenue mix offers investors a stable dividend profile and earnings.

Updated Forecasts and Estimates from 03 Jan 2012

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The primary analyst covering this company does not own its stock.

Research as of 03 Jan 2012
Estimates as of 03 Jan 2012
Pricing data through 03 Jan 2012
Rating updated as of 03 Jan 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

Vital Statistics

Market Cap (CAD Mil)	6,250
52-Week High (CAD)	35.45
52-Week Low (CAD)	28.24
52-Week Total Return %	1.0
YTD Total Return %	-0.6
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.14

Valuation Summary and Forecasts

Fiscal Year:	2009	2010	*2011(E)*	*2012(E)*
Price/Earnings	18.6	20.6	*19.4*	*18.5*
EV/EBITDA	10.4	10.8	*9.9*	*9.2*
EV/EBIT	15.8	16.8	*15.5*	*14.1*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-6.0*
Dividend Yield %	3.6	3.3	*3.4*	*3.6*

Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2009	2010	*2011(E)*	*2012(E)*
Revenue	3,637	3,664	*3,814*	*3,950*
Revenue YoY %	-6.8	0.7	*4.1*	*3.6*
EBIT	701	740	*812*	*893*
EBIT YoY %	0.1	5.6	*9.7*	*10.1*
Net Income, Adjusted	262	285	*309*	*337*
Net Income YoY %	6.9	8.8	*8.3*	*9.2*
Diluted EPS	1.54	1.65	*1.71*	*1.79*
Diluted EPS YoY %	-1.1	7.0	*3.5*	*4.7*
Free Cash Flow	-331	-274	*-81*	*-377*
Free Cash Flow YoY %	244.8	-17.2	*-70.6*	*367.9*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note:

Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of

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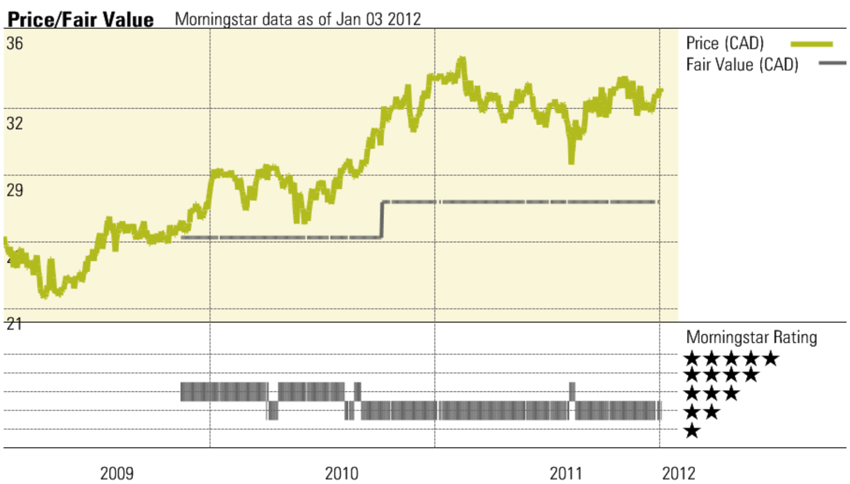
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated



CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

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Bulls Say/Bears Say

Bulls Say

- The company operates a stable business profile, offering a strong base for consistent earnings.
- With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

Bears Say

- The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

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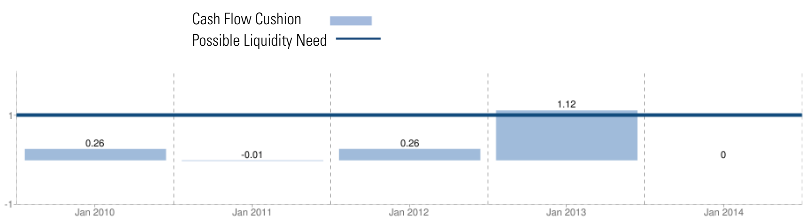
Credit Analysis

Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

Credit Rating Pillars–Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

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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

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

Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was $4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast Dec 2011	Forecast Dec 2012	5-Year Proj. CAGR
Revenue	*10.5*	43.6	-6.8	0.7	*4.1*	*3.6*	—
EBIT	*11.0*	29.4	0.1	5.6	*9.7*	*10.1*	*8.0*
EBITDA	*12.2*	36.1	-3.9	8.0	*10.7*	*7.6*	*6.8*
Net Income	*17.2*	38.4	6.9	8.8	*8.3*	*9.2*	*8.1*
Diluted EPS	*8.6*	21.0	-1.1	7.0	*3.5*	*4.7*	*5.0*
Earnings Before Interest, after Tax	*16.1*	38.2	89.7	-40.3	*-2.2*	*0.4*	*4.0*
Free Cash Flow to the Firm	*-135.9*	-112.8	-45.5	-33.3	*167.0*	*-158.3*	*52.6*

Profitability	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Operating margin %	*19.1*	17.9	19.3	20.2	*21.3*	*22.6*	*23.5*
EBITDA margin %	*29.7*	28.4	29.3	31.4	*33.4*	*34.7*	*35.5*
Net margin %	*7.1*	6.3	7.2	7.8	*8.1*	*8.5*	*9.0*
Free Cash Flow to the Firm margin %	*2.8*	4.2	2.5	1.6	*4.2*	*-2.4*	*4.1*
ROIC with Goodwill %	*8.9*	7.3	12.6	6.9	*6.5*	*6.1*	*6.4*
ROIC w/out Goodwill %	*10.6*	8.8	14.9	8.1	*7.5*	*7.0*	*7.3*
Return on Assets, pretax %	*6.2*	6.5	6.0	5.9	*6.1*	*6.3*	*6.4*
Return on Equity %	*9.7*	9.6	9.4	9.9	*9.9*	*9.9*	*10.2*

Leverage	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Debt/Capital	*0.62*	0.62	0.63	0.61	*0.59*	*0.59*	*0.59*
Total Debt/EBITDA	*5.26*	—	5.55	5.24	*4.91*	*4.78*	*4.89*
EBITDA/Interest Expense	*3.10*	3.05	2.96	3.29	*3.40*	*3.30*	*3.34*

Valuation Summary and Forecasts

	2009	2010	*2011(E)*	*2012(E)*
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	*19.4*	*18.5*
EV/EBITDA	10.4	10.8	*9.9*	*9.2*
EV/EBIT	15.8	16.8	*15.5*	*14.1*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-6.0*
Dividend Yield %	3.6	3.3	*3.4*	*3.6*

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
Total Firm Value	**11,185**	**100.0**	**—**
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
Equity Value	**5,068**	**—**	**28.67**
Projected Diluted Shares	187		
Fair Value per Share (CAD)	**29.00**		

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.

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Morningstar Analyst Forecasts

Income Statement (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Total Revenue	**3,903**	**3,637**	**3,664**	**3,814**	**3,950**
Cost of Goods Sold	2,112	1,799	1,686	*1,737*	*1,763*
Gross Profit	**1,791**	**1,838**	**1,978**	**2,078**	**2,188**
Selling, General & Administrative Expenses	743	773	828	*846*	*860*
Research & Development Expenses	0	0	0	*0*	*0*
Other Operating Expenses (Income)	0	0	0	*0*	*0*
Restructuring & Other Charges (Gains)	0	0	0	*0*	*0*
Depreciation Expense (if reported separately)	348	364	410	*420*	*435*
Amortization of Other Intangibles (if reported seperately)	0	0	0	*0*	*0*
Amortization/Impairment of Goodwill	0	0	0	*0*	*0*
Total Expenses	**3,203**	**2,936**	**2,924**	**3,003**	**3,057**
Operating Income (EBIT)	**700**	**701**	**740**	**812**	**893**
Interest Expense	363	360	350	*375*	*415*
Interest & Other Income (Expense)	0	0	0	*0*	*0*
Pre-Tax Income	**337**	**341**	**390**	**437**	**478**
Income Tax Expense (Benefit)	65	49	67	*85*	*93*
Income After Taxes	**272**	**292**	**323**	**352**	**385**
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	*-10*	*-10*
(Preferred Dividends)	-14	-18	-28	*-33*	*-38*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	*0*	*0*
Net Income (Loss)	**245**	**262**	**285**	**309**	**337**
Net Income (Loss) Excluding Charges	245	262	285	*309*	*337*
Diluted Shares Outstanding (Mil)	157	170	173	*181*	*189*
Diluted EPS Including Charges	1.56	1.54	1.65	*1.71*	*1.79*
Diluted EPS Excluding Charges	1.56	1.54	1.65	*1.71*	*1.79*
Dividends Per Common Share	0.00	0.00	0.00	*0.00*	*0.00*
EBITDA	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**
EBITDA without restructuring	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Balance Sheet (CAD Mil)

				Forecast	
Assets	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Excess Cash & Investments	0	0	0	*251*	*0*
Operating Cash & Equivalents	66	85	109	*114*	*119*
Accounts Receivable	681	595	655	*523*	*541*
Inventory	229	178	168	*143*	*145*
Other Short Term Operating Assets	174	268	272	*270*	*280*
Total Current Assets	**1,150**	**1,126**	**1,204**	**1,300**	**1,085**
Property Plant & Equipment, Net	7,367	7,687	8,202	*8,994*	*9,772*
Property Plant & Equipment, Gross	7,367	11,408	12,109	*13,321*	*14,533*
(Accumulated Depreciation)	0	-3,721	-3,907	*-4,327*	*-4,761*
Goodwill, Net	1,575	1,560	1,553	*1,553*	*1,553*
Other Intangibles	9	279	324	*282*	*240*
Other Long-Term Operating Assets	1,023	1,491	1,604	*1,700*	*1,750*
Deferred Tax Assets	54	17	16	*20*	*20*
Long-Term Non-Operating Assets, including Pension items	0	0	0	*0*	*0*
Total Assets	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Liabilities					
Accounts Payable	874	852	953	*1,078*	*1,112*
Short-Term Debt	650	639	414	*500*	*500*
Other Current Liabilities	173	103	150	*150*	*150*
Total Current Liabilities	**1,697**	**1,594**	**1,517**	**1,728**	**1,762**
Long-Term Debt	4,884	5,276	5,609	*5,750*	*6,050*
Incremental Debt Requirements	—	—	—	*0*	*0*
Total Long-Term Debt	**4,884**	**5,276**	**5,609**	**5,750**	**6,050**
Long-Term Operating Liabilities	678	731	775	*810*	*810*
Deferred Tax Liabilities	61	576	623	*670*	*650*
Long-Term Non-Operating Liabilities	320	320	320	*320*	*320*
Total Liabilities	**7,640**	**8,497**	**8,844**	**9,278**	**9,593**
Preferred Stock	**347**	**347**	**592**	**592**	**592**
Minority Interest	**145**	**123**	**162**	**205**	**220**
Shareholders' Equity					
Common Stock	157	170	173	*185*	*196*
Additional Paid in Capital	2,301	2,338	2,417	*2,776*	*2,895*
Retained Earnings (Deficit)	634	763	804	*903*	*1,013*
(Treasury Stock)	0	0	0	*0*	*0*
Other Equity	-46	-78	-89	*-89*	*-89*
Total Shareholders' Equity	**3,046**	**3,193**	**3,305**	**3,774**	**4,015**
Total Liabilities + Shareholders' Equity	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Cash Flow (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Net Income from Continuing Operations	259	280	323	*342*	*375*
Depreciation Expense	399	317	368	*420*	*435*
Amortization of Other Intangibles	9	47	42	*42*	*42*
Impairment of Goodwill	0	0	0	*0*	*0*
Other Non-Cash Adjustments to Operating Income	38	9	-8	*0*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	*43*	*-20*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	*132*	*-19*
(Increase) Decrease in Inventory	0	0	0	*25*	*-2*
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	*2*	*-10*
Increase (Decrease) in Accounts Payable	0	0	0	*125*	*34*
Increase (Decrease) in Other Current Liabilities	18	-16	7	*0*	*0*
Cash from Operations	**723**	**637**	**732**	**1,131**	**835**
(Capital Expenditures)	-819	-968	-1,006	*-1,212*	*-1,212*
(Acquisitions)	-22	-77	0	*0*	*0*
Asset Sales & Dispositions of Discontinued Operations	18	1	15	*0*	*0*
Other Investing Cash Flows (Outlays)	-31	-8	0	*-61*	*-50*
Cash from Investing	**-854**	**-1,052**	**-991**	**-1,273**	**-1,262**
Common Stock (Purchase) or Sale	308	46	80	*371*	*130*
Common Stock (Dividends)	-162	-177	-193	*-210*	*-227*
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	*-33*	*-38*
Short Term Debt Issuance and (Retirement)	-378	-6	-48	*86*	*0*
Long Term Debt Issuance and (Retirement)	231	557	194	*141*	*300*
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	*43*	*15*
Other Financing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash From Financing	**196**	**394**	**283**	**398**	**181**
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	0	0	0	*0*	*0*
Net Change in Cash	**65**	**-21**	**24**	**256**	**-246**
Change in Cash on Balance Sheet	8	19	24	*256*	*-246*
Difference, from analyst adjustments and restatements	57	-40	0	*0*	*0*

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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 2011	2012(E)	2013(E)	EV/EBITDA 2011	2012(E)	2013(E)	Price/Free Cash Flow 2011	2012(E)	2013(E)	Price/Book 2011	2012(E)	2013(E)	Price/Sales 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.09	11.0	*13.3*	*13.1*	7.9	*9.2*	*8.8*	24.7	*NM*	*NM*	1.5	*1.6*	*1.5*	1.4	*1.5*	*1.5*
TransAlta Corporation TAC USA	0.92	21.1	*17.7*	*17.0*	9.0	*7.5*	*8.2*	221.1	*33.1*	*21.2*	1.6	*1.7*	*1.6*	1.6	*1.6*	*1.6*
Average		16.1	*15.5*	*15.1*	8.5	*8.4*	*8.5*	122.9	*33.1*	*21.2*	1.6	*1.7*	*1.6*	1.5	*1.6*	*1.6*
Fortis, Inc. FTS CA	**1.14**	**19.4**	***18.5***	***16.9***	**9.9**	***9.2***	***8.6***	**NM**	***NM***	***NM***	**1.7**	***1.6***	***1.5***	**1.6**	***1.6***	***1.5***

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill % 2011	2012(E)	2013(E)	ROIC without Goodwill % 2011	2012(E)	2013(E)	Return on Equity % 2011	2012(E)	2013(E)	Return on Assets, Pretax % 2011	2012(E)	2013(E)	Dividend Yield % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	*6.9*	*6.7*	6.0	*6.9*	*6.7*	14.3	*12.2*	*11.5*	6.4	*5.7*	*5.5*	3.8	*3.7*	*4.0*
TransAlta Corporation TAC USA	9,893 CAD	5.7	*5.7*	*6.0*	6.1	*6.1*	*6.3*	8.2	*10.6*	*11.0*	4.2	*6.1*	*5.8*	4.7	*5.5*	*5.6*
Average		5.9	*6.3*	*6.4*	6.1	*6.5*	*6.5*	11.3	*11.4*	*11.3*	5.3	*5.9*	*5.7*	4.3	*4.6*	*4.8*
Fortis, Inc. FTS CA	**13,850** CAD	**6.5**	***6.1***	***6.4***	**7.5**	***7.0***	***7.3***	**9.9**	***9.9***	***10.4***	**6.1**	***6.3***	***6.6***	**3.4**	***3.6***	***4.0***

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2011	2012(E)	2013(E)	EBIT Growth % 2011	2012(E)	2013(E)	EPS Growth % 2011	2012(E)	2013(E)	Free Cash Flow Growth % 2011	2012(E)	2013(E)	Dividend/Share Growth % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	*5.5*	*2.0*	25.0	*-1.0*	*4.9*	19.5	*-6.7*	*1.8*	-46.1	*-326.6*	*13.2*	5.9	*10.9*	*5.5*
TransAlta Corporation TAC USA	2,819 CAD	1.8	*6.4*	*1.9*	31.5	*25.3*	*-5.9*	9.7	*21.7*	*3.6*	-106.5	*593.4*	*55.8*	-12.3	*22.2*	*1.0*
Average		-0.2	*6.0*	*2.0*	28.3	*12.2*	*-0.5*	14.6	*7.5*	*2.7*	-76.3	*133.4*	*34.5*	-3.2	*16.6*	*3.3*
Fortis, Inc. FTS CA	**3,814** CAD	**4.1**	***3.6***	***3.3***	**9.7**	***10.1***	***8.7***	**3.5**	***4.7***	***10.0***	**-70.6**	***367.9***	***-19.7***	**4.0**	***3.5***	***8.0***

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.17 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

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 % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
Fortis, Inc. FTS CA	**309** CAD	**54.5**	**55.4**	**56.2**	**33.4**	**34.7**	**35.8**	**21.3**	**22.6**	**23.8**	**8.1**	**8.5**	**9.3**	**-2.1**	**-9.6**	**-7.4**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
Fortis, Inc. FTS CA	**6,250** CAD	**165.6**	**163.2**	**166.3**	**58.9**	**58.7**	**59.4**	**3.4**	**3.3**	**3.4**	**4.9**	**4.8**	**4.9**	**3.7**	**3.6**	**3.6**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	24,909 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,730 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
Fortis, Inc. FTS CA	**6,250** CAD	**2.02**	**0.63**	**0.77**	**-32.52**	**-34.08**	**-36.11**	**6.25**	**4.42**	**4.72**	**-0.45**	**-2.00**	**-1.58**	**68.0**	**67.2**	**66.0**

Research Methodology for Valuing Companies

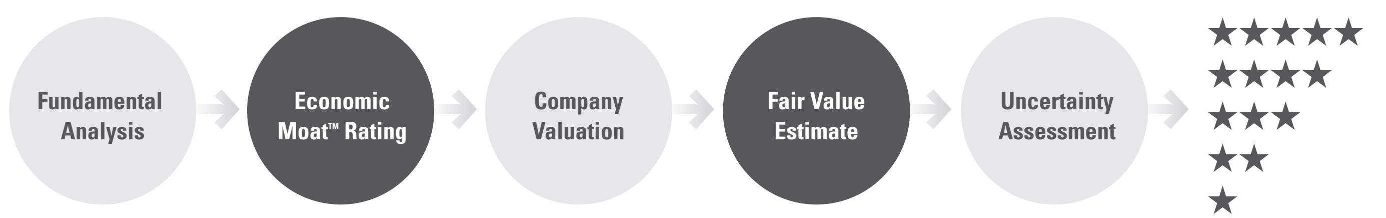
Components of Our Methodology
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Grades
- Financial Health Grades

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



Fundamental Analysis	Economic Moat™ Rating	Company Valuation	Fair Value Estimate	Uncertainty Assessment	Stars
Analyst conducts company and industry research: ► Financial statement analysis ► Channel checks ► Trade-show visits ► Industry and company reports and journals ► Conference calls ► Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

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 Grade Methodology
- Stock Grade Methodology for Financial Health

* Please contact a sales representative for more information.

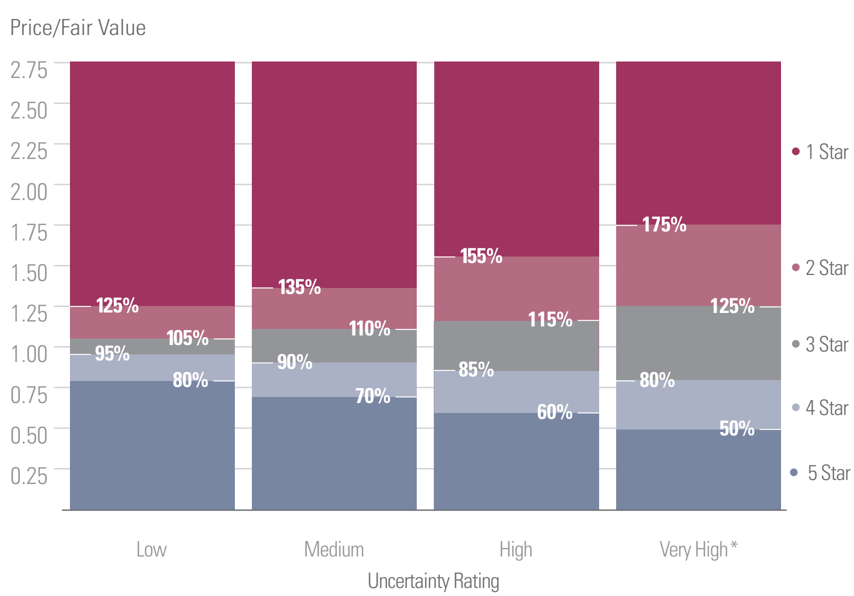
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue 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 Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

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.

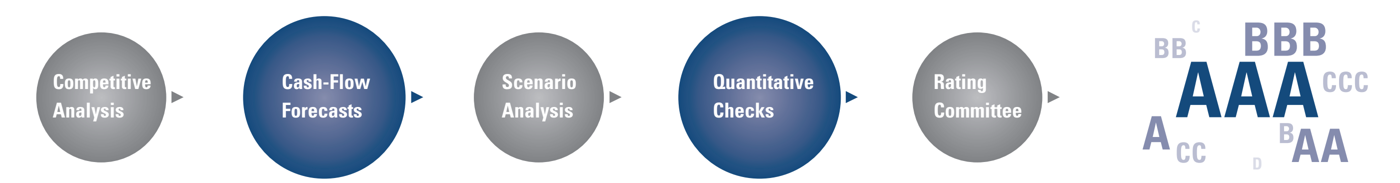
Business Risk

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



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Stress Test Score™

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Bank Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

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, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Strong Customer Growth Generates Impressive 2011 Results at Fortis.

See Page 2 for the full Analyst Note from 09 Feb 2012

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The primary analyst covering this company does not own its stock.

Research as of 09 Feb 2012
Estimates as of 03 Jan 2012
Pricing data through 08 Feb 2012
Rating updated as of 08 Feb 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

Vital Statistics

Market Cap (CAD Mil)	6,435
52-Week High (CAD)	35.45
52-Week Low (CAD)	28.24
52-Week Total Return %	0.9
YTD Total Return %	2.1
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.18

Valuation Summary and Forecasts

Fiscal Year:	2009	2010	*2011(E)*	*2012(E)*
Price/Earnings	18.6	20.6	*19.9*	*19.0*
EV/EBITDA	10.4	10.8	*10.0*	*9.3*
EV/EBIT	15.8	16.8	*15.7*	*14.3*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-5.9*
Dividend Yield %	3.6	3.3	*3.3*	*3.5*

Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2009	2010	*2011(E)*	*2012(E)*
Revenue	3,637	3,664	*3,814*	*3,950*
Revenue YoY %	-6.8	0.7	*4.1*	*3.6*
EBIT	701	740	*812*	*893*
EBIT YoY %	0.1	5.6	*9.7*	*10.1*
Net Income, Adjusted	262	285	*309*	*337*
Net Income YoY %	6.9	8.8	*8.3*	*9.2*
Diluted EPS	1.54	1.65	*1.71*	*1.79*
Diluted EPS YoY %	-1.1	7.0	*3.5*	*4.7*
Free Cash Flow	-331	-274	*-81*	*-377*
Free Cash Flow YoY %	244.8	-17.2	*-70.6*	*367.9*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note:

Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted $1.75 in EPS in 2011, higher than our own $1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as $5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to $1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfound Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

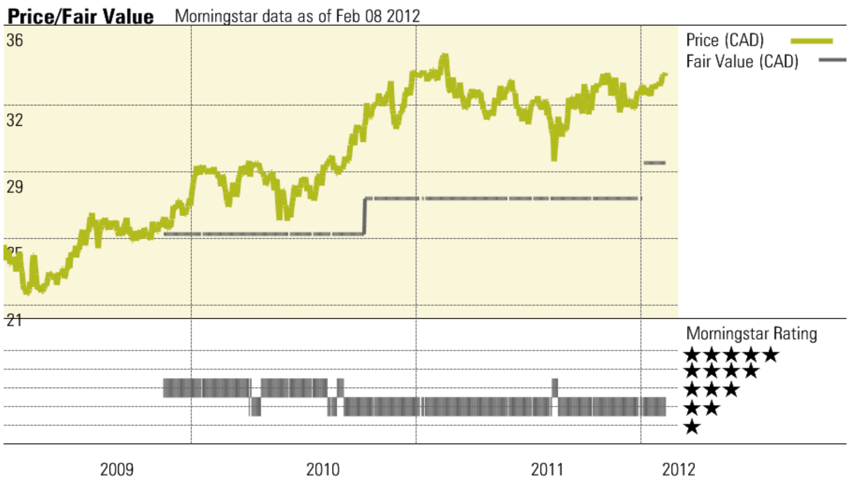
The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated



regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- The company operates a stable business profile, offering a strong base for consistent earnings.
- With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

Bears Say

- The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

Fortis, Inc. FTS (TSE) | ★★

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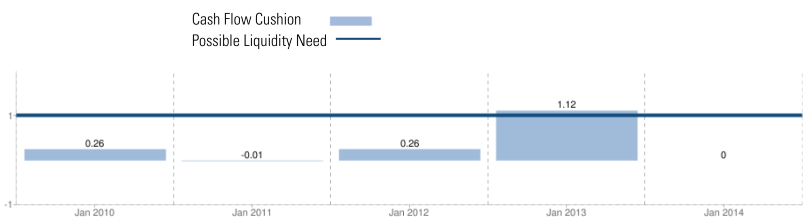
Credit Analysis

Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

Credit Rating Pillars–Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

Fortis, Inc. FTS (TSE) | ★★

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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

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

Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was $4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast Dec 2011	Forecast Dec 2012	5-Year Proj. CAGR
Revenue	*10.5*	43.6	-6.8	0.7	*4.1*	*3.6*	—
EBIT	*11.0*	29.4	0.1	5.6	*9.7*	*10.1*	*8.0*
EBITDA	*12.2*	36.1	-3.9	8.0	*10.7*	*7.6*	*6.8*
Net Income	*17.2*	38.4	6.9	8.8	*8.3*	*9.2*	*8.1*
Diluted EPS	*8.6*	21.0	-1.1	7.0	*3.5*	*4.7*	*5.0*
Earnings Before Interest, after Tax	*16.1*	38.2	89.7	-40.3	*-2.2*	*0.4*	*4.0*
Free Cash Flow to the Firm	*-135.9*	-112.8	-45.5	-33.3	*167.0*	*-158.3*	*52.6*

Profitability	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Operating margin %	*19.1*	17.9	19.3	20.2	*21.3*	*22.6*	*23.5*
EBITDA margin %	*29.7*	28.4	29.3	31.4	*33.4*	*34.7*	*35.5*
Net margin %	*7.1*	6.3	7.2	7.8	*8.1*	*8.5*	*9.0*
Free Cash Flow to the Firm margin %	*2.8*	4.2	2.5	1.6	*4.2*	*-2.4*	*4.1*
ROIC with Goodwill %	*8.9*	7.3	12.6	6.9	*6.5*	*6.1*	*6.4*
ROIC w/out Goodwill %	*10.6*	8.8	14.9	8.1	*7.5*	*7.0*	*7.3*
Return on Assets, pretax %	*6.2*	6.5	6.0	5.9	*6.1*	*6.3*	*6.4*
Return on Equity %	*9.7*	9.6	9.4	9.9	*9.9*	*9.9*	*10.2*

Leverage	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Debt/Capital	*0.62*	0.62	0.63	0.61	*0.59*	*0.59*	*0.59*
Total Debt/EBITDA	*5.26*	—	5.55	5.24	*4.91*	*4.78*	*4.89*
EBITDA/Interest Expense	*3.10*	3.05	2.96	3.29	*3.40*	*3.30*	*3.34*

Valuation Summary and Forecasts

	2009	2010	*2011(E)*	*2012(E)*
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	*19.9*	*19.0*
EV/EBITDA	10.4	10.8	*10.0*	*9.3*
EV/EBIT	15.8	16.8	*15.7*	*14.3*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-5.9*
Dividend Yield %	3.6	3.3	*3.3*	*3.5*

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
Total Firm Value	**11,185**	**100.0**	**—**
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
Equity Value	**5,068**	**—**	**28.67**
Projected Diluted Shares	187		
Fair Value per Share (CAD)	**29.00**		

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.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Total Revenue	**3,903**	**3,637**	**3,664**	**3,814**	**3,950**
Cost of Goods Sold	2,112	1,799	1,686	*1,737*	*1,763*
Gross Profit	**1,791**	**1,838**	**1,978**	**2,078**	**2,188**
Selling, General & Administrative Expenses	743	773	828	*846*	*860*
Research & Development Expenses	0	0	0	*0*	*0*
Other Operating Expenses (Income)	0	0	0	*0*	*0*
Restructuring & Other Charges (Gains)	0	0	0	*0*	*0*
Depreciation Expense (if reported separately)	348	364	410	*420*	*435*
Amortization of Other Intangibles (if reported seperately)	0	0	0	*0*	*0*
Amortization/Impairment of Goodwill	0	0	0	*0*	*0*
Total Expenses	**3,203**	**2,936**	**2,924**	**3,003**	**3,057**
Operating Income (EBIT)	**700**	**701**	**740**	**812**	**893**
Interest Expense	363	360	350	*375*	*415*
Interest & Other Income (Expense)	0	0	0	*0*	*0*
Pre-Tax Income	**337**	**341**	**390**	**437**	**478**
Income Tax Expense (Benefit)	65	49	67	*85*	*93*
Income After Taxes	**272**	**292**	**323**	**352**	**385**
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	*-10*	*-10*
(Preferred Dividends)	-14	-18	-28	*-33*	*-38*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	*0*	*0*
Net Income (Loss)	**245**	**262**	**285**	**309**	**337**
Net Income (Loss) Excluding Charges	245	262	285	*309*	*337*
Diluted Shares Outstanding (Mil)	157	170	173	*181*	*189*
Diluted EPS Including Charges	1.56	1.54	1.65	*1.71*	*1.79*
Diluted EPS Excluding Charges	1.56	1.54	1.65	*1.71*	*1.79*
Dividends Per Common Share	0.00	0.00	0.00	*0.00*	*0.00*
EBITDA	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**
EBITDA without restructuring	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**

Fortis, Inc. FTS (TSE) | ★★

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34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (CAD Mil)

				Forecast	
Assets	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Excess Cash & Investments	0	0	0	*251*	*0*
Operating Cash & Equivalents	66	85	109	*114*	*119*
Accounts Receivable	681	595	655	*523*	*541*
Inventory	229	178	168	*143*	*145*
Other Short Term Operating Assets	174	268	272	*270*	*280*
Total Current Assets	**1,150**	**1,126**	**1,204**	**1,300**	**1,085**
Property Plant & Equipment, Net	7,367	7,687	8,202	*8,994*	*9,772*
Property Plant & Equipment, Gross	7,367	11,408	12,109	*13,321*	*14,533*
(Accumulated Depreciation)	0	-3,721	-3,907	*-4,327*	*-4,761*
Goodwill, Net	1,575	1,560	1,553	*1,553*	*1,553*
Other Intangibles	9	279	324	*282*	*240*
Other Long-Term Operating Assets	1,023	1,491	1,604	*1,700*	*1,750*
Deferred Tax Assets	54	17	16	*20*	*20*
Long-Term Non-Operating Assets, including Pension items	0	0	0	*0*	*0*
Total Assets	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Liabilities					
Accounts Payable	874	852	953	*1,078*	*1,112*
Short-Term Debt	650	639	414	*500*	*500*
Other Current Liabilities	173	103	150	*150*	*150*
Total Current Liabilities	**1,697**	**1,594**	**1,517**	**1,728**	**1,762**
Long-Term Debt	4,884	5,276	5,609	*5,750*	*6,050*
Incremental Debt Requirements	—	—	—	*0*	*0*
Total Long-Term Debt	**4,884**	**5,276**	**5,609**	**5,750**	**6,050**
Long-Term Operating Liabilities	678	731	775	*810*	*810*
Deferred Tax Liabilities	61	576	623	*670*	*650*
Long-Term Non-Operating Liabilities	320	320	320	*320*	*320*
Total Liabilities	**7,640**	**8,497**	**8,844**	**9,278**	**9,593**
Preferred Stock	**347**	**347**	**592**	**592**	**592**
Minority Interest	**145**	**123**	**162**	**205**	**220**
Shareholders' Equity					
Common Stock	157	170	173	*185*	*196*
Additional Paid in Capital	2,301	2,338	2,417	*2,776*	*2,895*
Retained Earnings (Deficit)	634	763	804	*903*	*1,013*
(Treasury Stock)	0	0	0	*0*	*0*
Other Equity	-46	-78	-89	*-89*	*-89*
Total Shareholders' Equity	**3,046**	**3,193**	**3,305**	**3,774**	**4,015**
Total Liabilities + Shareholders' Equity	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Cash Flow (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Net Income from Continuing Operations	259	280	323	*342*	*375*
Depreciation Expense	399	317	368	*420*	*435*
Amortization of Other Intangibles	9	47	42	*42*	*42*
Impairment of Goodwill	0	0	0	*0*	*0*
Other Non-Cash Adjustments to Operating Income	38	9	-8	*0*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	*43*	*-20*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	*132*	*-19*
(Increase) Decrease in Inventory	0	0	0	*25*	*-2*
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	*2*	*-10*
Increase (Decrease) in Accounts Payable	0	0	0	*125*	*34*
Increase (Decrease) in Other Current Liabilities	18	-16	7	*0*	*0*
Cash from Operations	**723**	**637**	**732**	**1,131**	**835**
(Capital Expenditures)	-819	-968	-1,006	*-1,212*	*-1,212*
(Acquisitions)	-22	-77	0	*0*	*0*
Asset Sales & Dispositions of Discontinued Operations	18	1	15	*0*	*0*
Other Investing Cash Flows (Outlays)	-31	-8	0	*-61*	*-50*
Cash from Investing	**-854**	**-1,052**	**-991**	**-1,273**	**-1,262**
Common Stock (Purchase) or Sale	308	46	80	*371*	*130*
Common Stock (Dividends)	-162	-177	-193	*-210*	*-227*
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	*-33*	*-38*
Short Term Debt Issuance and (Retirement)	-378	-6	-48	*86*	*0*
Long Term Debt Issuance and (Retirement)	231	557	194	*141*	*300*
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	*43*	*15*
Other Financing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash From Financing	**196**	**394**	**283**	**398**	**181**
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	0	0	0	*0*	*0*
Net Change in Cash	**65**	**-21**	**24**	**256**	**-246**
Change in Cash on Balance Sheet	8	19	24	*256*	*-246*
Difference, from analyst adjustments and restatements	57	-40	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

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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 2011	Price/Earnings 2012(E)	Price/Earnings 2013(E)	EV/EBITDA 2011	EV/EBITDA 2012(E)	EV/EBITDA 2013(E)	Price/Free Cash Flow 2011	Price/Free Cash Flow 2012(E)	Price/Free Cash Flow 2013(E)	Price/Book 2011	Price/Book 2012(E)	Price/Book 2013(E)	Price/Sales 2011	Price/Sales 2012(E)	Price/Sales 2013(E)
NextEra Energy Inc NEE USA	1.12	11.0	13.7	13.4	7.9	9.3	8.9	24.7	NM	NM	1.5	1.7	1.6	1.4	1.6	1.5
TransAlta Corporation TAC USA	0.90	21.1	16.8	16.2	9.0	7.3	8.0	221.1	31.6	20.3	1.6	1.6	1.5	1.6	1.5	1.5
Average		16.1	15.3	14.8	8.5	8.3	8.5	122.9	31.6	20.3	1.6	1.7	1.6	1.5	1.6	1.5
Fortis, Inc. FTS CA	**1.18**	**19.9**	**19.0**	**17.4**	**10.0**	**9.3**	**8.7**	**NM**	**NM**	**NM**	**1.7**	**1.6**	**1.5**	**1.7**	**1.6**	**1.6**

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill % 2011	ROIC with Goodwill % 2012(E)	ROIC with Goodwill % 2013(E)	ROIC without Goodwill % 2011	ROIC without Goodwill % 2012(E)	ROIC without Goodwill % 2013(E)	Return on Equity % 2011	Return on Equity % 2012(E)	Return on Equity % 2013(E)	Return on Assets, Pretax % 2011	Return on Assets, Pretax % 2012(E)	Return on Assets, Pretax % 2013(E)	Dividend Yield % 2011	Dividend Yield % 2012(E)	Dividend Yield % 2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	6.9	6.7	6.0	6.9	6.7	14.3	12.2	11.5	6.4	5.7	5.5	3.8	3.7	3.9
TransAlta Corporation TAC USA	9,893 CAD	5.7	5.7	6.0	6.1	6.1	6.3	8.2	10.6	11.0	4.2	6.1	5.8	4.7	5.8	5.9
Average		5.9	6.3	6.4	6.1	6.5	6.5	11.3	11.4	11.3	5.3	5.9	5.7	4.3	4.8	4.9
Fortis, Inc. FTS CA	**13,850** CAD	**6.5**	**6.1**	**6.4**	**7.5**	**7.0**	**7.3**	**9.9**	**9.9**	**10.4**	**6.1**	**6.3**	**6.6**	**3.3**	**3.5**	**3.9**

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2011	Revenue Growth % 2012(E)	Revenue Growth % 2013(E)	EBIT Growth % 2011	EBIT Growth % 2012(E)	EBIT Growth % 2013(E)	EPS Growth % 2011	EPS Growth % 2012(E)	EPS Growth % 2013(E)	Free Cash Flow Growth % 2011	Free Cash Flow Growth % 2012(E)	Free Cash Flow Growth % 2013(E)	Dividend/Share Growth % 2011	Dividend/Share Growth % 2012(E)	Dividend/Share Growth % 2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	5.5	2.0	25.0	-1.0	4.9	19.5	-6.7	1.8	-46.1	-326.6	13.2	5.9	10.9	5.5
TransAlta Corporation TAC USA	2,819 CAD	1.8	6.4	1.9	31.5	25.3	-5.9	9.7	21.7	3.6	-106.5	593.4	55.8	-12.3	22.2	1.0
Average		-0.2	6.0	2.0	28.3	12.2	-0.5	14.6	7.5	2.7	-76.3	133.4	34.5	-3.2	16.6	3.3
Fortis, Inc. FTS CA	**3,814** CAD	**4.1**	**3.6**	**3.3**	**9.7**	**10.1**	**8.7**	**3.5**	**4.7**	**10.0**	**-70.6**	**367.9**	**-19.7**	**4.0**	**3.5**	**8.0**

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
34.08 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

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 % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
Fortis, Inc. FTS CA	**309** CAD	**54.5**	**55.4**	**56.2**	**33.4**	**34.7**	**35.8**	**21.3**	**22.6**	**23.8**	**8.1**	**8.5**	**9.3**	**-2.1**	**-9.6**	**-7.4**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
Fortis, Inc. FTS CA	**6,250** CAD	**165.6**	**163.2**	**166.3**	**58.9**	**58.7**	**59.4**	**3.4**	**3.3**	**3.4**	**4.9**	**4.8**	**4.9**	**3.7**	**3.6**	**3.6**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,500 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,618 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
Fortis, Inc. FTS CA	**6,435** CAD	**2.02**	**0.63**	**0.77**	**-32.52**	**-34.08**	**-36.11**	**6.25**	**4.42**	**4.72**	**-0.45**	**-2.00**	**-1.58**	**68.0**	**67.2**	**66.0**

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 Grades
- Financial Health Grades

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

Analyst conducts company and industry research: ► Financial statement analysis ► Channel checks ► Trade-show visits ► Industry and company reports and journals ► Conference calls ► Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

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 Grade Methodology
- Stock Grade Methodology for Financial Health

* Please contact a sales representative for more information.

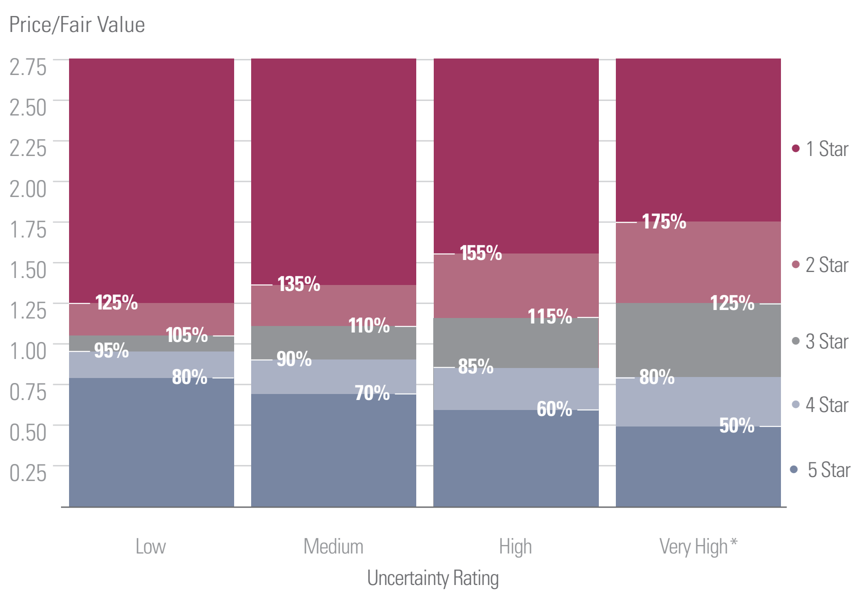
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue 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 Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

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.

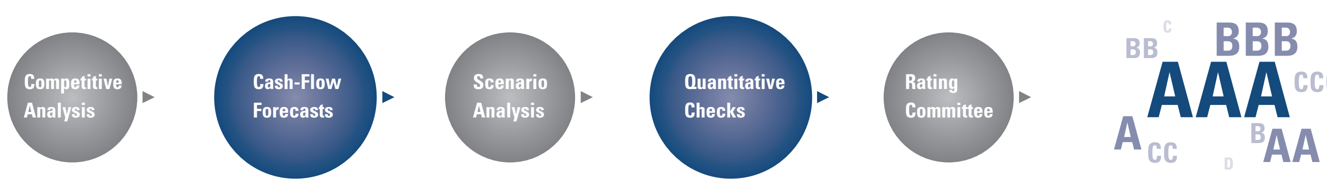
Business Risk

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



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Stress Test Score™

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Bank Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

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, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Strong Customer Growth Generates Impressive 2011 Results at Fortis.

See Page 2 for the full Analyst Note from 09 Feb 2012

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The primary analyst covering this company does not own its stock.

Research as of 09 Feb 2012
Estimates as of 03 Jan 2012
Pricing data through 09 Feb 2012
Rating updated as of 09 Feb 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

Vital Statistics

Market Cap (CAD Mil)	6,399
52-Week High (CAD)	35.45
52-Week Low (CAD)	28.24
52-Week Total Return %	1.5
YTD Total Return %	1.6
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.17

Valuation Summary and Forecasts

Fiscal Year:	2009	2010	2011(E)	2012(E)
Price/Earnings	18.6	20.6	*19.8*	*18.9*
EV/EBITDA	10.4	10.8	*10.0*	*9.3*
EV/EBIT	15.8	16.8	*15.7*	*14.2*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-5.9*
Dividend Yield %	3.6	3.3	*3.3*	*3.5*

Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2009	2010	2011(E)	2012(E)
Revenue	3,637	3,664	*3,814*	*3,950*
Revenue YoY %	-6.8	0.7	*4.1*	*3.6*
EBIT	701	740	*812*	*893*
EBIT YoY %	0.1	5.6	*9.7*	*10.1*
Net Income, Adjusted	262	285	*309*	*337*
Net Income YoY %	6.9	8.8	*8.3*	*9.2*
Diluted EPS	1.54	1.65	*1.71*	*1.79*
Diluted EPS YoY %	-1.1	7.0	*3.5*	*4.7*
Free Cash Flow	-331	-274	*-81*	*-377*
Free Cash Flow YoY %	244.8	-17.2	*-70.6*	*367.9*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note:

Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted $1.75 in EPS in 2011, higher than our own $1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as $5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to $1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfound Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of

Fortis, Inc. FTS (TSE) | ★★

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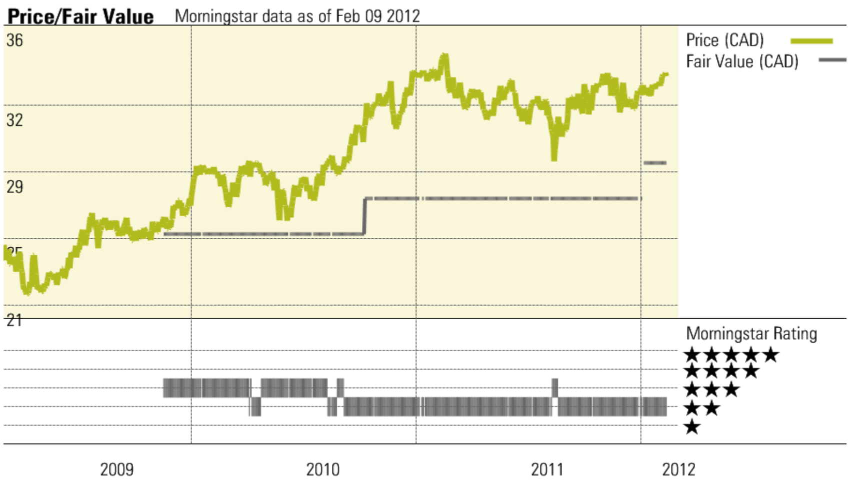

regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

Fortis, Inc. FTS (TSE) | ★★

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

- The company operates a stable business profile, offering a strong base for consistent earnings.
- With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

Bears Say

- The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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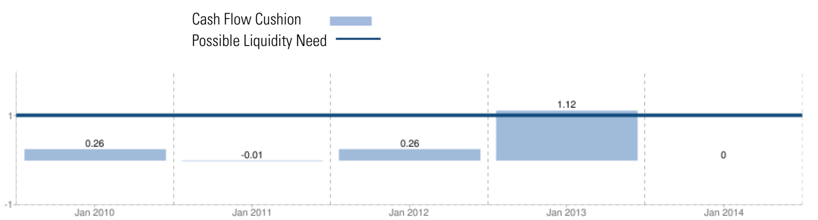
Credit Analysis

Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

Credit Rating Pillars–Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

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

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

Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was $4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast Dec 2011	Forecast Dec 2012	5-Year Proj. CAGR
Revenue	*10.5*	43.6	-6.8	0.7	*4.1*	*3.6*	—
EBIT	*11.0*	29.4	0.1	5.6	*9.7*	*10.1*	*8.0*
EBITDA	*12.2*	36.1	-3.9	8.0	*10.7*	*7.6*	*6.8*
Net Income	*17.2*	38.4	6.9	8.8	*8.3*	*9.2*	*8.1*
Diluted EPS	*8.6*	21.0	-1.1	7.0	*3.5*	*4.7*	*5.0*
Earnings Before Interest, after Tax	*16.1*	38.2	89.7	-40.3	*-2.2*	*0.4*	*4.0*
Free Cash Flow to the Firm	*-135.9*	-112.8	-45.5	-33.3	*167.0*	*-158.3*	*52.6*

Profitability	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Operating margin %	*19.1*	17.9	19.3	20.2	*21.3*	*22.6*	*23.5*
EBITDA margin %	*29.7*	28.4	29.3	31.4	*33.4*	*34.7*	*35.5*
Net margin %	*7.1*	6.3	7.2	7.8	*8.1*	*8.5*	*9.0*
Free Cash Flow to the Firm margin %	*2.8*	4.2	2.5	1.6	*4.2*	*-2.4*	*4.1*
ROIC with Goodwill %	*8.9*	7.3	12.6	6.9	*6.5*	*6.1*	*6.4*
ROIC w/out Goodwill %	*10.6*	8.8	14.9	8.1	*7.5*	*7.0*	*7.3*
Return on Assets, pretax %	*6.2*	6.5	6.0	5.9	*6.1*	*6.3*	*6.4*
Return on Equity %	*9.7*	9.6	9.4	9.9	*9.9*	*9.9*	*10.2*

Leverage	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Debt/Capital	*0.62*	0.62	0.63	0.61	*0.59*	*0.59*	*0.59*
Total Debt/EBITDA	*5.26*	—	5.55	5.24	*4.91*	*4.78*	*4.89*
EBITDA/Interest Expense	*3.10*	3.05	2.96	3.29	*3.40*	*3.30*	*3.34*

Valuation Summary and Forecasts

	2009	2010	2011(E)	2012(E)
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	*19.8*	*18.9*
EV/EBITDA	10.4	10.8	*10.0*	*9.3*
EV/EBIT	15.8	16.8	*15.7*	*14.2*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-5.9*
Dividend Yield %	3.6	3.3	*3.3*	*3.5*

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
Total Firm Value	**11,185**	**100.0**	**—**
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
Equity Value	**5,068**	**—**	**28.67**
Projected Diluted Shares	187		
Fair Value per Share (CAD)	**29.00**		

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.

Fortis, Inc. FTS (TSE) | ★★

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33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Total Revenue	**3,903**	**3,637**	**3,664**	**3,814**	**3,950**
Cost of Goods Sold	2,112	1,799	1,686	*1,737*	*1,763*
Gross Profit	**1,791**	**1,838**	**1,978**	**2,078**	**2,188**
Selling, General & Administrative Expenses	743	773	828	*846*	*860*
Research & Development Expenses	0	0	0	*0*	*0*
Other Operating Expenses (Income)	0	0	0	*0*	*0*
Restructuring & Other Charges (Gains)	0	0	0	*0*	*0*
Depreciation Expense (if reported separately)	348	364	410	*420*	*435*
Amortization of Other Intangibles (if reported seperately)	0	0	0	*0*	*0*
Amortization/Impairment of Goodwill	0	0	0	*0*	*0*
Total Expenses	**3,203**	**2,936**	**2,924**	**3,003**	**3,057**
Operating Income (EBIT)	**700**	**701**	**740**	**812**	**893**
Interest Expense	363	360	350	*375*	*415*
Interest & Other Income (Expense)	0	0	0	*0*	*0*
Pre-Tax Income	**337**	**341**	**390**	**437**	**478**
Income Tax Expense (Benefit)	65	49	67	*85*	*93*
Income After Taxes	**272**	**292**	**323**	**352**	**385**
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	*-10*	*-10*
(Preferred Dividends)	-14	-18	-28	*-33*	*-38*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	*0*	*0*
Net Income (Loss)	**245**	**262**	**285**	**309**	**337**
Net Income (Loss) Excluding Charges	245	262	285	*309*	*337*
Diluted Shares Outstanding (Mil)	157	170	173	*181*	*189*
Diluted EPS Including Charges	1.56	1.54	1.65	*1.71*	*1.79*
Diluted EPS Excluding Charges	1.56	1.54	1.65	*1.71*	*1.79*
Dividends Per Common Share	0.00	0.00	0.00	*0.00*	*0.00*
EBITDA	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**
EBITDA without restructuring	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (CAD Mil)

				Forecast	
Assets	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Excess Cash & Investments	0	0	0	*251*	*0*
Operating Cash & Equivalents	66	85	109	*114*	*119*
Accounts Receivable	681	595	655	*523*	*541*
Inventory	229	178	168	*143*	*145*
Other Short Term Operating Assets	174	268	272	*270*	*280*
Total Current Assets	**1,150**	**1,126**	**1,204**	**1,300**	**1,085**
Property Plant & Equipment, Net	7,367	7,687	8,202	*8,994*	*9,772*
Property Plant & Equipment, Gross	7,367	11,408	12,109	*13,321*	*14,533*
(Accumulated Depreciation)	0	-3,721	-3,907	*-4,327*	*-4,761*
Goodwill, Net	1,575	1,560	1,553	*1,553*	*1,553*
Other Intangibles	9	279	324	*282*	*240*
Other Long-Term Operating Assets	1,023	1,491	1,604	*1,700*	*1,750*
Deferred Tax Assets	54	17	16	*20*	*20*
Long-Term Non-Operating Assets, including Pension items	0	0	0	*0*	*0*
Total Assets	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Liabilities					
Accounts Payable	874	852	953	*1,078*	*1,112*
Short-Term Debt	650	639	414	*500*	*500*
Other Current Liabilities	173	103	150	*150*	*150*
Total Current Liabilities	**1,697**	**1,594**	**1,517**	**1,728**	**1,762**
Long-Term Debt	4,884	5,276	5,609	*5,750*	*6,050*
Incremental Debt Requirements	—	—	—	*0*	*0*
Total Long-Term Debt	**4,884**	**5,276**	**5,609**	**5,750**	**6,050**
Long-Term Operating Liabilities	678	731	775	*810*	*810*
Deferred Tax Liabilities	61	576	623	*670*	*650*
Long-Term Non-Operating Liabilities	320	320	320	*320*	*320*
Total Liabilities	**7,640**	**8,497**	**8,844**	**9,278**	**9,593**
Preferred Stock	**347**	**347**	**592**	**592**	**592**
Minority Interest	**145**	**123**	**162**	**205**	**220**
Shareholders' Equity					
Common Stock	157	170	173	*185*	*196*
Additional Paid in Capital	2,301	2,338	2,417	*2,776*	*2,895*
Retained Earnings (Deficit)	634	763	804	*903*	*1,013*
(Treasury Stock)	0	0	0	*0*	*0*
Other Equity	-46	-78	-89	*-89*	*-89*
Total Shareholders' Equity	**3,046**	**3,193**	**3,305**	**3,774**	**4,015**
Total Liabilities + Shareholders' Equity	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Net Income from Continuing Operations	259	280	323	*342*	*375*
Depreciation Expense	399	317	368	*420*	*435*
Amortization of Other Intangibles	9	47	42	*42*	*42*
Impairment of Goodwill	0	0	0	*0*	*0*
Other Non-Cash Adjustments to Operating Income	38	9	-8	*0*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	*43*	*-20*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	*132*	*-19*
(Increase) Decrease in Inventory	0	0	0	*25*	*-2*
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	*2*	*-10*
Increase (Decrease) in Accounts Payable	0	0	0	*125*	*34*
Increase (Decrease) in Other Current Liabilities	18	-16	7	*0*	*0*
Cash from Operations	**723**	**637**	**732**	**1,131**	**835**
(Capital Expenditures)	-819	-968	-1,006	*-1,212*	*-1,212*
(Acquisitions)	-22	-77	0	*0*	*0*
Asset Sales & Dispositions of Discontinued Operations	18	1	15	*0*	*0*
Other Investing Cash Flows (Outlays)	-31	-8	0	*-61*	*-50*
Cash from Investing	**-854**	**-1,052**	**-991**	**-1,273**	**-1,262**
Common Stock (Purchase) or Sale	308	46	80	*371*	*130*
Common Stock (Dividends)	-162	-177	-193	*-210*	*-227*
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	*-33*	*-38*
Short Term Debt Issuance and (Retirement)	-378	-6	-48	*86*	*0*
Long Term Debt Issuance and (Retirement)	231	557	194	*141*	*300*
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	*43*	*15*
Other Financing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash From Financing	**196**	**394**	**283**	**398**	**181**
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	0	0	0	*0*	*0*
Net Change in Cash	**65**	**-21**	**24**	**256**	**-246**
Change in Cash on Balance Sheet	8	19	24	*256*	*-246*
Difference, from analyst adjustments and restatements	57	-40	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

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33.89 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

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

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.12	11.0	*13.6*	*13.4*	7.9	*9.3*	*8.9*	24.7	*NM*	*NM*	1.5	*1.7*	*1.6*	1.4	*1.6*	*1.5*
TransAlta Corporation TAC USA	0.89	21.1	*16.7*	*16.0*	9.0	*7.3*	*8.0*	221.1	*31.3*	*20.1*	1.6	*1.6*	*1.5*	1.6	*1.5*	*1.5*
Average		16.1	*15.2*	*14.7*	8.5	*8.3*	*8.5*	122.9	*31.3*	*20.1*	1.6	*1.7*	*1.6*	1.5	*1.6*	*1.5*
Fortis, Inc. FTS CA	**1.17**	**19.8**	***18.9***	***17.3***	**10.0**	***9.3***	***8.7***	**NM**	***NM***	***NM***	**1.7**	***1.6***	***1.5***	**1.7**	***1.6***	***1.6***

Returns Analysis

		ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	*6.9*	*6.7*	6.0	*6.9*	*6.7*	14.3	*12.2*	*11.5*	6.4	*5.7*	*5.5*	3.8	*3.7*	*3.9*
TransAlta Corporation TAC USA	9,893 CAD	5.7	*5.7*	*6.0*	6.1	*6.1*	*6.3*	8.2	*10.6*	*11.0*	4.2	*6.1*	*5.8*	4.7	*5.9*	*6.0*
Average		5.9	*6.3*	*6.4*	6.1	*6.5*	*6.5*	11.3	*11.4*	*11.3*	5.3	*5.9*	*5.7*	4.3	*4.8*	*5.0*
Fortis, Inc. FTS CA	**13,850** CAD	**6.5**	***6.1***	***6.4***	**7.5**	***7.0***	***7.3***	**9.9**	***9.9***	***10.4***	**6.1**	***6.3***	***6.6***	**3.3**	***3.5***	***3.9***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	*5.5*	*2.0*	25.0	*-1.0*	*4.9*	19.5	*-6.7*	*1.8*	-46.1	*-326.6*	*13.2*	5.9	*10.9*	*5.5*
TransAlta Corporation TAC USA	2,819 CAD	1.8	*6.4*	*1.9*	31.5	*25.3*	*-5.9*	9.7	*21.7*	*3.6*	-106.5	*593.4*	*55.8*	-12.3	*22.2*	*1.0*
Average		-0.2	*6.0*	*2.0*	28.3	*12.2*	*-0.5*	14.6	*7.5*	*2.7*	-76.3	*133.4*	*34.5*	-3.2	*16.6*	*3.3*
Fortis, Inc. FTS CA	**3,814** CAD	**4.1**	***3.6***	***3.3***	**9.7**	***10.1***	***8.7***	**3.5**	***4.7***	***10.0***	**-70.6**	***367.9***	***-19.7***	**4.0**	***3.5***	***8.0***

Fortis, Inc. FTS (TSE) | ★★

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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

	Last Historical Year	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Net Income (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
Fortis, Inc. FTS CA	**309** CAD	**54.5**	**55.4**	**56.2**	**33.4**	**34.7**	**35.8**	**21.3**	**22.6**	**23.8**	**8.1**	**8.5**	**9.3**	**-2.1**	**-9.6**	**-7.4**

Leverage Analysis

	Last Historical Year	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Total Debt (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
Fortis, Inc. FTS CA	**6,250** CAD	**165.6**	**163.2**	**166.3**	**58.9**	**58.7**	**59.4**	**3.4**	**3.3**	**3.4**	**4.9**	**4.8**	**4.9**	**3.7**	**3.6**	**3.6**

Liquidity Analysis

		Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,475 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,580 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
Fortis, Inc. FTS CA	**6,399** CAD	**2.02**	**0.63**	**0.77**	**-32.52**	**-34.08**	**-36.11**	**6.25**	**4.42**	**4.72**	**-0.45**	**-2.00**	**-1.58**	**68.0**	**67.2**	**66.0**

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 Grades
- Financial Health Grades

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

Fundamental Analysis

Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Economic Moat™ Rating

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs
(Microsoft)

Cost advantage
(Wal-Mart)

Intangible assets
(Johnson & Johnson)

Network Effect
(Mastercard)

Efficient Scale
(Lockheed Martin)

Company Valuation

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Fair Value Estimate

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

Uncertainty Assessment

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

★★★★★
★★★★
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The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

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 Grade Methodology
- Stock Grade Methodology for Financial Health

* Please contact a sales representative for more information.

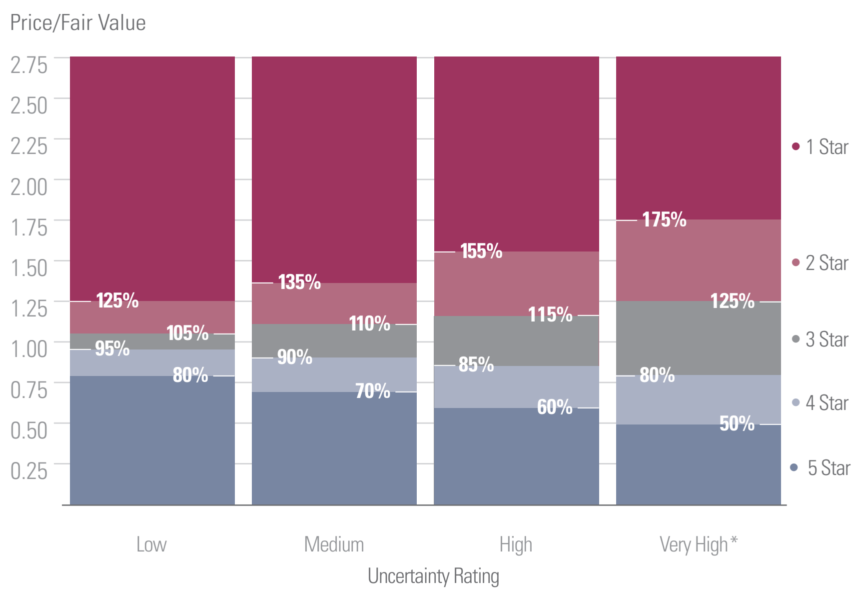
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue 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 Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

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.

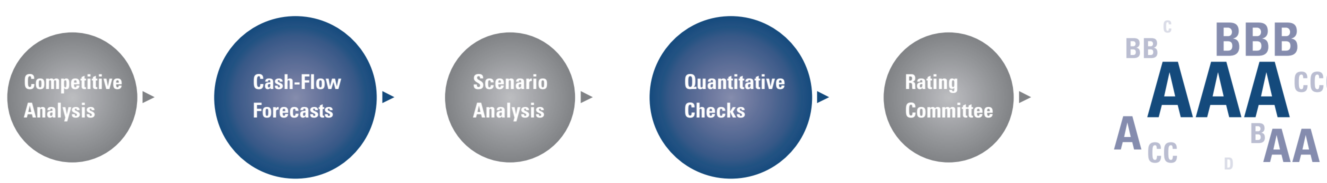
Business Risk

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



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Stress Test Score™

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Bank Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

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, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Fortis Enters U.S. Market With Acquisition of CH Energy Group

See Page 2 for the full Analyst Note from 21 Feb 2012

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The primary analyst covering this company does not own its stock.

Research as of 21 Feb 2012
Estimates as of 03 Jan 2012
Pricing data through 20 Feb 2012
Rating updated as of 20 Feb 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

Vital Statistics

Market Cap (CAD Mil)	6,204
52-Week High (CAD)	34.39
52-Week Low (CAD)	28.24
52-Week Total Return %	1.5
YTD Total Return %	-0.7
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.13

Valuation Summary and Forecasts

Fiscal Year:	2009	2010	2011(E)	2012(E)
Price/Earnings	18.6	20.6	19.2	18.4
EV/EBITDA	10.4	10.8	9.8	9.1
EV/EBIT	15.8	16.8	15.4	14.0
Free Cash Flow Yield %	-6.7	-4.6	-1.3	-6.1
Dividend Yield %	3.6	3.3	3.4	3.7

Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2009	2010	2011(E)	2012(E)
Revenue	3,637	3,664	3,814	3,950
Revenue YoY %	-6.8	0.7	4.1	3.6
EBIT	701	740	812	893
EBIT YoY %	0.1	5.6	9.7	10.1
Net Income, Adjusted	262	285	309	337
Net Income YoY %	6.9	8.8	8.3	9.2
Diluted EPS	1.54	1.65	1.71	1.79
Diluted EPS YoY %	-1.1	7.0	3.5	4.7
Free Cash Flow	-331	-274	-81	-377
Free Cash Flow YoY %	244.8	-17.2	-70.6	367.9

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note:

Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

Fortis Enters U.S. Market With Acquisition of CH Energy Group 21 Feb 2012

On Tuesday, Fortis FTS announced a $1.5 billion cash and debt bid for CH Energy Group CHG , a regulated New York Mid-Hudson River Valley utility that would be Fortis' first based in the United States. Fortis offered $65 per share for CH Energy, a 10.5% premium to the most recent close price.

The $1 billion equity investment implies a pricey 1.9 times multiple on book- and rate-base equity. But that premium falls to 1.3 times book when we adjust for certain tax and regulatory balance sheet items. At this adjusted price, we believe the deal is slightly value-dilutive for Fortis, however we are reaffirming our fair value estimate given the relatively small size of the deal and regulatory approval uncertainty. New York state regulators and the Federal Energy Regulatory Commission must approve the deal.

We originally thought Fortis would make a larger splash into the U.S. market with an acquisition of $3 billion to $5 billion. The smaller deal for CH Energy indicates to us that there may be room for additional acquisitions in the future. Strategically, we think the acquisition is sound. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

N.Y. regulators allow CH Energy an industry average 10% return on its equity rate base through July 2013. With Fortis successfully integrating three utilities since 2004, we think the current management team is well-suited for the CH Energy Group acquisition. Our strategic enthusiasm for the merger is dampened by the price Fortis paid. To earn CH Energy's allowed return of 10%, significant synergy savings will be required to maintain current allowed returns.

Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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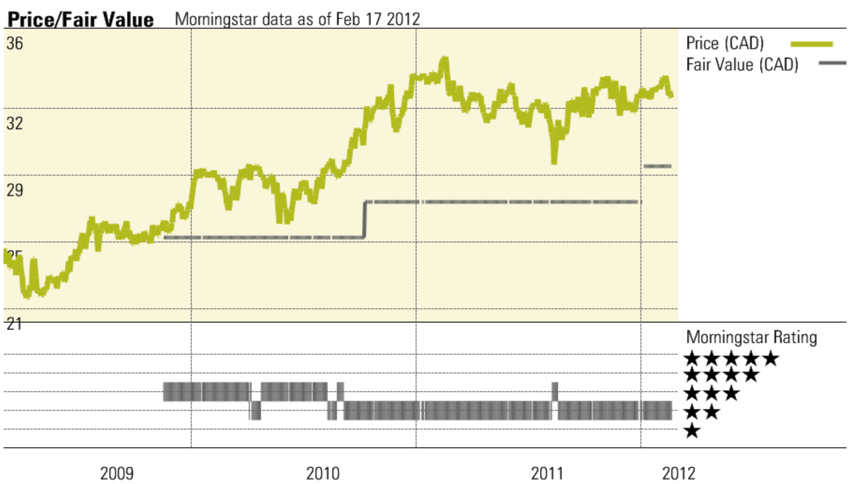

the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

Economic Moat

Fortis owns a difficult-to-replicate network of regulated

Fortis, Inc. FTS (TSE) | ★★

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power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

Moat Trend
We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

Fortis, Inc. FTS (TSE) | ★★

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

- The company operates a stable business profile, offering a strong base for consistent earnings.
- With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

Bears Say

- The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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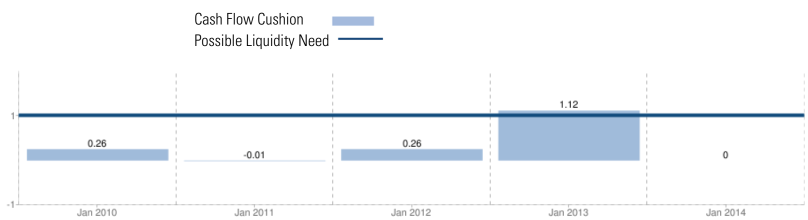
Credit Analysis

Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

Credit Rating Pillars–Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

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	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
NA		NA	NA	NA	NA

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	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was $4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

Fortis, Inc. FTS (TSE) | ★★

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Analyst Notes

Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted $1.75 in EPS in 2011, higher than our own $1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as $5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to $1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfound Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	*Forecast* Dec 2011	*Forecast* Dec 2012	5-Year Proj. CAGR
Revenue	*10.5*	43.6	-6.8	0.7	*4.1*	*3.6*	—
EBIT	*11.0*	29.4	0.1	5.6	*9.7*	*10.1*	*8.0*
EBITDA	*12.2*	36.1	-3.9	8.0	*10.7*	*7.6*	*6.8*
Net Income	*17.2*	38.4	6.9	8.8	*8.3*	*9.2*	*8.1*
Diluted EPS	*8.6*	21.0	-1.1	7.0	*3.5*	*4.7*	*5.0*
Earnings Before Interest, after Tax	*16.1*	38.2	89.7	-40.3	*-2.2*	*0.4*	*4.0*
Free Cash Flow to the Firm	*-135.9*	-112.8	-45.5	-33.3	*167.0*	*-158.3*	*52.6*

Profitability	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Operating margin %	*19.1*	17.9	19.3	20.2	*21.3*	*22.6*	*23.5*
EBITDA margin %	*29.7*	28.4	29.3	31.4	*33.4*	*34.7*	*35.5*
Net margin %	*7.1*	6.3	7.2	7.8	*8.1*	*8.5*	*9.0*
Free Cash Flow to the Firm margin %	*2.8*	4.2	2.5	1.6	*4.2*	*-2.4*	*4.1*
ROIC with Goodwill %	*8.9*	7.3	12.6	6.9	*6.5*	*6.1*	*6.4*
ROIC w/out Goodwill %	*10.6*	8.8	14.9	8.1	*7.5*	*7.0*	*7.3*
Return on Assets, pretax %	*6.2*	6.5	6.0	5.9	*6.1*	*6.3*	*6.4*
Return on Equity %	*9.7*	9.6	9.4	9.9	*9.9*	*9.9*	*10.2*

Leverage	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Debt/Capital	*0.62*	0.62	0.63	0.61	*0.59*	*0.59*	*0.59*
Total Debt/EBITDA	*5.26*	—	5.55	5.24	*4.91*	*4.78*	*4.89*
EBITDA/Interest Expense	*3.10*	3.05	2.96	3.29	*3.40*	*3.30*	*3.34*

Valuation Summary and Forecasts

	2009	2010	*2011(E)*	*2012(E)*
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	*19.2*	*18.4*
EV/EBITDA	10.4	10.8	*9.8*	*9.1*
EV/EBIT	15.8	16.8	*15.4*	*14.0*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-6.1*
Dividend Yield %	3.6	3.3	*3.4*	*3.7*

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
Total Firm Value	**11,185**	**100.0**	**—**
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
Equity Value	**5,068**	**—**	**28.67**
Projected Diluted Shares	187		
Fair Value per Share (CAD)	**29.00**		

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.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Total Revenue	**3,903**	**3,637**	**3,664**	**3,814**	**3,950**
Cost of Goods Sold	2,112	1,799	1,686	*1,737*	*1,763*
Gross Profit	**1,791**	**1,838**	**1,978**	**2,078**	**2,188**
Selling, General & Administrative Expenses	743	773	828	*846*	*860*
Research & Development Expenses	0	0	0	*0*	*0*
Other Operating Expenses (Income)	0	0	0	*0*	*0*
Restructuring & Other Charges (Gains)	0	0	0	*0*	*0*
Depreciation Expense (if reported separately)	348	364	410	*420*	*435*
Amortization of Other Intangibles (if reported seperately)	0	0	0	*0*	*0*
Amortization/Impairment of Goodwill	0	0	0	*0*	*0*
Total Expenses	**3,203**	**2,936**	**2,924**	**3,003**	**3,057**
Operating Income (EBIT)	**700**	**701**	**740**	**812**	**893**
Interest Expense	363	360	350	*375*	*415*
Interest & Other Income (Expense)	0	0	0	*0*	*0*
Pre-Tax Income	**337**	**341**	**390**	**437**	**478**
Income Tax Expense (Benefit)	65	49	67	*85*	*93*
Income After Taxes	**272**	**292**	**323**	**352**	**385**
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	*-10*	*-10*
(Preferred Dividends)	-14	-18	-28	*-33*	*-38*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	*0*	*0*
Net Income (Loss)	**245**	**262**	**285**	**309**	**337**
Net Income (Loss) Excluding Charges	245	262	285	*309*	*337*
Diluted Shares Outstanding (Mil)	157	170	173	*181*	*189*
Diluted EPS Including Charges	1.56	1.54	1.65	*1.71*	*1.79*
Diluted EPS Excluding Charges	1.56	1.54	1.65	*1.71*	*1.79*
Dividends Per Common Share	0.00	0.00	0.00	*0.00*	*0.00*
EBITDA	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**
EBITDA without restructuring	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (CAD Mil)

Assets	Dec 2008	Dec 2009	Dec 2010	Forecast Dec 2011	Forecast Dec 2012
Excess Cash & Investments	0	0	0	*251*	*0*
Operating Cash & Equivalents	66	85	109	*114*	*119*
Accounts Receivable	681	595	655	*523*	*541*
Inventory	229	178	168	*143*	*145*
Other Short Term Operating Assets	174	268	272	*270*	*280*
Total Current Assets	**1,150**	**1,126**	**1,204**	**1,300**	**1,085**
Property Plant & Equipment, Net	7,367	7,687	8,202	*8,994*	*9,772*
Property Plant & Equipment, Gross	7,367	11,408	12,109	*13,321*	*14,533*
(Accumulated Depreciation)	0	-3,721	-3,907	*-4,327*	*-4,761*
Goodwill, Net	1,575	1,560	1,553	*1,553*	*1,553*
Other Intangibles	9	279	324	*282*	*240*
Other Long-Term Operating Assets	1,023	1,491	1,604	*1,700*	*1,750*
Deferred Tax Assets	54	17	16	*20*	*20*
Long-Term Non-Operating Assets, including Pension items	0	0	0	*0*	*0*
Total Assets	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Liabilities					
Accounts Payable	874	852	953	*1,078*	*1,112*
Short-Term Debt	650	639	414	*500*	*500*
Other Current Liabilities	173	103	150	*150*	*150*
Total Current Liabilities	**1,697**	**1,594**	**1,517**	**1,728**	**1,762**
Long-Term Debt	4,884	5,276	5,609	*5,750*	*6,050*
Incremental Debt Requirements	—	—	—	*0*	*0*
Total Long-Term Debt	**4,884**	**5,276**	**5,609**	**5,750**	**6,050**
Long-Term Operating Liabilities	678	731	775	*810*	*810*
Deferred Tax Liabilities	61	576	623	*670*	*650*
Long-Term Non-Operating Liabilities	320	320	320	*320*	*320*
Total Liabilities	**7,640**	**8,497**	**8,844**	**9,278**	**9,593**
Preferred Stock	**347**	**347**	**592**	**592**	**592**
Minority Interest	**145**	**123**	**162**	**205**	**220**
Shareholders' Equity					
Common Stock	157	170	173	*185*	*196*
Additional Paid in Capital	2,301	2,338	2,417	*2,776*	*2,895*
Retained Earnings (Deficit)	634	763	804	*903*	*1,013*
(Treasury Stock)	0	0	0	*0*	*0*
Other Equity	-46	-78	-89	*-89*	*-89*
Total Shareholders' Equity	**3,046**	**3,193**	**3,305**	**3,774**	**4,015**
Total Liabilities + Shareholders' Equity	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

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32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Net Income from Continuing Operations	259	280	323	*342*	*375*
Depreciation Expense	399	317	368	*420*	*435*
Amortization of Other Intangibles	9	47	42	*42*	*42*
Impairment of Goodwill	0	0	0	*0*	*0*
Other Non-Cash Adjustments to Operating Income	38	9	-8	*0*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	*43*	*-20*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	*132*	*-19*
(Increase) Decrease in Inventory	0	0	0	*25*	*-2*
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	*2*	*-10*
Increase (Decrease) in Accounts Payable	0	0	0	*125*	*34*
Increase (Decrease) in Other Current Liabilities	18	-16	7	*0*	*0*
Cash from Operations	**723**	**637**	**732**	**1,131**	**835**
(Capital Expenditures)	-819	-968	-1,006	*-1,212*	*-1,212*
(Acquisitions)	-22	-77	0	*0*	*0*
Asset Sales & Dispositions of Discontinued Operations	18	1	15	*0*	*0*
Other Investing Cash Flows (Outlays)	-31	-8	0	*-61*	*-50*
Cash from Investing	**-854**	**-1,052**	**-991**	**-1,273**	**-1,262**
Common Stock (Purchase) or Sale	308	46	80	*371*	*130*
Common Stock (Dividends)	-162	-177	-193	*-210*	*-227*
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	*-33*	*-38*
Short Term Debt Issuance and (Retirement)	-378	-6	-48	*86*	*0*
Long Term Debt Issuance and (Retirement)	231	557	194	*141*	*300*
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	*43*	*15*
Other Financing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash From Financing	**196**	**394**	**283**	**398**	**181**
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	0	0	0	*0*	*0*
Net Change in Cash	**65**	**-21**	**24**	**256**	**-246**
Change in Cash on Balance Sheet	8	19	24	*256*	*-246*
Difference, from analyst adjustments and restatements	57	-40	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

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32.85 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

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

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.12	11.0	13.6	13.4	7.9	9.3	8.9	24.7	NM	NM	1.5	1.7	1.6	1.4	1.6	1.5
TransAlta Corporation TAC USA	0.91	21.1	17.0	16.3	9.0	7.3	8.0	221.1	31.8	20.4	1.6	1.6	1.5	1.6	1.5	1.5
Average		16.1	15.3	14.9	8.5	8.3	8.5	122.9	31.8	20.4	1.6	1.7	1.6	1.5	1.6	1.5
Fortis, Inc. FTS CA	**1.13**	**19.2**	**18.4**	**16.8**	**9.8**	**9.1**	**8.6**	**NM**	**NM**	**NM**	**1.6**	**1.5**	**1.5**	**1.6**	**1.6**	**1.5**

Returns Analysis

		ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	6.9	6.7	6.0	6.9	6.7	14.3	12.2	11.5	6.4	5.7	5.5	3.8	3.7	3.9
TransAlta Corporation TAC USA	9,893 CAD	5.7	5.7	6.0	6.1	6.1	6.3	8.2	10.6	11.0	4.2	6.1	5.8	4.7	5.8	5.9
Average		5.9	6.3	6.4	6.1	6.5	6.5	11.3	11.4	11.3	5.3	5.9	5.7	4.3	4.8	4.9
Fortis, Inc. FTS CA	**13,850 CAD**	**6.5**	**6.1**	**6.4**	**7.5**	**7.0**	**7.3**	**9.9**	**9.9**	**10.4**	**6.1**	**6.3**	**6.6**	**3.4**	**3.7**	**4.0**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	5.5	2.0	25.0	-1.0	4.9	19.5	-6.7	1.8	-46.1	-326.6	13.2	5.9	10.9	5.5
TransAlta Corporation TAC USA	2,819 CAD	1.8	6.4	1.9	31.5	25.3	-5.9	9.7	21.7	3.6	-106.5	593.4	55.8	-12.3	22.2	1.0
Average		-0.2	6.0	2.0	28.3	12.2	-0.5	14.6	7.5	2.7	-76.3	133.4	34.5	-3.2	16.6	3.3
Fortis, Inc. FTS CA	**3,814 CAD**	**4.1**	**3.6**	**3.3**	**9.7**	**10.1**	**8.7**	**3.5**	**4.7**	**10.0**	**-70.6**	**367.9**	**-19.7**	**4.0**	**3.5**	**8.0**

Fortis, Inc. FTS (TSE) | ★★

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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 % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	*56.9*	*57.8*	34.8	*31.5*	*32.1*	21.2	*19.6*	*19.8*	12.8	*11.5*	*11.5*	5.8	*-12.4*	*-13.8*
TransAlta Corporation TAC USA	220 CAD	57.4	*62.5*	*57.6*	35.0	*39.8*	*35.7*	14.5	*20.4*	*19.2*	7.8	*9.0*	*9.2*	0.7	*4.9*	*7.4*
Average		58.4	*59.7*	*57.7*	34.9	*35.7*	*33.9*	17.9	*20.0*	*19.5*	10.3	*10.3*	*10.4*	3.3	*-3.8*	*-3.2*
Fortis, Inc. FTS CA	**309** CAD	**54.5**	***55.4***	***56.2***	**33.4**	***34.7***	***35.8***	**21.3**	***22.6***	***23.8***	**8.1**	***8.5***	***9.3***	**-2.1**	***-9.6***	***-7.4***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	*153.9*	*159.3*	59.0	*60.6*	*61.4*	5.4	*4.7*	*4.4*	3.9	*4.7*	*4.9*	3.7	*3.7*	*3.7*
TransAlta Corporation TAC USA	4,235 CAD	146.8	*148.4*	*139.3*	57.1	*57.4*	*56.0*	5.1	*5.7*	*5.2*	4.3	*3.6*	*3.9*	3.4	*3.4*	*3.4*
Average		145.4	*151.2*	*149.3*	58.1	*59.0*	*58.7*	5.3	*5.2*	*4.8*	4.1	*4.2*	*4.4*	3.6	*3.6*	*3.6*
Fortis, Inc. FTS CA	**6,250** CAD	**165.6**	***163.2***	***166.3***	**58.9**	***58.7***	***59.4***	**3.4**	***3.3***	***3.4***	**4.9**	***4.8***	***4.9***	**3.7**	***3.6***	***3.6***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,445 USD	0.73	*0.70*	*0.61*	-49.69	*-55.55*	*-60.71*	9.28	*9.69*	*10.37*	2.15	*-4.77*	*-5.39*	42.1	*51.1*	*54.0*
TransAlta Corporation TAC USA	4,674 USD	0.26	*0.41*	*0.28*	-19.07	*-19.16*	*-18.68*	3.70	*3.37*	*4.04*	0.10	*0.66*	*1.02*	98.2	*101.7*	*96.1*
Average		0.5	*0.6*	*0.4*	-34.4	*-37.4*	*-39.7*	6.5	*6.5*	*7.2*	1.1	*-2.1*	*-2.2*	70.1	*76.4*	*75.1*
Fortis, Inc. FTS CA	**6,204** CAD	**2.02**	***0.63***	***0.77***	**-32.52**	***-34.08***	***-36.11***	**6.25**	***4.42***	***4.72***	**-0.45**	***-2.00***	***-1.58***	**68.0**	***67.2***	***66.0***

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 Grades
- Financial Health Grades

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

Analyst conducts company and industry research:
- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs (Microsoft)

Cost advantage (Wal-Mart)

Intangible assets (Johnson & Johnson)

Network Effect (Mastercard)

Efficient Scale (Lockheed Martin)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

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 Grade Methodology
- Stock Grade Methodology for Financial Health

* Please contact a sales representative for more information.

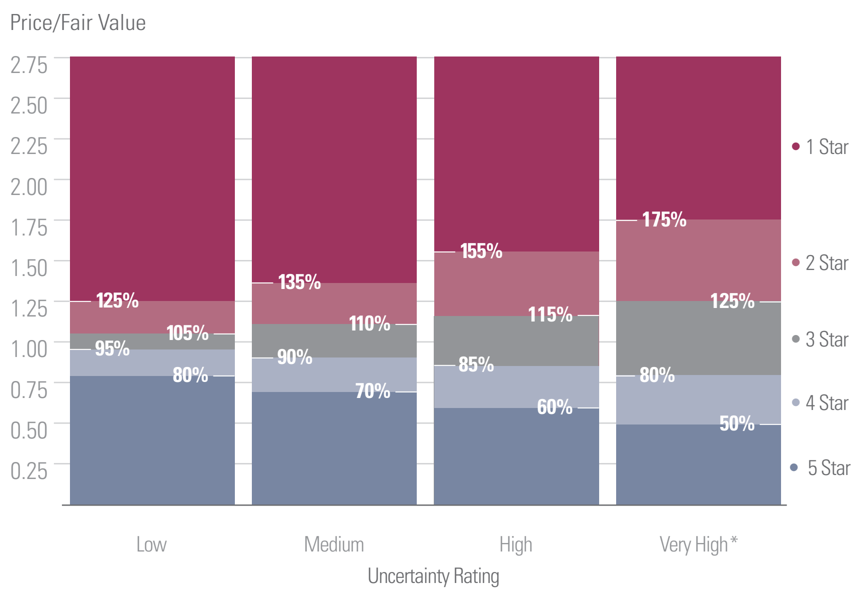
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue 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 Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

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.

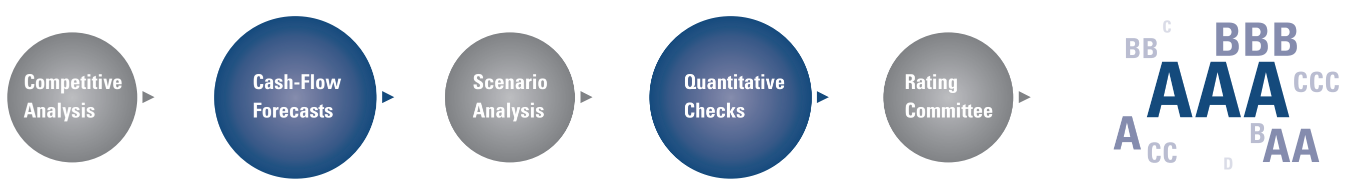
Business Risk

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



Competitive Analysis

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Cash-Flow Forecasts

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Stress Test Score™

Scenario Analysis

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, forecasts, and scenario analysis, the analyst assigns Business Risk.

Quantitative Checks

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Bank Solvency Score™
- Distance to Default

Rating Committee

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

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, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Fortis Enters U.S. Market With Acquisition of CH Energy Group

See Page 2 for the full Analyst Note from 21 Feb 2012

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The primary analyst covering this company does not own its stock.

Research as of 21 Feb 2012
Estimates as of 03 Jan 2012
Pricing data through 21 Feb 2012
Rating updated as of 21 Feb 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 03 Jan 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions, but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has indicated a desire to expand in the U.S. We would view this positively given the similar regulatory structures, and it could be value-accretive given where Fortis' stock traded at year-end 2011 and the typically more favorable allowed returns in the U.S. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- We think the stock is overvalued as of year-end 2011, with Fortis trading at 18 times our 2012 earnings estimate.

Vital Statistics

Market Cap (CAD Mil)	6,115
52-Week High (CAD)	34.39
52-Week Low (CAD)	28.24
52-Week Total Return %	-0.8
YTD Total Return %	-2.1
Last Fiscal Year End	31 Dec 2010
5-Yr Forward Revenue CAGR %	3.3
5-Yr Forward EPS CAGR %	5.0
Price/Fair Value	1.12

Valuation Summary and Forecasts

Fiscal Year:	2009	2010	*2011(E)*	*2012(E)*
Price/Earnings	18.6	20.6	*18.9*	*18.1*
EV/EBITDA	10.4	10.8	*9.8*	*9.1*
EV/EBIT	15.8	16.8	*15.3*	*13.9*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-6.2*
Dividend Yield %	3.6	3.3	*3.4*	*3.7*

Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2009	2010	*2011(E)*	*2012(E)*
Revenue	3,637	3,664	*3,814*	*3,950*
Revenue YoY %	-6.8	0.7	*4.1*	*3.6*
EBIT	701	740	*812*	*893*
EBIT YoY %	0.1	5.6	*9.7*	*10.1*
Net Income, Adjusted	262	285	*309*	*337*
Net Income YoY %	6.9	8.8	*8.3*	*9.2*
Diluted EPS	1.54	1.65	*1.71*	*1.79*
Diluted EPS YoY %	-1.1	7.0	*3.5*	*4.7*
Free Cash Flow	-331	-274	*-81*	*-377*
Free Cash Flow YoY %	244.8	-17.2	*-70.6*	*367.9*

Source for forecasts in the data tables above: Morningstar Estimates
Analyst Note:

Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

Fortis Enters U.S. Market With Acquisition of CH Energy Group 21 Feb 2012

On Tuesday, Fortis FTS announced a $1.5 billion cash and debt bid for CH Energy Group CHG , a regulated New York Mid-Hudson River Valley utility that would be Fortis' first based in the United States. Fortis offered $65 per share for CH Energy, a 10.5% premium to the most recent close price.

The $1 billion equity investment implies a pricey 1.9 times multiple on book- and rate-base equity. But that premium falls to 1.3 times book when we adjust for certain tax and regulatory balance sheet items. At this adjusted price, we believe the deal is slightly value-dilutive for Fortis, however we are reaffirming our fair value estimate given the relatively small size of the deal and regulatory approval uncertainty. New York state regulators and the Federal Energy Regulatory Commission must approve the deal.

We originally thought Fortis would make a larger splash into the U.S. market with an acquisition of $3 billion to $5 billion. The smaller deal for CH Energy indicates to us that there may be room for additional acquisitions in the future. Strategically, we think the acquisition is sound. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

N.Y. regulators allow CH Energy an industry average 10% return on its equity rate base through July 2013. With Fortis successfully integrating three utilities since 2004, we think the current management team is well-suited for the CH Energy Group acquisition. Our strategic enthusiasm for the merger is dampened by the price Fortis paid. To earn CH Energy's allowed return of 10%, significant synergy savings will be required to maintain current allowed returns.

Thesis 03 Jan 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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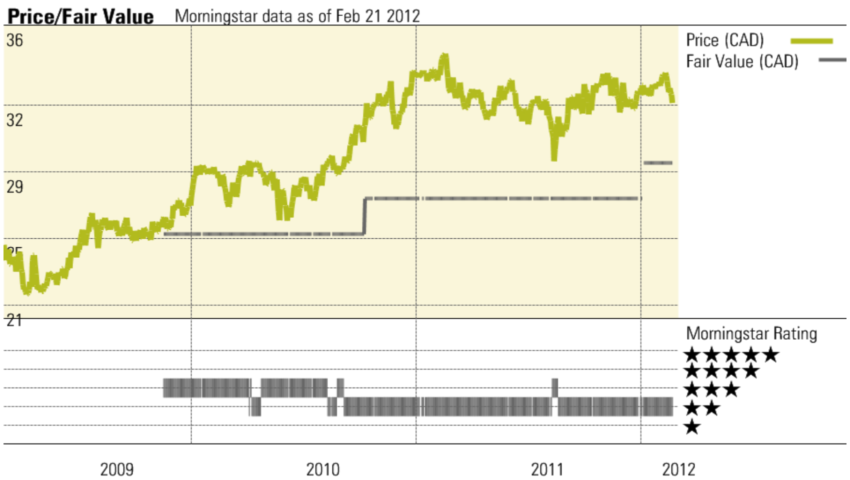


the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has expressed interest in expanding its operations through U.S. acquisitions and was outbid in June 2011 for the regulated Central Vermont Public Service Corporation. Strategically, we are encouraged by the similarity of regulatory jurisdictions and operations in the U.S. However, we were concerned by Fortis' relatively steep offer, but we like that management had the discipline to walk away when the price got too rich.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

Valuation, Growth and Profitability 03 Jan 2012

We are reinitiating coverage of Fortis under a new analyst with a CAD 29 fair value estimate, taking into consideration planned rate base additions through 2015. After the significant share dilution that occurred during 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%. We use a 10.0% cost of equity and a 7.5% weighted average cost of capital in our discounted cash flow model.

Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in earnings per share and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- The company operates a stable business profile, offering a strong base for consistent earnings.
- With an aggressive capital expenditure plan, rate base growth is forecast to grow at a 6% compound annual growth rate.
- Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

Bears Say

- The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

Fortis, Inc. FTS (TSE) | ★★

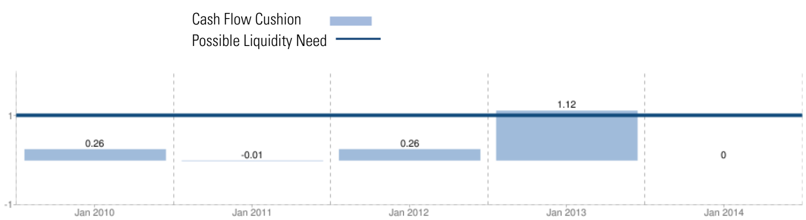
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Credit Analysis

Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2011(E)	2012(E)	2013(E)	2014(E)	2015(E)
Cash and Equivalents (beginning of period)	109	365	119	149	328
Adjusted Free Cash Flow	160	-93	-3	290	497
Total Cash Available before Debt Service	430	175	-7	296	659
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-375	-415	-435	-460	-485
Other Cash Obligations and Commitments	0	0	0	0	0
Total Cash Obligations and Commitments	-431	-684	-549	-1,152	-588

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	109	3.2
Sum of 5-Year Adjusted Free Cash Flow	484	14.2
Sum of Cash and 5-Year Cash Generation	593	17.4
Revolver Availability	0	0.0
Asset Adjusted Borrowings (Repayment)	0	0.0
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	593	17.4
Sum of 5-Year Cash Commitments	-3,404	—

Credit Rating Pillars–Peer Group Comparison

	FTS	Sector	Universe
Business Risk	8		
Cash Flow Cushion	9	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 2.1 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

Capital Structure

Between 2011 and 2015, Fortis has CAD 5.5 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan from 2011 to 2015. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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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

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

Stewardship: NA 03 Jan 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation was $4.0 million for 2010, which we believe is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Analyst Notes

Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted $1.75 in EPS in 2011, higher than our own $1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as $5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to $1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfound Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

Fortis, Inc. FTS (TSE) | ★★

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32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2008	Dec 2009	Dec 2010	Forecast Dec 2011	Forecast Dec 2012	5-Year Proj. CAGR
Revenue	*10.5*	43.6	-6.8	0.7	*4.1*	*3.6*	—
EBIT	*11.0*	29.4	0.1	5.6	*9.7*	*10.1*	*8.0*
EBITDA	*12.2*	36.1	-3.9	8.0	*10.7*	*7.6*	*6.8*
Net Income	*17.2*	38.4	6.9	8.8	*8.3*	*9.2*	*8.1*
Diluted EPS	*8.6*	21.0	-1.1	7.0	*3.5*	*4.7*	*5.0*
Earnings Before Interest, after Tax	*16.1*	38.2	89.7	-40.3	*-2.2*	*0.4*	*4.0*
Free Cash Flow to the Firm	*-135.9*	-112.8	-45.5	-33.3	*167.0*	*-158.3*	*52.6*

Profitability	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Operating margin %	*19.1*	17.9	19.3	20.2	*21.3*	*22.6*	*23.5*
EBITDA margin %	*29.7*	28.4	29.3	31.4	*33.4*	*34.7*	*35.5*
Net margin %	*7.1*	6.3	7.2	7.8	*8.1*	*8.5*	*9.0*
Free Cash Flow to the Firm margin %	*2.8*	4.2	2.5	1.6	*4.2*	*-2.4*	*4.1*
ROIC with Goodwill %	*8.9*	7.3	12.6	6.9	*6.5*	*6.1*	*6.4*
ROIC w/out Goodwill %	*10.6*	8.8	14.9	8.1	*7.5*	*7.0*	*7.3*
Return on Assets, pretax %	*6.2*	6.5	6.0	5.9	*6.1*	*6.3*	*6.4*
Return on Equity %	*9.7*	9.6	9.4	9.9	*9.9*	*9.9*	*10.2*

Leverage	3-Year Hist. Avg	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	5-Year Proj. Avg
Debt/Capital	*0.62*	0.62	0.63	0.61	*0.59*	*0.59*	*0.59*
Total Debt/EBITDA	*5.26*	—	5.55	5.24	*4.91*	*4.78*	*4.89*
EBITDA/Interest Expense	*3.10*	3.05	2.96	3.29	*3.40*	*3.30*	*3.34*

Valuation Summary and Forecasts

	2009	2010	*2011(E)*	*2012(E)*
Price/Fair Value	1.15	1.26	—	—
Price/Earnings	18.6	20.6	*18.9*	*18.1*
EV/EBITDA	10.4	10.8	*9.8*	*9.1*
EV/EBIT	15.8	16.8	*15.3*	*13.9*
Free Cash Flow Yield %	-6.7	-4.6	*-1.3*	*-6.2*
Dividend Yield %	3.6	3.3	*3.4*	*3.7*

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	3.0
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	19.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	14.7
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	629	5.6	3.36
Present Value Stage II	10,557	94.4	56.47
Present Value of the Perpetuity	—	—	—
Total Firm Value	**11,185**	**100.0**	**—**
Cash and Equivalents	109	—	0.58
Debt	6,550	—	-32.22
Net balance sheet impact	-5,914	—	-31.63
Other Adjustments	-203	—	-1.09
Equity Value	**5,068**	**—**	**28.67**
Projected Diluted Shares	187		
Fair Value per Share (CAD)	**29.00**		

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.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Total Revenue	**3,903**	**3,637**	**3,664**	**3,814**	**3,950**
Cost of Goods Sold	2,112	1,799	1,686	*1,737*	*1,763*
Gross Profit	**1,791**	**1,838**	**1,978**	**2,078**	**2,188**
Selling, General & Administrative Expenses	743	773	828	*846*	*860*
Research & Development Expenses	0	0	0	*0*	*0*
Other Operating Expenses (Income)	0	0	0	*0*	*0*
Restructuring & Other Charges (Gains)	0	0	0	*0*	*0*
Depreciation Expense (if reported separately)	348	364	410	*420*	*435*
Amortization of Other Intangibles (if reported seperately)	0	0	0	*0*	*0*
Amortization/Impairment of Goodwill	0	0	0	*0*	*0*
Total Expenses	**3,203**	**2,936**	**2,924**	**3,003**	**3,057**
Operating Income (EBIT)	**700**	**701**	**740**	**812**	**893**
Interest Expense	363	360	350	*375*	*415*
Interest & Other Income (Expense)	0	0	0	*0*	*0*
Pre-Tax Income	**337**	**341**	**390**	**437**	**478**
Income Tax Expense (Benefit)	65	49	67	*85*	*93*
Income After Taxes	**272**	**292**	**323**	**352**	**385**
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-13	-12	-10	*-10*	*-10*
(Preferred Dividends)	-14	-18	-28	*-33*	*-38*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	0	0	0	*0*	*0*
Net Income (Loss)	**245**	**262**	**285**	**309**	**337**
Net Income (Loss) Excluding Charges	245	262	285	*309*	*337*
Diluted Shares Outstanding (Mil)	157	170	173	*181*	*189*
Diluted EPS Including Charges	1.56	1.54	1.65	*1.71*	*1.79*
Diluted EPS Excluding Charges	1.56	1.54	1.65	*1.71*	*1.79*
Dividends Per Common Share	0.00	0.00	0.00	*0.00*	*0.00*
EBITDA	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**
EBITDA without restructuring	**1,108**	**1,065**	**1,150**	**1,273**	**1,370**

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Balance Sheet (CAD Mil)

				Forecast	
Assets	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Excess Cash & Investments	0	0	0	*251*	*0*
Operating Cash & Equivalents	66	85	109	*114*	*119*
Accounts Receivable	681	595	655	*523*	*541*
Inventory	229	178	168	*143*	*145*
Other Short Term Operating Assets	174	268	272	*270*	*280*
Total Current Assets	**1,150**	**1,126**	**1,204**	**1,300**	**1,085**
Property Plant & Equipment, Net	7,367	7,687	8,202	*8,994*	*9,772*
Property Plant & Equipment, Gross	7,367	11,408	12,109	*13,321*	*14,533*
(Accumulated Depreciation)	0	-3,721	-3,907	*-4,327*	*-4,761*
Goodwill, Net	1,575	1,560	1,553	*1,553*	*1,553*
Other Intangibles	9	279	324	*282*	*240*
Other Long-Term Operating Assets	1,023	1,491	1,604	*1,700*	*1,750*
Deferred Tax Assets	54	17	16	*20*	*20*
Long-Term Non-Operating Assets, including Pension items	0	0	0	*0*	*0*
Total Assets	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Liabilities					
Accounts Payable	874	852	953	*1,078*	*1,112*
Short-Term Debt	650	639	414	*500*	*500*
Other Current Liabilities	173	103	150	*150*	*150*
Total Current Liabilities	**1,697**	**1,594**	**1,517**	**1,728**	**1,762**
Long-Term Debt	4,884	5,276	5,609	*5,750*	*6,050*
Incremental Debt Requirements	—	—	—	*0*	*0*
Total Long-Term Debt	**4,884**	**5,276**	**5,609**	**5,750**	**6,050**
Long-Term Operating Liabilities	678	731	775	*810*	*810*
Deferred Tax Liabilities	61	576	623	*670*	*650*
Long-Term Non-Operating Liabilities	320	320	320	*320*	*320*
Total Liabilities	**7,640**	**8,497**	**8,844**	**9,278**	**9,593**
Preferred Stock	**347**	**347**	**592**	**592**	**592**
Minority Interest	**145**	**123**	**162**	**205**	**220**
Shareholders' Equity					
Common Stock	157	170	173	*185*	*196*
Additional Paid in Capital	2,301	2,338	2,417	*2,776*	*2,895*
Retained Earnings (Deficit)	634	763	804	*903*	*1,013*
(Treasury Stock)	0	0	0	*0*	*0*
Other Equity	-46	-78	-89	*-89*	*-89*
Total Shareholders' Equity	**3,046**	**3,193**	**3,305**	**3,774**	**4,015**
Total Liabilities + Shareholders' Equity	**11,178**	**12,160**	**12,903**	**13,850**	**14,419**
Difference, from analyst adjustments and restatements	0	0	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (CAD Mil)

				Forecast	
	Dec 2008	Dec 2009	Dec 2010	*Dec 2011*	*Dec 2012*
Net Income from Continuing Operations	259	280	323	*342*	*375*
Depreciation Expense	399	317	368	*420*	*435*
Amortization of Other Intangibles	9	47	42	*42*	*42*
Impairment of Goodwill	0	0	0	*0*	*0*
Other Non-Cash Adjustments to Operating Income	38	9	-8	*0*	*0*
Deferred Income Taxes & Other Adjustments to Net Income	0	0	0	*43*	*-20*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	0	0	0	*132*	*-19*
(Increase) Decrease in Inventory	0	0	0	*25*	*-2*
(Increase) Decrease in Prepayments, other Current Assets	0	0	0	*2*	*-10*
Increase (Decrease) in Accounts Payable	0	0	0	*125*	*34*
Increase (Decrease) in Other Current Liabilities	18	-16	7	*0*	*0*
Cash from Operations	**723**	**637**	**732**	**1,131**	**835**
(Capital Expenditures)	-819	-968	-1,006	*-1,212*	*-1,212*
(Acquisitions)	-22	-77	0	*0*	*0*
Asset Sales & Dispositions of Discontinued Operations	18	1	15	*0*	*0*
Other Investing Cash Flows (Outlays)	-31	-8	0	*-61*	*-50*
Cash from Investing	**-854**	**-1,052**	**-991**	**-1,273**	**-1,262**
Common Stock (Purchase) or Sale	308	46	80	*371*	*130*
Common Stock (Dividends)	-162	-177	-193	*-210*	*-227*
Preferred Stock Issue/(Purchase)/(Dividends)	209	-18	214	*-33*	*-38*
Short Term Debt Issuance and (Retirement)	-378	-6	-48	*86*	*0*
Long Term Debt Issuance and (Retirement)	231	557	194	*141*	*300*
Minority Interest Addback of Income (Loss) Distribution	-12	-8	36	*43*	*15*
Other Financing Cash Flows (Outlays)	0	0	0	*0*	*0*
Cash From Financing	**196**	**394**	**283**	**398**	**181**
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	0	0	0	*0*	*0*
Net Change in Cash	**65**	**-21**	**24**	**256**	**-246**
Change in Cash on Balance Sheet	8	19	24	*256*	*-246*
Difference, from analyst adjustments and restatements	57	-40	0	*0*	*0*

Fortis, Inc. FTS (TSE) | ★★

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32.38 CAD	29.00 CAD	20.30 CAD	39.15 CAD	Medium	Narrow		NA	—	Utilities - Regulated

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

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.12	11.0	*13.7*	*13.4*	7.9	*9.3*	*8.9*	24.7	*NM*	*NM*	1.5	*1.7*	*1.6*	1.4	*1.6*	*1.5*
TransAlta Corporation TAC USA	0.91	21.1	*17.1*	*16.4*	9.0	*7.4*	*8.1*	221.1	*32.2*	*20.7*	1.6	*1.6*	*1.5*	1.6	*1.6*	*1.5*
Average		16.1	*15.4*	*14.9*	8.5	*8.4*	*8.5*	122.9	*32.2*	*20.7*	1.6	*1.7*	*1.6*	1.5	*1.6*	*1.5*
Fortis, Inc. FTS CA	**1.12**	**18.9**	***18.1***	***16.5***	**9.8**	***9.1***	***8.5***	**NM**	***NM***	***NM***	**1.6**	***1.5***	***1.4***	**1.6**	***1.5***	***1.5***

Returns Analysis

		ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	52,994 USD	6.0	*6.9*	*6.7*	6.0	*6.9*	*6.7*	14.3	*12.2*	*11.5*	6.4	*5.7*	*5.5*	3.8	*3.7*	*3.9*
TransAlta Corporation TAC USA	9,893 CAD	5.7	*5.7*	*6.0*	6.1	*6.1*	*6.3*	8.2	*10.6*	*11.0*	4.2	*6.1*	*5.8*	4.7	*5.7*	*5.8*
Average		5.9	*6.3*	*6.4*	6.1	*6.5*	*6.5*	11.3	*11.4*	*11.3*	5.3	*5.9*	*5.7*	4.3	*4.7*	*4.9*
Fortis, Inc. FTS CA	**13,850** CAD	**6.5**	***6.1***	***6.4***	**7.5**	***7.0***	***7.3***	**9.9**	***9.9***	***10.4***	**6.1**	***6.3***	***6.6***	**3.4**	***3.7***	***4.1***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	15,317 USD	-2.1	*5.5*	*2.0*	25.0	*-1.0*	*4.9*	19.5	*-6.7*	*1.8*	-46.1	*-326.6*	*13.2*	5.9	*10.9*	*5.5*
TransAlta Corporation TAC USA	2,819 CAD	1.8	*6.4*	*1.9*	31.5	*25.3*	*-5.9*	9.7	*21.7*	*3.6*	-106.5	*593.4*	*55.8*	-12.3	*22.2*	*1.0*
Average		-0.2	*6.0*	*2.0*	28.3	*12.2*	*-0.5*	14.6	*7.5*	*2.7*	-76.3	*133.4*	*34.5*	-3.2	*16.6*	*3.3*
Fortis, Inc. FTS CA	**3,814** CAD	**4.1**	***3.6***	***3.3***	**9.7**	***10.1***	***8.7***	**3.5**	***4.7***	***10.0***	**-70.6**	***367.9***	***-19.7***	**4.0**	***3.5***	***8.0***

Fortis, Inc. FTS (TSE) | ★★

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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 % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,957 USD	59.3	56.9	57.8	34.8	31.5	32.1	21.2	19.6	19.8	12.8	11.5	11.5	5.8	-12.4	-13.8
TransAlta Corporation TAC USA	220 CAD	57.4	62.5	57.6	35.0	39.8	35.7	14.5	20.4	19.2	7.8	9.0	9.2	0.7	4.9	7.4
Average		58.4	59.7	57.7	34.9	35.7	33.9	17.9	20.0	19.5	10.3	10.3	10.4	3.3	-3.8	-3.2
Fortis, Inc. FTS CA	**309** CAD	**54.5**	**55.4**	**56.2**	**33.4**	**34.7**	**35.8**	**21.3**	**22.6**	**23.8**	**8.1**	**8.5**	**9.3**	**-2.1**	**-9.6**	**-7.4**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	20,822 USD	144.0	153.9	159.3	59.0	60.6	61.4	5.4	4.7	4.4	3.9	4.7	4.9	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,235 CAD	146.8	148.4	139.3	57.1	57.4	56.0	5.1	5.7	5.2	4.3	3.6	3.9	3.4	3.4	3.4
Average		145.4	151.2	149.3	58.1	59.0	58.7	5.3	5.2	4.8	4.1	4.2	4.4	3.6	3.6	3.6
Fortis, Inc. FTS CA	**6,250** CAD	**165.6**	**163.2**	**166.3**	**58.9**	**58.7**	**59.4**	**3.4**	**3.3**	**3.4**	**4.9**	**4.8**	**4.9**	**3.7**	**3.6**	**3.6**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	25,525 USD	0.73	0.70	0.61	-49.69	-55.55	-60.71	9.28	9.69	10.37	2.15	-4.77	-5.39	42.1	51.1	54.0
TransAlta Corporation TAC USA	4,710 USD	0.26	0.41	0.28	-19.07	-19.16	-18.68	3.70	3.37	4.04	0.10	0.66	1.02	98.2	101.7	96.1
Average		0.5	0.6	0.4	-34.4	-37.4	-39.7	6.5	6.5	7.2	1.1	-2.1	-2.2	70.1	76.4	75.1
Fortis, Inc. FTS CA	**6,115** CAD	**2.02**	**0.63**	**0.77**	**-32.52**	**-34.08**	**-36.11**	**6.25**	**4.42**	**4.72**	**-0.45**	**-2.00**	**-1.58**	**68.0**	**67.2**	**66.0**

Research Methodology for Valuing Companies

Components of Our Methodology

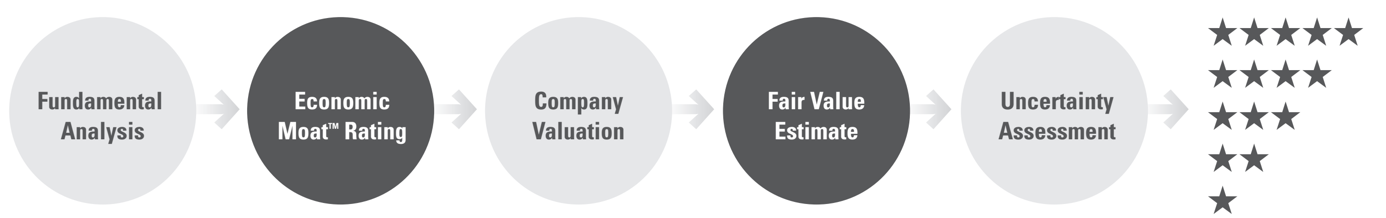
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Grades
- Financial Health Grades

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



Analyst conducts company and industry research: ► Financial statement analysis ► Channel checks ► Trade-show visits ► Industry and company reports and journals ► Conference calls ► Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

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 Grade Methodology
- Stock Grade Methodology for Financial Health

* Please contact a sales representative for more information.

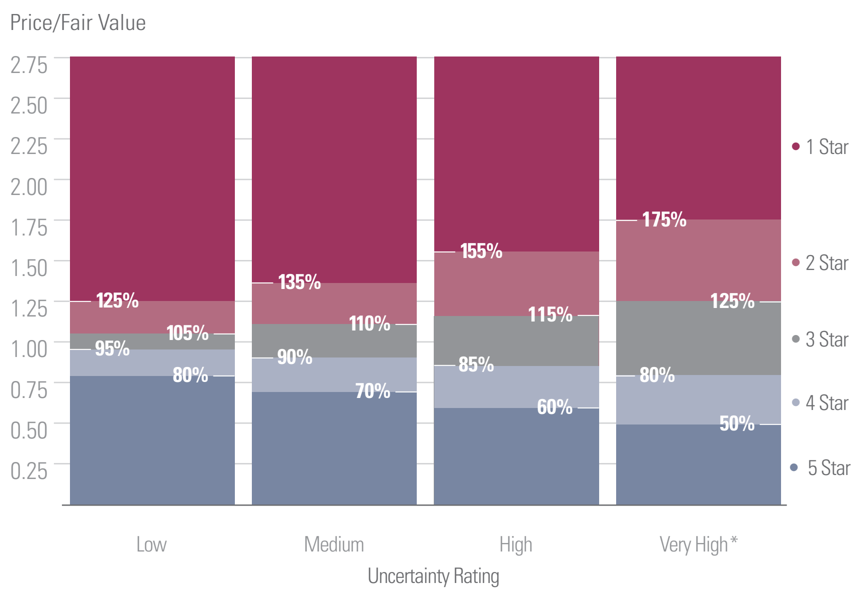
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue 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 Stewardship Grades show our assessment of a management's commitment to shareholders, and include an analysis of a firm's transparency, incentives and ownership. We also provide Financial Health Grades, which are quantitative measures based on firms' distance to default scores. Distance to default measures the distance between the market value of a company's assets and the book value of its liabilities (expressed in standard deviations of asset value). For our grades, A is equivalent to "Excellent," while F is "Very Poor."

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.

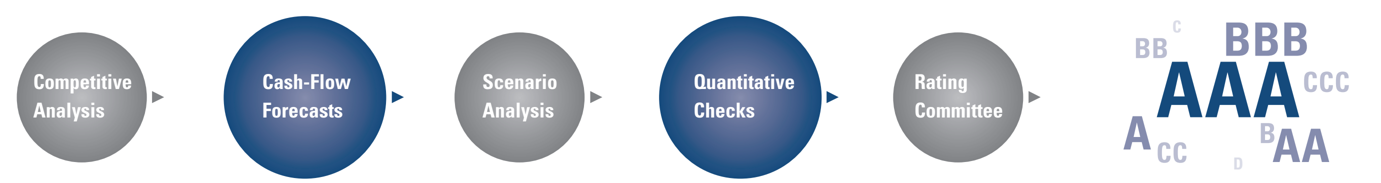
Business Risk

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



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Stress Test Score™

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Bank Solvency Score™
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

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, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

Fortis Reports Flat First-Quarter Earnings

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 02 May 2012
Pricing data through 03 May 2012
Rating updated as of 04 May 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 03 May 2012

Fortis' predominant regulated revenue mix provides investors a stable earnings profile and support for the stock's consistent dividend growth. Significant capital expenditures will drive near-term earnings growth and set a base for future free cash flow generation. The company's Canadian regulated utilities operate in constructive regulatory jurisdictions but with slightly lower allowed returns on equity than its U.S. counterparts. In addition to organic growth, company management has expanded into the U.S. market with the announced acquisition of CH Energy in February 2012. Given the small size of the transaction, we expect the company to continue U.S. expansion after the transaction is complete. We forecast normalized earnings can grow at 5% annually through 2015. At a 3.5% dividend yield and trading at 18 times our 2012 earnings forecast, we think Fortis is overvalued.

Key Investment Considerations

- Fortis generates more than 90% of its profit from its regulated utility segment, providing a stable earnings base.
- Across all of its utilities, regulators allow Fortis a 9.5% weighted-average return on equity, which is about 100 basis points lower than regulators allow U.S. utilities on average.
- Trading at 18 times our 2012 earnings estimate as of May, we think the stock is overvalued.

Vital Statistics

Market Cap (CAD Mil)	6,401
52-Week High (CAD)	34.39
52-Week Low (CAD)	28.24
52-Week Total Return %	8.3
YTD Total Return %	2.3
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	3.8
5-Yr Forward EPS CAGR %	5.7
Price/Fair Value	1.13

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	20.8	19.3	*19.4*	*17.5*
EV/EBITDA	10.4	10.3	*9.7*	*9.0*
EV/EBIT	16.8	16.6	*15.2*	*13.8*
Free Cash Flow Yield %	-3.9	-2.4	*-2.7*	*-6.2*
Dividend Yield %	3.3	2.4	*3.6*	*3.8*

Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	3,664	3,747	*3,914*	*4,077*
Revenue YoY %	0.7	2.3	*4.5*	*4.2*
EBIT	740	766	*846*	*930*
EBIT YoY %	5.6	3.5	*10.5*	*9.9*
Net Income, Adjusted	285	318	*335*	*377*
Net Income YoY %	8.8	11.6	*5.2*	*12.8*
Diluted EPS	1.65	1.74	*1.77*	*1.96*
Diluted EPS YoY %	7.0	6.1	*1.0*	*10.7*
Free Cash Flow	-232	-151	*-171*	*-396*
Free Cash Flow YoY %	-18.3	-34.9	*13.0*	*132.2*

Source for forecasts in the data tables above: Morningstar Estimates

Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analysis

Fortis' low-risk operations result in stable earnings and support its consistent dividend growth the last four decades.

Fortis Reports Flat First-Quarter Earnings 04 May 2012

Fortis Inc FTS posted slightly lower earnings per share of $0.64 compared with $0.66 in the year-ago quarter. The results were down mostly due to a common stock offering in mid-2011. Excluding the share offering, results were flat from the prior year. In 2012, the company will pay $1.20 per share in dividends, up from 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our fair value estimate and forecast 2% EPS growth in 2012.

The company's Canadian regulated gas utilities overall earnings increased 9%, mostly due to weather, continued infrastructure investment, and volume strength from certain industrial sectors. Conversely, the company's Canadian regulated utilities earnings were mostly flat, in large part to regulatory mechanisms and expense timing. The company received clarity with regulatory decisions at FortisBC Energy gas delivery and Fortis Alberta distribution rates, with pending regulatory outcomes expected in 2012 for FortisBC, Fortis Alberta, and Newfoundland Power. Finally, favorable weather increased production in Belize with a favorable $3 million benefit to the company's bottom line.

Announced in February 2012, the company entered into a $1.5 billion purchase agreement to acquire New York regulated utility CH Energy Group CHG . We believe the transaction is slightly value-dilutive for Fortis shareholders. Fortis is awaiting regulatory approval from New York regulators and the Federal Energy Regulatory Commission, and given the size and nature of the transaction, we forecast a relatively high 85% probability that the transaction closes. Company management expects the transaction to close in early 2013.

Thesis 03 May 2012

Fortis manages electric and gas regulated utilities in Canada and the Caribbean, resulting in stable operating results. The company's noncore generation and real estate holding operations account for 12% of operating earnings. While we are less excited by the distractions of these noncore operations, we are comforted that management continues to focus on electric and natural gas distribution in North America.

Fortis' main regulated Canadian operations reside in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and fund the consistent dividend growth experienced the past four decades. Rate base additions should be significant through 2015, as the company plans to invest CAD 4.8 billion as the healthier Canadian economy drives usage and customer growth. This should allow the firm to increase its rate base at double-digit rates each year during this expansion period. On a weighted-average basis, Fortis' allowed returns on equity in its Canadian service territories are 9.25% after a series of rate increases in 2010. While this return is lower than that typically granted to comparable U.S. utilities, it does not seem unreasonable given the low-risk nature of Fortis' transmission and delivery operations.

The company also operates small utility operations in Belize and the Caribbean. While the allowed returns can be significantly higher than its Canadian operations, these operations also have a much higher risk profile than its Canadian operations. In the summer of 2011, the Government of Belize expropriated Fortis' 70% ownership in Belize Electricity Limited, resulting in an unknown recoverable asset representing 2% of Fortis' assets. While small in nature, the earnings of these operations are exposed to additional risks of economic instability, tenuous regulation, and weather events. Management has indicated it has little interest to expand operations in the Caribbean, which we see as a positive.

We are less enthusiastic about the firm's small presence in

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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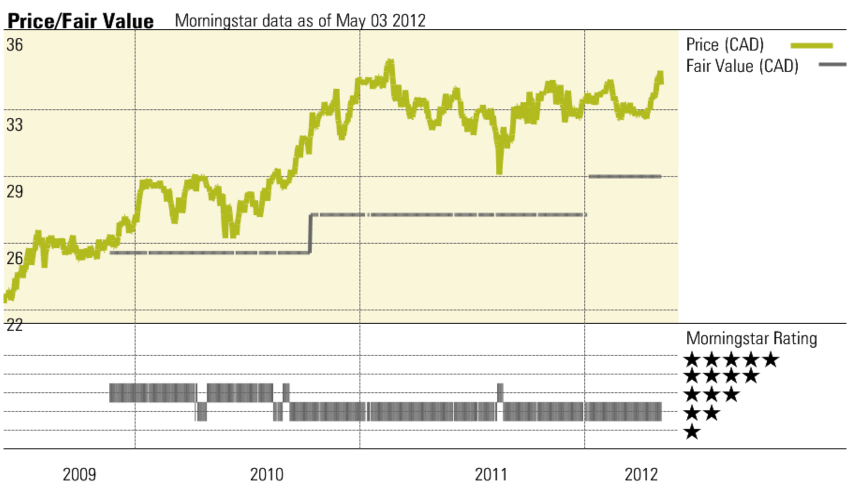

the cyclical hotel and commercial real estate industry. However, these holdings are held solely for tax strategy purposes and would likely be spun off should Canadian tax policy change. Currently, the Canadian government disallows entity tax consolidation, and the real estate asset revenues offset holding company expenses, mostly interest. While we believe the strategy behind these assets is sound, we worry they may distract management and drag on growth.

Fortis has long expressed interest in expanding its operations through U.S. acquisitions. In February 2012, Fortis announced a $1.5 billion cash and debt bid for CH Energy Group CHG, a regulated New York Mid-Hudson River Valley utility. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations. Given the relatively small size of CH Energy, we would look for Fortis to continue expansion through acquisitions after the CH Energy transaction is complete.

Given the high barriers to entry and regulated nature of Fortis' main operations, we award the company a narrow economic moat. The firm's exposure to noncore areas and foreign markets, though small, leads us to assign it a medium fair value uncertainty rating. We would consider lowering our uncertainty rating if Fortis were to divest the noncore assets.

Valuation, Growth and Profitability 03 May 2012

We are increasing our fair value estimate to CAD 30 per share from CAD 29 per share after updating our five-year operating plan and incorporating the planned CH Energy merger. In accounting for the merger, we adjusted for certain tax and regulatory balance sheet items. We believe that the deal is only slightly value-dilutive for Fortis.

After the significant share dilution in 2011, we forecast 5% earnings growth in 2012 adjusting for lower dilution and normalized weather conditions. Beyond 2013, we assume 1.5% annual energy use growth at the Canadian utilities and consistent allowed returns on equity. Based on management's guidance, we forecast total investments of CAD 4.6 billion at the utilities through 2015, leading to annualized rate base growth of 6%.

We use a 10.0% cost of equity and current credit spreads to arrive at a 7.1% weighted average cost of capital in our discounted cash flow model.

Scenario Analysis

The most significant near-term driver of our earnings forecast is our annualized energy growth rate at the regulated utilities. If energy growth is 50 bps lower than our 2013 estimate, our earnings per share would fall by 2% and our fair value estimate would decrease by CAD 2. We expect similar changes in EPS and fair value if energy growth is 50 bps higher.

Allowed returns at the Canadian utilities are also a significant driver of our valuation estimates. If we assume

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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a 100 bps decrease in allowed returns on equity in 2012 and beyond, our fair value estimate decreases to CAD 21. Better-than-expected allowed returns on equity drive similar upside results. Finally, a 50 bps change in our cost of equity assumption changes our fair value estimate by about CAD 3 per share.

Economic Moat

Fortis owns a difficult-to-replicate network of regulated power generation, transmission, and distribution assets and provides an essential energy source: electricity. In exchange for its monopoly position, regulators set Fortis' returns at levels that aim to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Fortis to earn its cost of capital, and leads us to assign Fortis' regulated utilities a narrow economic moat. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Fortis from establishing a wide economic moat.

Moat Trend

We assign Fortis a stable moat due to its monopoly position and stable regulatory environment that will continue to allow the firm to earn its cost of capital. We do not expect the regulatory relationship to change in the future. The regulatory framework that caps revenue and returns prevent the firm from attaining a wide moat, as with all regulated utilities that we cover.

Fortis, Inc. FTS (TSE) | ★★

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

- The company operates a stable business profile, offering a strong base for consistent earnings and dividend growth.
- With an aggressive capital expenditure plan, rate base growth could increase at a 6% compound annual growth rate.
- Fortis has consistent dividend growth history, paying consecutive quarterly dividends for four decades and growing the dividend faster than most of its peers in recent years.
- Fortis operations are based in higher-growth regions within Canada, mainly in Alberta and British Columbia.

Bears Say

- The Canadian regulatory environment offers lower allowed returns than its U.S. peers.
- The recent Belize expropriation demonstrates how Caribbean operations offer higher growth opportunities but at a substantially higher risk.
- The company operates noncore hotel and commercial real estate assets, potentially distracting management from core regulated operations.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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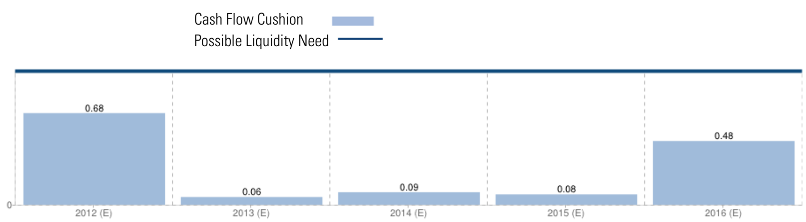
Credit Analysis

Five Year Adjusted Cash Flow Forecast (CAD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	89	258	229	155	131
Adjusted Free Cash Flow	329	-110	19	154	392
Total Cash Available before Debt Service	305	39	51	89	280
Principal Payments	-56	-269	-114	-692	-103
Interest Payments	-390	-415	-435	-460	-485
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-446	-684	-549	-1,152	-588

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	CAD Millions	% of Commitments
Beginning Cash Balance	89	2.6
Sum of 5-Year Adjusted Free Cash Flow	-98	-2.9
Sum of Cash and 5-Year Cash Generation	-9	-0.3
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	-9	-0.3
Sum of 5-Year Cash Commitments	-3,419	—

Credit Rating Pillars–Peer Group Comparison

	FTS	Sector	Universe
Business Risk	7		
Cash Flow Cushion	10	—	—
Solvency Score	8	—	—
Distance to Default	10	—	—
Credit Rating	—	—	—

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

With a debt/capital ratio of just under 60% and interest coverage of 3.0 times, Fortis' financial health looks reasonably sound, particularly in light of its stable, low-risk business model. Fortis undertook a significant equity offering of 9 million shares resulting in CAD 300 million of proceeds. We expect the company to be active in the capital markets consistent with its current capital structure throughout its capital expenditure plan.

Capital Structure

Between 2012 and 2016, Fortis has CAD 6.0 billion of planned capital expenditures, which will require the company to access the debt and equity capital markets. We anticipate that Fortis will issue CAD 200 million in debt in 2012 and has manageable debt maturities through 2015. The company recently issued significant equity in July 2011 to help finance its capital expenditure plan, and we expect Fortis to issue minimal additional equity in 2012 to accommodate employee stock purchase plans and an executive DRIP plan.

Enterprise Risk

Fortis' key risk to future earnings is regulation. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan in 2012-16. Fortis is also exposed to political and economic instability at its Caribbean operations. With an eye towards acquisitions, the company risks overpaying for regulated U.S. assets and must be mindful of the strategic benefits. As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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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

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

Stewardship: 03 May 2012

Stanley Marshall has been president and CEO since 1995, leading a group of experienced utility executives. Total direct compensation is in line with Fortis' industry group. Marshall's total compensation comprises base salary, annual incentives, stock options, and performance stock units, with 75% of total compensation at risk. We do not like that annual cash incentives are based on earnings per share targets, as EPS can be manipulated and may not be an indication of shareholder value creation. Marshall also has a significant ownership stake of 14 times his salary, which we believe aligns shareholder and management interests. From a corporate governance perspective, we like that the CEO and chairman positions are separated. While the board of directors has vast experience, we would prefer that members of the board have more direct utility experience.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

Analyst Notes

Fortis Reports Flat First-Quarter Earnings 04 May 2012

Fortis Inc FTS posted slightly lower earnings per share of $0.64 compared with $0.66 in the year-ago quarter. The results were down mostly due to a common stock offering in mid-2011. Excluding the share offering, results were flat from the prior year. In 2012, the company will pay $1.20 per share in dividends, up from 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our fair value estimate and forecast 2% EPS growth in 2012.

The company's Canadian regulated gas utilities overall earnings increased 9%, mostly due to weather, continued infrastructure investment, and volume strength from certain industrial sectors. Conversely, the company's Canadian regulated utilities earnings were mostly flat, in large part to regulatory mechanisms and expense timing. The company received clarity with regulatory decisions at FortisBC Energy gas delivery and Fortis Alberta distribution rates, with pending regulatory outcomes expected in 2012 for FortisBC, Fortis Alberta, and Newfoundland Power. Finally, favorable weather increased production in Belize with a favorable $3 million benefit to the company's bottom line.

Announced in February 2012, the company entered into a $1.5 billion purchase agreement to acquire New York regulated utility CH Energy Group CHG . We believe the transaction is slightly value-dilutive for Fortis shareholders. Fortis is awaiting regulatory approval from New York regulators and the Federal Energy Regulatory Commission, and given the size and nature of the transaction, we forecast a relatively high 85% probability that the transaction closes. Company management expects the transaction to close in early 2013.

Fortis Enters U.S. Market With Acquisition of CH Energy Group 21 Feb 2012

On Tuesday, Fortis FTS announced a $1.5 billion cash and debt bid for CH Energy Group CHG , a regulated New York Mid-Hudson River Valley utility that would be Fortis' first based in the United States. Fortis offered $65 per share for CH Energy, a 10.5% premium to the most recent close price.

The $1 billion equity investment implies a pricey 1.9 times multiple on book- and rate-base equity. But that premium falls to 1.3 times book when we adjust for certain tax and regulatory balance sheet items. At this adjusted price, we believe the deal is slightly value-dilutive for Fortis, however we are reaffirming our fair value estimate given the relatively small size of the deal and regulatory approval uncertainty. New York state regulators and the Federal Energy Regulatory Commission must approve the deal.

We originally thought Fortis would make a larger splash into the U.S. market with an acquisition of $3 billion to $5 billion. The smaller deal for CH Energy indicates to us that there may be room for additional acquisitions in the future. Strategically, we think the acquisition is sound. The acquisition allows Fortis to enter the U.S.-regulated electric and gas distribution businesses in order to gain a better understanding of the U.S. market, with geographical proximity to its current Canadian operations.

N.Y. regulators allow CH Energy an industry average 10% return on its equity rate base through July 2013. With Fortis successfully integrating three utilities since 2004, we think the current management team is well-suited for the CH Energy Group acquisition. Our strategic enthusiasm for the merger is dampened by the price Fortis paid. To earn CH Energy's allowed return of 10%, significant synergy savings will be required to maintain current allowed returns.

Fortis, Inc. FTS (TSE) | ★★

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Analyst Notes

Strong Customer Growth Generates Impressive 2011 Results at Fortis. 09 Feb 2012

Fortis Inc. FTS posted $1.75 in EPS in 2011, higher than our own $1.71 estimate and a 6% increase from 2010. Strong customer growth and higher energy deliveries at its regulated Canadian utilities drove results. We are reaffirming our fair value estimate and forecast 5% EPS growth through 2016 as $5.5 billion in planned capital expenditures should drive earnings expansion. Fortis increased dividends 3.5% in mid-December to $1.20, an implied 66% payout ratio, with a current yield of 3.5%. At our fair value estimate, Fortis would yield 4%.

In 2012, significant regulatory rulings at the company's Newfound Power and FortisBC subsidiaries could significantly impact future operating results. With the Alberta Utilities Commission ruling in December 2011, allowed returns at Fortis Alberta were decreased 25 basis points to just 8.75%. Similar cuts could be seen at the firm's other regulated Canadian operating companies, putting pressure on earnings growth. Management provided no EPS guidance for 2012.

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013	5-Year Proj. CAGR
Revenue	-1.4	-6.8	0.7	2.3	4.5	4.2	—
EBIT	3.1	0.1	5.6	3.5	10.5	9.9	7.9
EBITDA	3.4	-0.5	7.2	3.5	7.0	7.7	6.1
Net Income	9.1	6.9	8.8	11.6	5.2	12.8	7.6
Diluted EPS	3.9	-1.1	7.0	6.1	1.0	10.7	5.7
Earnings Before Interest, after Tax	6.3	89.7	-40.3	6.2	-8.5	12.4	3.6
Free Cash Flow to the Firm	-10.0	-21.3	-25.6	24.5	152.9	-136.8	24.8

Profitability	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Operating margin %	20.0	19.3	20.2	20.4	21.6	22.8	23.5
EBITDA margin %	32.0	30.6	32.5	32.9	33.8	34.9	35.5
Net margin %	7.8	7.2	7.8	8.5	8.6	9.3	9.6
Free Cash Flow to the Firm margin %	3.3	3.8	2.8	3.4	8.2	-2.9	3.5
ROIC with Goodwill %	8.8	12.6	6.9	7.0	6.1	6.5	6.4
ROIC w/out Goodwill %	10.4	14.9	8.1	8.1	7.1	7.5	7.2
Return on Assets, pretax %	5.9	6.0	5.9	5.8	6.1	6.3	6.4
Return on Equity %	9.7	9.4	9.9	9.9	9.5	10.1	10.2

Leverage	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Debt/Capital	0.60	0.63	0.61	0.57	0.57	0.58	0.58
Total Debt/EBITDA	5.06	5.32	5.05	4.82	4.73	4.78	4.84
EBITDA/Interest Expense	3.28	3.09	3.41	3.34	3.39	3.43	3.43

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.27	1.24	—	—
Price/Earnings	20.8	19.3	19.4	17.5
EV/EBITDA	10.4	10.3	9.7	9.0
EV/EBIT	16.8	16.6	15.2	13.8
Free Cash Flow Yield %	-3.9	-2.4	-2.7	-6.2
Dividend Yield %	3.3	2.4	3.6	3.8

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.0
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	28.1
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	588	5.1	3.07
Present Value Stage II	11,056	95.0	57.76
Present Value of the Perpetuity	—	—	—
Total Firm Value	**11,644**	**100.0**	**—**
Cash and Equivalents	89	—	0.47
Debt	6,250	—	-31.05
Net balance sheet impact	-5,855	—	-30.59
Other Adjustments	-203	—	-1.06
Equity Value	**5,586**	**—**	**29.86**
Projected Diluted Shares	191		
Fair Value per Share (CAD)	**30.00**		

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.

Fortis, Inc. FTS (TSE) | ★★

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Morningstar Analyst Forecasts

Income Statement (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Total Revenue	**3,637**	**3,664**	**3,747**	***3,914***	***4,077***
Cost of Goods Sold	1,799	1,686	1,697	*1,749*	*1,792*
Gross Profit	**1,838**	**1,978**	**2,050**	***2,165***	***2,285***
Selling, General & Administrative Expenses	773	828	865	*888*	*906*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	—	—	—	—	—
Restructuring & Other Charges (Gains)	—	—	—	—	—
Depreciation Expense (if reported separately)	364	410	419	*431*	*448*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
Total Expenses	**2,936**	**2,924**	**2,981**	***3,067***	***3,147***
Operating Income (EBIT)	**701**	**740**	**766**	***846***	***930***
Interest Expense	360	350	370	*390*	*415*
Interest & Other Income (Expense)	—	—	40	*10*	*10*
Pre-Tax Income	**341**	**390**	**436**	***466***	***525***
Income Tax Expense (Benefit)	49	67	80	*89*	*100*
Income After Taxes	**292**	**323**	**356**	***378***	***425***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-12	-10	-9	*-9*	*-9*
(Preferred Dividends)	-18	-28	-29	*-34*	*-39*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	—	—	—
Net Income (Loss)	**262**	**285**	**318**	***335***	***377***
Net Income (Loss) Excluding Charges	262	285	318	*335*	*377*
Diluted Shares Outstanding (Mil)	170	173	182	*190*	*193*
Diluted EPS Including Charges	1.54	1.65	1.75	*1.76*	*1.95*
Diluted EPS Excluding Charges	1.54	1.65	1.74	*1.77*	*1.96*
Dividends Per Common Share	1.10	1.04	1.12	*1.20*	*1.24*
EBITDA	**1,112**	**1,192**	**1,234**	***1,321***	***1,423***
EBITDA without restructuring	**1,112**	**1,192**	**1,234**	***1,321***	***1,423***

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (CAD Mil)

Assets	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013
Excess Cash & Investments	—	—	—	*141*	*107*
Operating Cash & Equivalents	85	109	89	*117*	*122*
Accounts Receivable	595	655	644	*536*	*558*
Inventory	178	168	134	*144*	*147*
Other Short Term Operating Assets	268	272	253	*270*	*280*
Total Current Assets	**1,126**	**1,204**	**1,120**	***1,208***	***1,215***
Property Plant & Equipment, Net	7,687	8,202	8,687	*9,548*	*10,418*
Property Plant & Equipment, Gross	11,408	12,109	13,013	*14,305*	*15,623*
(Accumulated Depreciation)	-3,721	-3,907	-4,326	*-4,757*	*-5,205*
Goodwill, Net	1,560	1,553	1,557	*1,557*	*1,557*
Other Intangibles	279	324	341	*297*	*253*
Other Long-Term Operating Assets	1,491	1,604	1,849	*1,700*	*1,750*
Deferred Tax Assets	17	16	8	*20*	*20*
Long-Term Non-Operating Assets, including Pension items	—	—	—	—	—
Total Assets	**12,160**	**12,903**	**13,562**	***14,330***	***15,213***
Liabilities					
Accounts Payable	852	953	914	*1,108*	*1,132*
Short-Term Debt	639	414	265	*400*	*400*
Other Current Liabilities	103	150	141	*141*	*141*
Total Current Liabilities	**1,594**	**1,517**	**1,320**	***1,649***	***1,673***
Long-Term Debt	5,276	5,609	5,679	*5,850*	*6,400*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**5,276**	**5,609**	**5,679**	***5,850***	***6,400***
Long-Term Operating Liabilities	731	775	881	*916*	*916*
Deferred Tax Liabilities	576	623	685	*700*	*725*
Long-Term Non-Operating Liabilities	320	320	320	*320*	*320*
Total Liabilities	**8,497**	**8,844**	**8,885**	***9,435***	***10,034***
Preferred Stock	**347**	**592**	**592**	***592***	***592***
Minority Interest	**123**	**162**	**208**	***205***	***220***
Shareholders' Equity					
Common Stock	170	173	173	*185*	*196*
Additional Paid in Capital	2,338	2,417	2,725	*2,827*	*2,948*
Retained Earnings (Deficit)	763	804	905	*1,012*	*1,149*
(Treasury Stock)	—	—	—	—	—
Other Equity	-78	-89	74	*74*	*74*
Total Shareholders' Equity	**3,193**	**3,305**	**3,877**	***4,098***	***4,367***
Total Liabilities + Shareholders' Equity	**12,160**	**12,903**	**13,562**	***14,330***	***15,213***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	*Forecast* Dec 2012	Dec 2013
Net Income from Continuing Operations	280	323	356	*369*	*416*
Depreciation Expense	364	410	424	*431*	*448*
Amortization of Other Intangibles	47	42	44	*44*	*44*
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	-8	—	—	—
Deferred Income Taxes & Other Adjustments to Net Income	—	—	—	*3*	*25*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	—	—	—	*108*	*-22*
(Increase) Decrease in Inventory	—	—	—	*-10*	*-4*
(Increase) Decrease in Prepayments, other Current Assets	—	—	—	*-17*	*-10*
Increase (Decrease) in Accounts Payable	—	—	—	*194*	*24*
Increase (Decrease) in Other Current Liabilities	-16	7	124	—	—
Cash from Operations	**684**	**774**	**948**	***1,121***	***922***
(Capital Expenditures)	-968	-1,006	-1,099	*-1,292*	*-1,318*
(Acquisitions)	-77	—	-25	—	—
Asset Sales & Dispositions of Discontinued Operations	1	15	51	—	—
Other Investing Cash Flows (Outlays)	-8	—	-52	*184*	*-50*
Cash from Investing	**-1,052**	**-991**	**-1,125**	***-1,108***	***-1,368***
Common Stock (Purchase) or Sale	46	80	345	*114*	*132*
Common Stock (Dividends)	-177	-193	-151	*-228*	*-240*
Preferred Stock Issue/(Purchase)/(Dividends)	-18	214	-29	*-34*	*-39*
Short Term Debt Issuance and (Retirement)	-6	-48	-343	*135*	—
Long Term Debt Issuance and (Retirement)	557	194	307	*171*	*550*
Minority Interest Addback of Income (Loss) Distribution	-8	36	72	*-3*	*15*
Other Financing Cash Flows (Outlays)	—	—	—	—	—
Cash From Financing	**394**	**283**	**201**	***156***	***418***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	—	—
Net Change in Cash	**26**	**66**	**24**	***169***	***-29***
Change in Cash on Balance Sheet	19	24	-20	*169*	*-29*
Difference, from analyst adjustments and restatements	7	42	44	—	—

Fortis, Inc. FTS (TSE) | ★★

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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 2011	2012(E)	2013(E)	EV/EBITDA 2011	2012(E)	2013(E)	Price/Free Cash Flow 2011	2012(E)	2013(E)	Price/Book 2011	2012(E)	2013(E)	Price/Sales 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1.18	—	*14.1*	*13.2*	—	*9.5*	*8.7*	—	*NM*	*-361.3*	—	*1.6*	*1.5*	—	*1.6*	*1.5*
TransAlta Corporation TAC USA	0.71	—	*12.7*	*12.0*	—	*7.2*	*6.9*	—	*16.0*	*12.4*	—	*1.2*	*1.2*	—	*1.2*	*1.1*
Average		—	*13.4*	*12.6*	—	*8.4*	*7.8*	—	*16.0*	*-174.5*	—	*1.4*	*1.4*	—	*1.4*	*1.3*
Fortis, Inc. FTS CA	**1.17**	**19.3**	***19.4***	***17.5***	**10.3**	***9.7***	***9.0***	**NM**	***NM***	***NM***	**1.6**	***1.6***	***1.5***	**1.7**	***1.6***	***1.6***

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill % 2011	2012(E)	2013(E)	ROIC without Goodwill % 2011	2012(E)	2013(E)	Return on Equity % 2011	2012(E)	2013(E)	Return on Assets, Pretax % 2011	2012(E)	2013(E)	Dividend Yield % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	— USD	6.9	*6.7*	*6.4*	6.9	*6.7*	*6.4*	12.2	*11.5*	*12.2*	5.7	*5.5*	*6.0*	—	*3.7*	*3.9*
TransAlta Corporation TAC USA	— CAD	5.7	*6.0*	*6.1*	6.1	*6.3*	*6.5*	10.6	*11.0*	*11.2*	6.1	*5.8*	*6.0*	—	*7.5*	*7.6*
Average		6.3	*6.4*	*6.3*	6.5	*6.5*	*6.5*	11.4	*11.3*	*11.7*	5.9	*5.7*	*6.0*	—	*5.6*	*5.8*
Fortis, Inc. FTS CA	**13,562** CAD	**7.0**	***6.1***	***6.5***	**8.1**	***7.1***	***7.5***	**9.9**	***9.5***	***10.1***	**5.8**	***6.1***	***6.3***	**2.4**	***3.6***	***3.8***

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2011	2012(E)	2013(E)	EBIT Growth % 2011	2012(E)	2013(E)	EPS Growth % 2011	2012(E)	2013(E)	Free Cash Flow Growth % 2011	2012(E)	2013(E)	Dividend/Share Growth % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	16,158 USD	5.5	*2.0*	*5.6*	-1.0	*4.9*	*11.3*	-6.7	*1.8*	*7.1*	-326.6	*13.2*	*-96.8*	10.9	*5.5*	*5.5*
TransAlta Corporation TAC USA	2,999 CAD	6.4	*1.9*	*4.3*	25.3	*-5.9*	*4.5*	21.7	*3.6*	*6.1*	593.4	*55.8*	*29.5*	22.2	*1.0*	*0.9*
Average		6.0	*2.0*	*5.0*	12.2	*-0.5*	*7.9*	7.5	*2.7*	*6.6*	133.4	*34.5*	*-33.7*	16.6	*3.3*	*3.2*
Fortis, Inc. FTS CA	**3,747** CAD	**2.3**	***4.5***	***4.2***	**3.5**	***10.5***	***9.9***	**6.1**	***1.0***	***10.7***	**-34.9**	***13.0***	***132.2***	**-25.6**	***44.6***	***3.5***

Fortis, Inc. FTS (TSE) | ★★

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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 % 2011	2012(E)	2013(E)	EBITDA Margin % 2011	2012(E)	2013(E)	Operating Margin % 2011	2012(E)	2013(E)	Net Margin % 2011	2012(E)	2013(E)	Free Cash Flow Margin % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	1,863 USD	56.9	57.8	59.5	31.5	32.1	33.4	19.6	19.8	21.6	11.5	11.5	11.7	-12.4	-13.8	-0.4
TransAlta Corporation TAC USA	270 CAD	62.5	57.6	57.6	39.8	35.7	35.7	20.4	19.2	19.2	9.0	9.2	9.5	4.9	7.4	9.2
Average		59.7	57.7	58.6	35.7	33.9	34.6	20.0	19.5	20.4	10.3	10.4	10.6	-3.8	-3.2	4.4
Fortis, Inc. FTS CA	**318** CAD	**54.7**	**55.3**	**56.0**	**32.9**	**33.8**	**34.9**	**20.4**	**21.6**	**22.8**	**8.5**	**8.6**	**9.3**	**-4.0**	**-4.4**	**-9.7**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2011	2012(E)	2013(E)	Debt/Total Cap % 2011	2012(E)	2013(E)	EBITDA/Interest Exp. 2011	2012(E)	2013(E)	Total Debt/EBITDA 2011	2012(E)	2013(E)	Assets/Equity 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	23,708 USD	153.9	159.3	159.7	60.6	61.4	61.5	4.7	4.4	4.4	4.7	4.9	4.7	3.7	3.7	3.7
TransAlta Corporation TAC USA	4,326 CAD	148.4	139.3	132.2	57.4	56.0	54.7	5.7	5.2	5.4	3.6	3.9	3.6	3.4	3.4	3.3
Average		151.2	149.3	146.0	59.0	58.7	58.1	5.2	4.8	4.9	4.2	4.4	4.2	3.6	3.6	3.5
Fortis, Inc. FTS CA	**5,944** CAD	**153.3**	**152.5**	**155.7**	**57.1**	**57.1**	**57.8**	**3.3**	**3.4**	**3.4**	**4.8**	**4.7**	**4.8**	**3.5**	**3.5**	**3.5**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2011	2012(E)	2013(E)	Net Cash per Share 2011	2012(E)	2013(E)	CFO per Share 2011	2012(E)	2013(E)	Free Cash Flow per Share 2011	2012(E)	2013(E)	Payout Ratio % 2011	2012(E)	2013(E)
NextEra Energy Inc NEE USA	26,526 USD	0.70	0.61	0.47	-55.55	-60.71	-64.64	9.69	10.37	10.53	-4.77	-5.39	-0.17	51.1	54.0	51.0
TransAlta Corporation TAC USA	3,688 USD	0.41	0.28	0.27	-19.16	-18.68	-18.20	3.37	4.04	3.92	0.66	1.02	1.31	101.7	96.1	91.3
Average		0.6	0.4	0.4	-37.4	-39.7	-41.4	6.5	7.2	7.2	-2.1	-2.2	0.6	76.4	75.1	71.2
Fortis, Inc. FTS CA	**6,401** CAD	**0.49**	**1.36**	**1.19**	**-32.17**	**-31.59**	**-34.01**	**5.21**	**5.91**	**4.77**	**-0.83**	**-0.90**	**-2.05**	**47.5**	**68.0**	**63.6**

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

Fundamental Analysis	Economic Moat™ Rating	Company Valuation	Fair Value Estimate	Uncertainty Assessment	Rating
Analyst conducts company and industry research: ► Financial statement analysis ► Channel checks ► Trade-show visits ► Industry and company reports and journals ► Conference calls ► Management and site visits	Strength of competitive advantage is rated: None, Narrow, or Wide Advantages that confer an economic moat: **High Switching Costs** (Microsoft) **Cost advantage** (Wal-Mart) **Intangible assets** (Johnson & Johnson) **Network Effect** (Mastercard) **Efficient Scale** (Lockheed Martin)	Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows. Assumptions are entered into Morningstar's proprietary discounted cash-flow model.	Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.	The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme. The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.	The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks. The Morningstar Rating for stocks is updated each evening after the market closes.

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.

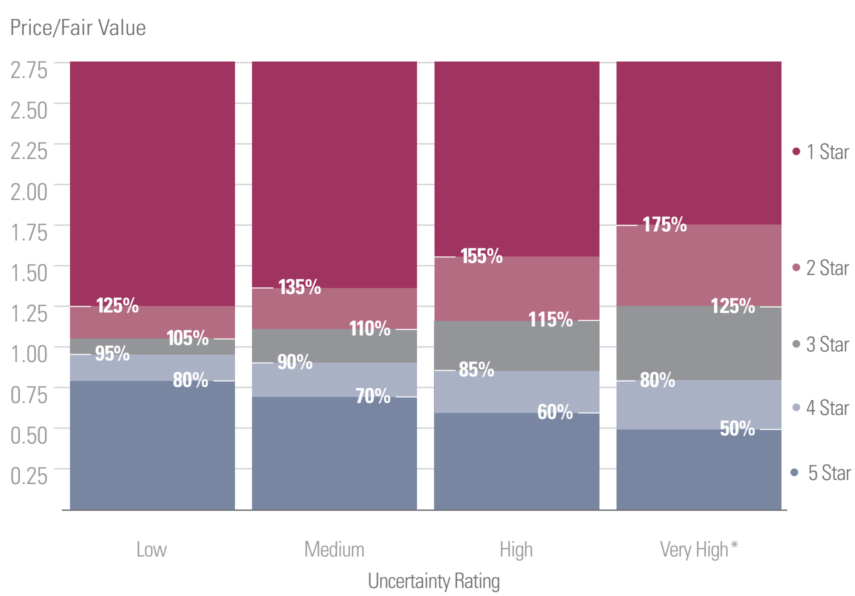
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue 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.

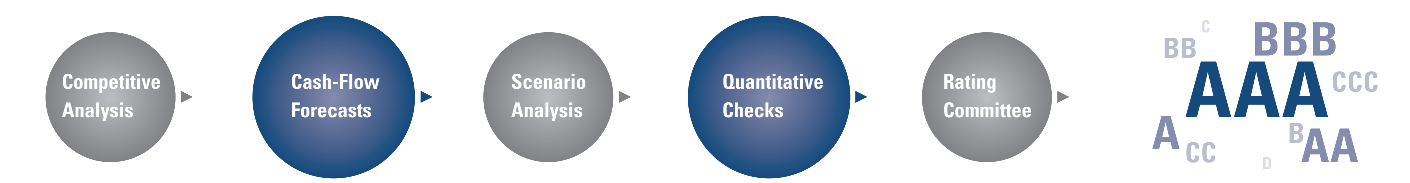
Business Risk

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



Competitive Analysis

Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Cash-Flow Forecasts

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Stress Test Score™

Scenario Analysis

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, forecasts, and scenario analysis, the analyst assigns Business Risk.

Quantitative Checks

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Bank Solvency Score™
- Distance to Default

Rating Committee

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

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, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

Fortis Reports Flat First-Quarter Earnings

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The primary analyst covering this company does not own its stock.

Research as of 04 May 2012
Estimates as of 02 May 2012
Pricing data through 03 May 2012
Rating updated as of 04 May 2012

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 04 May 2012

Fortis Inc FTS posted slightly lower earnings per share of $0.64 compared with $0.66 in the year-ago quarter. The results were down mostly due to a common stock offering in mid-2011. Excluding the share offering, results were flat from the prior year. In 2012, the company will pay $1.20 per share in dividends, up from 3.4% from 2011. At our fair value estimate, the current dividend yield is 4%. We are reaffirming our fair value estimate and forecast 2% EPS growth in 2012.

The company's Canadian regulated gas utilities overall earnings increased 9%, mostly due to weather, continued infrastructure investment, and volume strength from certain industrial sectors. Conversely, the company's Canadian regulated utilities earnings were mostly flat, in large part to regulatory mechanisms and expense timing. The company received clarity with regulatory decisions at FortisBC Energy gas delivery and Fortis Alberta distribution rates, with pending regulatory outcomes expected in 2012 for FortisBC, Fortis Alberta, and Newfoundland Power. Finally, favorable weather increased production in Belize with a favorable $3 million benefit to the company's bottom line.

Announced in February 2012, the company entered into a $1.5 billion purchase agreement to acquire New York regulated utility CH Energy Group CHG . We believe the transaction is slightly value-dilutive for Fortis shareholders. Fortis is awaiting regulatory approval from New York regulators and the Federal Energy Regulatory Commission, and given the size and nature of the transaction, we forecast a relatively high 85% probability that the transaction closes. Company management expects the transaction to close in early 2013.

Vital Statistics

Market Cap (CAD Mil)	6,401
52-Week High (CAD)	34.39
52-Week Low (CAD)	28.24
52-Week Total Return %	8.3
YTD Total Return %	2.3
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	3.8
5-Yr Forward EPS CAGR %	5.7
Price/Fair Value	1.13

Valuation Summary and Forecasts

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Price/Earnings	20.8	19.3	*19.4*	*17.5*
EV/EBITDA	10.4	10.3	*9.7*	*9.0*
EV/EBIT	16.8	16.6	*15.2*	*13.8*
Free Cash Flow Yield %	-3.9	-2.4	*-2.7*	*-6.2*
Dividend Yield %	3.3	2.4	*3.6*	*3.8*

Financial Summary and Forecasts (CAD Mil)

Fiscal Year:	2010	2011	*2012(E)*	*2013(E)*
Revenue	3,664	3,747	*3,914*	*4,077*
Revenue YoY %	0.7	2.3	*4.5*	*4.2*
EBIT	740	766	*846*	*930*
EBIT YoY %	5.6	3.5	*10.5*	*9.9*
Net Income, Adjusted	285	318	*335*	*377*
Net Income YoY %	8.8	11.6	*5.2*	*12.8*
Diluted EPS	1.65	1.74	*1.77*	*1.96*
Diluted EPS YoY %	7.0	6.1	*1.0*	*10.7*
Free Cash Flow	-232	-151	*-171*	*-396*
Free Cash Flow YoY %	-18.3	-34.9	*13.0*	*132.2*

Source for forecasts in the data tables above: Morningstar Estimates

Profile

Fortis primarily owns and operates utility transmission and distribution assets in Canada. It has smaller stakes in electricity generation, several Caribbean utilities, and Canadian hotel and commercial real estate. The firm's regulated natural gas operations serve 950,000 customers in British Columbia. Its regulated electric utility operations serve 1.1 million customers throughout Canada and in Grand Cayman and Turks and Caicos. Its Canadian operations accounted for 92% of its total assets as of 2010.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Growth (% YoY)	3-Year Hist. CAGR	Dec 2009	Dec 2010	Dec 2011	Forecast Dec 2012	Forecast Dec 2013	5-Year Proj. CAGR
Revenue	-1.4	-6.8	0.7	2.3	4.5	4.2	—
EBIT	3.1	0.1	5.6	3.5	10.5	9.9	7.9
EBITDA	3.4	-0.5	7.2	3.5	7.0	7.7	6.1
Net Income	9.1	6.9	8.8	11.6	5.2	12.8	7.6
Diluted EPS	3.9	-1.1	7.0	6.1	1.0	10.7	5.7
Earnings Before Interest, after Tax	6.3	89.7	-40.3	6.2	-8.5	12.4	3.6
Free Cash Flow to the Firm	-10.0	-21.3	-25.6	24.5	152.9	-136.8	24.8

Profitability	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Operating margin %	20.0	19.3	20.2	20.4	21.6	22.8	23.5
EBITDA margin %	32.0	30.6	32.5	32.9	33.8	34.9	35.5
Net margin %	7.8	7.2	7.8	8.5	8.6	9.3	9.6
Free Cash Flow to the Firm margin %	3.3	3.8	2.8	3.4	8.2	-2.9	3.5
ROIC with Goodwill %	8.8	12.6	6.9	7.0	6.1	6.5	6.4
ROIC w/out Goodwill %	10.4	14.9	8.1	8.1	7.1	7.5	7.2
Return on Assets, pretax %	5.9	6.0	5.9	5.8	6.1	6.3	6.4
Return on Equity %	9.7	9.4	9.9	9.9	9.5	10.1	10.2

Leverage	3-Year Hist. Avg	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	5-Year Proj. Avg
Debt/Capital	0.60	0.63	0.61	0.57	0.57	0.58	0.58
Total Debt/EBITDA	5.06	5.32	5.05	4.82	4.73	4.78	4.84
EBITDA/Interest Expense	3.28	3.09	3.41	3.34	3.39	3.43	3.43

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.27	1.24	—	—
Price/Earnings	20.8	19.3	19.4	17.5
EV/EBITDA	10.4	10.3	9.7	9.0
EV/EBIT	16.8	16.6	15.2	13.8
Free Cash Flow Yield %	-3.9	-2.4	-2.7	-6.2
Dividend Yield %	3.3	2.4	3.6	3.8

Key Valuation Drivers

Cost of Equity %	10.0
Credit Spread for Debt %	2.0
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	19.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	28.1
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	CAD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	588	5.1	3.07
Present Value Stage II	11,056	95.0	57.76
Present Value of the Perpetuity	—	—	—
Total Firm Value	**11,644**	**100.0**	**—**
Cash and Equivalents	89	—	0.47
Debt	6,250	—	-31.05
Net balance sheet impact	-5,855	—	-30.59
Other Adjustments	-203	—	-1.06
Equity Value	**5,586**	**—**	**29.86**
Projected Diluted Shares	191		
Fair Value per Share (CAD)	**30.00**		

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.

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (CAD Mil)

	Dec 2009	Dec 2010	Dec 2011	*Forecast* Dec 2012	*Forecast* Dec 2013
Total Revenue	**3,637**	**3,664**	**3,747**	***3,914***	***4,077***
Cost of Goods Sold	1,799	1,686	1,697	*1,749*	*1,792*
Gross Profit	**1,838**	**1,978**	**2,050**	***2,165***	***2,285***
Selling, General & Administrative Expenses	773	828	865	*888*	*906*
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	—	—	—	—	—
Restructuring & Other Charges (Gains)	—	—	—	—	—
Depreciation Expense (if reported separately)	364	410	419	*431*	*448*
Amortization of Other Intangibles (if reported seperately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
Total Expenses	**2,936**	**2,924**	**2,981**	***3,067***	***3,147***
Operating Income (EBIT)	**701**	**740**	**766**	***846***	***930***
Interest Expense	360	350	370	*390*	*415*
Interest & Other Income (Expense)	—	—	40	*10*	*10*
Pre-Tax Income	**341**	**390**	**436**	***466***	***525***
Income Tax Expense (Benefit)	49	67	80	*89*	*100*
Income After Taxes	**292**	**323**	**356**	***378***	***425***
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest	-12	-10	-9	*-9*	*-9*
(Preferred Dividends)	-18	-28	-29	*-34*	*-39*
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	—	—	—	—	—
Net Income (Loss)	**262**	**285**	**318**	***335***	***377***
Net Income (Loss) Excluding Charges	262	285	318	*335*	*377*
Diluted Shares Outstanding (Mil)	170	173	182	*190*	*193*
Diluted EPS Including Charges	1.54	1.65	1.75	*1.76*	*1.95*
Diluted EPS Excluding Charges	1.54	1.65	1.74	*1.77*	*1.96*
Dividends Per Common Share	1.10	1.04	1.12	*1.20*	*1.24*
EBITDA	**1,112**	**1,192**	**1,234**	***1,321***	***1,423***
EBITDA without restructuring	**1,112**	**1,192**	**1,234**	***1,321***	***1,423***

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (CAD Mil)

Assets	Dec 2009	Dec 2010	Dec 2011	*Forecast* *Dec 2012*	*Forecast* *Dec 2013*
Excess Cash & Investments	—	—	—	*141*	*107*
Operating Cash & Equivalents	85	109	89	*117*	*122*
Accounts Receivable	595	655	644	*536*	*558*
Inventory	178	168	134	*144*	*147*
Other Short Term Operating Assets	268	272	253	*270*	*280*
Total Current Assets	**1,126**	**1,204**	**1,120**	***1,208***	***1,215***
Property Plant & Equipment, Net	7,687	8,202	8,687	*9,548*	*10,418*
Property Plant & Equipment, Gross	11,408	12,109	13,013	*14,305*	*15,623*
(Accumulated Depreciation)	-3,721	-3,907	-4,326	*-4,757*	*-5,205*
Goodwill, Net	1,560	1,553	1,557	*1,557*	*1,557*
Other Intangibles	279	324	341	*297*	*253*
Other Long-Term Operating Assets	1,491	1,604	1,849	*1,700*	*1,750*
Deferred Tax Assets	17	16	8	*20*	*20*
Long-Term Non-Operating Assets, including Pension items	—	—	—	—	—
Total Assets	**12,160**	**12,903**	**13,562**	***14,330***	***15,213***
Liabilities					
Accounts Payable	852	953	914	*1,108*	*1,132*
Short-Term Debt	639	414	265	*400*	*400*
Other Current Liabilities	103	150	141	*141*	*141*
Total Current Liabilities	**1,594**	**1,517**	**1,320**	***1,649***	***1,673***
Long-Term Debt	5,276	5,609	5,679	*5,850*	*6,400*
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	**5,276**	**5,609**	**5,679**	***5,850***	***6,400***
Long-Term Operating Liabilities	731	775	881	*916*	*916*
Deferred Tax Liabilities	576	623	685	*700*	*725*
Long-Term Non-Operating Liabilities	320	320	320	*320*	*320*
Total Liabilities	**8,497**	**8,844**	**8,885**	***9,435***	***10,034***
Preferred Stock	**347**	**592**	**592**	***592***	***592***
Minority Interest	**123**	**162**	**208**	***205***	***220***
Shareholders' Equity					
Common Stock	170	173	173	*185*	*196*
Additional Paid in Capital	2,338	2,417	2,725	*2,827*	*2,948*
Retained Earnings (Deficit)	763	804	905	*1,012*	*1,149*
(Treasury Stock)	—	—	—	—	—
Other Equity	-78	-89	74	*74*	*74*
Total Shareholders' Equity	**3,193**	**3,305**	**3,877**	***4,098***	***4,367***
Total Liabilities + Shareholders' Equity	**12,160**	**12,903**	**13,562**	***14,330***	***15,213***
Difference, from analyst adjustments and restatements	—	—	—	—	—

Fortis, Inc. FTS (TSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
33.82 CAD	30.00 CAD	21.00 CAD	40.50 CAD	Medium	Narrow		Standard	—	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (CAD Mil)

				Forecast	
	Dec 2009	Dec 2010	Dec 2011	*Dec 2012*	*Dec 2013*
Net Income from Continuing Operations	280	323	356	*369*	*416*
Depreciation Expense	364	410	424	*431*	*448*
Amortization of Other Intangibles	47	42	44	*44*	*44*
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	-8	—	—	—
Deferred Income Taxes & Other Adjustments to Net Income	—	—	—	*3*	*25*
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	—	—	—	*108*	*-22*
(Increase) Decrease in Inventory	—	—	—	*-10*	*-4*
(Increase) Decrease in Prepayments, other Current Assets	—	—	—	*-17*	*-10*
Increase (Decrease) in Accounts Payable	—	—	—	*194*	*24*
Increase (Decrease) in Other Current Liabilities	-16	7	124	—	—
Cash from Operations	**684**	**774**	**948**	***1,121***	***922***
(Capital Expenditures)	-968	-1,006	-1,099	*-1,292*	*-1,318*
(Acquisitions)	-77	—	-25	—	—
Asset Sales & Dispositions of Discontinued Operations	1	15	51	—	—
Other Investing Cash Flows (Outlays)	-8	—	-52	*184*	*-50*
Cash from Investing	**-1,052**	**-991**	**-1,125**	***-1,108***	***-1,368***
Common Stock (Purchase) or Sale	46	80	345	*114*	*132*
Common Stock (Dividends)	-177	-193	-151	*-228*	*-240*
Preferred Stock Issue/(Purchase)/(Dividends)	-18	214	-29	*-34*	*-39*
Short Term Debt Issuance and (Retirement)	-6	-48	-343	*135*	—
Long Term Debt Issuance and (Retirement)	557	194	307	*171*	*550*
Minority Interest Addback of Income (Loss) Distribution	-8	36	72	*-3*	*15*
Other Financing Cash Flows (Outlays)	—	—	—	—	—
Cash From Financing	**394**	**283**	**201**	***156***	***418***
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	—	—	—	—	—
Net Change in Cash	**26**	**66**	**24**	***169***	***-29***
Change in Cash on Balance Sheet	19	24	-20	*169*	*-29*
Difference, from analyst adjustments and restatements	7	42	44	—	—

NATIONAL BANK FINANCIAL

Fortis Inc.

Operational Q4 2005 solid

On track for earnings/dividend growth

FTS (T)	**Cdn$22.96**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**Cdn$24.05** (Was $23.50)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$17.38 - $25.40
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2005a	2006e	2007e
EPS	$1.19	$1.28	$1.36
P/E	20.4x	17.9x	16.9x
EPS Change Y/Y	24.0%	7.6%	6.3%
Book Value	$11.76	$12.40	$13.12
P/BV	2.1x	1.9x	1.8x
Dividend Yield	2.6%	2.8%	2.8%

Financial Data:	
Shares Outstanding (mln)	103.2
Book Value per Share	$11.76
Market Capitalization (mln)	$2 370
Price/Book Ratio	2.0x
Debt/Total Cap.	64.6%
Dividend per share	$0.64
Dividend Yield	2.79%

HIGHLIGHTS

- **Q4 2005 reported earnings: $22.3 million or $0.22 per share vs. $21.2 million or $0.22 per share in Q4 2004 (y/y).**

- **Q4 2005 operational EPS: $0.26. Higher earnings from Non-regulated Generation, due to higher wholesale energy prices in Ontario and Upper New York State and increased production (partially offset by increased operating expenses) drove operational earnings.**

- **2005 reported earnings: $137.1 million or $1.35 per share vs. $90.9 million or $1.07 per share in 2004. 2005 operational EPS of about $1.19 matched our estimate.**

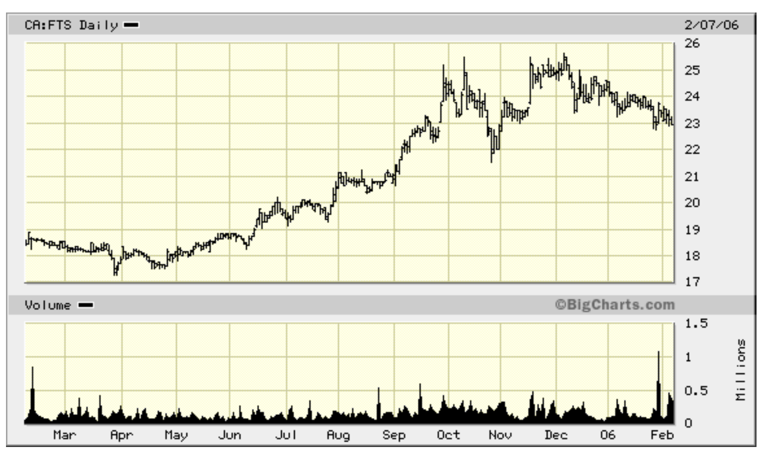
- **2005 earnings increased y/y as a result of a full year of earnings contributions from FortisAlberta (FA) and FortisBC (FBC) (vs. seven months in 2004), higher wholesale energy prices in Ontario…**
  …higher generation, higher equity income from Caribbean Utilities (TSX-CUP.U), and a $7.9 million (after-tax) gain from the settlement of contractual matters between Fortis Ontario (FO) and Ontario Power Generation (OPG).

- **We view our 2006 estimated EPS of $1.28 as slightly conservative**
  We are introducing our 2007 EPS of $1.36. We are maintaining our Sector Perform rating.

Industry Rating: Underweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); FortisUS Energy (100%)-N.Y. State; Belize Electricity (68%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (37.3%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

Stock Performance



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Assessment

FTS's 2005 operational earnings matched our expectation and confirm that having substantially integrated the acquisition of FA and FBC by year-end 2005, FTS is on track for growth in earnings and dividends. FTS's remarkably conservative dividend payout of 53.8% (based on operational EPS of $1.19 for 2005) leaves manoeuvring room for non-organic and organic growth.

FTS estimates to spend about $2 billion on capital projects between 2006 and 2010. Organic and non-organic capital spending could increase this amount further. We expect FTS to stick to its knitting, characterized by capable management with a conservative bias and strength in execution of its business plan.

We see FA in a growing flagship role in 2006 and 2007, followed by non-regulated generation and FBC.

Year-over-year results are distorted, because reported 2004 results reflect less than a year's earnings from FA and FBC. Unregulated generation in Ontario was once again the driver of quarterly earnings (disregarding the one-time contractual settlement with OPG.

Q4 2005 and 2005 results

Q4 2005 reported earnings: $22.3 million or $0.22 per share vs. $21.2 million or $0.22 per share in Q4 2004 (y/y).

Q4 2005 operational EPS: $0.26, after the exclusion of the following items: 1) a one-time $3-million adjustment related to the implementation of the Negotiated Rate Settlement reached on May 24, 2005, 2) a $1.1 million (after-tax) charge related to the writedown of the Rankine plant assets, 3) a $0.4 million (after-tax) insurance gain related to the involuntary disposition of assets associated with the Dolgeville plant in Upper New York State, and 4) a $0.8 million (after-tax) charge to operating expenses in Corporate related to the finalization of certain restructuring costs related to FA and FBC that were not quite fully provided for in the acquisition price (acquired on May 31, 2004).

Higher earnings from Non-regulated Generation due to higher wholesale energy prices in Ontario and Upper New York State and increased production (partially offset by increased operating expenses), were partly offset by lower reported earnings from Regulated Utilities and higher Corporate expenses.

2005 reported earnings: $137.1 million or $1.35 per share vs. $90.9 million or $1.07 per share in 2004. **2005 operating EPS were about $1.19 matching our estimate.**

2005 earnings increased y/y as a result of a full year of earnings contributions from FA and FBC (vs. seven months in 2004), higher wholesale energy prices in Ontario; higher generation; higher equity income from Caribbean Utilities (TSX-CUP.U), and a $7.9 million (after-tax) gain from the settlement of contractual matters between Fortis Ontario (FO) and Ontario Power Generation (OPG) (which we have treated as a one-time item and have deducted to arrive at operational EPS).

Business Segment Highlights

Segmented Reported Earnings ($Mln)	Q4 '05	Q4 '04	2005	2004
Regulated Utilities-Canadian	$14.7	$25.1	$104.8	$79.8
Regulated Utilities-Caribbean	$4.8	($4.2)	$19.4	$8.0
Non-regulated-Fortis Generation	$8.5	$4.7	$29.6	$12.8
Non-regulated-Fortis Properties	$2.9	$2.8	$14.1	$11.8
Corporate	($8.6)	($7.2)	($30.8)	($21.5)
Total Reported Earnings	**$22.3**	**$21.2**	**$137.1**	**$90.9**
Source: FTS				

Regulated Utilities – Canadian
Newfoundland Power (NP): Q4 Reported Earnings: $2.9 million vs. $3.3 million y/y. The y/y decrease in earnings was due to lower electricity sales, a 0.5% rate reduction in electricity rates (effective Jan. 1, 2005), increased early retirement costs, higher finance charges, partially offset by a lower purchased power unit cost, the seasonal affect of the new purchased power rate structure and reduced operating expenses. For 2005, earnings decreased by $0.4 million y/y to $30.7 million, due to the 0.5% rate reduction in electricity rates, increased early retirement costs, higher finance charges, partially offset by interest revenue from the income tax settlement with Canada Revenue Agency (CRA) in June 2005 (which increased earnings by $1.4 million (after-tax)), a lower purchase power unit cost, higher electricity sales and increased pole rental revenue. NP's allowed rate of return on equity for 2006 is 9.24%, unchanged from 2005 but still lower than the 9.75% in 2004.

Maritime Electric (ME): **Q4 Reported Earnings:** $1.7 million vs. $1.8 million y/y. For 2005, earnings rose primarily due to increased electricity sales (989 GWh vs. 977 GWh), a 2% increase in basic electricity rates (effective July 1, 2005), and lower finance charges. ME is currently in the commissioning phase of the new $35 million 50-MW dual-fuelled gas turbine, with commissioning and winter operation testing scheduled for completion later this month. This will reduce dependence on out-of-Province electricity and help alleviate submarine-cable congestion.

FortisOntario (FO) consists mainly of the distribution businesses of **Canadian Niagara Power (CNP)** and **Cornwall Electric (CE)**. The **Port Colborne lease** (signed in 2000) as well as **Granite Power Corp.** (acquired in May 2003) are included in CNP. **Q4 Reported Earnings:** $0.2 million vs. $0.9 million y/y. The $0.7 million y/y decrease in earnings was due to costs associated with an early retirement program offered in Q4 2005, as well as higher operating expenses. For 2005, earnings were basically flat at $4.3 million and were aided by the recognition of an out-of-period $1.6 million future tax asset associated with the favourable resolution of a Canada Revenue Agency (CRA) reassessment related to CE.

FortisAlberta (FA) and FortisBC (FBC):
FA Q4 Reported Earnings: $4.2 million vs. $7.5 million y/y. FA's earnings decreased due to revenue deferrals and higher amortization costs resulting from the Negotiated Settlement as well as higher finance charges and a higher effective income tax rate. For 2005, earnings were $36.1 million vs. $18.6 million (May-Dec. 2004), and included $7.1 million (net) in earnings primarily associated with the resolution of items from prior periods related to taxes, load settlement and the EPCOR claim settlement (Q3 2005), net of the insurance recovery, partially offset by adjustments associated with the implementation of the Negotiated Settlement and the impact of a higher effective corporate income tax rate. For 2006, FA is allowed to earn an 8.93% rate of return on common equity (RRCE), down from 9.5% in 2005.

FBC Q4 Reported Earnings: $5.7 million vs. $11.6 million y/y. The decrease in earnings was mostly due to lower accrued unbilled electricity revenue, increased operating expenses, amortization costs and finance charges, partially offset by an increase in other revenue. For 2005, earnings rose to $24.6 million from $17.7 million y/y, reflecting a full year of earnings contributions from FBC. For 2006, FBC is allowed to earn an 8.69% RRCE, down from 9.43% in 2005.

Regulated Utilities – Caribbean:

Belize Electricity (BE): Q4 Reported Earnings increased to $2.0 million from $1.6 million. 2005 earnings were $8.0 million vs. $7.2 million. Earnings were higher for the quarter and the year due mainly to a 11% increase in electricity rates effective July 1, 2005 (new four-year tariff agreement), higher electricity sales, and the foreign exchange impact associated with BE's euro-denominated debt. This was partially offset by increased finance charges and the impact of depreciation of the U.S. dollar. Electricity sales increased to 350 GWh from 330 GWh in 2004.

In Q4, Caribbean Utilities (CUP.U) (36.9% interest) **contributed $2.0 million in equity earnings** vs. a loss of $5.8 million last year. Earnings were higher y/y due primarily to the recording of Hurricane Ivan-related costs of about $8.2 million in Q4 2004, and the favourable impact of continuing business interruption loss insurance (BI) claims and the impact of the Cost Recovery Surcharge (CRS) effective Aug. 1, 2005. For 2005, equity earnings increased to $11.4 million from $0.8 million in 2004.

About 5% of pre-Ivan customers remained without electricity at the end of October 2005, and CUP.U expects electricity sales to achieve 100% of pre-Ivan sales by the end of April 2006.

CUP.U's existing licence is scheduled to expire in 2011 and on Nov. 23, 2005, it resumed licence extension discussions with the Cayman Islands government.

Non-Regulated - Fortis Generation: Operates non-regulated generation in Canada, the United States and Belize. **Q4 Reported Earnings:** $8.5 million vs. $4.7 million y/y. For 2005, earnings more than doubled to $29.6 million from $12.8 million, with the earnings jump due mainly to the impact of much higher average wholesale energy prices in Ontario and the $7.9 million (after-tax) gain from the settlement of contractual matters between Fortis Ontario (FO) and Ontario Power Generation (OPG).

Generation revenues for Q4 were $26.0 million vs. $20.0 million last year, aided by the higher wholesale energy prices in Ontario (avg. wholesale energy price of $71.46/MWh vs. $50.80/MWh last year) and Upper New York State (US$70.94/MWh vs. US$46.75/MWh y/y), as well as higher production (311 GWh vs. 299 GWh). For 2005, the average wholesale energy price in Ontario climbed to $68.49/MWh from $49.95/MWh last year.

In Belize, BECOL's US$30 million Chalillo-Dam Project began storing water on July 12, 2005, and commenced production at the new 7-MW hydro-electric plant in mid-September 2005. We understand that the reservoir has reached about 75% of its storage capacity, equivalent to about 75 gigawatt hours. By the end of the current rainy season, FTS expects that, with favourable rain falls, the reservoir may be filled to capacity. In Q4 2005, filling of the Chalillo reservoir reduced water availability and, hence, generation and revenues at the existing downstream 25-MW Mollejon station on the Macal River, mitigated somewhat by minor generation at the Chalillo plant.

Non-Regulated - Fortis Properties (FP): Q4 Reported Earnings: $2.9 million vs. $2.8 million y/y. 2005 earnings rose to $14.1 million from $11.8 million, with the strong increase attributable to higher earnings from operations, including the contribution from the February 2005 acquisition of the three Greenwood Inn-branded hotels in Western Canada for $62.6 million, and the expanded Delta St. John's Hotel operations (completed on June 1, 2005), partially offset by increased amortization and finance charges. We expect strong earnings growth organically and from acquisitions.

In 2005, FP started a $7 million expansion of the Holiday Inn Sarnia, a $2.5-million expansion to the catering and conference facilities at the Holiday Inn Kitchener-Waterloo, and a $7.2 million 55,000 leasable square foot expansion to the Blue Cross Centre in Moncton, New Brunswick.

Corporate: Q4 Reported Expenses: $8.6 million vs. $7.2 million y/y. The increase in expenses was mostly due to lower revenue, increased operating expenses, and lower net unrealized foreign exchange gains, partially offset by lower finance charges. Earnings were also hit by a $0.8 million (after-tax) charge to operating expenses related to the finalization of certain restructuring costs related to FortisAlberta (FA) and FortisBC (FBC) that were not provided for in the acquisition price (acquired on May 31, 2004). For 2005, expenses jumped by $9.3 million y/y to $30.8 million reflecting higher finance charges, preference share dividends and operating expenses.

Financial and Outlook

Funds from operations in 2005 were $312.6 million vs. $224.9 million in 2004.

During Q4 2005, utility capital expenditures (mostly on FA and FBC) were about $134 million, compared with $124.7 million in Q4 2004. For 2005, utility capital expenditures totalled $424.8 million vs. $262.5 million.

For 2006, capital expenditures are expected to be about $450 million of which about $420 million will be invested in regulated electric utilities (with about 75% scheduled for FA and FBC).

FTS expects the majority of its (organic) capital expenditures of about $2 billion over the next five years to be associated with FA and FBC. FTS's total utility assets are expected to grow at an average annual rate of 6% over the next five years.

FTS will continue to pursue electric utility asset acquisitions inside and outside Canada and will also focus on growing its non-regulated businesses including hydroelectric generation, hotels and real estate.

Valuation

For the 2007 fiscal year, we are estimating EPS of $1.36; DPS of $0.74; retained EPS of $0.62; a retained-EPS multiple of 13x; and a long-term corporate bond yield of 6.25%, tax-effected to 4.63% using a 1.35 dividend-tax-credit divisor. This generates a support price of $15.98 and a residual price of $8.06 for a target price of $24.05 (rounded).

the securities mentioned herein.

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Fortis Inc.

Q1 2006 EPS lower than expected…

Due to timing differences - Earnings/dividend growth unaffected

FTS (T)	**Cdn$21.42**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**Cdn$24.30** (Was $24.05)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$17.69 - $25.23
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2005a	2006e	2007e
EPS	$1.19	$1.28	$1.36
P/E	20.4x	16.7x	15.8x
EPS Change Y/Y	24.0%	7.6%	6.3%
Book Value	$11.76	$12.40	$13.12
P/BV	2.1x	1.7x	1.6x
Dividend Yield	2.6%	3.0%	3.0%

Financial Data:	
Shares Outstanding (mln)	103.4
Book Value per Share	$11.97
Market Capitalization (mln)	$2 214
Price/Book Ratio	1.8x
Debt/Total Cap.	64.7%
Dividend per share	$0.64
Dividend Yield	2.99%

Industry Rating: Underweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); FortisUS Energy (100%)-N.Y. State; Belize Electricity (68%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (37%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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HIGHLIGHTS

- **Q1 2006 reported earnings: $36.6 million or $0.35 per share vs. $39.2 million or $0.40 per share in Q1 2005 (y/y).**

- **Q1 2006 operational EPS: $0.35 vs. $0.32, after the exclusion of a Q1 2005 $7.9 million (after-tax) gain from the settlement of contractual matters between Fortis Ontario (FO) and Ontario Power Generation (OPG).**

- **Operational earnings increased y/y due mostly to higher earnings from FortisBC (FBC) and FortisAlberta (FA); increased non-regulated hydroelectric production in Belize, and an 11% electricity rate increase effective July 1, 2005 and higher electricity sales at Belize Electricity (BE).**
  This was mitigated by lower earnings from Newfoundland Power (NP) due to a change in the revenue recognition policy to the accrual method; a decrease in equity income from Caribbean Utilities (TSX-CUP.U) (due to the timing of expensing higher deferred fuel costs), and the impact of lower average wholesale energy prices in Ontario.

- **We still view our 2006 estimated EPS of $1.28 as slightly conservative. Our Sector Perform rating is sustained.**

Stock Performance

Assessment

Because of our assessment of FTS's growth prospects, we view it as Canada's premier utility-holding company. Consistent with its recent past, we expect FTS to continue to achieve growth organically and non-organically, with FA and FBC as growth leaders.

The fact that FTS missed our EPS estimate by $0.03 in the quarter results from timing differences in accounting for revenues at Newfoundland Power (NP) and fuel expenses at Caribbean Utilities (CUP.U), as explained below.

There are those fretting about "the world coming to an end at the close of 2009," when the Ontario Settlement with Ontario Power Generation (OPG) terminates. Yes, FTS will lose an attractive source of earnings that we don't expect to be replaced overnight. However, the relative significance of the Settlement's earnings contribution, compared with FTS's other operations at that time, will have decreased by then further causing us not to lose sleep between now and 2010.

FTS remains on track for growth in earnings and dividends after having substantially and successfully integrated FA and FBC by the end of 2005.

FTS estimates to spend about $2 billion on capital projects between 2006 and 2010 (2006-$450 million). Organic and non-organic capital spending could increase this amount further. The way FTS put it, at an annual capital-spending rate of $450 million it is adding to earnings one Maritime Electric (ME) annually.

We continue to see FA in a growing flagship role in 2006 and 2007, followed by FBC and non-regulated generation.

Q1 2006 highlights

Q1 2006 reported earnings: $36.6 million or $0.35 per share vs. $39.2 million or $0.40 per share in Q1 2005 (y/y).

Q1 2006 operational earnings: $36.6 million or $0.35 per share vs. $31.3 million vs. $0.32 y/y, after the exclusion of a Q1 2005 $7.9 million (after-tax) gain from the settlement of contractual matters between Fortis Ontario (FO) and Ontario Power Generation (OPG) (which we have treated as a one-time item and have deducted to arrive at operational EPS).

Operational earnings increased y/y due mostly to higher earnings from FortisBC (FBC) and FortisAlberta (FA); increased non-regulated hydroelectric production in Belize, and a 11% electricity rate increase effective July 1, 2005, and higher electricity sales at Belize Electricity (BE). This was mitigated by lower earnings from Newfoundland Power (NP) due to a change in the revenue recognition policy to the accrual method ($2 million impact); a decrease in equity income from Caribbean Utilities (TSX-CUP.U) (due to higher-than-usual expensing of deferred fuel costs), and the impact of lower average wholesale energy prices in Ontario.

Business Segment Highlights

Segmented Reported Earnings ($Mln)	Q1 2006	Q1 2005
Regulated Utilities-Canadian	$35.1	$32.9
Regulated Utilities-Caribbean	$3.1	$3.5
Non-regulated-Fortis Generation	$5.4	$10.0
Non-regulated-Fortis Properties	$1.5	$1.5
Corporate	($8.5)	($8.7)
Total Reported Earnings	**$36.6**	**$39.2**
Source: FTS		

Regulated Utilities – Canadian

Newfoundland Power (NP): Reported Earnings: $10.7 million vs. $13.0 million y/y. The y/y decrease in earnings was primarily the result of a change (effective Jan. 1, 2006) in NP's revenue recognition policy (to the accrual basis from the revenue recognition basis), which lowered earnings by about $2 million vs. last year. This move to the accrual basis will NOT have a material impact on annual earnings but will shift earnings from Q1 and Q2 to Q3 and, especially, Q4. In Q1, 1,633 GWh of electricity were sold vs. 1,700 GWh y/y. NP's allowed rate of return on equity for 2006 is 9.24%, unchanged from 2005 but still lower than the 9.75% in 2004.

Maritime Electric (ME): **Reported Earnings:** $2.1 million, flat y/y. Electricity sales were also flat y/y (255 GWh vs. 256 GWh). During Q1, ME commissioned the new $35 million 50-MW dual fuelled gas turbine which will reduce dependence on out-of-Province electricity and help alleviate submarine-cable congestion. On Jan. 31, 2006, ME filed an application with the Island Regulatory and Appeals Commission (IRAC) proposing an overall increase in customer electricity rates of 1.6% effective July 1, 2006, and a further amortization of the $20.8 million in recoverable costs accumulated (as at Dec.31, 2003) of $1.5 million in 2006 and $1.3 million in 2007.

FortisOntario (FO) consists mainly of the distribution businesses of **Canadian Niagara Power (CNP)** and **Cornwall Electric (CE)**. The **Port Colborne lease** (signed in 2000) as well as **Granite Power Corp.** (acquired in May 2003) are included in CNP. **Reported Earnings:** $1.0 million vs. $1.1 million y/y. The slight decrease in earnings was due to lower electricity sales (325 GWh vs. 331 GWh) and an increase in the allocation of shared service costs from non-regulated Ontario generation operations. This was partly offset by savings realized from an early retirement program that was completed in Q4 2005.

FortisAlberta (FA) and FortisBC (FBC):

FA Reported Earnings: $9.5 million vs. $7.8 million y/y. FA's earnings were higher y/y due to increased revenue and a lower effective corporate income tax rate, partly offset by higher operating expenses, amortization costs and finance charges. In Q1, 3,754 GWh of electricity was sold vs. 3,685 GWh y/y. For 2006, FA is allowed to earn an 8.93% rate of return on common equity (RRCE), down from 9.5% in 2005.

FBC Reported Earnings: $11.8 million vs. $8.9 million y/y. The increase in earnings was mostly due to increased electricity revenue and lower operating expenses, partly offset by increased amortization costs, finance charges and energy supply costs. In Q1, 840 GWh of electricity was sold vs. 832 GWh y/y. For 2006, FBC is allowed to earn an 8.69% RRCE, down from 9.43% in 2005.

On Jan. 31, 2006, FBC received approval from the British Columbia Utilities Commission (BCUC) for its 2006 Capital Plan of $111.7 million, net of customer contributions of which about $27 million in projects is subject to further review and approval.

Regulated Utilities – Caribbean:

Belize Electricity (BE): Reported Earnings increased to $1.5 million from $1.0 million y/y. Earnings were higher y/y mostly due to a 11% increase in electricity rates effective July 1, 2005 (new four-year tariff agreement), and higher electricity sales, partly offset by the foreign exchange impact associated with BE's euro-denominated debt and higher finance charges. Electricity sales increased to 80 GWh vs. 76 GWh y/y.

In Q1, Caribbean Utilities (CUP.U) (37% interest) **contributed $1.6 million in equity earnings** vs. $2.5 million last year. Earnings were lower y/y due primarily to higher fuel expenses associated with the timing of expensing previously deferred fuel costs. Also, Q1 2006 was impacted by increased insurance premiums, insurance-related consulting fees, interest expense and lease costs associated with temporary generation that, because of the post-Hurricane Ivan sales recovery and revenue associated with the hurricane cost recovery surcharge (CRS) implemented on Aug. 1, 2005, mitigated cost increases.

CUP.U is now regularly meeting pre-Ivan generation and sales levels and expects to consistently meet or exceed the pre-Ivan levels as well as achieve 100% of pre-Ivan sales by the end of July 2006. CUP.U also expects to return to a total owned generating capacity of about 120-MW by summer 2006 vs. 123-MW pre-Ivan.

CUP.U's existing licence is scheduled to expire in 2011 and licence extension discussions with the Cayman Islands government are still ongoing. If all goes well, CUP.U may be replacing its existing licence with a price-cap regime.

Non-Regulated - Fortis Generation: Operates non-regulated generation in Canada, the United States and Belize. **Reported Earnings:** $5.4 million vs. $10 million y/y. **Operationally,** excluding the Q1 2005 $7.9 million (after-tax) gain from the settlement of contractual matters between Fortis Ontario (FO) and Ontario Power Generation (OPG), earnings increased by $3.3 million y/y as a result of increased electricity production and lower finance charges and operating costs, partly offset by lower average wholesale energy prices in Ontario ($50.98/MWh vs. $55.99/MWh y/y).

Generation revenues for Q1 were $19.3 million vs. $17.0 million last year, aided by higher production in Belize (due to higher rainfall levels and commencement of generation at the new Chalillo dam) and Upper New York State (three months of Dodgeville plant operations vs. only one month last year).

Non-Regulated - Fortis Properties (FP): Reported Earnings: $1.5 million, flat vs. last year. During Q1, FP continued work on the $7.7 million expansion of the Holiday Inn Sarnia, a $2.5-million expansion to the catering and conference facilities at the Holiday Inn Kitchener-Waterloo, and a $7.2 million 55,000 leasable square foot expansion to the Blue Cross Centre in Moncton, New Brunswick. Work on all of these projects is expected to be completed during Q2 2006. We expect them to contribute incremental earnings as of Q3 2006. These assets as well as the three Greenwood Inn-branded hotels in Western Canada (acquired in February 2005) and the expanded Delta St. John's Hotel operations (completed on June 1, 2005) are expected to drive revenue and earnings growth in 2006. We continue to expect earnings growth organically and from acquisitions.

Corporate: Reported Expenses: $8.5 million vs. $8.7 million y/y. The decrease in expenses was mostly due to lower finance charges and a reduction in net unrealized foreign exchange losses, mitigated by a decrease in inter-company interest revenue.

Financial and Outlook

Funds from operations in Q1 2006 were $79.6 million vs. $79.1 million y/y. Cash flow from operations after working capital adjustments fell to $49.4 million from $79.3 million y/y as working capital decreased due to the timing of a large one-time, cash-income tax instalment payment at FA, FO, and Maritime Electric and a general change in the timing of receipt and payment of other WC items.

During Q1 2006, utility capital expenditures were $104.3 million including about $80 million spent on FA and FBC.

For 2006, capital expenditures are expected to be about $450 million of which about $425 million will be invested in regulated electric utilities (with about 75% scheduled for FA and FBC).

FTS expects the majority of its (organic) capital expenditures of about $2 billion over the next five years to be associated with FA and FBC. FTS's total utility assets are expected to grow at an average annual rate of 5-6% over the next five years. We expect FTS to achieve growth at the high end of the range, if not slightly more.

FTS is aware of the continued existence of negative working capital, and is taking steps to bring it more in line with other utilities. We believe that depreciation rates at FBC are still unusually low, requiring upward adjustments. We expect FTS to generate prospectively funds from operations in the range of $300 million to $350 million. This will aid internal cash generation.

Growing levels of internal cash generation, combined with dividend reinvestments, the exercise of share-purchase option and operation of share-purchase plans, will, in our view, defer public equity issues for several years, unless FTS comes across acquisition opportunities it cannot afford to reject.

FTS will continue to pursue electric utility asset acquisitions inside and outside Canada and will also focus on growing its non-regulated businesses including hydroelectric generation, hotels and real estate.

Valuation

For the 12-month period ending March 2008, we are estimating EPS of $1.38; DPS of $0.74; retained EPS of $0.64; a retained-EPS multiple of 13x; and a long-term corporate bond yield of 6.25%, tax-effected to 4.63% using a 1.35 dividend-tax-credit divisor. This generates a support price of $15.98 and a residual price of $8.32 for a target price of $24.30 (rounded).

Research Analyst compensation.

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NATIONAL BANK FINANCIAL

August 8, 2006

The NBF Daily Bulletin
Electric Utilities

Fortis Inc.

Q2 2006 EPS slightly better than expected…

On track to deliver another year of solid EPS and DPS growth…

FTS (T)	**Cdn$22.65**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**Cdn$25.50** (Was $24.30)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$20.47 - $25.40
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2005a	2006e	2007e
EPS	$1.19	$1.28	$1.38
P/E	20.4x	17.7x	16.4x
EPS Change Y/Y	24.0%	7.6%	7.8%
Book Value	$11.76	$12.40	$13.14
P/BV	2.1x	1.8x	1.7x
Dividend Yield	2.6%	2.8%	2.8%

Financial Data:	
Shares Outstanding (mln)	103.5
Book Value per Share	$12.18
Market Capitalization (mln)	$2 344
Price/Book Ratio	1.9x
Debt/Total Cap.	64.8%
Dividend per share	$0.64
Dividend Yield	2.83%

HIGHLIGHTS

- **<u>Q2 2006 reported earnings:</u> $37.9 million or $0.37 per share vs. $38.2 million or $0.37 per share in Q2 2005 (y/y).**

- **<u>Q2 2006 operational earnings:</u> $34.4 million or $0.33 per share vs. $29.8 million vs. $0.29 y/y, after the exclusion in Q2 2006 of 1) a $2.1 million ($1.6 million after-tax) gain on the sale of Fortis Properties' (FP) Days Inn Sydney hotel, and 2) a $1.9-million after-tax reduction in income taxes at FP; and the exclusion in Q2 2005, of 1) a $7-million after-tax positive adjustment related to the resolution of tax-related matters pertaining to prior years at FortisAlberta (FA), and 2) $1.4-million (after-tax) of interest revenue related to a tax settlement with the Canada Revenue Agency.**

- **Operational earnings increased y/y as a result of lower corporate income taxes (mostly at FA), improved hydroelectric production in Belize, higher earnings at FP, and a $1.9 million ($1.6 million after-tax) net unrealized foreign exchange gain recorded during the quarter.**

- **We are raising estimated 2007 EPS to $1.38 from $1.36. Our Sector Perform rating is sustained.**

Industry Rating: Underweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); FortisUS Energy (100%)-N.Y. State; Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (37.4%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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Stock Performance

Assessment

Now that FTS has more or less digested the former Aquila assets in Alberta and British Columbia, added them to its body mass and cleared its mind from mundane preoccupations, it is time for FTS to open a new hunting season. As the outcome of any hunt is, by its nature, uncertain, we would still expect FTS to choose Western Canada as its hunting ground. This is where the opportunities lie and, this is where the action is. Knowing that FTS is not flashy, we would expect FTS to put some meat and potatoes on the table.

It has placed FortisAlberta (FA) and FortisBC (FBC) in a state of good health and fitness. It can take its mind off rate-case matters for a moment or two, because the former has a rate settlement under its belt for 2006 and 2007. In British Columbia, a negotiated settlement for 2006 is in place and so is a new, performance-based, rate-design system for 2007 and 2008, with an option for an extension to 2009, unless someone feels tempted to rattle the chain. The Alberta settlement has created breathing room for addressing 2008 and 2009. If a rate filing appears advisable, FTS's troops on the western front will, no doubt, prepare a rate filing that has hands and feet and is well thought-out.

The Mayan rain god has been benign to BECOL. The Chalillo generating has been operating more or less flat out, depriving Mexico of the sale of and protecting Belize Electricity customers from high-priced natural gas. Whatever reservoir depletion has occurred, a little precipitation here and there has replenished its drawdown and is keeping the reservoir full, equivalent to a reserve of about 45 GWh.

Newfoundland Power's (NP) results are a good example why one ought not be spellbound or disappointed by quarterly results. All's well, as far as we can see, and whatever earnings it has "lost" on the swings in the first half, it will gain on the roundabouts in the second half.

What almost keeps us awake at night is FTS's "Plan B" for the post-April 2009 period, when its arrangement with Ontario Power Generation (OPG) and its associated earnings stream will have expired. FTS is not known as an aficionado of subsidies, but it remains to be seen whether its leader from the Rock might not succumb to the Federal subsidy for wind electricity and decorate the Niagara Falls area with a windmill or two, although, we believe, his heart is in hydroelectricity.

Down South, we still believe that rounding-up FTS's equity interest in Caribbean Utilities (TSX-CUP.U) to 100% is still in the cards, subject to the looks of new licences. Should this occur soon, the appetite for hunting in the West may subside for a while.

No matter how we look at FTS, it remains on our radar screen as Canada's best diversified utility, in terms of earnings and dividend growth.

Q2 2006 highlights

Q2 2006 reported earnings: $37.9 million or $0.37 per share vs. $38.2 million or $0.37 per share in Q2 2005 (y/y).

Q2 2006 operational earnings: $34.4 million or $0.33 per share vs. $29.8 million vs. $0.29 y/y, after the exclusion in Q2 2006 of 1) a $2.1 million ($1.6 million after-tax) gain on the sale of Fortis Properties' (FP) Days Inn Sydney hotel, and 2) a $1.9 million after-tax reduction in income taxes at FP; and the exclusion in Q2 2005, of 1) a $7 million after-tax positive adjustment related to the resolution of tax-related matters pertaining to prior years at FortisAlberta (FA), and 2) $1.4 million (after-tax) of interest revenue related to a tax settlement with Canada Revenue Agency. Operational EPS of $0.33 were one penny higher than our estimate but in line with the Street.

Operational earnings increased y/y as a result of lower corporate income taxes (mostly at FA), improved hydroelectric production in Belize, higher earnings at FP and a $1.9 million ($1.6 million after-tax) net unrealized foreign exchange gain recorded during the quarter.

Business Segment Highlights

Segmented Reported Earnings ($Mln)	Q2 2006	Q2 2005
Regulated Utilities-Canadian	$25.4	$34.8
Regulated Utilities-Caribbean	$4.4	$5.0
Non-regulated-Fortis Generation	$6.7	$3.2
Non-regulated-Fortis Properties	$8.1	$4.8
Corporate	($6.7)	($9.6)
Total Reported Earnings	**$37.9**	**$38.2**
Source: FTS		

Regulated Utilities – Canadian

Newfoundland Power (NP): Reported Earnings: $8 million vs. $11.5 million y/y. The y/y decrease in earnings was primarily the result of a change (effective Jan. 1, 2006) in NP's revenue recognition policy (to the accrual basis from the revenue recognition basis), which lowered earnings by about $3 million vs. Q2 2005. This move to the accrual basis has **NO** material impact on annual earnings but has just shifted earnings from Q1 and Q2 to Q3 and, especially, Q4. Higher finance charges and lower interest revenue clipped earnings a bit, mitigated by lower corporate income taxes and operating expenses. We also note that $1.4 million (after-tax) of interest revenue related to a tax settlement with Canada Revenue Agency was recorded in Q2 2005.

In Q2, 1,137 GWh of electricity were sold vs. 1,240 GWh y/y. NP's allowed rate of return on equity for 2006 is 9.24%, unchanged from 2005 but still lower than the 9.75% in 2004.

Maritime Electric (ME): **Reported Earnings:** $2.2 million vs. $2.3 million y/y. Electricity sales were also flat y/y at 241 GWh. On June 27, 2006, the Island Regulatory and Appeals Commission (IRAC) issued its Order with respect to ME's Jan. 31, 2006 General Rate Application. The IRAC approved an overall average decrease in customer electricity rates of 1.2% effective July 1, 2006, approved the further amortization of the $20.8 million in recoverable costs accumulated (as at Dec.31, 2003) of $1.5 million in 2006, and approved ME's maximum allowed ROE at 10.25%.

FortisOntario (FO) consists mainly of the distribution businesses of **Canadian Niagara Power (CNP)** and **Cornwall Electric (CE)**. The **Port Colborne lease** (signed in 2000) as well as **Granite Power Corp.** (acquired in May 2003) are included in CNP. **Reported Earnings:** $0.5 million vs. $0.9 million y/y. The decrease in earnings was mostly due to higher corporate income taxes. FO experienced lower electricity sales (259 GWh vs. 272 GWh) due to moderate weather conditions.

FortisAlberta (FA) and FortisBC (FBC):
FA Reported Earnings: $11.3 million vs. $14.7 million y/y. Excluding a $7 million after-tax positive adjustment related to the resolution of tax-related matters pertaining to prior years recorded in Q2 2005, operational earnings were higher y/y mostly due to lower corporate income taxes and higher electricity sales (3,538 GWh vs. 3,402 GWh), partly offset by a 1.9% decrease in electricity sales as a result of the 2006/07 Negotiated Settlement Agreement. For 2006, FA is allowed to earn an 8.93% rate of return on common equity (RRCE), down from 9.5% in 2005. FA is forecast to spend about $184.5 million on capital expenditures in 2006.

FBC Reported Earnings: $3.4 million vs. $5.4 million y/y. The decrease in earnings was mostly due to higher energy supply costs, amortization costs and finance charges, and the impact of the new PBR mechanism, partly offset by the 5.9% electricity rate increase effective Jan. 1, 2006. In Q2, 662 GWh of electricity was sold vs. 642 GWh y/y. For 2006, FBC is allowed to earn an 8.69% RRCE, down from 9.43% in 2005.

On Jan. 31, 2006, FBC received approval from the British Columbia Utilities Commission (BCUC) for its 2006 Capital Plan of $111.7 million, net of customer contributions of which about $27 million in projects is subject to further review and approval.

Regulated Utilities – Caribbean:

Belize Electricity (BE) (70.1%-interest): Reported Earnings increased to $2.3 million from $1.9 million y/y. Earnings were higher y/y mostly due to a 11% increase in electricity rates effective July 1, 2005 (new four-year tariff agreement), and higher electricity sales, partly offset by the foreign exchange impact associated with BE's euro-denominated debt as well as the weak U.S. dollar. Electricity sales slightly increased to 93 GWh vs. 92 GWh y/y.

In Q2, Caribbean Utilities (CUP.U) (37.4%-interest) contributed $2.1 million in equity earnings vs. $3.1 million last year. Earnings were flat y/y after the exclusion of the $1.1 million positive adjustment to Q2 2005 equity earnings related to CUP.U's change in its accounting practice for recognizing unbilled revenue.

In June 2006, CUP.U's customer level reached and surpassed pre-Hurricane Ivan levels. At the end of July 2006, CUP.U's total owned generating capacity reached 120-MW vs. 123-MW pre-Ivan.

CUP.U's existing licence is scheduled to expire in 2011 and licence extension discussions with the Cayman Islands government are still ongoing. If all goes well, CUP.U may be replacing its existing licence with one or more licences and a price-cap regime.

Non-Regulated – Fortis Generation: Operates non-regulated generation in Canada, the United States and Belize. **Reported Earnings:** $6.7 million vs. $3.2 million y/y. Earnings increased y/y as a result of increased electricity production, a $1.2 million ($0.7 million after-tax) insurance gain related to the 2005 flood at the Dodgeville plant in Upper New York State, and lower finance charges and operating costs, partly offset by lower average wholesale energy prices in Ontario ($45.32/MWh vs. $60.24/MWh y/y).

Q2 energy sales increased 12.4% to 290 GWh from 258 GWh last year, due to higher hydroelectric production in Belize and Upper New York State, partially offset by lower production in Central Newfoundland. Production in Belize was aided by higher rainfall levels and the operation of the Chalillo dam and hydroelectric generating facility. The Chalillo reservoir is currently at its full supply level which is equal to 45 GWh of hydroelectric production. In late June 2006, the Dodgeville plant was once again forced out of commission until late Q3 2006 due to another flood. It seems to be flood-prone.

Non-Regulated – Fortis Properties (FP): Reported Earnings: $8.1 million vs. $4.8 million y/y. The $3.3 million y/y increase was mostly due to a $2.1 million ($1.6 million after-tax) gain on the sale of the Days Inn Sydney hotel as well as lower corporate income taxes related to income-tax-rate reductions, which we estimate at about $1.9 million after-tax.

During Q2, FP completed the $7.7 million expansion of the Holiday Inn Sarnia, the $2.5-million expansion to the catering and conference facilities at the Holiday Inn Kitchener-Waterloo, and the $7.2 million 57,000 square foot expansion to the Blue Cross Centre in Moncton, New Brunswick. We expect them to contribute incremental earnings as of Q3 2006. These assets as well as the three Greenwood Inn-branded hotels in Western Canada (acquired in February 2005) and the expanded Delta St. John's Hotel operations (completed on June 1, 2005) are expected to drive revenue and earnings growth in 2006. We continue to expect earnings growth, mainly organically, and perhaps from acquisitions.

Corporate: Reported Expenses: $6.7 million vs. $9.6 million y/y. The decrease in expenses was mostly due to the recording of a $1.9 million ($1.6 million after-tax) net unrealized foreign exchange gain during Q2 2006 compared with a $1.2 million ($1 million after-tax) net unrealized foreign exchange loss during Q2 2005, in addition to a higher corporate income tax recovery, partially offset by a decrease in inter-company interest revenue.

Financial and Outlook

Funds from operations in Q2 2006 were $70.7 million vs. $92.8 million y/y. Cash flow from operations after working capital adjustments increased to $57.8 million from $49.9 million y/y.

During Q2 2006, utility capital expenditures were $111.5 million vs. $97.7 million y/y, including about $80 million spent on FA and FBC.

For 2006, capital expenditures are expected to be about $450 million of which about $300 million will be invested in FA and FBC.

FTS expects the majority of its (organic) capital expenditures of about $2 billion over the next five years to be associated with FA and FBC. FTS's total utility assets are expected to grow at an average annual rate of 6% over the next five years. We expect FTS to achieve growth at this rate, if not slightly more.

FTS will continue to pursue electric utility asset acquisitions inside and outside Canada and will also focus on growing its non-regulated businesses including hydroelectric generation, hotels and real estate.

Valuation

For the 12-month period ending June 2008, we are estimating EPS of $1.46; DPS of $0.76; retained EPS of $0.70; a retained-EPS multiple of 13x; and a long-term corporate bond yield of 6.25%, tax-effected to 4.63% using a 1.35 dividend-tax-credit divisor. This generates a support price of $16.41 and a residual price of $9.10 for a target price of $25.50 (rounded).

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August 29, 2006

The NBF Daily Bulletin
Electric Utilities

Fortis Inc.

Snaps up two more Caribbean electric utilities

Purchases two utilities in the Turks and Caicos Islands for US$90 mln including debt

FTS (T)	**Cdn$23.76**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**Cdn$26.20** (Was Cdn$25.50)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$20.75 - $25.40
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2005a	2006e	2007e
EPS	$1.19	$1.29	$1.42
P/E	20.4x	18.4x	16.7x
EPS Change Y/Y	24.0%	8.4%	10.1%
Book Value	$11.76	$12.41	$13.19
P/BV	2.1x	1.9x	1.8x
Dividend Yield	2.6%	2.7%	2.7%

Financial Data:	
Shares Outstanding (mln)	103.5
Book Value per Share	$12.18
Market Capitalization (mln)	$2 459
Price/Book Ratio	2.0x
Debt/Total Cap.	64.8%
Dividend per share	$0.64
Dividend Yield	2.69%

Industry Rating: Underweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); FortisUS Energy (100%)-N.Y. State; Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (37.4%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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HIGHLIGHTS

- **On Aug. 28, FTS announced that its wholly owned subsidiary, Fortis Energy (Bermuda) Ltd., had acquired all of the outstanding shares of two electric utilities located in the Turks and Caicos Islands – 1) P.P.C. Limited (PPC), and 2) Atlantic Equipment and Power (Turks and Caicos) Limited (Atlantic) – from T.C. Energy Holdings Inc. for US$90 million including estimated assumed debt of about US$20 million.**

- **PPC is the sole provider of electricity in Provinciales, North Caicos and Middle Caicos through an exclusive 50-year licence that expires in 2037, while Atlantic is the sole provider of electricity in South Caicos through an exclusive 50-year licence that expires in 2036.**

- **Combined, the PPC and Atlantic electric utilities serve almost 7,500 customers or about 80% of electricity customers in the Turks and Caicos Islands, and own about 25-MW of diesel-fired generating capacity, meeting a peak demand of about 20 MW.**
  Both utilities are regulated under a traditional rate-of-return on rate-base formula with a fixed rate of return of 17.5% on a defined asset base.

- **FTS has stated that the acquisitions will be immediately EPS and cash flow accretive**
  We estimate the incremental 2006 EPS contribution at about $0.01 per share.

Stock Performance

Assessment

These acquisitions come as no surprise as we have been predicting that once FTS had fully digested the FortisAlberta and FortisBC assets, it would resume fishing for acquisitions in the English-speaking part of the Caribbean and/or Western Canada. Moreover, the silence surrounding FTS was so ominously deafening that we had expected an announcement for some time. While we require more detail, we are satisfied that the acquisitions are bite-sized and beautiful.

We estimate the incremental EPS-contribution of the acquisition at about $0.01 per share for 2006. For 2007 and 2008, depending on exchange rates and the timing and cost of permanent financing of the acquisitions, we are estimating annual incremental EPS contributions from the acquisitions of about $0.04 per share.

We still believe that rounding up FTS's equity interest (currently 37.4%) in Caribbean Utilities (TSX-CUP.U) to 100% is still in the cards, subject to the looks and feel of new licences. Moreover, we are counting on acquisitions in Western Canada over the next few years.

No matter how we look at FTS, it still remains on our radar screen as Canada's best diversified utility, with the best earnings and dividend growth profile.

Event

On Aug. 28, FTS announced that its wholly owned subsidiary, Fortis Energy (Bermuda) Ltd., had acquired all of the outstanding shares of two electric utilities located in the Turks and Caicos Islands – 1) P.P.C. Limited (PPC), and 2) Atlantic Equipment and Power (Turks and Caicos) Limited (Atlantic) – from T.C. Energy Holdings Inc. for US$90 million including assumed debt of about US$20 million.

***PPC** is the sole provider of electricity in Provinciales, North Caicos and Middle Caicos through an exclusive 50-year licence that expires in 2037.*

***Atlantic** is the sole provider of electricity in South Caicos through an exclusive 50-year licence that expires in 2036.*

Combined, the PPC and Atlantic electric utilities serve almost 7,500 customers or about 80% of electricity customers in the Turks and Caicos Islands, own about 25 MW of diesel-fired generating capacity meeting a peak demand of about 20 MW, and estimated annual sales of about 106 GWh in 2006. Both utilities are regulated light-handedly under a traditional rate-of-return on rate-base formula with a fixed rate of return of 17.5% on a defined asset base estimated at about US$53 million for 2006.

Operations

We understand that demand for electricity in the Turks and Caicos Islands is growing relatively strongly at estimated annual rates of 4-6% or better, driven primarily by commercial construction (hotels, condominiums). Commercial/institutional sales represent close to two-thirds of kWh-sales. The Islands have been enjoying an attractive reputation for some time. Historically, they have ducked major tropical storms, let alone hurricanes, although "a 100-year hurricane" can at some time visit the Islands.

The utilities have concentrated generation primarily in one location. The average size of diesel-electric generators is about 4 MW. If growth continues at anticipated rates, we could see the average size of incremental generators increase to perhaps 8-10 MW. We understand that the electricity supply system is structurally in good condition and well maintained, similar to that on Grand Cayman. In 2005, electricity sales were 101.5 GWh.

Regulation

While we require more detail, we understand that regulation is light-handed and, so far, smooth. Similar to Caribbean Utilities, the acquired utilities submit annually their financial statements for the purpose of rate design, followed and verified by an audit.

The cost of fuel is a flow-through. Under-recoveries and over-recoveries in rates are deferred for subsequent refund/collection so as to allow the utilities to earn their rates of return as closely as possible. We also understand that base rates for electricity have changed very little in recent years, because strong rates of electricity sales have enabled them to absorb non-fuel costs. This condition is not expected to change materially in the foreseeable future.

Licence Terms

The remaining licence terms are relatively long. While one cannot necessarily view them as cast in stone, we do not expect unilateral pressures for reopening them prior to the expiry of their stated term. The Turks and Caicos Islands have no history of governmental intervention. Should this condition change, we do not expect FTS to “roll-over and go-under without a bubble.” Apart from legal recourse for, e.g. breach of term of licence etc., there are international arbitration panels ready to adjudicate disputes.

Financial

Currently, the debt/balance-sheet rate is estimated at about 36%. We understand that the utilities are generating modest free cash flow. The gross asset base is about US$57 million. Depreciation rates are estimated at 3-3.5% per year. Annual capital expenditures are estimated at about US$6 million to US$10 million, financed out of cash flow.

We also understand that FTS will finance the acquisition (about US$70 million net) with holding-company debt initially, utilizing available lines of credit. While we do not expect FTS to rush into permanent financing of the acquisitions, we expect it to eventually finance them (permanently) with about 40% of total equity.

Earnings Estimate Revisions

Consistent with established practice, FTS has entered acquisitions that are immediately accretive to earnings and cash flow. We estimate the acquisitions to generate incremental EPS of about $0.04 for each of 2007 and 2008. Over three-to-five years, the annual earnings contributions are capable of growing by about $0.05 to $0.06 per share. **We have increased our estimated 2006 EPS by $0.01 to $1.29, and our estimated 2007 EPS by $0.04 to $1.42.**

Valuation

For the 12-month period ending June 2008, we are estimating EPS of $1.50; DPS of $0.78; retained EPS of $0.72; a retained-EPS multiple of 13x; and a long-term corporate bond yield of 6.25%, tax-effected to 4.63% using a 1.35 dividend-tax-credit divisor. This generates a support price of $16.85 and a residual price of $9.36 for a target price of $26.20 (rounded).

DISCLOSURES:

Ratings And What They Mean:

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INDUSTRY RATING: NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months.

RISK RATING: NBF utilizes a four-tiered risk rating system, **Low**, **Average**, **Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

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NATIONAL BANK FINANCIAL

FTS (T)	Cdn$24.48
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**Cdn$26.55** (Was Cdn$26.20)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$20.75 - $25.40
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2005a	2006e	2007e
EPS	$1.19	$1.29	$1.42
P/E	20.4x	19.0x	17.2x
EPS Change Y/Y	24.0%	8.4%	10.1%
Book Value	$11.76	$12.41	$13.19
P/BV	2.1x	2.0x	1.9x
Dividend Yield	2.6%	3.1%	3.1%

Financial Data:	
Shares Outstanding (mln)	103.5
Book Value per Share	$12.18
Market Capitalization (mln)	$2 533
Price/Book Ratio	2.0x
Debt/Total Cap.	64.8%
Dividend per share	$0.76
Dividend Yield	3.10%

Industry Rating: Overweight
(NBF Economics & Strategy Group)

Company Profile:
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Fortis Inc.

Hefty common share dividend increase

Hikes quarterly common dividend by 18.75% to $0.19 per share

HIGHLIGHTS

- **On Sept. 28, the Board of Directors of FTS increased the quarterly common share dividend by 18.75% to $0.19 from $0.16. The dividend is payable on Dec. 1, 2006 to common shareholders of record at the close of business on Nov. 3, 2006.**
- **We have increased our 12-month target price to $26.55 from $26.20 to reflect a higher estimated common share dividend.**
- **Our Sector Perform rating is sustained.**

Stock Performance

Hefty Common share dividend increase

On Sept. 28, the Board of Directors of FTS increased the quarterly common share dividend by 18.75% to $0.19 from $0.16. The dividend is payable on Dec. 1, 2006 to common shareholders of record at the close of business on Nov. 3, 2006.

The DPS increase is hefty, and presages, in our view, FTS' confidence in strong multi-year earnings growth.

By the same token, it also confirms our view that FTS is the Canadian utility with the best growth prospects. We are in the process of reviewing our earnings estimates and expect to disclose our conclusions after FTS has reported third-quarter results.

Valuation

For the 12-month period ending June 2008, we are estimating EPS of $1.50; DPS of $0.82; retained EPS of $0.68; a retained-EPS multiple of 13x; and a long-term corporate bond yield of 6.25%, tax-effected to 4.63% using a 1.35 dividend-tax-credit divisor. This generates a support price of $17.71 and a residual price of $8.84 for a target price of $26.55.

DISCLOSURES:

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NATIONAL BANK FINANCIAL

October 20, 2006

The NBF Daily Bulletin
Electric Utilities

Fortis Inc.

FTS Properties expands W. Canada presence

Agrees to buy four hotels in Alberta and B.C. for $51.6 mln including assumed debt

FTS (T)	**Cdn$24.38**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**Cdn$26.55** (Unchanged)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$20.75 - $25.40
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2005a	2006e	2007e
EPS	$1.19	$1.29	$1.42
P/E	20.4x	18.9x	17.2x
EPS Change Y/Y	24.0%	8.4%	10.1%
Book Value	$11.76	$12.41	$13.19
P/BV	2.1x	2.0x	1.8x
Dividend Yield	2.6%	3.1%	3.1%

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Book Value per Share	$12.18
Market Capitalization (mln)	$2 523
Price/Book Ratio	2.0x
Debt/Total Cap.	64.8%
Dividend per share	$0.76
Dividend Yield	3.12%

Industry Rating: Overweight
(NBF Economics & Strategy Group)

Company Profile:
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HIGHLIGHTS

- **On Oct. 19, FTS's wholly owned subsidiary, Fortis Properties (FP), announced an agreement to purchase four hotels, with a total of 454 rooms, in Alberta and B.C. for $51.6 million including assumed debt from Lodge Motel (Kelowna) Ltd. The transaction is expected to close on Oct. 31, 2006.**

- **The hotels are: 1) Holiday Inn Express and Suites in Medicine Hat, Alberta (93 rooms), 2) Best Western in Medicine Hat, Alberta (122 rooms), 3) Ramada Hotel and Suites in Lethbridge, Alberta (119 rooms), and 4) Holiday Inn Express in Kelowna, B.C. (120 rooms). We understand that the two latter properties may soon be expanded.**

- **The four hotels will bolster FP's presence in Western Canada and FTS has stated that the acquisition will be immediately EPS accretive.**

- **We expect FTS to continue to expand its property investments, commensurate with the issuance of holding-company debt. Overall, we expect strong earnings growth organically and from the acquisitions.**

- **We are maintaining our Sector Perform rating and target price of $26.55.**

Stock Performance

Event

On Oct. 19, FTS's wholly owned subsidiary, Fortis Properties (FP), announced an agreement to purchase four hotels, with a total of 454 rooms, in Alberta and B.C. for $51.6 million including assumed debt from Lodge Motel (Kelowna) Ltd. The transaction is expected to close on Oct. 31, 2006.

The hotels are:

1) Holiday Inn Express and Suites in Medicine Hat, Alberta (93 rooms)

2) Best Western in Medicine Hat, Alberta (122 rooms)

3) Ramada Hotel and Suites in Lethbridge, Alberta (119 rooms)

4) Holiday Inn Express in Kelowna, B.C. (120 rooms)

The two latter properties may be expanded soon, given occupancy prospects. Based on our knowledge of the locations of these properties, we view the Kelowna one as the currently perhaps best of the four.

The four hotels will bolster FP's presence in Western Canada and FTS has stated that the acquisition will be immediately EPS accretive.

We expect FTS to continue to expand its property investments, commensurate with the issuance of holding-company debt. Overall, we expect strong earnings growth organically and from acquisitions.

Valuation

For the 12-month period ending June 2008, we are estimating EPS of $1.50; DPS of $0.82; retained EPS of $0.68; a retained-EPS multiple of 13x; and a long-term corporate bond yield of 6.25%, tax-effected to 4.63% using a 1.35 dividend-tax-credit divisor. This generates a support price of $17.71 and a residual price of $8.84 for a target price of $26.55.

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NATIONAL BANK FINANCIAL

Fortis Inc.

Q3 2006 EPS higher than expected

Acquisitions and organic growth continue to drive earnings

FTS(T)	Cdn$25.65
Stock Rating:	Sector Perform (Unchanged)
Target:	Cdn$27.00 (was Cdn$26.55)
Risk Rating:	Average (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$20.75 - $25.65
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2005a	2006e	2007e
EPS	$1.19	$1.43	$1.53
P/E	20.4x	17.9x	16.8x
EPS Change Y/Y	24.0%	20.2%	7.0%
Book Value	$11.76	$12.43	$13.20
P/BV	2.1x	2.1x	1.9x
Dividend Yield	2.6%	3.0%	3.0%

Financial Data:	
Shares Outstanding (mln)	103.7
Book Value per Share	$13.55
Market Capitalization (mln)	$2 660
Price/Book Ratio	1.9x
Debt/Total Cap.	62.7%
Dividend per share	$0.76
Dividend Yield	2.96%

Industry Rating: Overweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); FortisUS Energy (100%)-N.Y. State; Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (37.4%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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HIGHLIGHTS

- **<u>Q3 2006 reported earnings:</u> $38.8 million or $0.37 per share vs. $37.4 million or $0.36 per share in Q3 2005 (y/y).**

- **<u>Q3 2006 operational EPS:</u> $0.37 vs. $0.34 y/y, after the removal in Q3 2005 of:**
  1) a $1.6-million future tax asset associated with the favourable resolution of a Canada Revenue Agency (CRA) reassessment related to Cornwall Electric, and 2) an estimated $1-million insurance recovery related to FortisAlberta's Aug. 8, 2005 settlement of the EPCOR litigation. Operational EPS exceeded our estimate by $0.02 and the Street's by $0.06.

- **Operational earnings increased y/y as a result of improved hydroelectric production at BECOL in Belize, lower corporate income taxes at FortisAlberta (FA), higher electricity rates (up 5.9% effective Jan. 1, 2006) at FortisBC (FBC), higher earnings at Fortis Properties (FP) and at Regulated Utilities – Caribbean due to the recent acquisition of two electric utilities in the Turks and Caicos Islands and increased electricity rates at FortisOntario (FO).**
  This was partly offset by higher corporate expenses and lower average wholesale energy prices in Ontario ($46.59/MWh vs. $85.91/MWh y/y).

- **We have increased our estimated 2006 EPS to $1.43 from $1.29, and our 2007 EPS to $1.53 from $1.42. Our target price moves to $27 from $26.55. Our Sector Perform rating is sustained.**

Stock Performance

NATIONAL BANK FINANCIAL

Assessment

As evidenced by Q3 2006 results, FTS reconfirmed our view that it is Canada's diversified utility with the best growth potential.

Q3 2006 EPS exceeded our estimate slightly, primarily because of better-than expected operational results at Fortis Alberta (FA) and Fortis Properties (FP). FA contributed close to 32% of quarterly earnings, followed by FP 16% and FortisBC (FBC) with close to 15%. In total, the Western Canada assets acquired from Aquila contributed about 46% of quarterly earnings.

Canadian regulated operations generated, **operationally,** about 65% of total earnings in Q3 2006 vs. about 57% y/y.

Cost control is at thread running cross- and lengthwise through FTS's fabric, as someone on the Rock is cracking the whip to mitigate what regulation does not provide.

Capital spending of $118 million in Q3 2006 vs. $104 million y/y is consistent with our 2006 estimate of about $475 million to $500 million and similar amounts in 2007.

Debt-to-capitalization at the end of September 2006 was 62.6% down from 64.6% at the end of December 2005.

Now that FTS has bought a few more properties and raised about $121 million through non-callable preference shares earlier this year, the tell-tale signs of prowling for acquisitions are ubiquitous. Western Canada and English-speaking Caribbean (embracing common-law) are what we see on FTS's radar screen (as if FTS had not enough organic-growth potential).

Q3 2006 highlights

Q3 2006 reported earnings: $38.8 million or $0.37 per share vs. $37.4 million or $0.36 per share in Q3 2005 (y/y).

Q3 2006 EPS: $0.37 vs. $0.34 y/y, after the removal in Q3 2005 of 1) a $1.6-million future tax asset associated with the favourable resolution of a Canada Revenue Agency (CRA) reassessment related to Cornwall Electric, and 2) an estimated $1-million insurance recovery related to FortisAlberta's Aug. 8, 2005 settlement of the EPCOR litigation. Operational EPS exceeded our estimate by $0.02 and the Street's by $0.06.

Operational earnings increased y/y as a result of improved hydroelectric production at BECOL in Belize, lower corporate income taxes at FortisAlberta (FA), higher electricity rates (up 5.9% effective Jan. 1, 2006) at FortisBC (FBC), higher earnings at FP and at Regulated Utilities – Caribbean due to the recent acquisition of two electric utilities in the Turks and Caicos Islands and increased electricity rates at FortisOntario. This was partially offset by higher corporate expenses and lower average wholesale energy prices in Ontario ($46.59/MWh vs. $85.91/MWh y/y).

Business Segment Highlights

Segmented Reported Earnings ($Mln)	Q3 2006	Q3 2005
Regulated Utilities -Canadian	$25.3	$22.4
Regulated Utilities -Caribbean	$7.7	$6.2
Non-regulated-Fortis Generation	$7.8	$7.8
Non-regulated-Fortis Properties	$6.3	$4.9
Corporate	($8.3)	($3.9)
Total Reported Earnings	**$38.8**	**$37.4**
Source: FTS		

Regulated Utilities – Canadian

Newfoundland Power (NP): Reported Earnings: $2.6 million vs. $3.4 million y/y. The y/y decrease in earnings was primarily the result of increased energy supply costs partially offset by the change (effective Jan. 1, 2006) in NP's revenue recognition policy (to the accrual basis from the billed basis), which increased earnings by about $0.2 million vs. Q3 2005. This move to the accrual basis has **NO** material impact on annual earnings but has just shifted earnings from Q1 and Q2 to Q3 and, especially, Q4. However, by year-end, all of the quarterly noise will have been silenced.

In Q3, 871 GWh of electricity were sold vs. 873 GWh y/y. NP's allowed rate of return on equity for 2006 is 9.24%, unchanged from 2005 but still lower than the 9.75% in 2004.

Maritime Electric (ME): **Reported Earnings:** $3.1 million vs. $3.0 million y/y. Electricity sales increased to 255 GWh from 250 GWh y/y due to customer growth in the residential sector and higher consumption by customers in the general service sector. On June 27, 2006, the Island Regulatory and Appeals Commission (IRAC) issued its Order with respect to ME's Jan. 31, 2006 General Rate Application. The IRAC approved an overall average decrease in customer electricity rates of 1.2% effective July 1, 2006, approved the further amortization of the $20.8 million in recoverable costs accumulated (as at Dec.31, 2003) of $1.5 million in 2006, and approved ME's maximum allowed ROE at 10.25%. Capital spending that ballooned in 2005 (purchase of a $30-million combustion turbine) is expected to fall back to the "customary" $20-milion level.

FortisOntario (FO) consists mainly of the distribution businesses of **Canadian Niagara Power (CNP)** and **Cornwall Electric (CE)**. The **Port Colborne lease** (signed in 2000) as well as **Granite Power Corp.** (acquired in May 2003) are included in CNP. **Reported Earnings:** $1.6 million vs. $2.1 million y/y. The decrease in earnings was mostly due to the inclusion in Q3 2005 of a $1.6 million future tax asset associated with the favourable resolution of a Canada Revenue Agency (CRA) reassessment related to Cornwall Electric. Excluding this item, earnings were $1.1 million higher y/y due to increases in distribution electricity rates effective May 1, 2006, and lower operating expenses. FO sales were flat y/y due to moderate weather conditions and the loss of an industrial customer at the end of 2005.

FortisAlberta (FA) and FortisBC (FBC):

FA Reported Earnings: $12.3 million vs. $ 9.3 million y/y. Earnings increased $3 million y/y mostly due to lower effective corporate income taxes and increased energy deliveries (3,658 GWh vs. 3,525 GWh), partly offset by a 1.9% decrease in distribution rates as a result of the 2006/07 Negotiated Settlement Agreement, higher amortization costs, finance charges and operating expenses. For 2006, FA is allowed to earn an 8.93% rate of return on common equity (RRCE), down from 9.5% in 2005. FA is forecast to spend about $184.5 million on capital expenditures in 2006.

FBC Reported Earnings: $5.7 million vs. $4.6 million y/y. The $1.1-million increase in earnings was mostly due to a 5.9% electricity rate increase effective Jan. 1, 2006, electricity sales growth, lower operating expenses and lower effective corporate income taxes, partially offset by higher amortization costs and finance charges, and electricity purchase expenses and the impact of the new PBR mechanism. In Q 3, 694 GWh of electricity was sold vs. 674 GWh y/y.

On July 26, 2006, FBC applied to the British Columbia Utilities Commission (BCUC) for approval of its 2007 and 2008 Capital Expenditure Plan of about $240 million, net of customer contributions of which about $15 million over the two-year period.

Regulated Utilities – Caribbean:

Belize Electricity (BE) (70.1%-interest): Reported Earnings increased to $3.8 million from $3.2 million y/y. Earnings were higher y/y due to lower finance charges and electricity sales growth, partly offset by the foreign exchange impact associated with BE's euro-denominated debt as well as the weak U.S. dollar and increased operating expenses.

Electricity sales slightly increased by 1 GWh to 96 GWh.

We understand that because of the increasing generating self-sufficiency, resulting from the completion of the Chalillo dam, BE has signed a new electricity-purchase contract for Mexican electricity at a reduced demand level, allowing for purchases of, at times, attractively-priced off-peak electricity.

In Q3, Caribbean Utilities (CUP.U) (37.4%-interest) contributed $3.2 million in equity earnings vs. $3.0 million last year. Earnings were higher y/y as a result of sales growth, the hurricane cost-recovery surcharge (CRS) and lower maintenance costs partially offset by increased amortized costs.

CUP.U's existing licence is scheduled to expire in 2011 and licence extension discussions with the Cayman Islands government are still ongoing. If all goes well, CUP.U may be replacing its existing licence with one or more licences and a price-cap regime.

On Sept. 28, FTS's wholly owned subsidiary, **Fortis Energy (Bermuda) Ltd.**, completed the acquisition (announced on Aug. 28) of all of the outstanding shares of two electric utilities located in the Turks and Caicos Islands – 1) P.P.C. Limited (PPC), and 2) Atlantic Equipment and Power (Turks and Caicos) Limited (Atlantic) – from T.C. Energy Holdings Inc. for about $97.4 million including assumed debt of about US$20 million. Together, PPC and Atlantic serve almost 7,500 customers or 80% of electricity customers in the Turks and Caicos Islands. The acquisition of PPC and Atlantic is immediately accretive to earnings. They contributed $0.7 million in Q3 (about one month of operation). We estimate annual incremental EPS-contribution at about $0.04.

Non-Regulated - Fortis Generation: Operates non-regulated generation in Canada, the United States and Belize (BECOL). **Reported Earnings:** $7.8 million – flat y/y. Earnings were aided by increased electricity production at BECOL, lower finance charges and lower effective corporate income taxes partly offset by lower average wholesale energy prices in Ontario ($46.59/MWh vs. $ 85.91/MWh y/y) and higher operating costs.

Q3 energy sales jumped 24% to 288 GWh from 232 GWh last year, due to higher hydroelectric production at the Mollejon and Chalillo generating facilities in Belize (65 GWh vs. 18 GWh y/y) due to the operation of the Chalillo storage facility and higher rainfall levels. The Chalillo reservoir is currently at its full supply level which is equal to 45 GWh of hydroelectric production. In late June 2006, the Dodgeville plant was once again forced out of commission due to another flood but resumed production in late Q3, but, this time it was a case of some houses that decided to become floatable.

Non-Regulated - Fortis Properties (FP): Reported Earnings: $6.3 million vs. $4.9 million y/y. The $1.4 million y/y increase was mostly due higher earnings from operations including contributions from the recently completed expansions of the Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo and Blue Cross Centre and lower effective corporate taxes.

On Oct. 19, FP announced an agreement to purchase four hotels, with a total of 454 rooms, in Alberta and B.C. for $51.6 million including assumed debt from Lodge Motel (Kelowna) Ltd (please refer to our Oct. 20, 2006 NBF bulletin note). The transaction is expected to close on Oct. 31, 2006. The four hotels will bolster FP's presence in Western Canada and FTS has stated that the acquisition will be immediately EPS accretive.

The tendency to add water-parks to otherwise somewhat staid commercial-travellers operations is probably a move to boost occupancy levels during weekends and holidays, if FTS so proceeds. We expect FTS to continue to expand its property investments, commensurate with the issuance of holding-company debt, although, at this stage, FTS may not be pursuing new acquisitions immediately. Overall, we expect strong earnings growth organically and from acquisitions, and from expansion of existing hotel properties.

Corporate: Reported Expenses: $8.3 million vs. $ 3.9 million y/y. The increase in expenses was mostly due to the recording in Q3 2005 of a $3.8 million ($3.1 million after-tax) net unrealized foreign exchange gain associated with unhedged U.S.-dollar-denominated debt, increased finance charges, higher operating expenses, and lower inter-company interest revenue, partially offset by a higher corporate income tax recovery.

Financial and Outlook

Funds from operations in Q3 2006 were $79.6 million vs. $69.2 million y/y. Cash flow from operations after working capital adjustments decreased to $96.4 million from $99.8 million y/y, largely because of a mismatch between collection and disbursement of funds by the Alberta System Operator. Balances, if any, are to disappear after two years.

During Q3 2006, utility capital expenditures were $114.8 million vs. $101.7 million y/y. For 2006, capital expenditures are expected to be about $475 million to possibly $500 million, depending on spending at FA ($346 million spent year-to-date) of which about $340 million will be invested in FA and FBC. For 2007, we are expecting spending of about $500 million.

FTS expects the majority of its (organic) capital expenditures of about $2 billion over the next five years to be associated with FA and FBC. FTS's total utility assets are expected to grow at an average annual rate of 6% over the next five years. We expect FTS to achieve growth at higher than this rate.

FTS will continue to pursue electric utility asset acquisitions inside and outside Canada and will also focus on growing its non-regulated businesses including hydroelectric generation, hotels and real estate.

We expect FTS to continue to expand its property investments, utilizing a prudent amount of holding-company debt commensurate therewith. Overall, we expect strong earnings growth organically and from acquisitions.

Valuation

For the 12-month period ending September 2008, we are estimating EPS of $1.52; DPS of $0.84; retained EPS of $0.68; a retained-EPS multiple of 13x; and a long-term corporate bond yield of 6.25%, tax-effected to 4.63% using a 1.35 dividend-tax-credit divisor. This generates a support price of $18.14 and a residual price of $8.84 for a target price of $27.00.

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Fortis Inc.

FTS Properties expands to eighth Cdn province

Agrees to buy Delta Regina for $49.95 million

FTS(T)	Cdn$27.21
Stock Rating:	Outperform (Unchanged)
Target:	Cdn$30.00 (Unchanged)
Risk Rating:	Average (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$22.15 - $29.85
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2006a	2007e	2008e
EPS	$1.38	$1.41	$1.61
P/E	21.6x	19.3x	16.9x
EPS Change Y/Y	16.0%	2.2%	14.2%
Book Value	$12.19	$12.76	$13.45
P/BV	2.4x	2.1x	2.0x
Dividend Yield	2.6%	3.1%	3.1%

Financial Data:	
Shares Outstanding (mln)	153.9
Book Value per Share	$12.50
Market Capitalization (mln)	$4 188
Price/Book Ratio	2.2x
Debt/Total Cap.	62.7%
Dividend per share	$0.84
Dividend Yield	3.09%

Industry Rating (Electric Utilities): Market Weight
(NBF Economics & Strategy Group)

Company Profile:
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HIGHLIGHTS

- **Yesterday, FTS's wholly owned subsidiary, Fortis Properties (FP), announced an agreement to purchase Delta Regina located in Regina, Saskatchewan from Remai Investment Corporation for $49.95 million**
The transaction is expected to close in Q3 2007 and is subject to obtaining required approvals and assignments and normal closing conditions.

- **The Delta Regina includes 274 hotel rooms, the 26,600 sq. ft. Saskatchewan Trade and Convention Centre, 52,000 sq. ft. of Class A commercial office space and a parking garage**
The addition of the Delta Regina will bolster FP's presence in Western Canada and will allow FP to enter its eighth Canadian province.

- **Once the transaction closes in Q3, FP will own and operate 19 hotels with over 3,500 rooms in eight provinces, as well as over 2.7 million sq. ft. of office and retail space primarily in Atlantic Canada.**

- **FTS has stated that the acquisition is expected to be immediately accretive to earnings**
We expect FTS to continue to expand its property investments, utilizing a prudent amount of holding-company debt commensurate therewith. Overall, we expect strong earnings growth organically and from acquisitions.

- **We are maintaining our Outperform rating and target price of $30.00.**

Stock Performance

Event

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FTS has stated that the acquisition is expected to be immediately accretive to earnings. We expect FTS to continue to expand its property investments, utilizing a prudent amount of holding-company debt commensurate therewith. Overall, we expect strong earnings growth organically and from acquisitions.

We are maintaining our EPS estimates and target price. Our Outperform rating is sustained.

Valuation

We are using an average of P/E multiples and a dividend-based support/residual price approach to arrive at our 12-month target price.

Our target price of $30.00 is calculated by applying the following: 1) a 19x P/E multiple to our estimated 2008 EPS of $1.61 giving us a $30.59 target price. 2) Using our dividend-based support/residual price approach: for the 2008 fiscal year, we are estimating EPS of $1.61; DPS of $0.92; and retained EPS (REPS) of $0.69. Our assumed long-term corporate bond yield of nominally 6.25% is tax-effected to 4.63% using a dividend-tax-credit divisor of 1.35. This generates a support price of $19.87 and using a REPS multiple of 14x, a residual price of $9.66, for a target price of $29.53.

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The company discussed in this report has two or more classes of common shares existing with differential voting rights. (32)

August 7, 2007

The NBF Daily Bulletin
Electric Utilities

Fortis Inc.

Q2 2007 EPS in line with expectation

FortisAlberta and FortisBC once again led earnings improvement

FTS (T)	**Cdn$26.05**
Stock Rating:	**Outperform** (Unchanged)
Target:	**Cdn$30.00** (Unchanged)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$22.51 - $29.85
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2006a	2007e	2008e
EPS	$1.38	$1.41	$1.61
P/E	21.6x	18.5x	16.2x
EPS Change Y/Y	16.0%	2.2%	14.2%
Book Value	$12.19	$16.81	$17.58
P/BV	2.4x	1.5x	1.5x
Dividend Yield	2.6%	3.2%	3.2%

Financial Data:	
Shares Outstanding (mln)	154.0
Book Value per Share	$16.51
Market Capitalization (mln)	$4 013
Price/Book Ratio	1.6x
Debt/Total Cap.	66.3%
Dividend per share	$0.84
Dividend Yield	3.22%

Industry Rating (Electric Utilities): Market Weight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); Terasen Gas (100%); FortisUS Energy (100%) - N.Y. State; Fortis Turks & Caicos (100%); Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (54%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in B.C., Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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HIGHLIGHTS

- **Q2 2007 reported earnings: $41.5 million or $0.31 per share vs. $37.9 million or $0.37 per share in Q2 2006 (y/y).**

- **Q2 2007 operational earnings: $41.5 million or $0.31 per share vs. $33.1 million or $0.32 per share y/y, after excluding in Q2 2006: 1) a $1.6 million after-tax gain on the sale of Fortis Properties' (FP) Days Inn Sydney hotel; 2) a $1.6-million. after-tax reduction in income taxes at FP; and 3) a $1.6-million, after-tax foreign exchange gain on U.S. dollar-denominated corporate debt.**

- **Operational EPS was lower y/y mostly due to the dilution arising from the $1.15 billion common share issue that helped fund the $3.7 billion Terasen Gas acquisition. Operational EPS was basically in line with our and the Street's estimate.**

- **Operational earnings increased y/y as a result of improved earnings from FortisAlberta and FortisBC, incremental earnings from Fortis Turks and Caicos and a $1.6-million contribution from the newly acquired Terasen Gas**
  This was partially offset by higher finance charges related to acquisitions and lower earnings from Non-Regulated Fortis Generation owing to lower rainfall in Belize, central Newfoundland and Upper New York State.

- **We are maintaining our EPS estimates and our target price of $30.00. Our Outperform rating remains.**

Stock Performance

Assessment

We continue to believe that FTS is Canada's most diversified utility with the best earnings and dividend growth profile.

FTS's Q2 2007 operational EPS of $0.31 vs. $0.32 last year (y/y) was basically in line with our and the Street's estimate. Operational EPS was lower y/y mostly due to the dilution arising from the $1.15 billion common share issue during Q2 that helped fund the $3.7 billion Terasen Gas acquisition.

Q2 2007 operational earnings of $41.5 million vs. $33.1 million y/y were higher as a result of improved earnings from FortisAlberta and FortisBC, incremental earnings from Fortis Turks and Caicos (acquired in August 2006) and a $1.6-million contribution from the newly acquired Terasen Gas. This was partially offset by higher finance charges related to acquisitions and lower earnings from Non-Regulated Fortis Generation due to lower rainfall in Belize, central Newfoundland and Upper New York State.

With the Terasen Gas regulated assets safely under its wing (as of May 17, 2007), FTS now has close to $10 billion in total assets (92% regulated), a customer base of almost two million, annual revenues that are expected to reach about $3.5 billion and a stable of Canadian assets that will now produce about 92% of total operating income.

FTS will take the next few quarters to digest the Terasen Gas acquisition. However, it has no plans of slowing down its acquisition pace as it continues to hunt for gas distribution and electric assets in Canada, the U.S. and the Caribbean. We still believe that rounding up FTS's equity interest (currently 54%) in Caribbean Utilities (TSX-CUP.U) to 100% is still in the cards, subject to the looks and feel of potential new licences that are currently being negotiated in the Cayman Islands. FTS will also focus on growing its non-regulated businesses including hydroelectric generation, hotels and real estate.

We are maintaining our EPS estimates and target price. Our Outperform rating is sustained.

Q2 2007 highlights

Q2 2007 reported earnings: $41.5 million or $0.31 per share vs. $37.9 million or $0.37 per share in Q2 2006 (y/y).

Q2 2007 operational earnings: $41.5 million or $0.31 per share vs. $33.1 million or $0.32 per share y/y, after excluding in Q2 2006: 1) a $1.6 million after-tax gain on the sale of Fortis Properties' (FP) Days Inn Sydney hotel, 2) a $1.6 million after-tax reduction in income taxes at FP, and 3) a $1.6 million after-tax foreign exchange gain on U.S. dollar-denominated corporate debt.

Business Segment Highlights

Segmented Reported Earnings ($Mln)	Q2 2007	Q2 2006
Regulated Gas Utilities - Canadian	$1.6	-
Regulated Electric Utilities - Canadian	$34.0	$25.4
Regulated Electric Utilities - Caribbean	$7.6	$4.4
Non-Regulated - Fortis Generation	$4.9	$6.7
Non-Regulated - Fortis Properties	$6.0	$8.1
Corporate and Other	($12.6)	($6.7)
Total Reported Earnings	**$41.5**	**$37.9**
Source: FTS		

Regulated Gas Utilities – Canadian

Terasan Gas (TG): Reported Earnings: $1.6 million (May 17 to June 30, 2007 period).

On May 17, 2007, FTS closed the acquisition of all the outstanding shares of Terasen Inc.

assumption of $2.46 billion in debt. The purchase included the regulated natural gas distribution business located in B.C. called Terasen Gas (TG) but excluded the Terasen Pipeline (renamed Kinder Morgan Canada) petroleum transportation assets.

Terasen Gas (TG) is the principal natural gas distribution utility in B.C., serving about 900,000 customers or 95% of natural gas customers in the province through 44,100-km of natural gas distribution pipelines and 4,300-km of natural gas transmission pipelines. TG serves the lower mainland, Vancouver Island and the southern Interior B.C. and has about $4.272 billion of assets (at the end of Q2 2007) and about 1,200 employees. TG includes Terasen Gas Inc. (TGI), Terasen Gas-Vancouver Island (TGVI), and Terasen Gas (Whistler) Inc. which distributes propane. TG's service territory overlaps with that of the FortisBC (FBC) electricity operations. TG's 30% interest in CustomerWorks, which is a non-regulated shared-service business, is now part of FTS's 'Corporate and Other' segment.

TG's regulated rate base earnings have been supplemented by incentive earnings through the performance-based return (PBR) mechanism, which allows for the 50/50 sharing of cost reductions between TG and its customers. TG earns about 60 basis points in "synergies" in its natural gas business. For 2007, TGI's allowed rate of return on common equity (ROE) is 8.37% while TGVI's is 9.07%. In a typical year, TG experiences higher earnings in Q1 and Q4, lower earnings in Q2 and losses in Q3.

Regulated Electric Utilities – Canadian

FortisAlberta (FA): Reported Earnings: $15.5 million vs. $11.3 million y/y. Earnings jumped $4.2 million y/y primarily due to higher revenue partially offset by higher operating expenses and finance charges. Energy deliveries increased to 3,650 GWh from 3,538 GWh y/y driven by customer growth buoyed by the hot Alberta economy. For 2007, FA is allowed to earn a ROE of 8.51%, down from 8.93% in 2006, reflecting the impact of lower long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE.

Fortis BC (FBC): Reported Earnings: $6.5 million vs. $3.4 million y/y. The $3.1-million earnings increase was mostly due to a 3.3% electricity rate hike, electricity sales growth and lower energy supply costs, partially offset by higher operating expenses, amortization costs and finance charges. In Q2, 670 GWh of electricity were sold vs. 662 GWh y/y, as there was a reduction in the estimate of electrical system losses and continued growth in the Okanagan area. For 2007, FBC is allowed to earn a ROE of 8.77%, down from 9.20% in 2006.

Newfoundland Power (NP): Reported Earnings: $8 million – flat y/y. Earnings were impacted by electricity sales growth offset by a lower allowed ROE of 8.60% for 2007 (vs. 9.24% in 2006) and increased amortization costs. In Q2, 1,172 GWh of electricity were sold vs. 1,137 GWh y/y reflecting customer growth and higher average consumption.

Other Canadian Electric Utilities - Maritime Electric (ME) and FortisOntario (FO): Reported Earnings: $4.0 million vs. $2.7 million y/y (ME:$2.8 million vs. $2.2 million y/y: FO: $1.2 million vs. $0.5 million). Earnings increased $1.3 million y/y as there was a 3.35% increase in basic electricity rates at ME (effective July 1, 2006), higher electricity sales and a lower effective corporate tax rate (38.5% vs. 47.1% y/y). Electricity sales of 516 GWh vs. 500 GWh y/y were driven by higher average consumption as a result of cooler than normal weather conditions experienced in PEI.

Regulated Utilities – Caribbean: Reported Earnings: $7.6 million vs. $4.4 million y/y. Earnings increased y/y mostly due to $2.4 million in incremental earnings from **Fortis Turks and Caicos (FTC)** (acquired in August 2006), electricity sales growth and lower finance charges at **Belize Electricity (BE)** (70.1%-interest) (earnings of $2.9 million vs. $2.3 million y/y), as well as a better earnings contribution from **Caribbean Utilities Company Ltd. (CUP.U)** ($2.3 million vs. $2.1 million y/y), arising from a higher ownership interest (54% vs. 37.3% last year).

CUP.U's existing licence is scheduled to expire in 2011 and licence extension discussions with the Cayman Islands government are still ongoing. If all goes well, CUP.U may be replacing its existing licence with one or more licences and perhaps a price-cap regime, although we would not rule out the possibility of the parties revisiting the current rate-of-return on allowable assets of rate base formula.

Non-Regulated - Fortis Generation: Reported Earnings: $4.9 million vs. $6.7 million y/y. Earnings decreased y/y as lower rainfall in Belize, central Newfoundland and Upper New York State resulted in lower overall electricity production (274 GWh vs. 290 GWh y/y).

Non-Regulated - Fortis Properties (FP): Reported Earnings: $6 million vs. $8.1 million y/y. Operational earnings increased $1.1 million y/y ($6 million vs. $4.9 million y/y after excluding in Q2 2006, a $1.6 million after-tax gain on the sale of the Days Inn Sydney hotel, and a $1.6-million after-tax reduction in income taxes) largely due to incremental earnings contributions from the four Western Canada hotels that were acquired last Nov. 1, 2006, partially offset by higher amortization costs and finance charges.

On Aug.1, 2007, FP acquired the Delta Regina hotel located in Regina, Saskatchewan from Remai Investment Corporation for $49.95 million.

The Delta Regina includes 274 hotel rooms, the 26,600 sq. ft. Saskatchewan Trade and Convention Centre, 52,000 sq. ft. of Class A commercial office space and a parking garage. The addition of the Delta Regina has bolstered FP's presence in Western Canada and has enabled FP to enter its eighth Canadian province. FP now owns and operates 19 hotels with over 3,500 rooms in eight provinces as well as over 2.7 million sq. ft. of office and retail space primarily in Atlantic Canada.

The acquisition is immediately accretive to earnings. We expect FTS to continue to expand its property investments, utilizing a prudent amount of holding-company debt commensurate therewith. Overall, we expect solid earnings growth organically and from acquisitions, and from expansion of existing hotel properties.

Corporate and Other: Reported Expenses: $12.6 million vs. $6.7 million y/y. The increase in expenses y/y was mostly due to higher finance charges (including Terasen Gas acquisition-related finance charges of $4.9 million), interest on the US$40 million of unsecured subordinated convertible debentures issued in November 2006, as well as the absence of a $1.6 million after-tax foreign exchange gain on U.S. dollar-denominated corporate debt that was recorded in Q2 2006.

Financial

Funds from operations in Q2 2007 were $115.7 million vs. $74 million y/y. During Q2 2007, utility capital expenditures increased to $192.7 million from $111.5 million last year. For 2007, **gross consolidated utility capital expenditures** are expected to be about $770 million including $642 million related to electric utilities (mostly FA and FBC) and $128 million on Terasen Gas.

FTS expects the majority of its **gross electric utility capital expenditures** of about $2.8 billion over the next five years to be driven by FA, FBC and regulated and non-regulated electric utilities in the Caribbean. **Gross gas utility capital expenditures** at Terasen Gas are expected to be over $1 billion during the next five years.

Valuation

We are using an average of P/E multiples and a dividend-based support/residual price approach to arrive at our 12-month target price.

Our target price of $30.00 is calculated by applying the following: 1) a 19x P/E multiple to our estimated 2008 EPS of $1.61 giving us a $30.59 target price. 2) Using our dividend-based support/residual price approach: for the 2008 fiscal year, we are estimating EPS of $1.61; DPS of $0.92; and retained EPS (REPS) of $0.69. Our assumed long-term corporate bond yield of nominally 6.25% is tax-effected to 4.63% using a dividend-tax-credit divisor of 1.35. This generates a support price of $19.87 and using a REPS multiple of 14x, a residual price of $9.66, for a target price of $29.53.

DISCLOSURES:

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PRIMARY STOCK RATING: NBF has a three-tiered rating system that is relative to the coverage universe of the particular analyst. Here is a brief description of each: **Outperform –** The stock is expected to outperform the analyst's coverage universe over the next 12 months;

Sector Perform – The stock is projected to perform in line with the sector over the next 12 months; **Underperform –** The stock is expected to underperform the sector over the next 12 months.

SECONDARY STOCK RATING: Under Review – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock.

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The company discussed in this report has two or more classes of common shares existing with differential voting rights. (32)

NATIONAL BANK FINANCIAL

Fortis Inc.

Q3 2007 EPS lower than expectation

EPS hit by seasonality and higher finance charges related to Terasen acquisition…

FTS (T)	Cdn$27.19
Stock Rating:	Outperform (Unchanged)
Target:	Cdn$29.75 (Was $30.00)
Risk Rating:	Average (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$24.80 - $29.85
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2006a	2007e	2008e
EPS	$1.38	$1.38	$1.59
P/E	21.6x	19.7x	17.1x
EPS Change Y/Y	16.0%	0.0%	15.2%
Book Value	$12.19	$16.81	$17.56
P/BV	2.4x	1.6x	1.5x
Dividend Yield	2.6%	3.1%	3.1%

Financial Data:	
Shares Outstanding (mln)	155.3
Book Value per Share	$17.21
Market Capitalization (mln)	$4 223
Price/Book Ratio	1.6x
Debt/Total Cap.	66.9%
Dividend per share	$0.84
Dividend Yield	3.09%

Industry Rating (Electric Utilities): Overweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); Terasen Gas (100%); FortisUS Energy (100%) - N.Y. State; Fortis Turks & Caicos (100%); Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (54%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in B.C., Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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HIGHLIGHTS

- **<u>Q3 2007 reported earnings:</u> $30.8 million or $0.20 per share vs. $38.8 million or $0.37 per share in Q3 2006 (y/y). EPS was $0.02 below our estimate and a penny below the Street's.**

- **Higher earnings at FortisAlberta (FA), Fortis Turks and Caicos (FTC) and Fortis Properties (FP) were more than offset by higher finance charges…**
…(mostly related to the recent $3.7 billion Terasen Gas (TG) acquisition), lower non-regulated hydroelectric production due to lower rainfall primarily in Belize and Upper New York State as well as a $3.7-million loss at TG due to seasonality. The $1.15-billion common share issue during Q2 that helped fund the TG acquisition further diluted Q3 2007 EPS.

- **The integration of the TG assets is proceeding according to plan and the acquisition is still expected to be accretive over the first full year of ownership**

- **FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space**
FTS common shares offer investors a good combination of income and capital appreciation prospects.

- **We have lowered our 2007 EPS estimate to $1.38 from $1.41 and our 2008 EPS estimate to $1.59 from $1.61. Our target price is slightly decreased to $29.75 from $30.00. Our Outperform rating is sustained.**

Stock Performance

Assessment

FTS reported Q3 2007 earnings of $30.8 million or $0.20 per share compared with $38.8 million or $0.37 per share in Q3 2006 (y/y). EPS was $0.02 below our estimate and a penny below the Street's.

Higher earnings at FortisAlberta (FA), Fortis Turks and Caicos (FTC) and Fortis Properties (FP) were more than offset by higher finance charges (mostly related to the recent $3.7 billion Terasen Gas (TG) acquisition), lower non-regulated hydroelectric production due to lower rainfall primarily in Belize and Upper New York State as well as a net loss of $3.7 million at TG due to seasonality. The $1.15 billion common share issue during Q2 that helped fund the TG acquisition further diluted Q3 2007 EPS.

The integration of the TG assets is proceeding according to plan and the acquisition is still expected to be accretive over the first full year of ownership.

FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space. FTS common shares offer investors a good combination of income and capital appreciation prospects. The interest-sensitive FTS should continue to benefit from U.S. Fed easing and eventual interest rate cuts by the Bank of Canada (BoC). Yield-hungry investors should take notice of FTS, as it is consistent in growing the common share dividend on a yearly basis and we expect this trend to continue.

FTS will spend more than $3 billion on gross electric utility capital expenditures and over $1 billion in gross gas utility capital expenditures (Terasen Gas) over the next five years. FTS's rate base is expected to grow at an average 6% per year clip which will aid earnings growth going forward.

FTS will take a few more quarters to digest the TG acquisition, however, it is still actively hunting for gas distribution and electric assets in the U.S., Canada and the Caribbean. FTS could target companies with an enterprise value in the $1 to $6 billion range but could also make bite-size acquisitions of companies that are well-run and have good management in place. FTS would likely make a play for either of Ontario's two large gas distribution utilities (Union Gas, Enbridge Gas Distribution) should the opportunity arise in the future. For the time being, FTS is reluctant to partner with other entities such as pension funds for acquisitions as it prefers to go solo.

We still believe that rounding up FTS's equity interest (currently 54%) in Caribbean Utilities Company Ltd. (TSX-CUP.U) to 100% is still in the cards, subject to the looks and feel of potential new licences that are currently still being negotiated in the Cayman Islands. FTS will also focus on growing its non-regulated businesses including hydroelectric generation, hotels and real estate.

We have lowered our 2007 EPS estimate to $1.38 from $1.41 and our 2008 EPS estimate to $1.59 from $1.61. Our target price is slightly decreased to $29.75 from $30. Our Outperform rating is sustained.

Q3 2007 highlights

Q3 2007 reported earnings: $30.8 million or $0.20 per share vs. $38.8 million or $0.37 per share in Q3 2006 (y/y).

Segmented Reported Earnings ($Mln)	Q3 2007	Q3 2006
Regulated Gas Utilities - Canadian	($3.7)	-
Regulated Electric Utilities - Canadian	$28.0	$25.3
Regulated Electric Utilities - Caribbean	$9.8	$7.7
Non-Regulated - Fortis Generation	$5.0	$7.8
Non-Regulated - Fortis Properties	$8.0	$6.3
Corporate and Other	($16.3)	($8.3)
Total Reported Earnings	**$30.8**	**$38.8**
Source: FTS		

Regulated Gas Utilities – Canadian

Terasen Gas (TG): Reported Net Loss of $3.7 million.

(On May 17, 2007, FTS closed the acquisition of all the outstanding shares of Terasen Inc. [formerly BC Gas Inc.] from Kinder Morgan Inc. [KMI] for $3.7 billion including the assumption of $2.46 billion in debt. The purchase included the regulated natural gas distribution business located in B.C. called Terasen Gas [TG] but excluded the Terasen Pipeline [renamed Kinder Morgan Canada] petroleum transportation assets.)

In Q3 2007, TG reported a net loss of $3.7 million. We had expected a slightly lower net loss. In a typical year, TG experiences higher earnings in Q1 and Q4, lower earnings in Q2 and losses in Q3. Q3 gas volumes decreased 4.18% y/y as there was a 10.2% decrease in gas transportation volumes, partially offset by a 4.8% increase in gas sales volumes due to higher consumption as a result of cooler-than-normal weather.

For 2007, TGI's allowed rate of return on common equity (ROE) is 8.37% while TGVI's is 9.07%. TGI and TGVI are expected to have a higher allowed ROE in 2008 as long-term Canada bond yields have increased. FortisAlberta (FA), FortisBC (FBC) and Newfoundland Power (NP) should also have a higher allowed ROE in 2008 reflecting the impact of higher long-term Canada bond yields on the automatic adjustment formula used to calculate the allowed ROE.

Regulated Electric Utilities – Canadian

FortisAlberta (FA): Reported Earnings: $14.7 million vs. $12.3 million y/y. Earnings increased y/y primarily due to higher revenue and increased corporate income tax recoveries partially offset by higher operating expenses and finance charges. Energy deliveries increased to 123 GWh y/y to 3,781 GWh from 3,658 GWh y/y driven by customer demand growth buoyed by the hot Alberta economy. For 2007, FA is allowed to earn a ROE of 8.51%, down from 8.93% in 2006.

Fortis BC (FBC): Reported Earnings: $6.2 million vs. $5.7 million y/y. The $0.5-million earnings increase was mostly due to a 3.3% electricity rate hike and electricity sales growth partially offset by higher operating expenses, amortization costs and finance charges. In Q3, 703 GWh of electricity were sold vs. 694 GWh y/y, as once again there was a reduction in the estimate of electrical system losses and continued growth in the Okanagan area. For 2007, FBC is allowed to earn a ROE of 8.77%, down from 9.20% in 2006.

Newfoundland Power (NP): Reported Earnings: $2.7 million vs. $2.6 million – basically flat y/y. Earnings were impacted by electricity sales growth (874 GWh vs. 871 GWh y/y) offset by a lower allowed ROE of 8.60% for 2007 (vs. 9.24% in 2006), increased amortization costs and finance charges.

Other Canadian Electric Utilities - Maritime Electric (ME) and FortisOntario (FO): **Reported Earnings:** $4.4 million vs. $4.7 million y/y (ME: $3 million vs. $3.1 million y/y: FO: $1.4 million vs. $1.6 million). Earnings decreased $0.3 million y/y as a result of increased operating expenses and higher amortization costs partially offset by a lower effective corporate tax rate (36.2% vs. 37.3%). We had expected flat earnings y/y.

Regulated Utilities – Caribbean: Reported Earnings: $9.8 million vs. $7.7 million y/y.
Earnings increased y/y mostly due to incremental earnings from **Fortis Turks and Caicos (FTC)** (acquired in August 2006) ($2.7 million vs. $0.7 million y/y), and a higher earnings contribution from **Caribbean Utilities Company Ltd. (CUP.U)** ($4.1 million vs. $3.2 million y/y). This was partially offset by lower earnings from **Belize Electricity (BE)** (70.1%-interest) (earnings of $3 million vs. $3.8 million y/y), due mostly to increased operating expenses, amortization costs and finance charges.

CUP.U's existing licence is scheduled to expire in 2011 and licence extension discussions with the Cayman Islands government are still ongoing.

<u>Non-Regulated – Fortis Generation:</u> Reported Earnings: $5.0 million vs. $7.8 million y/y. Earnings decreased y/y as lower rainfall primarily in Belize and Upper New York State resulted in lower overall electricity production (254 GWh vs. 288 GWh y/y). We had expected earnings of $5.8 million. As per FTS, hydroelectric production in Belize recovered very strongly during the month of October resulting from higher rainfall and this has brought year-to-date production levels in line with budgeted amounts.

<u>Non-Regulated – Fortis Properties (FP)</u>: Reported Earnings: $8 million vs. $6.3 million y/y. Earnings increased y/y largely due to incremental earnings contributions from the four Western Canada hotels that were acquired last Nov. 1, 2006, partially offset by higher amortization costs and finance charges.

We expect FTS to continue to expand its property investments, utilizing a prudent amount of holding-company debt commensurate therewith. Overall, we expect solid earnings growth organically and from acquisitions, and from expansion of existing hotel properties.

<u>Corporate and Other:</u> Reported Expenses: $16.3 million vs. $8.3 million y/y. The increase in expenses y/y was mostly due to higher finance charges and preference share dividends associated with the financing of acquisitions such as TG and FTC.

Financial

Funds from operations in Q3 2007 increased to $145.7 million from $68.2 million y/y.

In FTS's 2006 Annual Report, it is stated that each $0.04 change in the Cdn$/US$-rate, will impact EPS by Cdn$0.01. This exposure has declined with FTS's recent private placement of US$200 million of U.S.-denominated senior unsecured debt. The interest expense on U.S.$-denominated debt is offsetting U.S.$ earnings exposure.

During Q3 2007, utility capital expenditures increased to $211.6 million from $114.8 million y/y. For 2007, gross consolidated utility capital expenditures are expected to be about $770 million including $630 million related to electric utilities (mostly FA and FBC) and about $140 million on TG.

FTS expects the majority of its gross electric utility capital expenditures of about $3 billion over the next five years to be driven by FA, FBC and regulated and non-regulated electric utilities in the Caribbean. Gross gas utility capital expenditures at TG are expected to be over $1 billion during the next five years.

Valuation

We are using an average of P/E multiples and a dividend-based support/residual price approach to arrive at our 12-month target price.

Our target price of $29.75 is calculated by applying the following: 1) a 19x P/E multiple to our estimated 2008 EPS of $1.59 giving us a $30.21 target price. 2) Using our dividend-based support/residual price approach: for the 2008 fiscal year, we are estimating EPS of $1.59; DPS of $0.92; and retained EPS (REPS) of $0.67. Our assumed long-term corporate bond yield of nominally 6.25% is tax-effected to 4.63% using a dividend-tax-credit divisor of 1.35. This generates a support price of $19.87 and using a REPS multiple of 14x, a residual price of $9.38, for a target price of $29.25.

DISCLOSURES:

Ratings And What They Mean:

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Sector Perform – The stock is projected to perform in line with the sector over the next 12 months; **Underperform –** The stock is expected to underperform the sector over the next 12 months.
SECONDARY STOCK RATING: Under Review – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock.
INDUSTRY RATING: NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months.
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NATIONAL BANK FINANCIAL

FTS(T)	Cdn$28.19
Stock Rating:	Outperform (Unchanged)
Target:	Cdn$30.00 (Was $29.75)
Risk Rating:	Average (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$24.80 - $29.85
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2006a	2007e	2008e
EPS	$1.38	$1.38	$1.59
P/E	21.6x	20.4x	17.7x
EPS Change Y/Y	16.0%	0.0%	15.2%
Book Value	$12.19	$16.81	$17.40
P/BV	2.4x	1.7x	1.6x
Dividend Yield	2.6%	3.0%	3.5%

Financial Data:	
Shares Outstanding (mln)	155.3
Book Value per Share	$17.21
Market Capitalization (mln)	$4 379
Price/Book Ratio	1.6x
Debt/Total Cap.	66.9%
Dividend per share	$1.00
Dividend Yield	3.55%

Industry Rating (Electric Utilities): Overweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); Terasen Gas (100%); FortisUS Energy (100%) - N.Y. State; Fortis Turks & Caicos (100%); Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (54%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in B.C., Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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Fortis Inc.

Another common share dividend hike

Boosts quarterly common share dividend by a whopping 19% to $0.25 per share

HIGHLIGHTS

- **FTS's Board of Directors yesterday declared a quarterly common share cash dividend of $0.25 per share (up from $0.21), payable on March 1, 2008, to the common shareholders of record at the close of business on Feb. 8, 2008. This represents a whopping 19% increase in the quarterly common share dividend.**

- **We had assumed annual dividend increases of $0.08 per share in 2008 and 2009 as we were expecting retention of cash for growth (organic and non-organic)**
Our expected dividend hikes were in hindsight too conservative. Owing to FTS's legendary superior management, its Directors probably felt that this boost in the dividend would still leave FTS in a comfortable financial position between internally generated and externally raised funds, and with an estimated dividend payout of about 63% for 2008 placing it in the peer group range of 60-70%.

- **The integration of the Terasen Gas (TG) assets is proceeding according to plan and the acquisition is still expected to be accretive over the first full year of ownership**
FTS remains Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space. The interest-sensitive FTS should continue to benefit from rate cuts by the U.S. Fed and the Bank of Canada (BoC).

- **Our target price is slightly increased to $30.00 from $29.75 as a result of the higher than expected dividend increase. Our Outperform rating is sustained.**

Stock Performance

Valuation

We are using an average of P/E multiples and a dividend-based support/residual price approach to arrive at our 12-month target price.

Our target price of $30.00 is calculated by applying the following: 1) a 19x P/E multiple to our estimated 2008 EPS of $1.59 giving us a $30.21 target price. 2) Using our dividend-based support/residual price approach: for the 2008 fiscal year, we are estimating EPS of $1.59; DPS of $1.00; and retained EPS (REPS) of $0.59. Our assumed long-term corporate bond yield of nominally 6.25% is tax-effected to 4.63% using a dividend-tax-credit divisor of 1.35. This generates a support price of $21.60 and using a REPS multiple of 14x, a residual price of $8.26, for a target price of $29.86.

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February 8, 2008

Fortis Inc.

Q4 2007 Operational EPS in Line

Terasen Gas acquisition drives earnings improvement…

FTS (T)	Cdn$29.24
Stock Rating:	Outperform (Unchanged)
Target:	Cdn$32.00 (Unchanged)
Risk Rating:	Average (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$24.80 - $29.75
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2007a	2008e	2009e
EPS	$1.37	$1.59	$1.68
P/E	21.2x	18.4x	17.4x
EPS Change Y/Y	-2.2%	16.1%	5.7%
Book Value	$17.51	$18.10	$18.78
P/BV	1.7x	1.6x	1.6x
Dividend Yield	2.8%	3.4%	3.4%

Financial Data:	
Shares Outstanding (mln)	155.5
Book Value per Share	$17.51
Market Capitalization (mln)	$4 547
Price/Book Ratio	1.7x
Debt/Total Cap.	67.0%
Dividend per share	$1.00
Dividend Yield	3.42%

Industry Rating (Electric Utilities): Market Weight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); Terasen Gas (100%); FortisUS Energy (100%) - N.Y. State; Fortis Turks & Caicos (100%); Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (54%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in B.C., Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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HIGHLIGHTS

- **<u>Q4 2007 reported earnings:</u> $79 million or $0.51 per share vs. $34 million or $0.33 per share in Q4 2006 (y/y).**

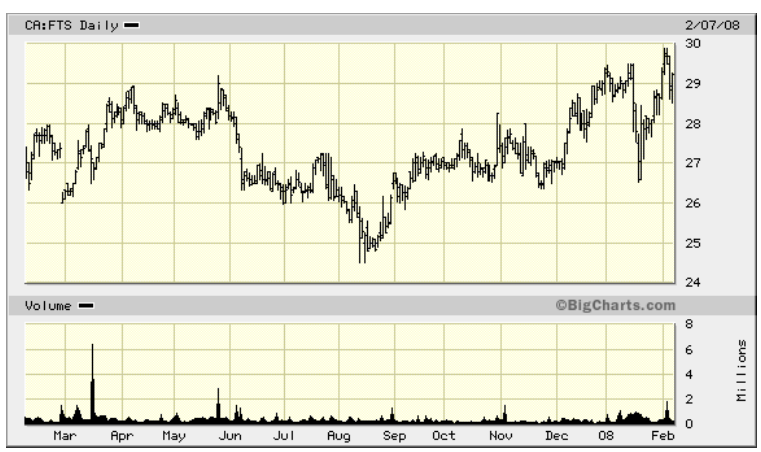
- **<u>Q4 2007 operational EPS:</u> $0.46 vs. $0.33 (y/y), after excluding in Q4 2007: a $7-million after-tax gain on the sale of surplus land at TG; a $2-million after-tax gain at FortisOntario (FO) related to a refund received associated with an interconnection arrangement from the late 1990s; a $4-million favourable corporate tax adjustment at Fortis Properties (FP), and about $5 million of non-recurring items included in the corporate segment. Operational EPS was basically in line with our and the Street's estimates.**

- **The Q4 earnings improvement was driven by $45 million of incremental operational earnings from Terasen Gas (TG), which was acquired in May 2007**
The integration of the TG assets is proceeding according to plan and the acquisition is still expected to be accretive over the first full year of ownership.

- **FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space**
FTS common shares offer investors a good combination of income and capital appreciation prospects.

- **We are maintaining our EPS estimates of $1.59 for 2008 and $1.68 for 2009. Our target price remains at $32.00 and our Outperform rating is sustained.**

Stock Performance



Assessment

FTS's Q4 2007 operational EPS of $0.46 vs. $0.33 y/y, was basically in line with our and the Street's estimates.

The Q4 earnings improvement was driven by $45 million of incremental operational earnings from Terasen Gas (TG) which was acquired in May 2007. In a typical year, TG experiences higher earnings in Q1 and Q4, lower earnings in Q2 and losses in Q3. The integration of the TG assets is proceeding according to plan and the acquisition is still expected to be accretive over the first full year of ownership.

FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space. FTS common shares offer investors a good combination of income and capital appreciation prospects. The interest-sensitive FTS should continue to benefit from U.S. Federal Reserve Board easing and more interest rate cuts by the Bank of Canada (BoC). Yield-hungry investors should take notice of FTS, as it is consistent in growing the common share dividend on a yearly basis (impressive 19% dividend hike in December 2007) and we expect this trend to continue.

FTS will spend more than $3 billion on gross electric utility capital expenditures and over $1 billion on gross gas utility capital expenditures (TG) over the next five years. FTS's rate base is expected to grow at an average 6% per year clip which will aid earnings growth going forward. In 2008, FTS will spend about $890 million on gross utility capital expenditures.

FTS is still actively hunting for gas distribution and electric assets in the U.S., Canada and the Caribbean although no deals are considered imminent at this time.

We still believe that rounding up FTS's equity interest (currently 54%) in Caribbean Utilities Company Ltd. (TSX-CUP.U) to 100% is still a very strong possibility given that CUP.U has finally reached an agreement in principle with the Cayman Islands Government on new 20-year Generation and T&D licences. FTS will also focus on growing its non-regulated businesses including hydroelectric generation, hotels and real estate.

We are maintaining our EPS estimates of $1.59 for 2008 and $1.68 for 2009. Our target price remains at $32.00 and our Outperform rating is sustained.

Q4 2007 highlights

Q4 2007 reported earnings: $79 million or $0.51 per share vs. $34 million or $0.33 per share in Q4 2006 (y/y).

Q4 2007 operational EPS: $0.46 vs. $0.33 (y/y) after excluding in Q4 2007: a $7-million after-tax gain on the sale of surplus land at TG; a $2-million after-tax gain at FortisOntario (FO) related to a refund received associated with an interconnection arrangement from the late 1990s; a $4-million favourable corporate tax adjustment at Fortis Properties (FP), and about $5 million of non-recurring items included in the corporate segment.

Segmented Reported Earnings ($Mln)	Q4 2007	Q4 2006
Regulated Gas Utilities - Canadian	$52	-
Regulated Electric Utilities - Canadian	$25	$27
Regulated Electric Utilities - Caribbean	$9	$8
Non-Regulated - Fortis Generation	$7	$7
Non-Regulated - Fortis Properties	$8	$3
Corporate and Other	($22)	($11)
Total Reported Earnings	**$79**	**$34**
Source: FTS		

Regulated Gas Utilities – Canadian

Terasen Gas (TG): Reported Earnings: $52 million.

(On May 17, 2007, FTS closed the acquisition of all the outstanding shares of Terasen Inc. [formerly BC Gas Inc.] from Kinder Morgan Inc. [KMI] for $3.7 billion including the assumption of $2.46 billion in debt. The purchase included the regulated natural gas distribution business located in B.C. called Terasen Gas [TG] but excluded the Terasen Pipeline [renamed Kinder Morgan Canada] petroleum transportation assets.)

In Q4 2007, TG reported earnings of $52 million which included a $7-million after-tax gain on the sale of surplus land. In a typical year, TG experiences higher earnings in Q1 and Q4, lower earnings in Q2 and losses in Q3. Fourth Quarter gas volumes increased 7.12% y/y to 69,108 TJ due primarily to cooler weather and customer growth.

For 2008, TGI's allowed rate of return on common equity (ROE) has increased to 8.62% from 8.37% in 2007 while TGVI's has increased to 9.32% from 9.07%.

Regulated Electric Utilities – Canadian

FortisAlberta (FA): Reported Earnings: $6 million vs. $9 million y/y. Earnings decreased y/y primarily due to higher operating expenses, amortization costs and finance charges related to the ongoing addition of capital assets. Energy deliveries increased 101 GWh y/y to 4,002 GWh driven by higher energy demand related to customer growth buoyed by the robust Alberta economy. For 2008, FA's allowed ROE has increased to 8.75% from 8.51% in 2007.

Fortis BC (FBC): Reported Earnings: $7 million vs. $6 million y/y. The $1-million earnings increase was mostly due to a 3.3% electricity rate hike offset by higher operating expenses, amortization costs and finance charges. For 2008, FBC is allowed to earn a ROE of 9.02%, up from 8.77% in 2007.

Newfoundland Power (NP): Reported Earnings: $9 million − flat y/y. Earnings were impacted by electricity sales growth (1,384 GWh vs.1,353 GWh y/y) offset by reduced electricity rates due to a lower allowed ROE of 8.60% for 2007 vs. 9.24% in 2006. For 2008, NP's allowed ROE has increased to 8.95%.

Other Canadian Electric Utilities - Maritime Electric (ME) and FortisOntario (FO): **Reported Earnings:** $3 million vs. $3 million y/y (ME: $1.5 million vs. $2.3 million y/y: FO: $1.5 million vs. $1 million y/y). Earnings were flat y/y as a $2 million after-tax gain at FO related to a refund received as ordered by the regulator associated with an interconnection arrangement from the late 1990s was offset by higher amortization costs and increased finance charges mostly at ME.

Regulated Utilities – Caribbean: Reported Earnings: $9 million vs. $8 million y/y. Earnings increased y/y mostly due to the impact of the increased investment in **Caribbean Utilities Company Ltd. (TSX-CUP.U)** (54% vs. 37% y/y) partially offset by higher operating expenses, and the unfavourable impact of foreign currency translation due to the weaker US$ ($1 million).

During December 2007, CUP.U and the Cayman Islands Government reached an agreement in principle on the terms of new 20-year Generation and T&D licences.

Non-Regulated – Fortis Generation: Reported Earnings: $7 million vs. $7 million y/y. Earnings were flat y/y as lower rainfall across virtually all regions of operations was mostly offset by higher average wholesale electricity prices in Ontario ($48.33/MWh vs. $42.69/MWh y/y) and lower operating expenses.

Non-Regulated – Fortis Properties (FP): Reported Earnings: $8 million vs. $3 million y/y. Earnings increased y/y largely due to 1) incremental earnings contributions from the four Western Canada hotels in B.C. and Alberta that were acquired on Nov. 1, 2006 and the Delta

Regina that was purchased on Aug. 1, 2007, and 2) a $4 million favourable corporate tax adjustment related to the lowering of future income tax liability balances resulting from enacted future Federal income tax rate reductions.

We expect FTS to continue to expand its property investments, utilizing a prudent amount of holding-company debt commensurate therewith. Overall, we expect solid earnings growth organically and from acquisitions, and from expansion of existing hotel properties.

Corporate and Other: **Reported Expenses:** $22 million vs. $11 million y/y. The increase in expenses y/y was mostly due to higher finance charges associated with the financing of the TG acquisition and about $5 million of non-recurring items related to purchase price adjustments, the impact of lower enacted future Federal income tax rates on future income tax assets and a $1 million penalty arising from the cancellation of an interest rate swap related to BECOL. It is expected that Corporate expenses will return to the $17-million quarterly run-rate in Q1 2008.

Financial

Funds from operations in Q4 2007 increased to $143 million from $81 million y/y driven by FA, CUP.U and TG. Funds from operations in 2007 increased strongly to $490 million from $300 million y/y.

During Q4 2007, utility capital expenditures increased to $252 million from $152 million y/y. In 2007, gross consolidated utility capital expenditures jumped to $790 million from $483 million in 2006 with the bulk spent at electric utilities (mostly FA-$285 million and FBC-$147 million) and about $120 million on TG. For 2008, gross consolidated utility capital expenditures is expected to be about $890 million including $640 million related to electric utilities (mostly FA and FBC) and about $250 million on TG (includes $50 million for the start of construction on a new 1.5 bcf LNG storage facility on Vancouver Island which is expected to be completed by 2001 at a total cost of about $175 million to $200 million).

FTS expects the majority of its gross electric utility capital expenditures of about $3 billion over the next five years to be driven by FA, FBC and regulated and non-regulated electric utilities in the Caribbean. Gross gas utility capital expenditures at TG are expected to be over $1 billion during the same period.

Valuation

We are using an average of P/E multiples and a dividend-based support/residual price approach to arrive at our 12-month target price.

Our target price of $32.00 is calculated by applying the following: 1) a 19x P/E multiple to our estimated 2009 EPS of $1.68 giving us a $31.92 target price. 2) Using our dividend-based support/residual price approach: for the 2009 fiscal year, we are estimating EPS of $1.68; DPS of $1.10; and retained EPS (REPS) of $0.58. Our assumed long-term corporate bond yield of nominally 6.25% is tax-effected to 4.63% using a dividend-tax-credit divisor of 1.35. This generates a support price of $23.76 and using a REPS multiple of 14x, a residual price of $8.12, for a target price of $31.88.

DISCLOSURES:

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INDUSTRY RATING: NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy.

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May 2, 2008

The NBF Daily Bulletin
Electric Utilities

Fortis Inc.

Q1 2008 Operational EPS In Line

Seasonally strong Terasen Gas results led earnings rise…

FTS (T)	**Cdn$ 27.96**
Stock Rating:	**Outperform** (Unchanged)
Target:	**Cdn$ 32.00** (Unchanged)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$24.80 - $29.75
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2007a	2008e	2009e
EPS	$1.37	$1.59	$1.68
P/E	21.2x	17.6x	16.6x
EPS Change Y/Y	-2.2%	16.1%	5.7%
Book Value	$17.51	$18.10	$18.78
P/BV	1.7x	1.5x	1.5x
Dividend Yield	2.8%	3.6%	3.6%

Financial Data:	
Shares Outstanding (mln)	156.8
Book Value per Share	$17.82
Market Capitalization (mln)	$4 383
Price/Book Ratio	1.6x
Debt/Total Cap.	66.5%
Dividend per share	$1.00
Dividend Yield	3.58%

Industry Rating (Electric Utilities): Underweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); Terasen Gas (100%); FortisUS Energy (100%)-N.Y. State; Fortis Turks & Caicos (100%); Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (54%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in B.C., Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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HIGHLIGHTS

- **<u>Q1 2008 reported earnings:</u> $91 million or $0.58 per share (basic) vs. $42 million or $0.38 per share in Q1 2007 (y/y).**

- **<u>Q1 2008 operational EPS:</u> $0.58 vs. $0.40 (y/y), after excluding a one-time $2-million charge related to the disposal of steam turbine assets at Caribbean Utilities (CUP.U) in Q1 2007**
  Operational EPS was basically in line with our and the Street's estimates.

- **The strong earnings improvement was mostly driven by $58 million of incremental earnings from Terasen Gas (TG) (which was acquired in May 2007) and improved performance at CUP.U. This was partially offset by lower earnings at Newfoundland Power associated with a shift in the quarterly distribution of annual purchased power expense, and higher finance charges related to the TG acquisition**
  The integration of the TG assets is proceeding according to plan and the acquisition became accretive to EPS during the quarter as per FTS's original guidance.

- **FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space**
  FTS common shares offer investors a good combination of income and capital appreciation prospects.

- **We are maintaining our EPS estimates of $1.59 for 2008 and $1.68 for 2009. Our target price remains at $32.00 and our Outperform rating is sustained.**

Stock Performance

NATIONAL BANK FINANCIAL

Assessment

FTS's Q1 2008 operational EPS of $0.58 vs. $0.40 y/y, was basically in line with our and the Street's estimates.

The strong EPS improvement was mostly driven by $58 million of incremental earnings from Terasen Gas (TG), which was acquired in May 2007. In a typical year, TG experiences higher earnings in Q1 and Q4, lower earnings in Q2 and losses in Q3. The integration of the TG assets is proceeding according to plan and during Q1 the acquisition became accretive to EPS as per FTS's original guidance (accretive within the first full year of ownership).

FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space. FTS common shares offer investors a good combination of income and capital appreciation prospects. Yield-hungry investors should take notice of FTS, as it is consistent in growing the common share dividend on a yearly basis (impressive 19% dividend hike in December 2007) and we expect this trend to continue.

FTS will spend more than $3 billion on gross electric utility capital expenditures and more than $1 billion on gross gas utility capital expenditures (TG) over the next five years. FTS's rate base is expected to grow at an average 6% per year clip which will aid earnings growth going forward. In 2008, FTS will spend about $890 million on gross utility capital expenditures.

FTS is still actively hunting for gas distribution and electric assets in the U.S., Canada and the Caribbean in the $1 billion to $5 billion enterprise value range although no deals are considered imminent at this time.

We still believe that rounding up FTS's equity interest (currently 54%) in Caribbean Utilities Company Ltd. (TSX-CUP.U) to 100% is still a very strong possibility now that CUP.U has finally been granted a new exclusive 20-year T&D licence and a new non-exclusive 21.5-year Generation licence to replace the old licence that was scheduled to expire in 2011.

We are maintaining our EPS estimates of $1.59 for 2008 and $1.68 for 2009. Our target price remains at $32.00 and our Outperform rating is sustained.

Q1 2008 highlights

Q1 2008 reported earnings: $91 million or $0.58 per share (basic) vs. $42 million or $0.38 per share in Q1 2007 (y/y).

Q1 2008 operational EPS: $0.58 vs. $0.40 (y/y) after excluding a one-time $2-million charge related to the disposal of steam turbine assets at CUP.U in Q1 2007.

Segmented Reported Earnings ($Mln)	Q1 2008	Q1 2007
Regulated Gas Utilities - Canadian	$58	-
Regulated Electric Utilities - Canadian	$33	$39
Regulated Electric Utilities - Caribbean	$7	$4
Non-Regulated - Fortis Generation	$6	$7
Non-Regulated - Fortis Properties	$3	$2
Corporate and Other	($16)	($10)
Total Reported Earnings	**$91**	**$42**
Source: FTS		

Regulated Gas Utilities – Canadian

Terasen Gas (TG): Reported Earnings: $58 million

In Q1 2008, TG reported better than expected earnings of $58 million. Q1 2008 gas volumes increased 2.9% y/y to 78,184 TJ resulting from higher consumption due to cooler weather.

For 2008, TGI's allowed rate of return on common equity (ROE) has increased to 8.62% from

8.37% in 2007 while TGVI's has increased to 9.32% from 9.07%.

Regulated Electric Utilities – Canadian

FortisAlberta (FA): Reported Earnings: $11 million vs. $12 million y/y. Earnings decreased y/y as the impact of customer growth and a 6.8% distribution rate increase was more than offset by lower corporate tax recoveries; higher labour and employee-benefit costs as well as increased general operating expenses; increased amortization costs associated with continued investment in capital assets, and higher amortization rates provided in the 2008/2009 Negotiated Settlement Agreement. Energy deliveries increased 193 GWhr y/y to 4,138 GWhr driven by higher energy demand related to customer growth buoyed by the robust Alberta economy. For 2008, FA's allowed ROE has increased to 8.75% from 8.51% in 2007.

Fortis BC (FBC): Reported Earnings: $12 million – flat y/y. Earnings were aided by a 2.9% electricity rate hike, lower effective corporate taxes and a reduction in the federal corporate income tax rate. This was offset by increased energy supply costs due to higher average power purchase prices, higher amortization costs and finance charges. For 2008, FBC is allowed to earn a ROE of 9.02%, up from 8.77% in 2007.

Newfoundland Power (NP): Reported Earnings: $6 million vs. $11 million y/y. Earnings dropped y/y due to a shift in the quarterly distribution of annual purchased power expense which reduced earnings by $6 million. Previously, NP estimated and recognized monthly purchased power expense based on forecast annual average cost per KWhr and any differences with actual cost per KWhr were adjusted to a regulatory reserve. As of Jan. 1, 2008, monthly purchased power expense is being recorded at actual cost per KWhr. This shift will have no impact to annual earnings but Q1 and Q4 earnings will be lower and Q2 and Q3 earnings higher when compared to the same periods in 2007. Excluding this $6 million shift in earnings, earnings improved by $1 million aided by electricity sales growth (1,716 GWhr vs. 1,663 GWhr y/y) and increased electricity rates. For 2008, NP's allowed ROE has increased to 8.95% from 8.60%.

Other Canadian Electric Utilities - Maritime Electric (ME) and FortisOntario (FO): **Reported Earnings:** $4 million - flat y/y (ME: $3 million vs. $2.6 million y/y: FO: $1 million vs. $1.3 million y/y). Electricity sales decreased 3 GWhr y/y to 599 GWhr as a result of lower average consumption due to warmer than normal weather conditions in Ontario, the impact of the loss of a major industrial customer and a temporary shutdown of operations of another industrial customer in Ontario.

Regulated Utilities – Caribbean: Reported Earnings: $7 million vs. $4 million y/y. Earnings increased y/y mostly due to revenue growth and the favourable impact on energy supply costs associated with the movement in deferred fuel costs at CUP.U due to a change in the basis of calculating such costs under its new T&D licence. This was partially offset by higher finance charges, increased amortization costs and a $1 million unfavourable impact of foreign currency translation due to the strong Canadian dollar.

Non-Regulated - Fortis Generation: Reported Earnings: $6 million vs. $7 million y/y. Earnings decreased y/y due to lower production (hydrology was down 50% y/y in Belize) and a $0.5 million unfavourable foreign exchange impact. Average wholesale electricity prices in Ontario dropped to $49.93/MWhr from $52.61/MWhr y/y but jumped in Upper New York State to US$72.91/MWhr from US$56.87/MWhr y/y. Construction on the $57 million 18-MW Vaca Hydroelectric facility in Belize is well underway with completion slated for Sept/Oct. 2009.

Non-Regulated - Fortis Properties (FP): Reported Earnings: $3 million vs. $2 million y/y. Earnings increased y/y largely due to incremental earnings from the Delta Regina that was purchased on Aug. 1, 2007.

We expect FTS to continue to expand its property investments, utilizing a prudent amount of holding-company debt commensurate therewith. Overall, we expect solid earnings growth organically and from acquisitions, and from expansion of existing hotel properties.

Corporate and Other: **Reported Expenses:** $16 million vs. $10 million y/y. The increase in expenses y/y was mostly due to higher finance charges associated with the financing of the TG acquisition (about $9.5 million or $6.5 million after-tax), about $1.5 million ($1 million after-tax) of Terasen corporate and CWLP amortization costs and expenses, and higher Fortis corporate operating expenses, partially offset by increased revenue (up $4 million y/y). It is expected that Corporate expenses will remain around the $17-million quarterly run-rate for at least this year.

Financial

Cash flow from operations in Q1 2008 jumped to $188 million from $94 million y/y driven by TG and FA.

During Q1 2008, utility capital expenditures increased to $162 million from $134 million y/y. For 2008, gross consolidated utility capital expenditures is expected to be about $890 million including $640 million related to electric utilities (mostly FA and FBC) and about $250 million on TG (includes $50 million for the Q2 start of construction on the 1.5 bcf LNG storage facility on Vancouver Island which is expected to be completed by 2001 at a total cost of about $200 million).

FTS expects the majority of its gross electric utility capital expenditures of about $3 billion over the next five years to be driven by FA, FBC and regulated and non-regulated electric utilities in the Caribbean. Gross gas utility capital expenditures at TG are expected to be over $1 billion during the same period.

Valuation

We are using an average of P/E multiples and a dividend-based support/residual price approach to arrive at our 12-month target price.

Our target price of $32.00 is calculated by applying the following: 1) a 19x P/E multiple to our estimated 2009 EPS of $1.68 giving us a $31.92 'target price'. 2) Using our dividend-based support/residual price approach: for the 2009 fiscal year, we are estimating EPS of $1.68; DPS of $1.10; and retained EPS (REPS) of $0.58. Our assumed long-term corporate bond yield of nominally 6.25% is tax-effected to 4.63% using a dividend-tax-credit divisor of 1.35, which generates a support price of $23.76 and using a REPS multiple of 14x, a residual price of $8.12, for a 'target price' of $31.88.

DISCLOSURES:

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SECONDARY STOCK RATING: **Under Review** – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock.

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NATIONAL BANK FINANCIAL

June 30, 2008

The NBF Daily Bulletin
Electric Utilities

Fortis Inc.

Belize's PUC Issues Its Final Decision

Belize's PUC issues controversial Final Decision for Belize Electricity

FTS (T)	**Cdn$27.31**
Stock Rating:	**Outperform** (Unchanged)
Target:	**Cdn$31.60** (Was Cdn$32.00)
Risk Rating:	**Average** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$24.80 - $29.75
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2007a	2008e	2009e
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Debt/Total Cap.	66.5%
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Dividend Yield	3.66%

Industry Rating (Electric Utilities): Underweight
(NBF Economics & Strategy Group)

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HIGHLIGHTS

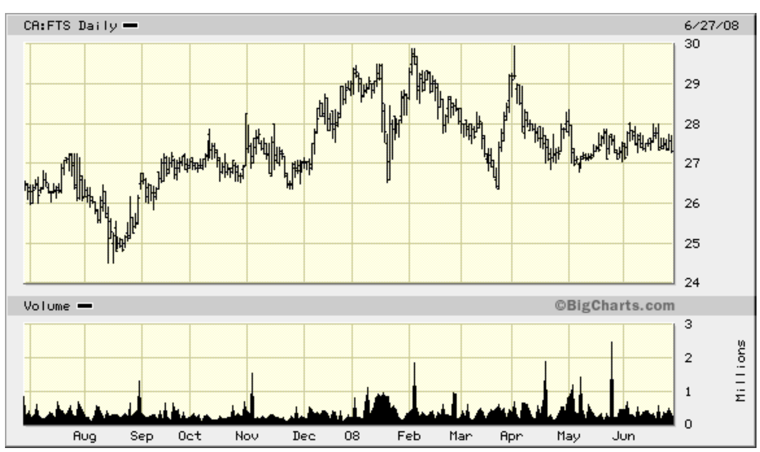
- **Belize's Public Utilities Commission (PUC) has released its Final Decision on the 2008 Annual Rate Review Proceeding (ARP) for Belize Electricity (BE) (70.1%-owned by FTS) for implementation for the July 1, 2008, to June 30, 2009, period (ATP 2008/09).**

- **The Final Decision retroactively disallows about BZ$36 mln or Cdn$18 mln (FTS share-Cdn$12.6 mln) of previously incurred electricity costs, reduces BE's rate of return on assets (ROR) to 10% from 12%, and leaves the Average Electricity Rate (AER) unchanged at BZ$0.441/kWhr.**

- **In a news release, BE's President and CEO, Lynn Young, said, "The Final Decision of the PUC threatens the financial health of the company. BE will not be able to meet all of its financial obligations." Also, BE stated that it plans to legally contest the Final Decision. FTS stated in its own 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."**

- **The disallowance of BZ$36,199,894 of previously incurred electricity costs is referred to as 'corrections' by the PUC and is related to prior years. The corrections total about BZ$0.086/kWhr which is the amount that the PUC has reduced the AER in order to keep it strangely enough unchanged at BZ$0.441/kWhr which is what the PUC and the Belize government had been striving for all along.**

Stock Performance



NATIONAL BANK FINANCIAL

Event

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Regulated Parameters (BZ$kWhr)	ARP 2007 Final Decision	BE ARP 2008 Proposal	PUC Initial ARP 2008 Decision	Expert Recomm.	PUC Final ARP 2008 Decision
VAD	0.168	0.168	0.131	0.154	**0.135**
COP	0.253	0.287	0.307	0.298	**0.312**
CPRSA	0.02	0.045	0.004	0.025	**0.08**
CORRECTION					**-0.086**
AVG. ELECT. RATE	**0.441**	**0.500**	**0.441**	**0.477**	**0.441**

In a news release, BE's President and CEO, Lynn Young, said, "The Final Decision of the PUC threatens the financial health of the company. BE will not be able to meet all of its financial obligations." Also, BE stated that it plans to legally contest the Final Decision. FTS stated in its own 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."

The disallowance of BZ$36,199,894 of previously incurred electricity costs is referred to as 'corrections' by the PUC and is related to prior years (2005, 2006 and 2007). The 'so-called corrections' are related to 1) allowed depreciation being in excess of actual depreciation for 2005, 2006 and 2007 totalling BZ$9,628,000, 2) the allowed return in VAD being in excess of the actual return that should have been received by BE for 2005, 2006, 2007, which amounts to BZ$14,686,000, 3) disallowance of Hurricane Cost Rate Stabilization Account (HCRSA)-related interest charges totalling BZ$1,552,664, and 4) disallowance of Mollejon Transmission Facility Loan Interest of BZ$10.34 million.

When the corrections (BZ$36,199,894) are divided by the expected electricity sales of 420,333,335 kWhr for the July 1, 2008 to June 30, 2009 period, this totals about BZ$0.086/kWhr which is the amount that the PUC has reduced the AER in order to keep it unchanged at BZ$0.441/kWhr. It is quite strange and hardly a coincidence that these corrections would allow for the AER to remain unchanged (zero rate increase), which is what the PUC and the Belize government had been striving for all along.

In the Final Decision, the PUC kept its hard-line stance and rejected most of the recommendations of the Independent Expert, Jonathan Lesser, a move that could make it appear that it is *attached to the hip* with the new Belize government, which came into power on an election promise of lowering or at least keeping the electricity rates unchanged. Also, it is ironic that absent the corrections, the AER would have totalled BZ$0.527/kWhr which is actually higher than the BZ$0.50/kWhr that BE was requesting and the Independent Expert's BZ$0.477/kWhr recommendation.

As previously mentioned, the PUC approved a ROR of 10% for the 2008/09 period with this ROR to be applied to BE's Regulated Asset Value (RAV) for the purpose of calculating the total return for calendar years 2008 and 2009. This ROR is much lower than the Independent Expert's recommendation of a 12% ROR as outlined in the 2008 Rate Setting Methodology (RSM). The Expert had stated in his report that the PUC's initial proposed 8.5% ROR "will clearly not be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital."

In the Final Decision, the PUC stated that a new RSM will be implemented for Sept. 1, 2008 and that the RSM will provide an Automatic Adjustment Mechanism (AAM) to adjust the Cost of Power (COP) component of rates on a monthly basis to reflect the true and current price of power.

In our view (and we caution that we are not lawyers and are not expressing a legal opinion), the PUC's Final Decision appears to be on shaky ground and will most likely be legally challenged. Over the years, FTS has shown that it is the undisputed master of skilfully dealing with provincial energy regulatory boards in Canada. In terms of regulatory acumen it has no equals. FTS's dealings with regulatory agencies have usually achieved fair settlements that have balanced the interests of all stakeholders. We believe that FTS/BE's position is warranted and that a remedy for the situation must be pursued. The Belize courts are perceived to be politically independent in their judgments, which bodes well for a better outcome in this ongoing saga.

Impact to FTS

We note that BE provides an annual earnings contribution of only about $11 million to FTS and therefore is not a major contributor to FTS's overall annual earnings. If the PUC's Decision is not contested in the courts and remains in effect, we estimate that FTS's annual EPS will be negatively impacted by about $0.04 per share. Pending the final resolution of the BE/PUC situation, we have slightly reduced our EPS estimates for 2008 to $1.57 from $1.59 and for 2009 to $1.66 from $1.68. Our target price is reduced to $31.60 from $32.00. Our Outperform rating is sustained.

Belize Situation Background

In 2007, about 51% of BE's electricity supply came from Mexico's Comision Federal de Electricidad (CFE) which has pricing indexed to global oil prices. About 40% of BE's electricity was supplied from hydroelectric sources (38% from FTS's 100%-owned BECOL and about 3% from Hydro Maya) while the remaining 8% came from diesel-fired plants.

For the July, 1, 2007 to June 30, 2008 period, BE's overall Average Electricity Rate (AER) was BZ$0.441 /kWhr. This rate included the following three components:

1) VALUE ADDED OF DELIVERY (VAD): BZ$0.168/kWhr - a fixed component to cover overhead expenses and provide a reasonable return on investment,
2) UNIT COST OF POWER (SALES) (COP): BZ$0.253/kWhr - a variable component that reflects the cost of electricity, and
3) COST OF POWER RATE STABILIZATION ACCOUNT ADJUSTMENT (CPRSA): BZ$0.02/kWhr − a deferred cost of power recovery or rebase component.

Unlike other neighbouring countries, which mostly source electricity from higher-costing diesel-fired or gas and oil-fired plants, Belize has been able to benefit from electricity sourced from less expensive hydroelectric facilities (40% of its total supply) which usually helps stabilize electricity rates. During 2007, the cost of power purchased from Mexico's CFE increased by 28.7% to BZ$0.21/kWhr while the cost of hydroelectric power remained relatively stable at BZ$0.18/kWhr.

In December 2007, amendments to Belize's Electricity Bylaws were enacted affecting the tariff-setting process at BE resulting in a simplified tariff-setting methodology allowing for improved rate stabilization. The amendments settled outstanding matters related to the PUC's June 2007 Final Decision on tariffs.

However, in March 2008, the newly elected Government of Belize (which had made an election promise of lowering electricity rates) repealed the December 2007 amendments to the Bylaws and expressed its intent to further simplify the tariff-setting methodology. Also during March, BE filed an application requesting an increase in the cost of power component (COP) to BZ$0.318 from BZ$0.253/kWhr (thereby increasing the AER by about 15% to BZ$0.506/kWhr from BZ$0.441/kWhr) as a result of the rapid increase in the cost of power due to rising global oil prices. This application was disallowed by the PUC which said that BE could still meet and satisfy its financial obligations in 2008 and that "in the interim, a decrease in BE's operating expenses and capital expenditures levels would help offset the impact of the cash flow of the increasing cost of power." Also, the PUC indicated that it would defer its detailed analysis of the high deferrals of the cost of power into BE's rate stabilization account until the next Annual Tariff Review Proceeding for the annual tariff period for July 1, 2008 to June 30, 2009.

In April 2008, BE filed its Annual Tariff Review Application for the annual tariff period for July 1, 2008 to June 30, 2009, requesting a 13.4% increase in the AER (to BZ$0.50/kWhr) as a result on an increase in the COP (to BZ$0.287/kWhr from BZ$0.253/kWhr) and an increase in the CPRSA (to BZ$0.045/kWhr from BZ$0.02/kWhr). It kept the VAD at BZ$0.168/kWhr.

On May 2, 2008, the PUC rendered its initial decisions under the ARP wherein it kept the average electricity rate unchanged at BZ$0.441/kWhr but modified the rates of the various components:

1) VAD: BZ$0.13/kWhr (down from BZ$0.168/kWhr)
2) COP: BZ$0.307/kWhr (up from BZ$0.253/kWhr)
3) CPRSA: BZ$0.004/kWhr (down from BZ$0.02/kWhr).

On June 11, 2008, the PUC released the Independent Expert's (IE) report on the ARP. The IE, Jonathan Lesser, pointed out that although some initial findings of the PUC "may provide short-term rate relief to ratepayers, the longer-term consequences of those findings, if enacted, are likely to exacerbate future rate increases and economic harm to those same ratepayers."

The IE recommended that the average electricity rate be increased to BZ$0.477/kWhr from the current BZ$0.441/kWhr. Also, the IE stated that the PUC's initial proposed 8.5% Rate of Return "will clearly not be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital." The IE recommended that the target ROR should be 12% as outlined in the 2008 Rate Setting Methodology (RSM).

We had viewed the findings of the IE's report as being balanced as a whole and generally positive for BE. The IE had recommended an Average Electricity Rate increase of about 8.16% (roughly 61% of BE's 13.4% rate hike request vs. the PUC's zero increase).

FTS Snapshot

FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space. FTS common shares offer investors a good combination of income and capital appreciation prospects. Yield-hungry investors should take notice of FTS, as it is consistent in growing the common share dividend on a yearly basis (impressive 19% dividend hike in December 2007) and we expect this trend to continue.

FTS will spend more than $3 billion on gross electric utility capital expenditures and more than $1 billion on gross gas utility capital expenditures (Terasen Gas) over the next five years. FTS's rate base is expected to grow at an average 6% per year clip which will aid earnings growth going forward. In 2008, FTS will spend about $900 million on gross utility capital expenditures.

FTS is still actively hunting for gas distribution and electric assets in the U.S., Canada and the Caribbean in the $1 billion to $5 billion enterprise value range although no deals are considered imminent at this time.

Valuation

We are using an average of P/E multiples and a dividend-based support/residual price approach to arrive at our 12-month target price.

Our target price of $31.60 is calculated by applying the following: 1) a 19x P/E multiple to our estimated 2009 EPS of $1.66 giving us a $31.54 'target price'. 2) Using our dividend-based support/residual price approach: for the 2009 fiscal year, we are estimating EPS of $1.66; DPS of $1.10; and retained EPS (REPS) of $0.56. Our assumed long-term corporate bond yield of nominally 6.25% is tax-effected to 4.63% using a dividend-tax-credit divisor of 1.35, which generates a support price of $23.76 and using a REPS multiple of 14x, a residual price of $7.84, for a 'target price' of $31.60.

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FTS - ADDITIONAL COMPANY RELATED DISCLOSURES

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The company discussed in this report has two or more classes of common shares existing with differential voting rights. (32)

FTS (T) Cdn$26.76

Stock Rating: Outperform (Unchanged)

Target: Cdn$31.60 (Unchanged)

Risk Rating: Average (Unchanged)

Fortis Inc.

Q2 2008 Operational EPS In Line

Better than expected Terasen Gas results drive earnings higher y/y…

Stock Data:	
52-week High-Low (Canada)	$24.43 - $29.75
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2007a	2008e	2009e
EPS	$1.37	$1.57	$1.66
P/E	21.2x	17.0x	16.1x
EPS Change Y/Y	-2.2%	14.6%	5.7%
Book Value	$17.51	$18.08	$18.74
P/BV	1.7x	1.5x	1.4x
Dividend Yield	2.8%	3.7%	3.7%

Financial Data:	
Shares Outstanding (mln)	157.1
Book Value per Share	$18.05
Market Capitalization (mln)	$4 203
Price/Book Ratio	1.5x
Debt/Total Cap.	63.8%
Dividend per share	$1.00
Dividend Yield	3.74%

Industry Rating (Electric Utilities): Underweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); Terasen Gas (100%); FortisUS Energy (100%) - N.Y. State; Fortis Turks & Caicos (100%); Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (54%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in B.C., Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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HIGHLIGHTS

- **Q2 2008 reported earnings: $29 mln or $0.19 per share (basic) vs. $41 mln or $0.31 per share in Q2 2007 (y/y).**
- **Q2 2008 operational earnings: $44 mln or $0.28 per share vs. $41 mln or $0.31 per share y/y, after excluding a $13 mln charge at Belize Electricity (BE) resulting from an unfavourable regulatory decision related to prior periods, and a $2 mln charge at FortisOntario (FO) associated with the repayment of interconnection agreement amounts received in Q4 2007. Operational EPS matched our estimate and was a penny higher than the Street.**
- **The y/y earnings improvement was mostly driven by a better than expected $12 mln contribution from Terasen Gas (TG), higher earnings at Newfoundland Power (NP) reflecting a shift in the quarterly distribution of annual purchased power expenses ($2.5 mln benefit), higher production and electricity pricing at Non-Regulated Generation and improved performance at FTS Properties. This was partially offset by lower than expected earnings at FortisAlberta (FA) due to higher corporate income taxes and higher finance charges related to the TG acquisition.**
- **FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space. FTS's capital program over the next five years has been increased to $4.5 bln from $4 bln, which will further aid earnings growth.**
- **We are maintaining our EPS estimates, target price and Outperform rating.**

Stock Performance

Assessment

FTS's Q2 2008 operational earnings of $44 million or $0.28 per share vs. $41 million or $0.31 per share y/y, matched our EPS estimate and was a penny higher than the Street.

The y/y earnings improvement was mostly driven by a better than expected $12 million earnings contribution from Terasen Gas (TG) (which was acquired in May 2007), higher earnings at Newfoundland Power (NP) reflecting a shift in the quarterly distribution of annual purchased power expenses ($2.5 million benefit), higher production and electricity pricing at Non-Regulated Generation and improved performance at FTS Properties. This was partially offset by lower than expected earnings at FortisAlberta (FA) due to higher corporate income taxes and higher finance charges related to the TG acquisition.

In a typical year, TG experiences higher earnings in Q1 and Q4, lower earnings in Q2 and losses in Q3. The integration of the TG assets is now substantially complete and the acquisition became accretive to EPS as per FTS's original guidance (accretive within the first full year of ownership) during Q1 2008.

FTS will spend about $3.5 billion on gross electric utility capital expenditures and more than $1 billion on gross gas utility capital expenditures (TG) over the next five years. This is up from the previous overall guidance of $4 billion and reflects additional capital projects forecasted by the Terasen companies, FortisBC (FBC) and Caribbean Utilities Company Ltd. (TSX-CUP.U). In 2008, FTS will spend over $900 million on gross utility capital expenditures. FTS's rate base is expected to grow at an average 6% per year clip which will aid earnings growth going forward.

FTS is still actively hunting for gas distribution and electric assets in the U.S., Canada and the Caribbean in the $1 billion to $5 billion enterprise value range although no large deals are considered imminent at this time. FTS's FortisOntario (FO) subsidiary is in the process of acquiring a 10% minority interest in Grimsby Power Inc.'s electricity distribution business and could be on the verge of acquiring larger utilities in the province.

We still believe that rounding up FTS's equity interest (currently 54%) in CUP.U to 100% is just a matter of time now that CUP.U has finally been granted a new exclusive 20-year T&D licence and a new non-exclusive 21.5-year Generation licence to replace the old licence that was scheduled to expire in 2011.

FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space. FTS common shares offer investors a good combination of income and capital appreciation prospects. Yield-hungry investors should take notice of FTS, as it is consistent in growing the common share dividend on a yearly basis (impressive 19% dividend hike in December 2007) and we expect this trend to continue.

We are maintaining our EPS estimates of $1.57 for 2008 and $1.66 for 2009. Our target price of $31.60 and Outperform rating are sustained.

Q2 2008 highlights

Segmented Operational Earnings ($Mln)	Q2 2008	Q2 2007
Regulated Gas Utilities - Canadian	$12	$1
Regulated Electric Utilities - Canadian	$28	$33
Regulated Electric Utilities - Caribbean	$8	$8
Non-Regulated - Fortis Generation	$7	$5
Non-Regulated - Fortis Properties	$7	$6
Corporate and Other	($18)	($12)
Total Operational Earnings	**$44**	**$41**
Operational EPS	**$0.28**	**$0.31**
Source: FTS		

Regulated Gas Utilities – Canadian

Terasen Gas (TG): Reported Earnings: $12 million vs. $1 million y/y

In Q2 2008, TG reported better than expected earnings of $12 million aided by the increase in allowed ROEs for 2008 and lower effective corporate taxes. This was partially offset by higher amortization costs and finance charges. Q2 2008 gas volumes increased 1.9% y/y to 45,324 TJ resulting from higher consumption due to cooler weather.

For 2008, TGI's allowed rate of return on common equity (ROE) is 8.62%, up from 8.37% in 2007 while TGVI's is 9.32% vs. 9.07% in 2007.

Regulated Electric Utilities – Canadian

FortisAlberta (FA): Reported Earnings: $7 million vs. $15 million y/y. Earnings fell y/y due to higher corporate income taxes (up $9 million y/y) mostly associated with the regulator-approved AESO charges deferral account and the timing of its collection. This will be reversed over the next two years. Energy deliveries increased 118 GWhr y/y to 3,768 GWhr driven by higher energy demand related to customer growth buoyed by the robust Alberta economy. FA's allowed 2008 ROE is 8.75%, up from 8.51% in 2007.

Fortis BC (FBC): Reported Earnings: $7 million vs. $6 million y/y. Earnings were aided by a 2.9% electricity rate hike, lower energy supply costs due to lower average power purchase prices and the receipt of $0.6 million of insurance proceeds associated with a turbine generator failure in 2006. This was partially offset by higher finance charges related to the capital program. For 2008, FBC is allowed to earn a ROE of 9.02%, up from 8.77% in 2007.

Newfoundland Power (NP): Reported Earnings: $10 million vs. $8 million y/y. Earnings were higher y/y due to the shift in the quarterly distribution of annual purchased power expense which increased earnings by about $2.5 million. Prior to 2008, NP estimated and recognized monthly purchased power expense based on forecast annual average cost per KWhr and any differences with actual cost per KWhr were adjusted to a regulatory reserve. As of Jan. 1, 2008, monthly purchased power expense is being recorded at actual cost per KWhr. This shift will have no impact to annual earnings but Q1 and Q4 earnings will be lower and Q2 and Q3 earnings higher when compared with the same periods in 2007. Excluding this $2.5 million shift in earnings, earnings were lower by about $0.5 million y/y. Q2 electricity sales increased to 1,183 GWhr from 1,172 GWhr y/y driven by customer growth. For 2008, NP's allowed ROE is 8.95% vs. 8.60% last year.

Other Canadian Electric Utilities − Maritime Electric (ME) and FortisOntario (FO): **Reported Earnings:** $2 million vs. $4 million y/y (ME: $3 million vs. $2.8 million y/y; FO: $1 million loss vs. $1.2 million y/y). **Operational Earnings:** $4 million – flat y/y.

Reported earnings decreased y/y reflecting a $2 million charge (after-tax) at FO associated with the repayment of interconnection agreement amounts received in Q4 2007 from Niagara Mohawk Power Corporation. Electricity sales decreased 8 GWhr y/y to 508 GWhr as a result of lower average consumption due to warmer than normal weather conditions in Ontario, the impact of a temporary shutdown of operations of an industrial customer in Ontario and an unscheduled maintenance outage by a large customer at ME.

Regulated Utilities – Caribbean: Reported Earnings: $5 million loss vs. $8 million y/y. (BE: $10 million loss vs. $2.9 million y/y; CUP.U: $3 million vs. $2.3 million y/y; Turks & Caicos: $2 million vs. $2.4 million y/y). **Operational Earnings:** $8 million – flat y/y.

This segment suffered a $5 million loss due to a $13 million charge at BE representing FTS's 70.1% share of $18 million of disallowed previously incurred fuel and purchased power costs. On June 27, 2008, Belize's Public Utilities Commission (PUC) released its Final Decision on the 2008 Annual Rate Review Proceeding (ARP) for BE for implementation for the July 1, 2008, to June 30, 2009, period (ATP 2008/09).The Final Decision retroactively disallowed about BZ$36 million or Cdn$18 million of previously incurred electricity costs, reduced BE's unchanged at BZ$0.441/kWhr. This unfavourable PUC decision is expected to decrease BE's earnings contribution by $5 million or about $0.03 per share over the next 12 months.

On July 25, 2008, BE filed an application for judicial review and appeal of the PUC decision with the Supreme Court of Belize. We believe that BE's position is warranted and that a remedy for the situation had to be pursued. The Belize courts are perceived to be politically independent in their judgments which bodes well for a better outcome in this ongoing saga.

Non-Regulated – Fortis Generation: Reported Earnings: $7 million vs. $5 million y/y. Earnings were higher y/y due to higher production (energy sales: 312 GWhr vs. 274 GWhr y/y) and higher average wholesale electricity prices (Ontario-$46.86/MWhr vs. $42.93/MWhr y/y; Upper New York State-US$80.89/MWhr vs. US$56.97/MWhr y/y). This was partially offset by the unfavourable impact of foreign exchange. Construction on the $57 million 18-MW Vaca Hydroelectric facility in Belize is well underway with completion slated for late Q3/early Q4 2009.

Non-Regulated – Fortis Properties (FP): Reported Earnings: $7 million vs. $6 million y/y. Earnings increased y/y largely due to incremental earnings from the Delta Regina that was purchased on Aug. 1, 2007 and improved performance at hospitality operations in Atlantic Canada.

We expect FTS to continue to increase its property investments (particularly in Western Canada), utilizing a prudent amount of holding-company debt commensurate therewith. Overall, we expect solid earnings growth organically and from acquisitions, and from expansion of existing hotel properties.

Corporate and Other: Reported Expenses: $18 million vs. $12 million y/y. The increase in expenses y/y was mostly due to higher finance charges associated with the financing of the TG acquisition.

Financial

Cash flow from operations in Q2 2008 jumped to $244 million from $68 million y/y driven mostly by a $142 million contribution from TG.

During Q2 2008, utility capital expenditures increased to $219 million from $193 million y/y. In 2008, gross consolidated utility capital expenditures are expected to exceed $900 million including $640 million related to electric utilities (mostly FA and FBC) and about $250 million at TG (including $50 million for the start of construction on the 1.5 bcf LNG storage facility on Vancouver Island which is expected to be completed by 2011 at a total cost of about $200 million).

Valuation

We are using an average of P/E multiples and a dividend-based support/residual price approach to arrive at our 12-month target price.

Our target price of $31.60 is calculated by applying the following: 1) a 19x P/E multiple to our estimated 2009 EPS of $1.66 giving us a $31.54 'target price'. 2) Using our dividend-based support/residual price approach: for the 2009 fiscal year, we are estimating EPS of $1.66; DPS of $1.10; and retained EPS (REPS) of $0.56. Our assumed long-term corporate bond yield of nominally 6.25% is tax-effected to 4.63% using a dividend-tax-credit divisor of 1.35, which generates a support price of $23.76 and using a REPS multiple of 14x, a residual price of $7.84, for a 'target price' of $31.60.

DISCLOSURES:

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PRIMARY STOCK RATING: NBF has a three-tiered rating system that is relative to the coverage universe of the particular analyst. Here is a brief description of each: **Outperform –** The stock is expected to outperform the analyst's coverage universe over the next 12 months;
Sector Perform – The stock is projected to perform in line with the sector over the next 12 months; **Underperform –** The stock is expected to underperform the sector over the next 12 months.

SECONDARY STOCK RATING: Under Review – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock.

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November 3, 2008

The NBF Daily Bulletin

Electric Utilities

Fortis Inc.

Q3 '08 Operational EPS Higher Than Expected

Earnings improvement y/y led by Non-Regulated Fortis Generation

FTS (T)	Cdn$26.30
Stock Rating:	Outperform (Unchanged)
Target:	Cdn$29.45 (Was Cdn$31.60)
Risk Rating:	Average (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$21.05 - $29.75
Bloomberg/Reuters: Canada	FTS CN / FTS.TO

(Year-End Dec 31)	2007a	2008e	2009e
EPS	$1.37	$1.57	$1.62
P/E	21.2x	16.8x	16.2x
EPS Change Y/Y	-2.2%	14.6%	3.2%
Book Value	$17.51	$18.08	$18.70
P/BV	1.7x	1.5x	1.4x
Dividend Yield	2.8%	3.8%	3.8%

Financial Data:	
Shares Outstanding (mln)	157.3
Book Value per Share	$18.05
Market Capitalization (mln)	$4,137
Price/Book Ratio	1.5x
Debt/Total Cap.	64.8%
Dividend per share	$1.00
Dividend Yield	3.80%

Industry Rating (Electric Utilities): Underweight
(NBF Economics & Strategy Group)

Company Profile:
FTS is a holding company that owns 100% of Newfoundland Power, Atlantic Canada's second-largest utility. FTS is quite active outside Newfoundland through investments in Maritime Electric (100%)-P.E.I.; FortisOntario (100%); FortisAlberta (100%); FortisBC (100%); Terasen Gas (100%); FortisUS Energy (100%) - N.Y. State; Fortis Turks & Caicos (100%); Belize Electricity (70.1%); Belize Electricity Company Ltd. (BECOL) (100%); and Caribbean Utilities (57%)-Cayman Islands. FTS has also diversified into commercial real estate through Fortis Properties in B.C., Alberta, Manitoba, Ontario and Atlantic Canada, where FTS is the largest hotelier and investor in commercial real estate.

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HIGHLIGHTS

- **Q3 2008 reported earnings: $49 mln or $0.31 per share (basic) vs. $31 mln or $0.20 per share in Q3 2007 (y/y)**
  Q3 2008 operational EPS: $0.26 vs. $0.20 y/y, after excluding $7.5 mln in tax reductions associated with the settlement of historical corporate tax matters at Terasen. Operational EPS beat our $0.23 estimate and the Street's $0.21.

- **The y/y earnings improvement was mostly driven by higher earnings at Newfoundland Power (NP) reflecting a shift in the quarterly distribution of annual purchased power expenses; the almost doubling of earnings at Non-Regulated Fortis Generation, mainly due to higher hydroelectric production in Belize and Upper New York State; and better earnings at FortisBC (FBC) mostly due to lower energy supply costs. This was partially offset by lower earnings at the Caribbean operations.**

- **The interest-sensitive FTS should benefit from ongoing interest rate cuts by the U.S. Fed and the Bank of Canada, and FTS's recent inclusion into the S&P/TSX 60 index bodes well for the share price. FTS's $4.5-bln capital program over the next five years will aid earnings growth.**

- **We have lowered our 2009 EPS estimate to $1.62 from $1.66 to reflect changes in our model**
  Given the recent P/E multiple compression that the pipelines and utilities sector has experienced, we are reducing our P/E multiple to 17.5x from 19x and our REPS multiple to 13x. Our target price declines to $29.45 from $31.60 and our Outperform rating is sustained.

Stock Performance

Assessment

FTS's Q3 2008 operational EPS of $0.26 vs. $0.20 y/y, beat our $0.23 estimate and the Street's $0.21.

The y/y earnings improvement was mostly driven by higher earnings at Newfoundland Power (NP) reflecting a shift in the quarterly distribution of annual purchased power expenses ($5.5 million benefit); the almost doubling of earnings at Non-Regulated Fortis Generation mainly due to higher hydroelectric production in Belize and Upper New York State resulting from higher rainfall as well as higher average wholesale electricity prices; and better earnings at FortisBC (FBC), mostly due to lower energy supply costs. This was partially offset by lower earnings at the Caribbean operations mostly due to a 3.25% electricity rate reduction at Caribbean Utilities (TSX-CUP.U); a reduction in the allowed ROA to 10% from 12% at Belize Electricity (BE); and a $1-million reduction in earnings at FTS Turks and Caicos due to loss of revenue from the impact of Hurricane Ivan.

The current global credit and financial crisis has forced FTS to take a break from hunting for gas and electric utilities assets in the U.S., Canada and the Caribbean in the $1 billion to $5 billion enterprise value range. Smaller bite-sized acquisitions in the utilities space are now more likely (i.e. FortisOntario's acquiring of a 10% minority interest in Grimsby Power Inc.'s electricity distribution business, which is expected to close in Q1 2009). FTS is still eyeing the expansion of its FTS Properties business particularly on the hotel side as prices have plummeted given current market conditions.

We still believe that rounding up FTS's equity interest (currently 57%) in CUP.U to 100% is just a matter of time now that CUP.U has finally been granted a new exclusive 20-year T&D licence and a new non-exclusive 21.5-year Generation licence to replace the old licence that was scheduled to expire in 2011.

Although the hunt for large acquisitions has been put on hold until market conditions improve and stabilize, FTS is still moving forward with its large capital program that is not expected to be delayed or curtailed. FTS will spend about $3.5 billion on gross electric utility capital expenditures and more than $1 billion on gross gas utility capital expenditures over the next five years with a focus on the Terasen companies, FortisBC (FBC), and FortisAlberta (FA). In 2008, FTS will spend over $900 million on gross utility capital expenditures. FTS's rate base is expected to grow at an average 6% per year clip that will aid earnings growth.

Regarding the ongoing global credit crisis, FTS has consolidated credit facilities of $2.2 billion, of which $1.5 billion is unused. Over the next five years, average annual long-term debt maturities are expected to be about $180 million. On Dec. 1, 2008, Terasen Inc.'s 6.3% $200 million Unsecured debentures will become due and will most likely be covered by an operating line of credit ($600 million facility of which $550 million is unused with an interest rate of less than 4%). FTS has about $115 million of debt maturing in 2009. FTS has stated that its current sufficient credit facilities allows it to be selective when attempting to issue term debt and that it is capable of going through the 2009 fiscal year without issuing term debt if markets stay volatile.

FTS is Canada's most diversified utility with the best earnings and dividend growth profile and hence remains our top pick in the utilities space. Yield-hungry investors should take notice of FTS, as it is consistent in growing the common share dividend on a yearly basis (impressive 19% dividend hike in December 2007). FTS and the other interest-sensitive pipelines and utilities companies should benefit from ongoing interest rate cuts by the U.S. Federal Reserve and the Bank of Canada, and FTS's recent inclusion into the S&P/TSX 60 index bodes well for the share price.

We have lowered our 2009 EPS estimate to $1.62 from $1.66 to reflect changes in our model. Given the recent P/E multiple compression that the pipelines and utilities sector has experienced, we are reducing our P/E multiple to 17.5x from 19x and our REPS multiple to 13x. Our target price declines to $29.45 from $31.60 and our Outperform rating is sustained.

Q3 2008 highlights

Segmented Operational Earnings ($Mln)	Q3 2008	Q3 2007
Regulated Gas Utilities - Canadian	($4.5)	($4)
Regulated Electric Utilities - Canadian	$38	$28
Regulated Electric Utilities - Caribbean	$7	$10
Non-Regulated - Fortis Generation	$9	$5
Non-Regulated - Fortis Properties	$9	$8
Corporate and Other	($17)	($16)
Total Operational Earnings	**$41.5**	**$31**
Operational EPS	**$0.26**	**$0.20**
Source: FTS		

Regulated Gas Utilities – Canadian

Terasen Gas (TG): Reported Earnings: $1 million vs. -$4 million y/y

In Q3 2008, TG reported $1 million of earnings aided by a $5.5-million tax reduction associated with the settlement of historical corporate tax matters (which we have treated as an out-of-period item). Excluding this item, TG incurred a loss of $4.5 million. In a typical year, TG experiences higher earnings in Q1 and Q4, lower earnings in Q2 and losses in Q3. The integration of the TG assets is substantially complete and the acquisition became accretive to EPS as per FTS's original guidance (accretive within the first full year of ownership) during Q1 2008.

For 2008, TGI's allowed rate of return on common equity (ROE) is 8.62%, up from 8.37% in 2007 while TGVI's is 9.32% vs. 9.07% in 2007.

Regulated Electric Utilities – Canadian

FortisAlberta (FA): Reported Earnings: $17 million vs. $15 million y/y. Earnings were higher y/y due to increased future income tax recoveries primarily associated with the regulator-approved AESO charges deferral account. Future income tax recoveries totalling $4.5 million were recorded in Q3 that were previously expensed during the first-half of 2008. Energy deliveries decreased 0.9% y/y, reflecting the previous year's hotter-than-normal July. FA's allowed 2008 ROE is 8.75%, up from 8.51% in 2007.

Fortis BC (FBC): Reported Earnings: $8 million vs. $6 million y/y. Earnings were aided by lower energy supply costs, partially offset by higher amortization costs arising from the large capital program. For 2008, FBC is allowed to earn a ROE of 9.02%, up from 8.77% in 2007.

Newfoundland Power (NP): Reported Earnings: $8 million vs. $2 million y/y. Earnings were higher y/y due to the shift in the quarterly distribution of annual purchased power expense, which increased earnings by about $5.5 million. Prior to 2008, NP estimated and recognized monthly purchased power expense based on forecast annual average cost per KWh and any differences with actual cost per KWh were adjusted to a regulatory reserve. As of Jan. 1, 2008, monthly purchased power expense is being recorded at actual cost per KWh. This shift will have no impact to annual earnings but Q1 and Q4 earnings will be lower and Q2 and Q3 earnings higher when compared with the same periods in 2007. Excluding this $5.5 million shift in earnings, earnings were flat y/y. Q3 electricity sales increased to 897 GWh from 874 GWh y/y driven by customer growth. For 2008, NP's allowed ROE is 8.95% vs. 8.60% last year.

Other Canadian Electric Utilities − Maritime Electric (ME) and FortisOntario (FO): **Reported Earnings:** $5 million – flat y/y (ME: $3.4 million vs. $3 million y/y; FO: $1.2 million loss vs. $1.4 million y/y).

Electricity sales decreased 5 GWh y/y to 532 GWh as a result of lower average consumption in Ontario, partially offset by the impact of an increase in the number of residential customers on P.E.I.

Regulated Utilities – Caribbean: Reported Earnings: $7 million vs. $10 million y/y. (BE: $2.1 million vs. $3.1 million y/y; CUP.U: $3 million vs. $4.1 million y/y; Turks & Caicos: $2.3 million vs. $2.6 million y/y).

Earnings declined $3 million y/y primarily due to: a 3.25% electricity rate reduction and the elimination of the Cost Recovery Charge (CRS) at CUP.U; a reduction in the allowed ROA to 10% from 12% as well as the VAD component of the average electricity rate at Belize Electricity (BE); higher amortization and operating expenses; and a $1 million reduction in earnings at FTS Turks and Caicos due to loss of revenue from the impact of Hurricane Ivan (in Q4 2008, revenue loss will total $1 million).

On July 25, 2008, BE filed an application for judicial review and appeal of the recent unfavourable PUC decision with the Supreme Court of Belize. Leave was granted on Oct. 3, 2008, and the judicial review is expected to be heard in December 2008. The Belize courts are perceived to be politically independent in their judgments, which bodes well for a better outcome in this ongoing saga.

Non-Regulated – Fortis Generation: Reported Earnings: $9 million vs. $5 million y/y. Earnings almost doubled y/y mainly due to higher production in Belize and Upper New York State arising from higher rainfall as well as increased average wholesale electricity prices (Ontario-$49.19/MWh vs. $47.63/MWh y/y; Upper New York State-US$77.19/MWh vs. US$56.92/MWh y/y). Energy sales jumped to 305 GWh from 254 GWh y/y. Construction on the $57-million, 18-MW Vaca Hydroelectric facility in Belize has been slowed over the past five to six weeks because of flooding caused by heavy rainfall, which is likely to delay the start-up of the facility to the end of 2009 (was scheduled for around October 2009) resulting in $2-$3 million in lost revenues. At the end of October 2008, the Chalillo reservoir in Belize was at its full supply level.

Non-Regulated – Fortis Properties (FP): Reported Earnings: $9 million vs. $8 million y/y. Earnings increased y/y largely due improved performance at the Hospitality and Real Estate Divisions and incremental earnings from the Delta Regina that was purchased on Aug. 1, 2007. We expect FTS to continue to increase its property investments (particularly in Western Canada on the hotel side). Overall, we still expect solid earnings growth organically (expansion of existing hotel properties) and from acquisitions.

Corporate and Other: Reported Expenses: $15 million vs. $16 million y/y. The decrease in expenses y/y was due to a $2-million tax reduction (which we have excluded) associated with the settlement of historical tax matters at Terasen and lower finance charges.

In Q3 2008, utility capital expenditures increased to $231 million from $212 million y/y driven by the Terasen companies, FA and FTS Turks and Caicos. In 2008, gross consolidated utility capital expenditures are expected to exceed $900 million, including $640 million related to electric utilities (mostly FA and FBC) and about $250 million at TG (including $50 million for the start of construction on the 1.5 bcf LNG storage facility on Vancouver Island which is expected to be completed by 2011 at a total cost of about $200 million).

Valuation
We are using an average of P/E multiples and a dividend-based support/residual price approach to arrive at our 12-month target price.

Our target price of $29.45 is calculated by applying the following: 1) a 17.5x P/E multiple to our estimated 2009 EPS of $1.62 giving us a $28.35 'target price'. 2) Using our dividend-based support/residual price approach: for the 2009 fiscal year, we are estimating EPS of $1.62; DPS of $1.10; and retained EPS (REPS) of $0.52. Our assumed long-term corporate bond yield of nominally 6.25% is tax-effected to 4.63% using a dividend-tax-credit divisor of 1.35, which generates a support price of $23.76 and using a REPS multiple of 13x, a residual price of $6.76, for a 'target price' of $30.52.

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The company discussed in this report has two or more classes of common shares existing with differential voting rights. (32)

NATIONAL BANK FINANCIAL

FTS (T)	**Cdn$26.06**
Stock Rating:	**Outperform** (Unchanged)
Target:	**Cdn$30.00** (Unchanged)
Risk Rating:	**Low** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$27.46 - $21.52
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2008	2009e	2010e
CF/share - f.d.	$3.59	$3.74	$3.76
P/CF	7.3x	7.0x	6.9x
EPS - f.d.	$1.49	$1.52	$1.63
P/E	17.5x	17.1x	16.0x
EBITDA/Share	$6.62	$6.33	$6.65
EV/EBITDA	10.4x	10.1x	9.5x
Dividends	$1.00	$1.04	$1.09
Dividend Yield	3.8%	4.0%	4.2%

Financial Data:	
Shares Outstanding (mln)	170.3
Book Value per Share	$18.17
Market Capitalization (mln)	$4 440
Price/Book Ratio	1.4x
Net Debt (mln)	$6 441
Total Debt/Enterprise Value	59%
Debt/ 09 Distr. CF	9.0x
Total Return	19.2%

Industry Rating: Underweight (Gas Utilities, Multi-Utilities & Unregulated Power, Electric Utilities, Oil & Gas Storage & Transportation)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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November 30, 2009

Action List Bulletin
Pipelines & Utilities

Fortis Inc.

Upcoming provincial regulatory announcements

Attractive valuation + ROE decision catalyst, Adding stock to NBF Action List

HIGHLIGHTS

- **The catalyst – upcoming regulatory announcement...**
  In response to declining long-term treasury yields, the British Columbia Utilities Commission (BCUC), Newfoundland and Labrador Board of Commissioners of Public Utilities, and the Ontario Energy Board are currently undertaking cost of capital reviews, with decisions expected by year-end or early 2010.

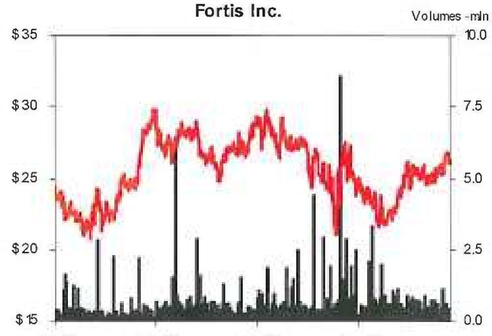
- **...and requested ROE decisions**
  In conjunction with the cost of capital reviews by provincial regulators, Terasen Gas has requested an ROE increase to 11.0% (from 8.5%) while Newfoundland Power has requested an increase to 11.0% (from 8.95%).

- **The impact – highlighting valuation sensitivities**
  For every 1.0% increase to our long-term ROE assumption across FTS's Canadian-based regulated utilities, our DCF per share valuation of $30.50 climbs ~$2.50 (or 8%).

- **Potential upside already priced in?**
  Our EPS (FD) estimate of $1.63 is based on current ROE assumptions for Terasen Gas, Newfoundland Power, and FortisOntario, and is in line with consensus estimates of $1.64 (per ThomsonOne). Furthermore, Fortis is currently trading at 16.1x earnings and 6.3x cash flow, below five-year average multiples of 16.9x and 7.1x, suggesting the earnings upside potential is not reflected in the current stock price.

- **Attractive valuation + ROE decision catalyst**
  With a $30.00 target and a group high 12-month total return opportunity of 19% (group avg. 7%), we recommend investors accumulate a position in the stock ahead of the upcoming provincial regulatory announcements, namely the BCUC's decision expected by year-end or early 2010.

Stock Performance



Source: Bloomberg

The catalyst – upcoming provincial regulatory announcements...

In response to declining long-term treasury yields and a squeeze on the allowable return on equity (ROE) for regulated utilities, provincial utility regulators are currently undertaking reviews of cost of capital and related ROE adjustment mechanisms in light of recent financial market conditions. In fact, on Nov. 13, 2009, the Alberta Utilities Commission (AUC) announced that the generic ROE for all Alberta Utilities for 2009 and 2010 has been set at 9.0%, a 0.39% increase over the 8.61% ROE that would have been provided for 2009 under the old ROE formula. In addition, for FortisAlberta (~20% of FTS), the AUC approved a 400 basis point increase in equity thickness to 41% from 37%.

Meanwhile, the British Columbia Utilities Commission (BCUC), Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), and the Ontario Energy Board (OEB) are currently undertaking their own cost of capital reviews with decisions expected by year-end or early 2010 (see table below).

PROVINCIAL REGULATED COST OF CAPITAL REVIEWS

Regulator	2009 Allowable ROE	Equity Ratio	Review Status	Estimated Timing
Alberta Utilities Commission (AUC)				
Electric Distribution (FortisAlberta)	9.00%	41.0%	Completed	Q4 2009
British Columbia Utilities Commission (BCUC)				
Gas Distribution (Terasen - TGI)	**8.47%**	**35.0%**	**Under Review**	**Q4 2009 / Q1 2010**
Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB)				
Electricity Distribution (Newfoundland Power)	**8.95%**	**45.0%**	**Under Review**	**Q4 2009 / Q1 2010**
Ontario Energy Board (OEB)				
Electricity Distribution (FortisOntario)	**8.01%**	**43%**	**Under Review**	**Q4 2009 / Q1 2010**

Source: Regulator's websites, Company Reports

...and requested ROE decisions

In conjunction with the cost of capital reviews by provincial regulators, utilities themselves have filed applications with their respective regulators, requesting an increase in allowable ROEs. The table below outlines the current allowable ROEs for Fortis, highlighting the requested ROE of 11.0% by Terasen Gas Inc. (from 8.47%) and 11.0% by Newfoundland Power (from 8.95%).

CANADIAN UTILITY ALLOWED ROE SUMMARY

Company	Allowed ROE	Equity Ratio	Requested ROE	Requested Equity Ratio	Decision Timing
Fortis Inc.					
Terasen Gas Inc.	**8.47%**	**35.0%**	**11.00%**	**40.0%**	**Q4 2009 / Q1 2010**
Terasen Gas Vancouver Island	**9.17%**	**35.0%**	**11.70%**	**40.0%**	**Q4 2009 / Q1 2010**
FortisBC	8.87%	40.0%	n/a	n/a	n/a
FortisAlberta	9.00%	41.0%	n/a	n/a	n/a
Newfoundland Power	**8.95%**	**45.0%**	**11.00%**	**45.0%**	**Q4 2009 / Q1 2010**
Maritime Electric	9.75%	40.0%	n/a	n/a	n/a
FortisOntario	**8.01%**	**43.3%**	**n/a**	**n/a**	**Q4 2009 / Q1 2010**
Average	**8.89%**	**40.7%**			

Source: Company Reports

The impact – highlighting valuation sensitivities

Our discounted cash flow (DCF) valuation per share of $30.50 is based on an average long-term ROE assumption of 8.9% for FTS's Canadian-based regulated utilities. For every 1.0% increase to our long-term ROE assumption across FTS's Canadian-based regulated utilities, our DCF per share valuation climbs ~$2.50 (or 8%).

FTS - DCF PER SHARE SENSITIVITY TO REGULATED ROE[1]

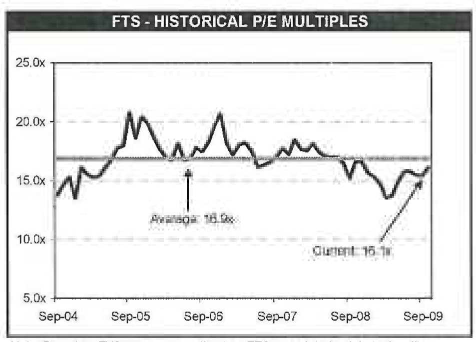
		% Change in ROE				
		-1.00%	-0.50%	0.00%	0.50%	1.00%
% Change in equity ratio	-10%	24.25	25.25	26.50	27.50	28.50
	-5%	26.00	27.25	28.50	29.50	30.75
	0%	27.75	29.25	30.50	31.75	33.00
	5%	29.75	31.00	32.50	33.75	35.25
	10%	31.50	33.00	34.50	36.00	37.50

[1] Reflect changes to each Canadian-based utility.
Source: NBF estimates

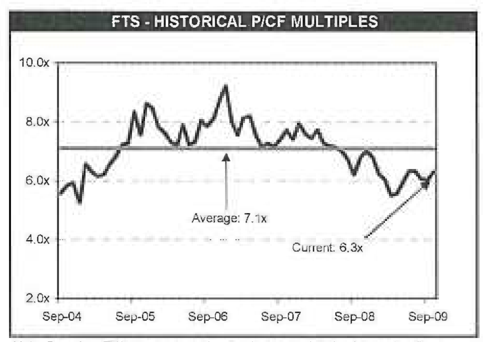
Potential upside already priced in?

Our 2010e EPS (FD) estimate of $1.63 is based on ROE assumptions of 8.5% for Terasen Gas, 8.95% for Newfoundland Power, and 8.01% for FortisOntario – i.e., in line with current allowable ROEs. As such, consensus 2010e EPS of $1.64 (per ThomsonOne) appears to exclude any upside potential from the upcoming regulatory decisions.

Furthermore, Fortis is currently trading at a discount to its historical multiples – i.e., 16.1x earnings and 6.3x cash flow, versus the five-year average multiples of 16.9x and 7.1x, suggesting the share price does not reflect the upside potential from the upcoming ROE decisions.



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

Attractive valuation + ROE decision catalyst

We currently rate Fortis an Outperform with a $30.00 target. With a group high 12-month total return opportunity of 19% (group avg. 7%), we recommend investors accumulate a position in the stock ahead of the upcoming provincial regulatory announcements, namely the BCUC's decision surrounding the requested ROE of 11.0% at Terasen Gas (versus 8.5% currently).

Underweight, depending on the sector's projected performance against broader market averages over the next 12 months. **RISK RATING:** NBF utilizes a four-tiered risk rating system, **Low**, **Average**, **Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

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NATIONAL BANK FINANCIAL

December 14, 2009

The NBF Daily Bulletin
Pipelines & Utilities

Fortis Inc.

ROE decisions announced – NFLD + Ontario

Next up, BCUC's decision for Terasen Gas

FTS (T)	**$27.82**
Stock Rating:	**Outperform** (unchanged)
Target:	**Cdn$30.00** (unchanged)
Risk Rating:	**Low** (unchanged)

Stock Data:	
52-week High-Low (Canada)	$27.53 - $21.52
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2008	2009e	2010e
CF/share - f.d.	$3.59	$3.74	$3.77
P/CF	7.7x	7.4x	7.4x
EPS - f.d.	$1.49	$1.52	$1.64
P/E	18.7x	18.3x	17.0x
EBITDA/Share	$6.62	$6.33	$6.66
EV/EBITDA	10.7x	10.4x	9.7x
Dividends	$1.00	$1.04	$1.09
Dividend Yield	3.6%	3.7%	3.9%

Financial Data:	
Shares Outstanding (mln)	170.3
Book Value per Share	$18.17
Market Capitalization (mln)	$4 740
Price/Book Ratio	1.5x
Net Debt (mln)	$6 441
Total Debt/Enterprise Value	58%
Debt/ 09 Distr. CF	9.0x
Total Return	11.8%

Industry Rating: Underweight (Gas Utilities, Multi-Utilities & Unregulated Power, Electric Utilities, Oil & Gas Storage & Transportation)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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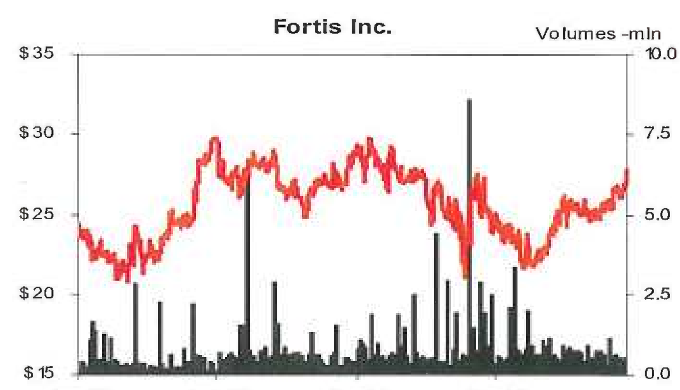
HIGHLIGHTS

- **NFLD Power + FortisOntario receive 2010 ROE decisions**
  Newfoundland Power (~12% of FTS) and FortisOntario (~3% of FTS) have received ROE decisions, with Newfoundland Power's 2010 allowed ROE set at 9.0% (was 8.95%) based on an equity thickness of 45.0% (unchanged), while FortisOntario has been granted a 2010 allowed ROE of 9.75% (up from 8.01%) with a common equity structure of 40.0% (down from 43%). Overall, we view the decisions as having a neutral impact on our outlook and valuation.

- **Next up, BCUC's decision for Terasen Gas**
  With Terasen Gas representing ~35% of FTS, the upcoming ROE decision by the British Columbia Utilities Commission (BCUC) expected by year-end could provide a catalyst for the stock. Recall, Terasen Gas has requested a 2010 ROE of 11.0% (currently 8.5%) based on a common equity structure of 40.0% (currently 35.0%). For every 1.0% increase to our long-term ROE assumption for Terasen Gas, our DCF per share valuation moves up ~$1.00 (or 3%).

- **Maintain $30 target and Outperform rating**
  With minor changes to our estimates, we maintain our $30.00 target. Despite the stock moving up 7% since the end of November (group avg.: 2%), FTS continues to trade in line with historical multiples – i.e., 17.0x earnings and 7.3x cash flow, suggesting the upside potential from the upcoming BCUC regulatory cost of capital decision is not yet priced into the stock. Combined with a 12-month total return opportunity of 12% (group avg.: 4%), we maintain our Outperform rating and recommend investors accumulate a position in the stock ahead of the upcoming BCUC decision.

Stock Performance



Source: Bloomberg

Newfoundland Power and FortisOntario receive 2010 ROE decisions

On Friday (Dec. 11), Newfoundland Power Inc. (a wholly owned subsidiary of Fortis) received a ruling on its allowable return on equity (ROE) from the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB). For 2010, the PUB has set Newfoundland Power Inc.'s allowed ROE at 9.0% (was 8.95%) with a maximum equity thickness of 45.0% (unchanged). Of note, Newfoundland Power accounts for approximately 12% of our 2010e EBITDA contributions. Although we would view the decision as a slight disappointment, Newfoundland Power's allowable ROE remains in line with other provincially regulated utilities, most notably FortisAlberta – recall, on Nov. 13, 2009, the Alberta Utilities Commission (AUC) announced that the generic ROE for all Alberta Utilities for 2009 and 2010 has been set at 9.0%, a 0.39% increase over the 8.61% ROE that would have been provided for 2009 under the old ROE formula.

Meanwhile, the Ontario Energy Board (OEB) also released its cost of capital policy for electricity distributors on Friday (Dec. 11), setting the allowed ROE at 9.75% for 2010, representing an increase of 174 basis points from the 2009 allowed ROE of 8.01%. As a slight offset however, the OEB reduced the allowed equity thickness to 40.0% from 43.3% for FortisOntario. Overall, we would view the announcement as a win for Fortis, however, FortisOntario contributes just 3% to FTS's consolidated earnings.

Next up, BCUC's decision for Terasen – refreshing sensitivities

The table below outlines the current allowable ROEs for Fortis, highlighting the requested ROE of 11.0% by Terasen Gas (from 8.47%) and 11.7% by Terasen Gas Vancouver Island (from 9.17%). Of note, Terasen Gas represents ~35% of our 2010e earnings contributions for Fortis. The British Columbia Utilities Commission (BCUC) is expected to announce the results of its cost of capital review before year-end.

CANADIAN UTILITY ALLOWED ROE SUMMARY

Company	Allowed ROE	Equity Ratio	Requested ROE	Requested Common equity	Timing
Fortis Inc.					
Terasen Gas Inc.	8.47%	35.0%	11.00%	40.0%	Q4 2009
Terasen Gas Vancouver Island	9.17%	35.0%	11.70%	40.0%	Q4 2009
FortisBC	8.87%	40.0%	n/a	n/a	n/a
FortisAlberta	9.00%	41.0%	n/a	n/a	n/a
Newfoundland Power	9.00%	45.0%	n/a	n/a	n/a
Maritime Electric	9.75%	40.0%	n/a	n/a	n/a
FortisOntario	9.00%	40.0%	n/a	n/a	n/a
Average	**9.04%**	**39.4%**			

Source: Company Reports

As shown below, our discounted cash flow valuation per share of $30.50 is based on an average long-term ROE assumption of 8.5% for Terasen Gas. For every 1.0% increase to our long-term ROE assumption for Terasen Gas, our DCF per share valuation moves up ~$1.00 (or 3%).

FTS - DCF PER SHARE SENSITIVITY TO REGULATED ROE(1)

		-1.00%	-0.50%	0.00%	0.50%	1.00%
% Change in equity ratio	-15%	27.75	28.25	28.50	29.00	29.50
	-10%	28.25	28.75	29.25	29.75	30.25
	-5%	29.00	29.50	30.00	30.50	30.75
	0%	29.50	30.00	30.50	31.00	31.50
	5%	30.25	30.75	31.25	31.75	32.25
	10%	30.75	31.25	31.75	32.25	33.00

(1) Reflect changes to Terasen Gas only.

Source: NBF estimates

Estimate revisions – largely unchanged

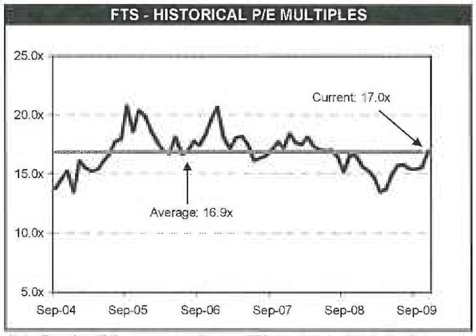
In line with the PUB and OEB announcements, we have revised our go-forward ROE assumptions and our allowed equity thickness assumptions for Newfoundland Power and Fortis Ontario. Overall, our 2010e earnings per share (FD) remains largely unchanged at $1.64 (was $1.63), and our 2010e D/EBITDA remains at 5.7x.

Maintain target and Outperform rating

With minor changes to our estimates, we maintain our $30.00 target, which is based on a risk-adjusted dividend yield of 3.7% applied to our 2010e dividend of $1.09/sh, a 14.4x multiple of our 2010e Free-EBITDA of $847 million, and our discounted cash flow valuation of $30.50.

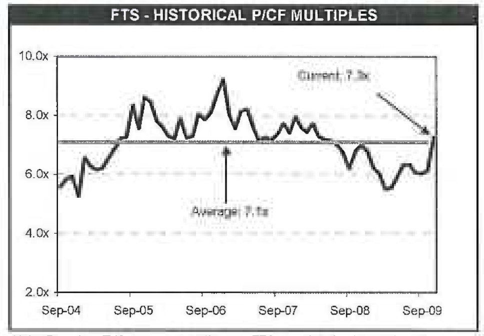
Despite the stock moving up 7% since the end of November (group avg.: 2%), FTS continues to trade in line with historical multiples – i.e., 17.0x earnings and 7.3x cash flow, suggesting the upside potential from the upcoming BCUC regulatory cost of capital decision is not yet priced into the stock. Combined with a 12-month total return opportunity of 12% (group avg.: 4%), we maintain our Outperform rating and recommend investors accumulate a position in the stock ahead of the upcoming BCUC decision.

FTS - HISTORICAL P/E MULTIPLES



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

FTS - HISTORICAL P/CF MULTIPLES



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

Fortis Inc.	2009e		2010e	
	Previous	Revised	Previous	Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	*170.2*	*170.2*	*172.2*	*172.2*
Ending Shares (mln)	*170.9*	*170.9*	*172.9*	*172.9*
Fully Diluted Shares (mln)	*186.6*	*186.6*	*188.6*	*188.6*
Consolidated EBITDA	1 078.0	1 078.0	1 145.7	1 147.4
Terasen Gas	372.0	372.0	380.6	380.6
FortisAlberta	199.3	199.3	237.8	237.8
FortisBC	114.2	114.2	125.3	125.3
Newfoundland Power	128.7	128.7	137.9	138.1
Other Utilities	60.5	60.5	69.2	70.8
Caribbean Utilities	93.0	93.0	83.1	83.1
Fortis Generation	33.5	33.5	28.8	28.8
Fortis Properties	75.9	75.9	78.9	78.9
Corporate and Other	1.0	1.0	4.0	4.0
Earnings	264.5	264.5	286.1	287.7
Cash Flow	675.4	675.4	685.0	686.6
Maintenance Capital	376.5	376.5	331.8	331.8
Distributable Cash Flow	298.9	298.9	353.2	354.8
Dividends	177.2	177.2	188.0	188.0
Acquisitions & Development	748.3	748.3	661.7	661.7
Equity Issued (net)	38.7	38.7	28.2	28.2
Ending Net Debt	6 074.1	6 074.1	6 570.3	6 568.8
D / EBITDA	5.6	5.6	5.7	5.7
D / Distr. CF	20.3	20.3	18.6	18.5
PER SHARE AMOUNTS				
Net Debt	**31.63**	**31.63**	**34.15**	**34.14**
EBITDA	**6.33**	**6.33**	**6.65**	**6.66**
Earnings - Fully Diluted	**1.52**	**1.52**	**1.63**	**1.64**
Cash Flow - FD	**3.74**	**3.74**	**3.76**	**3.77**
Distr CF - FD	**1.72**	**1.72**	**2.00**	**2.01**
Dividends	**1.04**	**1.04**	**1.09**	**1.09**
AFFO payout ratio	59%	59%	53%	53%
earnings payout	67%	67%	66%	66%
drip participation	15%	15%	15%	15%

Source: NBF Estimates and Trust Data

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NATIONAL BANK FINANCIAL

December 18, 2009

The NBF Daily Bulletin
Pipelines & Utilities

Fortis Inc.

BCUC delivers positive ROE decisions

Full impact not yet priced in

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P/E	19.3x	18.6x	16.1x
EBITDA/Share	$6.62	$6.37	$6.85
EV/EBITDA	10.8x	10.5x	9.6x
Dividends	$1.00	$1.04	$1.14
Dividend Yield	3.5%	3.6%	4.0%

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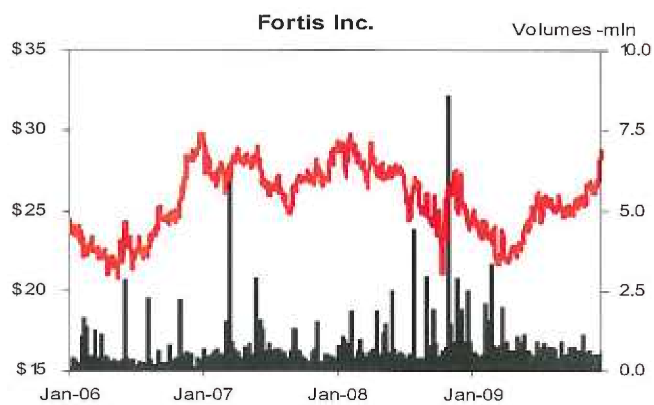
HIGHLIGHTS

- **BCUC delivers positive ROE decisions**
  The British Columbia Utilities Commission (BCUC) has set the ROE for Terasen Gas Inc. (~35% of Fortis) at 9.5% (a 1.0% increase from the current level of 8.5%) while increasing the allowable common equity thickness to 40% (from 35%). The ROE for Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. has been set at 10.0%, a 0.8% increase from 9.2%. Meanwhile, FortisBC (~11% of Fortis) also benefits with a 1.0% increase to its allowable ROE to 9.9% from 8.9%.

- **Estimate revisions – increasing earnings and dividends**
  In line with the BCUC's decisions, we have revised our go-forward ROE assumptions for Terasen Gas and FortisBC, as well as our allowed equity thickness assumption for Terasen Gas. Overall, our 2010e EPS (FD) increases $0.15 to $1.79, while our 2010e distributable cash flow per share (FD) estimate increases a similar $0.15 to $2.16. We have also increased our 2010e dividend to $1.14/share from $1.09/share, representing a 10% increase over the current annual dividend rate of $1.04/share – i.e., maintaining an expected earnings payout ratio of 60-70%. On the leverage front, our 2010e D/EBITDA declines to 5.5x from 5.7x.

- **Increasing target $2.00, maintaining Outperform**
  Based on upward revisions to our valuation estimates, our target increases $2.00 to $32.00. Fortis currently trades at 16.1x earnings, below historical P/E multiples of 16.9x – suggesting further upside potential for the stock as the market digests the full impact of the BCUC's decisions. Combined with a 12-month total return opportunity of 14.9% (group avg.: 2.4%), we maintain our Outperform rating.

Stock Performance



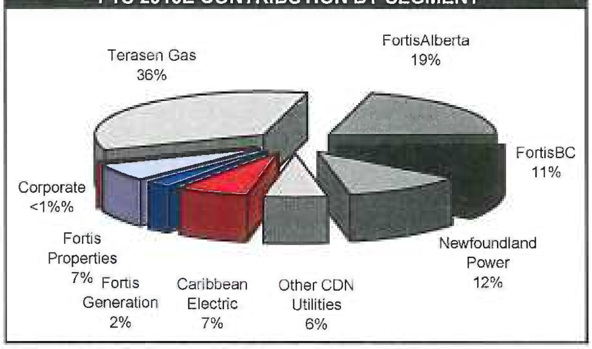
Source: Bloomberg

BCUC delivers positive ROE decisions

Fortis announced today (Dec. 17th), that its wholly owned subsidiary, Terasen Gas Inc., has received the British Columbia Utilities Commission's (BCUC) decision on its return on equity (ROE) and capital structure application. The BCUC set the ROE for Terasen Gas Inc. at 9.5% (a 1.0% increase from the current level of 8.5%) while increasing the allowable common equity thickness to 40% (from 35%). The ROE for Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. has been set at 10.0%, a 0.8% increase from 9.2% with the allowable common equity thickness remaining unchanged at 40%. The BCUC's decision is applicable effective July 1, 2009.

As part of the agreement, the BCUC also announced that the previous automatic adjustment mechanism that was used to determine the ROE on an annual basis will no longer apply and the current ROE and common equity thickness will apply until it is further reviewed by the BCUC. As well, the new negotiated settlement agreements will not include provisions for performance-based rate-setting incentive mechanisms that were included as part of the previous agreement. As shown below, Terasen Gas now accounts for ~36% (was 34%) of our 2010e EBITDA contributions.

FTS 2010E CONTRIBUTION BY SEGMENT(1)



(1) Consolidated EBITDA contribution.
Source: NBF

Meanwhile, FortisBC also benefits from the BCUC's decisions with its allowable ROE set at 9.9%, a 1.0% increase from 8.9% and the allowable common equity thickness remaining unchanged at 40%. FortisBC represents approximately 11% of our 2010e EBITDA contributions.

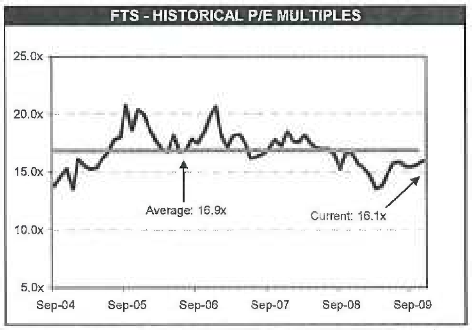
Estimate revisions – increasing earnings and dividends

In line with the BCUC's decisions, we have revised our go-forward ROE assumptions for Terasen Gas and FortisBC, as well as our allowed equity thickness assumption for Terasen Gas. Overall, our 2010e EPS (FD) increases $0.15 to $1.79, while our 2010e distributable cash flow per share (FD) estimate increases a similar $0.15 to $2.16. We have also increased our 2010e dividend to $1.14/share from $1.09/share, representing a 10% increase over the current annual dividend rate of $1.04/share – i.e., maintaining an expected earnings payout ratio of 60-70%. On the leverage front, our 2010e D/EBITDA declines to 5.5x from 5.7x.

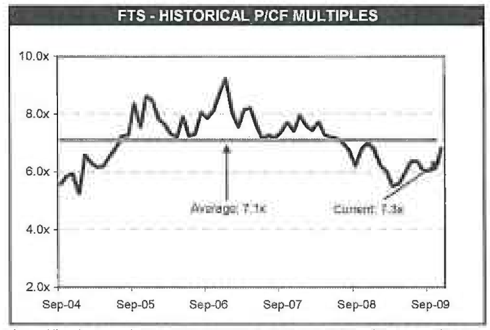
Increasing target $2.00, maintain Outperform

Based on upward revisions to our valuation estimates, our target increases $2.00 to $32.00, which is based on a risk-adjusted dividend yield of 3.7% applied to our 2010e dividend of $1.14/sh, a 14.4x multiple of our 2010e Free-EBITDA of $880 million, and our discounted cash flow valuation of $32.75.

As shown in the figure on the following page, based on our 2010 estimates, Fortis currently trades at 16.1x earnings and 7.3x cash flow – below historical P/E multiples of 16.9x, and in line with historical P/CF multiples of 7.1x – suggesting further upside for the stock as the market digests the full impact of the BCUC's decisions. Combined with a 12-month total return opportunity of 14.9% (group avg.: 2.4%), we maintain our Outperform rating.



Note: Historical based on FY2 consensus estimates. Current based on NBF estimates.
FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF



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	Previous	Revised	Previous	Revised
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Ending Shares (mln)	***170.9***	***170.9***	***172.9***	***172.9***
Fully Diluted Shares (mln)	***186.6***	***186.6***	***188.6***	***188.6***
Consolidated EBITDA	1 078.0	1 084.7	1 147.4	1 180.2
Terasen Gas	372.0	378.3	380.6	411.0
FortisAlberta	199.3	199.3	237.8	237.6
FortisBC	114.2	114.5	125.3	128.0
Newfoundland Power	128.7	128.7	138.1	138.0
Other Utilities	60.5	60.5	70.8	70.7
Caribbean Utilities	93.0	93.0	83.1	83.0
Fortis Generation	33.5	33.5	28.8	28.8
Fortis Properties	75.9	75.9	78.9	78.9
Corporate and Other	1.0	1.0	4.0	4.0
Earnings	264.5	269.9	287.7	316.6
Cash Flow	675.4	680.8	686.6	715.5
Maintenance Capital	376.5	376.5	331.8	331.8
Distributable Cash Flow	298.9	304.3	354.8	383.7
Dividends	177.2	177.2	188.0	196.6
Acquisitions & Development	748.3	748.3	661.7	661.7
Equity Issued (net)	38.7	38.7	28.2	29.5
Ending Net Debt	6 074.1	6 068.7	6 568.8	6 541.9
D / EBITDA	5.6	5.6	5.7	5.5
D / Distr. CF	20.3	19.9	18.5	17.1
PER SHARE AMOUNTS				
Net Debt	**31.63**	**31.60**	**34.14**	**33.99**
EBITDA	**6.33**	**6.37**	**6.66**	**6.85**
Earnings - Fully Diluted	**1.52**	**1.55**	**1.64**	**1.79**
Cash Flow - FD	**3.74**	**3.77**	**3.77**	**3.93**
Distr CF - FD	**1.72**	**1.75**	**2.01**	**2.16**
Dividends	**1.04**	**1.04**	**1.09**	**1.14**
AFFO payout ratio	59%	58%	53%	51%
earnings payout	67%	66%	65%	62%
drip participation	15%	15%	15%	15%

Source: NBF Estimates and Trust Data

DISCLOSURES:

Ratings And What They Mean: **PRIMARY STOCK RATING**: NBF has a three-tiered rating system that is relative to the coverage universe of the particular analyst. Here is a brief description of each: **Outperform –** The stock is expected to outperform the analyst's coverage universe over the next 12 months; **Sector Perform –** The stock is projected to perform in line with the sector over the next 12 months; **Underperform –** The stock is expected to underperform the sector over the next 12 months. **SECONDARY STOCK RATING: Under Review** – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock. **INDUSTRY RATING:** NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and

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NATIONAL BANK FINANCIAL

February 5, 2010

The NBF Daily Bulletin
Pipelines & Utilities

Fortis Inc.

Q4 results slightly below expectations

Our choice for weathering a choppy market

FTS (T)	**$27.76**
Stock Rating:	**Outperform** (unchanged)
Target:	**Cdn$32.00** (was $32.50)
Risk Rating:	**Low** (unchanged)

Stock Data:	
52-week High-Low (Canada)	$29.24 - $21.52
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2009a	2010e	2011e
CF/share - f.d.	$3.66	$3.98	$4.26
P/CF	7.6x	7.0x	6.5x
EPS - f.d.	$1.50	$1.74	$1.85
P/E	18.5x	15.9x	15.0x
EBITDA/Share	$6.26	$6.80	$7.27
EV/EBITDA	10.5x	9.6x	8.8x
Dividends	$1.04	$1.12	$1.20
Dividend Yield	3.7%	4.0%	4.3%

Financial Data:	
Shares Outstanding (mln)	170.9
Book Value per Share	$18.68
Market Capitalization (mln)	$4 740
Price/Book Ratio	1.5x
Net Debt (mln)	$6 441
Total Debt/Enterprise Value	58%
Debt/10 Distr. CF	8.9x
Total Return	19.4%

Industry Rating: Underweight (Gas Utilities, Multi-Utilities & Unregulated Power, Electric Utilities, Oil & Gas Storage & Transportation)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

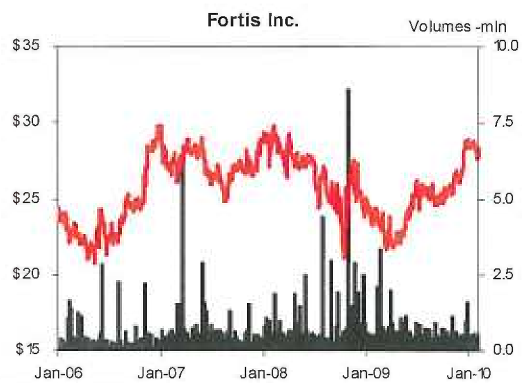
- **Q4 results slightly below expectations**
  Fortis reported Q4 2009 earnings per share (FD) of $0.45, slightly below our estimate of $0.50. Differences related to slightly weaker than expected results within Fortis Generation and Fortis Properties owing to the economic recession, as well as certain one-time Corporate expenses.

- **Refreshing liquidity analysis**
  Fortis has identified ~$1.1 billion of capital investment opportunities for 2010, while approaching $5.0 billion through 2014 (i.e., ~$1.0 billion capex per year). Inside, we refresh our liquidity analysis, highlighting FTS' healthy balance sheet position with ~$500 million of cash available through 2011e. With 32.9% common equity as at year-end 2009 (versus 30.0% target), and S&P confirming FTS' credit rating at A- (stable outlook) in September 2009, we would expect additional preferred share financings ahead of common equity financings to fund near-term growth capex.

- **Estimate revisions – minor changes**
  Overall, our 2011e EPS (FD) edges down a modest $0.02 to $1.85, our 2011e distributable cash flow per share (FD) estimate declines a similar $0.02 to $2.50, and our 2011e D/EBITDA remains largely unchanged at 5.4x.

- **Our choice for weathering a choppy market**
  In line with changes to our estimates, our target nudges down $0.50 to $32.00. Fortis currently trades at 15.4x earnings and 6.4x cash flow – below historical multiples of 16.9x P/E and 7.1x P/CF. With a 12-month total return opportunity of 19.4% (group avg.: 9.9%), and a group low five-year adjusted beta of 0.54 (group ave.: 0.62), we maintain our Outperform rating and continue to recommend Fortis as our top choice amid choppy markets and commodity prices.

Stock Performance



Source: Bloomberg

Q4 results slightly below expectations

Fortis Inc. (FTS) reported Q4 2009 earnings per share (FD) of $0.45, slightly below our estimate of $0.50. Differences related to slightly weaker than expected results within Fortis Generation and Fortis Properties owing to the economic recession, as well as certain one-time Corporate expenses.

FTS - Q4 2009 EARNINGS RECONCILIATION		
Q4 2009	$ mlns	Per Share
Estimated Earnings - FD	**$88.6**	**$0.50**
Difference Related to:		
FortisBC	-$1.7	(0.01)
Newfoundland Power	-$0.7	(0.00)
Fortis Generation	-$2.1	(0.01)
Fortis Properties	-$1.5	(0.01)
Corporate & Other	-$1.6	(0.01)
Actual Earnings - FD	**$81.0**	**0.45**

Source: NBF Estimates and Company Data

Terasen Gas – contributed earnings of $48.0 million, in line with our estimate. Recall, Terasen's regulated ROE increased to 9.5% from 8.5% effective July 1, 2009 (see our previous note, *"BCUC delivers positive ROE decision"*, December 18, 2009 available at www.nbfinancial.com), which was partially offset by higher operating expenses associated with the recent conversion of Whistler customer appliances to natural gas from propane – i.e., $5 million after-tax cost overruns expensed during the quarter. Of note, Fortis is seeking regulatory approval to include the additional conversion costs into the rate base to be recovered from customers in the future.

FortisAlberta – contributed earnings of $15.0 million, in line with our estimate. Recall, FortisAlberta received an increase in allowed ROE to 9.00% (from 8.51%) and increase in the deemed equity component to 41% (from 37%) in November 2009.

FortisBC – contributed earnings of $8.0 million, slightly below our estimate of $9.7 million due to increased operating expenses related to property taxes and water fees.

Newfoundland Power – contributed earnings of $8.0 million, largely in line with our estimate of $8.7 million.

Other Canadian Utilities – contributed earnings of $6.0 million, in line with our estimate. Recall, FortisOntario recently completed the $75 million acquisition of Great Lakes Power Distribution Inc., subsequently renamed Algoma Power Inc. The Company continues to integrate the northern Ontario utility with pro forma operations performing as expected.

Caribbean Utilities – contributed earnings of $7.0 million, in line with our estimate of $6.8 million.

Fortis Generation – contributed earnings of $3.0 million, $2.1 million below our estimate of $5.1 million. Lower earnings were due to lower average wholesale market energy prices in Upper New York State as well as lower than expected generation levels in Belize and Upper New York State due to weather conditions. We have trimmed our contribution assumptions for Fortis Generation through 2011 reflecting weaker than expected power prices in the northeastern U.S. market.

Fortis Properties – contributed earnings of $5.0 million, slightly below our estimate of $6.5 million. Lower revenue per available room was due to lower room occupancies, largely in Western Canada and Ontario. We expect the segment's 2010 results to perform in line with 2009, with a modest recovery in 2011.

Corporate & Other – corporate & other expenses exceeded our estimate by $1.6 million with slightly higher than expected corporate finance charges and slightly higher income taxes.

NATIONAL BANK FINANCIAL

Refreshing liquidity analysis

Consolidated capital expenditures are expected to total ~$1.1 billion for 2010, and approach $5.0 billion through 2014 (i.e., ~$1.0 billion per year). As shown below, Fortis maintains a healthy liquidity position with ~$500 million of cash available through 2011e. As at Dec. 31, 2009, the Company's debt-to-capitalization was 60.2%, with 32.9% common equity and 6.9% preferred shares – versus its long-term target capital structure of 60% debt, 30% common equity, and 10% preferred shares. With S&P confirming the Company's credit rating at A- (stable outlook) in September 2009, and the common equity portion of FTS' capital structure slightly above its target weighting of 30.0%, we would expect additional preferred share financings ahead of common equity financings to fund near-term growth capex.

FTS - LIQUIDITY ANALYSIS

DEBT MATURITY SCHEDULE

($mln)	Capacity	Utilized[1]	Obligations due by[1] 2010	2011	2012	2013	2014	2015+
Credit facilities - ST & LT	2 153	723	0	0	203	520	0	0
Long-term debt[2]	5 192	5 192	141	184	154	144	144	4 425
Preferred shares, classified as debt	570	570	0	0	0	0	123	447
Operating Lease Obligations[3]	170	170	18	17	16	16	16	88
Pension and Other Obligations	35	35	20	8	4	3	0	0
Total Debt	**8 120**	**6 690**	**179**	**209**	**377**	**683**	**283**	**4 960**
% of Total Debt Outstanding		100%	3%	3%	6%	10%	4%	74%

POTENTIAL FUNDING REQUIREMENT[4]

($mln)			
Cash Available - December 31, 2009		**Ending 2010e cash available**	
Cash and cash equivalents	$85	Cash	n/a
Remaining balance sheet capacity	$1 430	Remaining balance sheet capacity	n/a
	$1 515	**Ending 2010e cash available**	**$1 083**
2010e		**2011e**	
Additions:		*Additions:*	
Cash Flow from Ops Less Maintenance Capex	$375	Cash Flow from Ops Less Maintenance Capex	$471
DRIP Proceeds	$29	DRIP Proceeds	$31
Preferred Share Financing	$250	Preferred Share Financing	$0
Dispositions	$0	Dispositions	$0
Deductions:		*Deductions:*	
Capex	($714)	Capex	($670)
Debt Obligations	($179)	Debt Obligations	($209)
Dividends	($193)	Dividends	($209)
Ending 2010e cash /(funding requirement)	**$1 083**	**Ending 2011e cash /(funding requirement)**	**$498**

(1) As at December 31, 2009.
(2) Based on Q3 2009 disclosure; Includes capital lease obligations.
(3) Based on Q3 2009 disclosure.
(4) Assumes repayment of all amounts drawn under credit facilities or other debt obligations.
Source: FTS, NBF estimates

Estimate revisions – minor changes

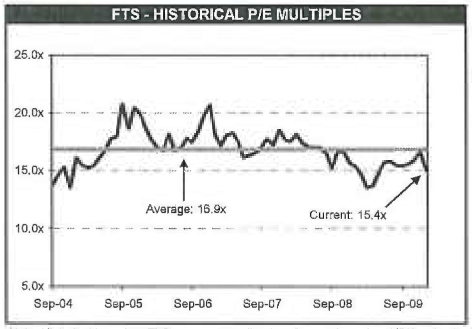
We have updated our 2010 capex and rate base assumptions in line with guidance. Elsewhere, we have trimmed our earnings expectations from the Company's Generation division and Properties division as noted above, while bumping up our go-forward corporate expense assumption in line with the quarter.

Overall, our 2011e EPS (FD) edges down a modest $0.02 to $1.85 (was $1.87) while our 2011e distributable cash flow per share (FD) estimate declines a similar $0.02 to $2.50 (was $2.52). On the leverage front, our 2011e D/EBITDA remains largely unchanged at 5.4x.

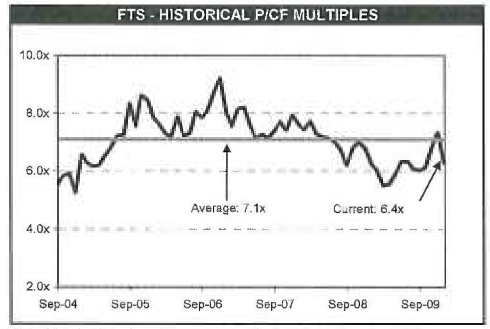
Trimming target $0.50, maintain Outperform rating

In line with changes to our estimates, we are trimming our target $0.50 to $32.00, which is based on a risk-adjusted dividend yield of 3.8% applied to our 2011e dividend of $1.20/share, a 13.6x multiple of our 2011e Free-EBITDA of $955 million, and our discounted cash flow valuation of $32.00.

As shown on the following page, based on our 2011 estimates, Fortis currently trades at 15.4x earnings and 6.4x cash flow – below historical multiples of 16.9x P/E and 7.1x P/CF (based on consensus estimates per ThomsonOne). Combined with a 12-month total return opportunity of 19.4% (group avg.: 9.9%), and a group low five-year adjusted beta of 0.54 (group ave.: 0.62), we maintain our Outperform rating and continue to recommend Fortis as our top choice amid choppy markets and commodity prices.



Note: Historical based on FY2 consensus estimates. Current based on NBF estimates.
FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF



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Source: ThomsonOne, Bloomberg, NBF

Fortis Inc.	2010e		2011e	
	Previous	Revised	Previous	Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***172.2***	***172.2***	***174.1***	***174.1***
Ending Shares (mln)	***172.9***	***172.8***	***174.8***	***174.7***
Fully Diluted Shares (mln)	***188.6***	***189.4***	***190.5***	***191.3***
Consolidated EBITDA	1 178.6	1 170.4	1 271.5	1 265.1
Earnings	311.4	309.2	334.5	331.8
Terasen Gas	118.6	118.2	132.3	131.1
FortisAlberta	59.9	59.9	67.1	67.1
FortisBC	38.1	38.1	40.9	40.9
Newfoundland Power	35.2	35.0	37.7	37.7
Other Utilities	20.0	20.0	21.4	21.4
Caribbean Utilities	12.5	12.6	13.4	13.4
Fortis Generation	10.4	10.1	10.7	10.3
Fortis Properties	24.3	24.1	24.7	24.4
Corporate and Other	-7.6	-8.9	-13.7	-14.5
Cash Flow	730.3	727.9	792.6	789.9
Maintenance Capital	331.8	369.6	336.0	336.0
Distributable Cash Flow	398.5	358.3	456.6	453.9
Dividends	193.1	193.1	209.3	209.2
Acquisitions & Development	661.7	713.7	669.5	669.5
Equity Issued (net)	29.0	29.0	31.4	31.4
Ending Net Debt	6 519.6	6 466.5	6 938.4	6 887.9
D / EBITDA	5.5	5.5	5.5	5.4
D / Distr. CF	16.4	18.0	15.2	15.2
PER SHARE AMOUNTS				
Net Debt	**33.86**	**33.56**	**35.88**	**35.60**
EBITDA	**6.84**	**6.80**	**7.30**	**7.27**
Earnings - Fully Diluted	**1.76**	**1.74**	**1.87**	**1.85**
Cash Flow - FD	**4.01**	**3.98**	**4.29**	**4.26**
Distr CF - FD	**2.24**	**2.02**	**2.52**	**2.50**
Dividends	**1.12**	**1.12**	**1.20**	**1.20**
AFFO payout ratio	48%	54%	46%	46%
earnings payout	62%	62%	63%	63%
drip participation	15%	15%	15%	15%

Source: NBF Estimates and Trust Data

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May 3, 2010

Action List Bulletin

Pipelines, Utilities & Infrastructure Trusts

NATIONAL BANK FINANCIAL

FTS (T)	**$28.05**
Stock Rating:	**Outperform** (Unchanged)
Target:	**Cdn$32.00** (Unchanged)
Risk Rating:	**Low** (Unchanged)

Fortis Inc.

Q1 results largely in line

Action List - Alberta draft legislation – a moot point for FortisAlberta

Stock Data:	
52-week High-Low (Canada)	$29.32 - $22.05
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2009a	2010e	2011e
CF/share - f.d.	$3.66	$3.92	$4.22
P/CF	7.7x	7.2x	6.6x
EPS - f.d.	$1.50	$1.68	$1.80
P/E	18.7x	16.7x	15.5x
EBITDA/Share	$6.26	$6.69	$7.21
EV/EBITDA	10.8x	10.0x	9.1x
Dividends	$1.04	$1.12	$1.20
Dividend Yield	3.7%	4.0%	4.3%

Financial Data:	
Shares Outstanding (mln)	172.2
Book Value per Share	$18.68
Market Capitalization (mln)	$4 830
Price/Book Ratio	1.5x
Net Debt (mln)	$6 682
Total Debt/Enterprise Value	58%
Debt/10 Distr. CF	10.1x
Total Return	18.1%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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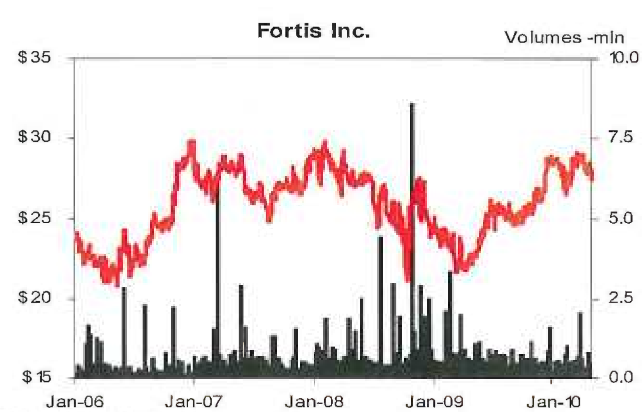
HIGHLIGHTS

- **Q1 results largely in line**
  Fortis reported Q1 EPS (FD) of $0.56, largely in line with our $0.59 estimate and consensus of $0.58. With 90% earnings determined on a rate-regulated basis, we expect the segmented regulated earnings over the next three quarters to normalize in line with our annual expectations. Overall, our 2011e EPS (FD) remains largely unchanged at $1.80 (was $1.79).

- **Alberta draft legislation – a moot point for FortisAlberta**
  On March 31, the Government of Alberta introduced draft legislation which grants the Alberta Utilities Commission (AUC) authority to determine the allocation of proceeds (i.e., gain on sale), associated with the disposition of regulated assets, between the Utilities and ratepayers. Despite the proposed legislation having a potentially negative impact on the company's regulatory risk in Alberta, Fortis has maintained its overall capex guidance of ~$5.0 billion through 2014, with ~70% allocated to its regulated electric utilities, largely driven by FortisAlberta and FortisBC. Based on our going concern outlook for Fortis, and management's plans to grow its core asset base, as opposed to selling or trading assets, we do not foresee a material impact to our valuation of FTS should the proposed legislation be implemented.

- **Maintain $32 target and Outperform rating**
  With little changes to our estimates, we maintain our $32.00 target. Fortis currently trades at 15.5x earnings and 6.3x cash flow (based on consensus) – i.e., well below historical multiples of 16.8x P/E and 7.0x P/CF. Combined with a 12-month total return opportunity of 18.1% (group avg.: 6.1%), we maintain our Outperform rating.

Stock Performance



Source: Bloomberg

Q1 results largely in line

Fortis Inc. (FTS) released its Q1 2010 results on Friday, April 30, reporting EPS (FD) of $0.56, largely in line with our $0.59 estimate and consensus of $0.58 (per ThomsonOne). Lower than expected earnings from FortisAlberta, Newfoundland Power, Fortis Generation and Fortis Properties were partially offset by higher than expected earnings at Terasen Gas. Recall, annual earnings from the company's regulated utilities are determined based on an allowable rate of return on equity (ROE) and equity thickness. As such, we would expect the company's segmented regulated earnings over the next three quarters to normalize in line with our annual expectations.

FTS - Q1 2010 EARNINGS RECONCILIATION		
Q1 2010	**$ mlns**	**Per Share**
Estimated Earnings - FD	**$106.4**	**$0.59**
Difference Related to:		
Terasen Gas	$10.1	0.05
FortisAlberta	-$7.0	(0.04)
Newfoundland Power	-$7.0	(0.04)
Fortis Generation	-$1.1	(0.01)
Fortis Properties	-$2.6	(0.01)
Corporate & other	$1.3	0.01
Actual Earnings - FD	**$100.0**	**0.56**

Source: NBF Estimates and Company Data

Terasen Gas – Contributed earnings of $73.0 million, $10.1 million above our $62.9 million estimate and $15.0 million above Q1 2009 earnings of $58.0 million. Recall, effective Jan. 1, 2010, Terasen Gas Inc.'s (TGI) allowable ROE increased to 9.5% from 8.5% on a common equity thickness of 40% (was 35%), while Terasen Gas (Vancouver Island) Inc.'s (TGVI) allowable ROE increased to 10.0% from 9.2%.

FortisAlberta – Reported earnings of $14.0 million, $7.0 million below our estimate of $21.0 million. Lower earnings were due to higher than expected higher operating and depreciation expense. We have increased our earnings estimates for Q2 to Q4, maintaining our full year 2010 contribution from FortisAlberta of $59.9 million (i.e., adjusting our seasonality assumptions).

FortisBC – Contributed earnings of $14.0 million, in line with our estimate of $13.4 million.

Newfoundland Power – Contributed earnings of $7.0 million, below our estimate of $14.0 million. Lower earnings were due to higher than expected operating expenses and energy supply costs. We have increased our earnings estimates for Q2 to Q4, maintaining our full year 2010 contribution from Newfoundland Power of $35.0 million (i.e., adjusting our seasonality assumptions).

Other Canadian Utilities – Contributed earnings of $5.0 million, matching our estimate.

Caribbean Utilities – Reported earnings of $7.0 million, in line with our estimate of $7.2 million.

Fortis Generation – Reported earnings of $2.0 million, slightly below our estimate of $3.1 million. Lower earnings were due to lower hydrology in Belize as well as slightly lower than expected realized pricing.

Fortis Properties – Contributed earnings of $2.0 million, $2.6 million below our estimate of $4.6 million owing to lower revenue per available room (i.e., $62.93 vs. our $67.01 estimate and Q4 2009 levels of $68.87) as a result of lower occupancies in Western Canada.

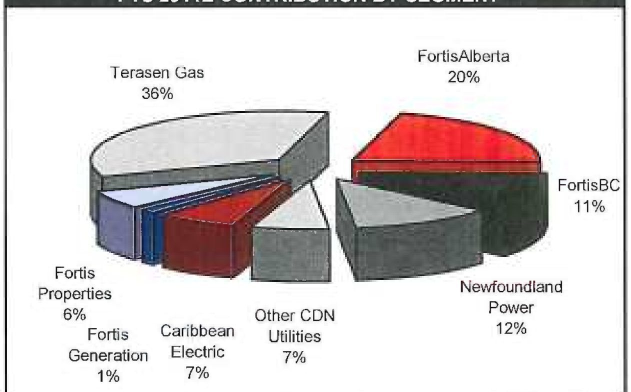
Corporate & Other – Corporate & Other expenses were below our estimate by $1.3 million owing to slightly higher cash tax recoveries.

Alberta draft legislation – a moot point for FortisAlberta

On March 31, the Government of Alberta introduced draft regulation on the Disposition of Regulated Properties. Under the terms of the draft regulation, upon disposition of regulated assets, the utility should attempt to work with its ratepayers surrounding the allocation of proceeds from the disposition (i.e., potential gain on sale). If an agreement cannot be reached, the AUC retains the right to review the case and may determine an appropriate allocation of the settlement proceeds, if necessary. Of note, the draft regulation is not intended to apply retroactively to any disposition of utility assets previously approved by negotiations or agreements made with the Energy and Utilities Board (EUB) and AUC.

Despite the proposed legislation having a potentially negative impact on the company's regulatory risk in Alberta, Fortis has maintained its overall capex guidance of ~$5.0 billion through 2014, with ~70% allocated to its regulated electric utilities, largely driven by FortisAlberta and FortisBC. Of note, we currently forecast ~$1.8 billion of capital spending for FortisAlberta through 2014 with our average rate base increasing 10% per year to ~$2.1 billion by 2014e from ~$1.3 billion in 2009. As shown in the following figure, FortisAlberta contributes ~20% to Fortis' total EBITDA. Based on our going concern outlook for Fortis, and management's plans to grow its core asset base, as opposed to selling or trading assets, we do not foresee a material impact to our valuation of the name should the proposed legislation be implemented.

FTS 2011E CONTRIBUTION BY SEGMENT(1)



(1) Consolidated EBITDA contribution.
Source: NBF

Estimate revisions – little changes

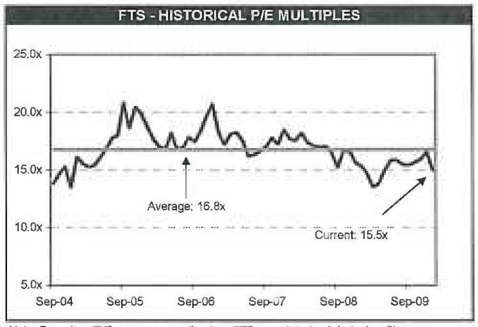
We have nudged up our go-forward earnings contributions from Terasen Gas Inc., reflecting slightly higher customer delivery rates. Meanwhile, we have trimmed our earnings contributions from Fortis Generation and Fortis Properties based on a slower than expected recovery from the economic recession. Elsewhere, we have tweaked our DRIP participation rate in line with the quarter.

Overall, our 2011e EPS (FD) remains largely unchanged at $1.80 (was $1.79) while our 2011e distributable cash flow per share (FD) edges up a similar $0.01 to $2.45. On the leverage front, our 2011e D/EBITDA remains largely unchanged at 6.0x.

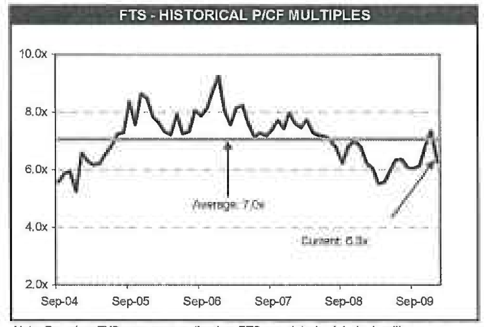
Maintain target and Outperform rating

With little change to our estimates, we maintain our $32.00 target, which is based on a risk-adjusted dividend yield of 3.8% applied to our 2011e dividend of $1.20/share, a 14.8x multiple of our 2011e Free-EBITDA of $924.2 million, and our discounted cash flow valuation of $32.00.

As shown on the following page, Fortis currently trades at 15.5x 2011e earnings and 6.3x cash flow (based on consensus estimates per ThomsonOne) – i.e., well below historical consensus multiples of 16.8x P/E and 7.0x P/CF. Combined with a 12-month total return opportunity of 18.1% (group avg.: 6.1%), we maintain our Outperform rating.



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

Fortis Inc.	2010e		2011e	
	Previous	Revised	Previous	Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***172.2***	***172.5***	***174.1***	***174.8***
Ending Shares (mln)	***172.8***	***173.3***	***174.7***	***175.5***
Fully Diluted Shares (mln)	***189.4***	***188.3***	***191.3***	***190.6***
Consolidated EBITDA	1 168.4	1 153.3	1 263.4	1 260.2
Earnings	295.6	294.0	320.7	322.6
Terasen Gas	118.4	120.4	128.9	135.8
FortisAlberta	59.9	60.1	67.1	67.4
FortisBC	38.1	38.0	40.9	40.7
Newfoundland Power	35.0	35.0	37.7	37.7
Other Utilities	20.0	20.0	21.4	21.4
Caribbean Utilities	12.7	12.8	13.4	13.0
Fortis Generation	10.1	8.6	10.3	8.7
Fortis Properties	24.1	21.4	24.3	21.7
Corporate and Other	-22.9	-22.5	-23.4	-23.8
Cash Flow	714.8	711.4	778.7	778.7
Maintenance Capital	369.6	368.6	336.0	336.0
Distributable Cash Flow	345.2	342.8	442.7	442.7
Dividends	193.1	193.5	209.2	210.1
Acquisitions & Development	713.7	715.1	669.5	669.5
Equity Issued (net)	29.0	294.1	31.4	42.0
Ending Net Debt	7 146.6	7 201.6	7 579.2	7 620.4
D / EBITDA	6.1	6.2	6.0	6.0
D / Total Capital	61%	59%	62%	60%
CF / D(1)	18%	18%	19%	18%
CF / Interest(2)	2.9	2.9	2.9	2.9
PER SHARE AMOUNTS				
Net Debt	**37.50**	**36.30**	**39.56**	**38.22**
EBITDA	**6.79**	**6.69**	**7.26**	**7.21**
Earnings - Fully Diluted	**1.67**	**1.68**	**1.79**	**1.80**
Cash Flow - FD	**3.91**	**3.92**	**4.20**	**4.22**
Distr CF - FD	**1.95**	**1.95**	**2.44**	**2.45**
Dividends	**1.12**	**1.12**	**1.20**	**1.20**
AFFO payout ratio	56%	56%	47%	47%
earnings payout	65%	66%	65%	65%
drip participation	15%	27%	15%	20%

(1) CFO before changes in working capital divided by average 2-year total debt.
(2) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Source: NBF Estimates, Company Report

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FTS (Fortis Inc.) - ADDITIONAL COMPANY RELATED DISCLOSURES

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NATIONAL BANK FINANCIAL

RESEARCH FLASH

August 4, 2010

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FORTIS INC. – (TSX: FTS) $28.96

STOCK RATING: Outperform (Unchanged)

TARGET: $32.00 (Unchanged)

RISK RATING: Low (Unchanged0029

Q2 results in line with expectations

Fortis reported Q2 EPS (FD) of $0.32, matching both our estimate and consensus.

FTS - Q2 2010 EARNINGS RECONCILIATION

($mlns except per share values	Actual	Estimates	Variance	Actual	Per Share Estimate	Variance
Business Segment						
Terasen Gas	$17.0	$17.2	-$0.2	$0.10	$0.10	$0.00
FortisAlberta	$17.0	$16.9	$0.1	$0.10	$0.10	$0.00
FortisBC	$8.0	$9.2	-$1.2	$0.05	$0.05	-$0.01
Newfoundland Power	$11.0	$11.9	-$0.9	$0.06	$0.07	-$0.01
Other Cdn Utilities	$4.0	$6.2	-$2.2	$0.02	$0.04	-$0.01
Caribbean Utilities	$7.0	$5.0	$2.0	$0.04	$0.03	$0.01
Fortis Generation	$3.0	$2.3	$0.7	$0.02	$0.01	$0.00
Fortis Properties	$8.0	$8.6	-$0.6	$0.05	$0.05	$0.00
Corporate & other	-$20.0	-$22.2	$2.2	-$0.12	-$0.13	$0.01
Total	**$55.0**	**$55.1**	**-$0.1**	**$0.32**	**$0.32**	**$0.00**

Source: NBF Estimates and Company Data

Terasen Gas – contributed earnings of $17.0 million, in line with our estimate of $17.2 million.

Electric Utilities – reported earnings of $47.0 million, slightly below our estimate of $49.2 million. Earnings at FortisBC and Other Cdn Utilities were slightly below expectations owing to lower average electricity consumption as a result of cooler temperatures.

Fortis Generation – reported earnings of $3.0 million, slightly above our estimate of $2.3 million owing to higher than expected hydrology at the Vaca, Belize generating facility.

Fortis Properties – contributed earnings of $8.0 million, largely in line with our estimate of $8.6 million. While revenues per available room (revpar) was 4.5% higher than our estimate (i.e., $83.77 vs. our $83.00), Fortis experienced a 1.8% decrease in hotel occupancies and 1.1% decrease in real estate occupancies compared with Q2 2009.

Capital program remains unchanged – $5.0 billion through 2014e

Overall, Fortis' capital spending program remains unchanged from our last update with $1.1 billion in gross consolidated capital expenditures expected for 2010e. Over the five-year period 2010e through 2014e, the company continues to expect gross capital expenditures to approach $5.0 billion with the bulk of the spending being incurred within Terasen Gas, FortisAlberta and FortisBC. Meanwhile, the company continues to pursue regulated gas and electric distribution opportunities throughout the U.S., Canada and Caribbean.

On the liquidity front, as at June 30, 2010, Fortis' capital structure was comprised 58% debt and 42% equity (including 9% preferred shares) – versus its longer-term target of 60% debt, 40% equity (including preferred shares). Meanwhile, $1.4 billion remains available on $2.1 billion of consolidated credit facilities.

Overall impact – Neutral

With the quarter in line, and no change to capex guidance, we anticipate little changes to our estimates and target. Fortis currently trades at 16.3x 2011e EPS (based on consensus per ThomsonOne), below historical average P/E multiples of 16.9x. We continue to rate Fortis an Outperform with a $32.00 target.

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FTS (Fortis Inc.) - ADDITIONAL COMPANY RELATED DISCLOSURES
If a company specific disclosure is not found herein for a listed company, NBF at this time does not provide research coverage or stock rating for the company in question
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NATIONAL BANK FINANCIAL

August 5, 2010

Action List Bulletin

Pipelines, Utilities & Infrastructure Trusts

Fortis Inc.

Q2 results in line

Steady profits + growth... where's the love?

FTS (T)	**$28.84**
Stock Rating:	**Outperform** (Unchanged)
Target:	**Cdn$32.00** (Unchanged)
Risk Rating:	**Low** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$29.51 - $21.60
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2009a	2010e	2011e
Distr CF/Share - f.d.	$1.85	$1.99	$2.46
P/Distributable CF	15.6x	14.5x	11.7x
EPS - f.d.	$1.50	$1.69	$1.80
P/E	19.2x	17.0x	16.0x
D/EBITDA	$6.18	$6.13	$5.89
EV/Free-EBITDA	16.2x	14.7x	12.4x
Dividends	$1.04	$1.12	$1.20
Dividend Yield	3.6%	3.9%	4.2%

Financial Data:	
Shares Outstanding (mln)	172.9
Book Value per Share	$18.79
Market Capitalization (mln)	$4 990
Price/Book Ratio	1.5x
Net Debt (mln)	$6 784
Total Debt/Enterprise Value	58%
Debt/10 Distr. CF	10.1x
Total Return	14.9%

Industry Rating (Utilities): Underweight
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

- **Q2 results in line with expectations**
  FTS reported Q2 2010 EPS (FD) of $0.32, matching both our estimate and consensus. The company also reiterated its rate-regulated capex guidance of $1.1 billion for 2010 and ~$5.0 billion over the next five years, confirming our ~7% annual EPS growth estimates through 2014.
- **Funding analysis – no immediate equity needs**
  Despite ~$1.6 billion of capex committed through 2011e, we continue to forecast abundant cash available of $0.7 billion by year-end 2011e, with a D/Cap ratio of 59% versus the company's longer-term target ratio of 60%. As such, although we do not forecast any need for an equity issue over the next 12 months (all else equal), a modest equity issue in the order of ~$200 million could be in the cards in late 2011e.
- **Estimate revisions – modest changes**
  Overall, our 2011e EPS (FD) declines a modest $0.02 to $1.80 while our 2011e distr. cash flow (FD) remains largely unchanged at $2.46 (was $2.47). On the leverage front, our 2011e D/EBITDA remains largely unchanged at 5.9x.
- **Maintain target, reiterate Outperform rating**
  With our estimates in tact, we maintain our $32.00 target. Despite steady profits and an attractive 7% annual EPS / dividend growth profile, Fortis continues to trade at discounted 2011e multiples of 16.0x EPS (group avg.: 17.0x) and 6.8x CFPS (group avg.: 7.3x), below historical multiples of 16.7x P/E and 7.0x P/CF. Combined with a group high 12-month total return opportunity of 14.9% (group avg.: 4.0%), we maintain our Outperform rating and Action List Buy recommendation.

Stock Performance

Source: Bloomberg

Q2 results in line with expectations

Fortis Inc. reported Q2 2010 earnings per share (FD) of $0.32, matching both our estimate and consensus of $0.32 (per ThomsonOne). Slightly lower earnings from the company's electricity distribution utilities were offset by lower than expected corporate expenses.

FTS - Q2 2010 EARNINGS RECONCILIATION						
					Per Share	
($mlns except per share values	Actual	Estimates	Variance	Actual	Estimate	Variance
Business Segment						
Terasen Gas	$17.0	$17.2	-$0.2	$0.10	$0.10	$0.00
FortisAlberta	$17.0	$16.9	$0.1	$0.10	$0.10	$0.00
FortisBC	$8.0	$9.2	-$1.2	$0.05	$0.05	-$0.01
Newfoundland Power	$11.0	$11.9	-$0.9	$0.06	$0.07	-$0.01
Other Cdn Utilities	$4.0	$6.2	-$2.2	$0.02	$0.04	-$0.01
Caribbean Utilities	$7.0	$5.0	$2.0	$0.04	$0.03	$0.01
Fortis Generation	$3.0	$2.3	$0.7	$0.02	$0.01	$0.00
Fortis Properties	$8.0	$8.6	-$0.6	$0.05	$0.05	$0.00
Corporate & other	-$20.0	-$22.2	$2.2	-$0.12	-$0.13	$0.01
Total	**$55.0**	**$55.1**	**-$0.1**	**$0.32**	**$0.32**	**$0.00**

Source: NBF Estimates and Company Data

Terasen Gas – Contributed earnings of $17.0 million, in line with our $17.2 million estimate. Effective Jan. 1, 2010, Terasen Gas Inc. received regulatory approval of a negotiated settlement agreement (NSA) for its 2010-2011 revenue requirements. The approved NSA does not include an earnings' sharing mechanism for earnings above or below the allowed ROE with customers – i.e., Fortis will retain 100% of the potential earnings upside or downside from its operations.

FortisAlberta – Reported earnings of $17.0 million, in line with our $16.9 million estimate.

FortisBC – Contributed earnings of $8.0 million, $1.2 million below our estimate of $9.2 million on lower average consumption owing to decreased air-conditioning (i.e., cooler temperatures).

Newfoundland Power – Contributed earnings of $11.0 million, slightly below our estimate of $11.9 million. The variance was attributable to higher finance charges, increased amortization costs associated with investment in utility capital assets, and higher retirement and severance expenses.

Other Canadian Utilities – Contributed earnings of $4.0 million, falling short of our estimated $6.4 million on decreased electricity sales.

Caribbean Utilities – Reported earnings of $7.0 million, above our estimate of $5.0 million on higher customer electricity rates and an increase in electricity sales.

Fortis Generation – Reported earnings of $3.0 million, slightly above our estimate of $2.3 million owing to higher production in Belize as well as lower than expected financing charges.

Fortis Properties – Contributed earnings of $8.0 million, slightly below our estimate of $8.6 million owing to a decrease in the occupancy rate in Western Canada. Overall, we continue to expect the segment's 2010 and 2011 results to perform in line with 2009.

Corporate & Other – Corporate & other expenses were below our estimate by $2.2 million.

Overall, Fortis's capital spending program remains unchanged with $1.1 billion in gross consolidated capital expenditures expected for 2010e. Through 2014e, management expects to spend ~$5 billion in capital expenditures with ~71% allocated to its regulated electric utilities, largely driven by FortisAlberta and FortisBC. A further ~27% of the capital program is expected to be allocated to the company's regulated gas utilities (i.e., Terasen Gas) with the remaining ~2% to be absorbed by non-regulated operations. Of note, the company continues to pursue regulated gas and electric distribution opportunities throughout the U.S., Canada and Caribbean.

Refreshing funding analysis – no immediate equity needs

Despite ~$1.6 billion in capex committed through 2011e ($4.5 billion through 2014e, ~50% of EV), we continue to forecast abundant cash available of $0.7 billion by year-end 2011e to finance the company's aggressive capex program. However, by the end of 2011e, we forecast a debt to total capitalization ratio of 59%, nudging up against the company's longer-term target of 60% debt and 40% equity (including preferred shares). As such, although we do not forecast any immediate needs for an equity issue (i.e., next 12 months), all else equal, a modest equity issue in the order of ~$200 million could be in the cards in late 2011e. Of note, we forecast 2011e D/EBITDA of 5.9x (including preferred shares; 5.1x excluding preferred shares), slightly above the low payout group average of 4.8x (including preferred shares), but in line with the company's relatively low cash flow risk profile – i.e., ~90% of earnings are generated through rate-regulated activities versus the low payout group average of 70%.

FTS - FUNDING REQUIREMENT ANALYSIS

(mlns)	H2 2010e	2011e
Cash flow from operations	358	786
Less maintenance capex	(223)	(336)
Less growth capex	(428)	(670)
Free cash flow (FCF)	(293)	(219)
Less dividends	(97)	(212)
FCF (net dividends)	**(390)**	**(431)**
AVAILABLE CASH RESOURCES:		
Opening cash balance [1]	71	1 109
Available debt capacity [1]	1 400	n/a
Dividend reinvestment	28	61
FCF (net dividends)	(390)	(431)
Funding surplus	**1 109**	**739**
D/Capitalization	58%	59%
D/EBITDA	6.1x	5.9x
D/EBITDA [2]	5.2x	5.0x

(1) As at Q2, 2010.

(2) Excluding preferred shares.

Source: NBF Estimates, Company Reports

Estimate revisions – modest changes

With Q2 results matching expectations, we have made very few changes to our model, aside from tweaking our distribution reinvestment rate assumption to 29% from 20%, in line with actuals for the quarter.

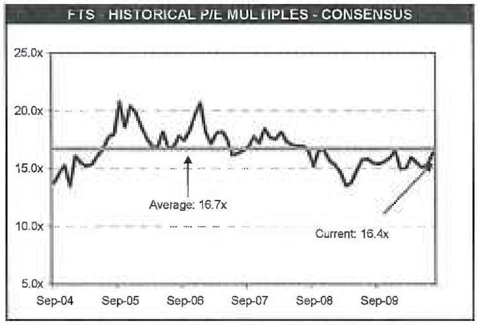
Overall, our 2011e EPS (FD) declines a modest $0.02 to $1.80 (higher DRIP assumption) while our 2011e distributable cash flow per share (FD) remains largely unchanged at $2.46 (was $2.47).

Maintain target, reiterate Outperform rating

With little changes to our estimates, we maintain our $32.00 target, which is based on a risk-adjusted dividend yield of 3.8% applied to our 2011e dividend of $1.20/share, a 14.4x multiple of our 2011e Free-EBITDA of $949 million, and our discounted cash flow valuation of $32.00.

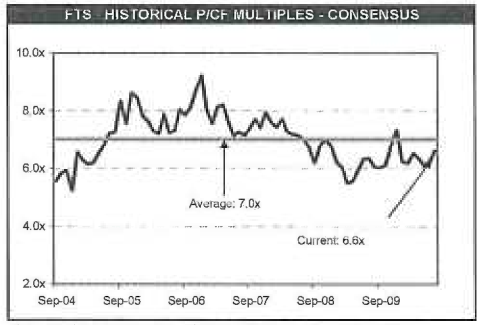
As shown on the following page, Fortis currently trades at 16.4x earnings and 6.6x cash flow (based on consensus estimates per ThomsonOne) versus our estimates of 16.0x earnings and 6.8x cash flow – i.e., both below historical consensus multiples of 16.7x P/E and 7.0x P/CF despite steady profits and a relatively attractive 7% EPS / dividend growth profile through 2014e. Combined with a 12-month total return opportunity of 14.9% (group avg.: 4.0%), we reiterate our Outperform rating and Action List Buy recommendation.

FTS - HISTORICAL P/E MULTIPLES - CONSENSUS



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

FTS - HISTORICAL P/CF MULTIPLES - CONSENSUS



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

MARKET VALUATION COMPARISON - NBF ESTIMATES

		Price	Mkt Cap	EV	Net Debt/ EBITDA	Cash Yield	Price/ Earnings	Price/ CF	EV/Free- EBITDA	12 mo. Target	Total Return %	Ratings
		04-Aug-10	$mln	$mln	2011E	2011e	2011e	2011e	2011e			
Capital Power	CPX	23.40	2 503	4 528	4.7	5.4%	19.3	7.1	10.4	20.00	-9.1%	UP
Emera	EMA	26.90	3 050	5 789	4.9	4.4%	16.1	7.8	12.0	25.50	-0.9%	UP
Enbridge	ENB	51.40	19 680	34 833	5.4	3.6%	17.1	9.0	12.1	55.00	10.4%	OP
Fortis	**FTS**	**28.84**	**4 990**	**11 774**	**6.1**	**4.2%**	**16.0**	**6.8**	**12.4**	**32.00**	**14.9%**	**OP**
TransAlta	TA	21.47	4 700	9 783	5.6	5.4%	17.5	5.4	12.8	18.50	-8.4%	UP
TransCanada	TRP	36.81	25 290	46 818	5.8	4.7%	15.7	7.6	10.1	38.50	9.0%	OP
Average					**5.4**	**4.6%**	**17.0**	**7.3**	**11.6**		**2.6%**	

Source: Company Reports, NBF Estimates

Fortis Inc.	2010e Previous	2010e Revised	2011e Previous	2011e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***172.5***	***172.7***	***174.8***	***176.2***
Ending Shares (mln)	***173.3***	***173.9***	***175.5***	***177.5***
Fully Diluted Shares (mln)	***188.3***	***188.1***	***190.6***	***191.7***
Consolidated EBITDA	1 156.4	1 168.6	1 263.8	1 285.4
Earnings	296.0	294.4	325.8	326.4
Terasen Gas	156.0	160.7	177.7	179.5
FortisAlberta	60.1	59.8	67.4	67.0
FortisBC	38.0	38.8	40.7	40.7
Newfoundland Power	48.6	49.4	52.7	53.4
Other Utilities	23.8	22.5	25.6	25.6
Caribbean Utilities	14.4	17.5	14.5	14.7
Fortis Generation	8.7	10.4	9.7	9.6
Fortis Properties	22.1	22.5	22.3	22.1
Corporate and Other	-75.8	-87.3	-84.9	-86.2
Cash Flow	713.8	710.5	781.9	786.4
Maintenance Capital	368.6	367.2	336.0	336.0
Distributable Cash Flow	345.2	343.3	445.9	450.4
Dividends	193.5	193.8	210.1	212.0
Acquisitions & Development	715.1	715.3	669.5	669.5
Equity Issued (net)	294.1	309.2	42.0	61.5
Ending Net Debt	7 199.1	7 166.0	7 614.8	7 575.6
D / EBITDA	6.2	6.1	6.0	5.9
D / Total Capital	59%	58%	60%	59%
CF / D(1)	18%	18%	18%	18%
CF / Interest(2)	2.9	2.9	2.9	2.9
PER SHARE AMOUNTS				
Net Debt	**36.28**	**35.97**	**38.19**	**37.54**
EBITDA	**6.70**	**6.77**	**7.23**	**7.29**
Earnings - Fully Diluted	**1.69**	**1.69**	**1.82**	**1.80**
Cash Flow - FD	**3.93**	**3.98**	**4.24**	**4.23**
Distr CF - FD	**1.97**	**1.99**	**2.47**	**2.46**
Dividends	**1.12**	**1.12**	**1.20**	**1.20**
AFFO payout ratio	56%	56%	47%	47%
earnings payout	65%	66%	64%	65%
drip participation	22%	29%	20%	29%

(1) CFO before changes in working capital divided by average 2-year total debt.
(2) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Source: NBF Estimates, Company Report

DISCLOSURES:

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FTS (Fortis Inc.) - ADDITIONAL COMPANY RELATED DISCLOSURES

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NATIONAL BANK FINANCIAL

August 27, 2010

Action List Bulletin

Pipelines, Utilities & Infrastructure Trusts

Fortis Inc.

To construct a 335-MW hydro facility in B.C.

Executing low risk, NON-regulated growth

FTS (T)	**$29.05**
Stock Rating:	**Outperform** (Unchanged)
Target:	**Cdn$32.00** (Unchanged)
Risk Rating:	**Low** (Unchanged)

Stock Data:	
52-week High-Low (Canada)	$29.51 - $21.60
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2009a	2010e	2011e
Distr CF/Share - f.d.	$1.85	$1.99	$2.46
P/Distributable CF	15.7x	14.6x	11.8x
EPS - f.d.	$1.50	$1.69	$1.80
P/E	19.4x	17.2x	16.2x
D/EBITDA	$6.18	$6.13	$5.89
EV/Free-EBITDA	16.2x	14.7x	12.4x
Dividends	$1.04	$1.12	$1.20
Dividend Yield	3.6%	3.9%	4.1%

Financial Data:	
Shares Outstanding (mln)	172.9
Book Value per Share	$18.79
Market Capitalization (mln)	$5 020
Price/Book Ratio	1.5x
Net Debt (mln)	$6 784
Total Debt/Enterprise Value	57%
Debt/10 Distr. CF	10.1x
Total Return	14.1%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

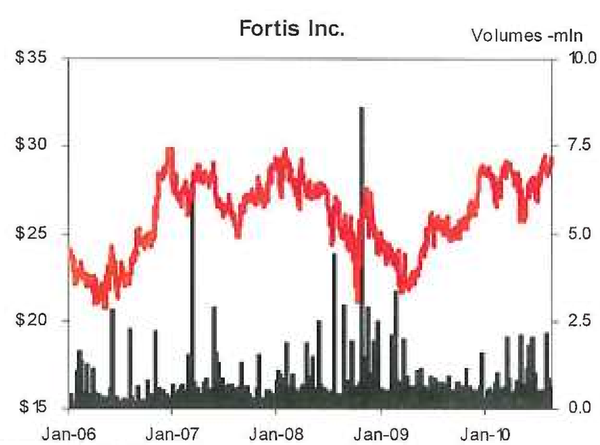
- **To construct $900-mln, 335-MW hydro facility in B.C.**
  FTS has entered into a partnership with the Government of British Columbia (FTS: 51% interest) to construct the 335-MW Waneta hydroelectric generating facility for ~$900 mln (~$450 mln net), online in 2015. Overall, the project increases consolidated capex over the next five years to $5.5 billion (i.e., ~10% above prior guidance). Of note, the project is exposed to objections by industry given the absence of a competitive process for the project. Interested parties have until Sept. 13, 2010, to file an objection.

- **Executing low risk, NON-regulated growth**
  Despite being a non-regulated growth project, FTS will receive fixed energy and capacity entitlements under a long-term agreement with BC Hydro on 101 MW based on long-term average water flows (i.e., no volume risk), with pricing similar to the recent BC Hydro 2008 Clean Power Call. Meanwhile, FortisBC is expected to purchase the remaining capacity under a long-term capacity purchase agreement.

- **Assuming 10% ROE, adds $0.50/share to DCF valuation**
  Assuming a 10% ROE for the project and based on 35% long-term equity financing, we estimate $0.50/share accretion to our discounted cash flow valuation.

- **Maintain target, reiterate Outperform rating**
  We await the expiry of the competitive process objection deadline (Sept. 13) before building into our model and valuation. However, with FTS trading at discounted multiples of 16.2x 2011e EPS (historical: 16.7x; group avg.: 16.9x), combined with $0.50 upside to our $32.00 target, we maintain our Outperform rating and Action List Buy recommendation.

Stock Performance



Source: Bloomberg

To construct $900-mln, 335-MW hydro facility in B.C.

Fortis announced it has entered into a partnership with the Government of British Columbia (FTS: 51% interest) to construct a 335 MW hydroelectric generating facility located in the southeastern part of the province south of Trail, B.C., near the Waneta Dam and powerhouse facilities along the Pend d'Oreille River. Capital costs are expected to run ~$900 million (~$450 million net) with commissioning of the project expected in 2015.

Fortis will receive fixed energy and capacity entitlements under a long-term agreement with BC Hydro on 101 MW based on long-term average water flows (630 GWh per year; ~70% utilization rate), with pricing similar to the recent BC Hydro 2008 Clean Power Call. Meanwhile, FortisBC will purchase the remaining 234 MW of capacity under a long-term capacity purchase agreement, subject to regulatory approval of the British Columbia Utilities Commission. Overall, the project increases total consolidated capital expenditures over the next five years to $5.5 bln (i.e., ~10% above prior guidance).

Of note, the project has received all necessary environmental approvals, but is exposed to objections by industry given FTS and the Government of British Columbia entered into the partnership without a competitive process for the project. Interested parties have until September 13, 2010 to file an objection.

Assuming 10% ROE, adds $0.50 to our DCF/share valuation

Assuming a 10% ROE for the project, in line with management guidance, we estimate the project adds $0.50 to our discounted cash flow valuation per share of $32.00 (see table below). Of note, FTS will draw on available credit facilities to finance construction of the project and will look to permanently finance the project with ~35% equity longer-term (i.e., ~$150 million).

WANETA EXPANSION PROJECT - NPV PER SHARE

		Return on Equity (%)				
		9.0%	9.5%	10.0%	10.5%	11.0%
% Equity	25%	$0.25	$0.30	$0.35	$0.35	$0.40
	30%	$0.35	$0.35	$0.40	$0.45	$0.50
	35%	$0.40	$0.45	$\boxed{\$0.50}$	$0.55	$0.60
	40%	$0.45	$0.50	$0.55	$0.60	$0.70
	45%	$0.50	$0.60	$0.65	$0.70	$0.75

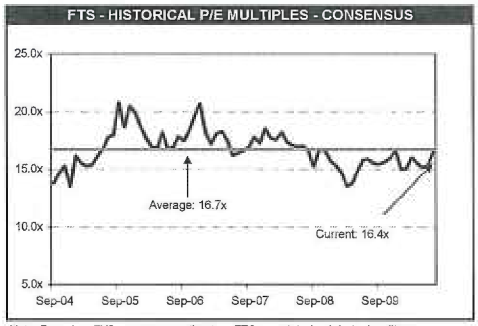
Source: NBF Estimates

Maintain target, reiterate Outperform rating

We await the expiration of the competitive process objection deadline before building the project into our model and valuation (i.e., Sept. 13, 2010). As such, we maintain our $32.00 target, which is based on a risk-adjusted dividend yield of 3.8% applied to our 2011e dividend of $1.20/share, a 14.4x multiple of our 2011e Free-EBITDA of $949 million, and our discounted cash flow valuation of $32.00.

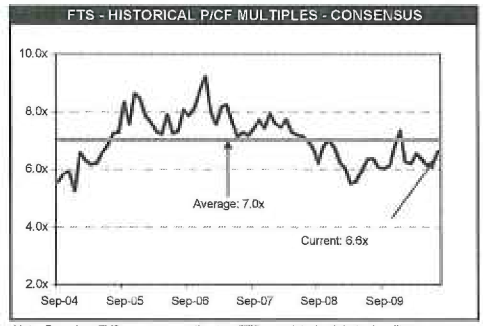
As shown on the following page, Fortis currently trades at 16.4x earnings and 6.6x cash flow (based on consensus estimates per ThomsonOne) and 16.2x earnings and 6.9x cash flow based on our estimates – i.e., both below historical consensus multiples of 16.7x P/E and 7.0x P/CF despite a low risk earnings profile, impressive track record of developing and acquiring accretive projects, and a relatively attractive 7% EPS / dividend growth profile through 2014e. Combined with a group high 12-month total return opportunity of 14.1% (group avg.: 3.7%), we reiterate our Outperform rating and Action List Buy recommendation.

FTS - HISTORICAL P/E MULTIPLES - CONSENSUS



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

FTS - HISTORICAL P/CF MULTIPLES - CONSENSUS



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

Fortis Inc.	2010e		2011e	
	Previous	Revised	Previous	Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***172.7***	***172.7***	***176.2***	***176.2***
Ending Shares (mln)	***173.9***	***173.9***	***177.5***	***177.5***
Fully Diluted Shares (mln)	***188.1***	***188.1***	***191.7***	***191.7***
Consolidated EBITDA	1 168.6	1 168.6	1 285.4	1 285.4
Earnings	294.4	294.4	326.4	326.4
Terasen Gas	160.7	160.7	179.5	179.5
FortisAlberta	59.8	59.8	67.0	67.0
FortisBC	38.8	38.8	40.7	40.7
Newfoundland Power	49.4	49.4	53.4	53.4
Other Utilities	22.5	22.5	25.6	25.6
Caribbean Utilities	17.5	17.5	14.7	14.7
Fortis Generation	10.4	10.4	9.6	9.6
Fortis Properties	22.5	22.5	22.1	22.1
Corporate and Other	-87.3	-87.3	-86.2	-86.2
Cash Flow	710.5	710.5	786.4	786.4
Maintenance Capital	367.2	367.2	336.0	336.0
Distributable Cash Flow	343.3	343.3	450.4	450.4
Dividends	193.8	193.8	212.0	212.0
Acquisitions & Development	715.3	715.3	669.5	669.5
Equity Issued (net)	309.2	309.2	61.5	61.5
Ending Net Debt	7 166.0	7 166.0	7 575.6	7 575.6
D / EBITDA	6.1	6.1	5.9	5.9
D / Total Capital	58%	58%	59%	59%
CF / D[1]	18%	18%	18%	18%
CF / Interest[2]	2.9	2.9	2.9	2.9
PER SHARE AMOUNTS				
Net Debt	**35.97**	**35.97**	**37.54**	**37.54**
EBITDA	**6.77**	**6.77**	**7.29**	**7.29**
Earnings - Fully Diluted	**1.69**	**1.69**	**1.80**	**1.80**
Cash Flow - FD	**3.98**	**3.98**	**4.23**	**4.23**
Distr CF - FD	**1.99**	**1.99**	**2.46**	**2.46**
Dividends	**1.12**	**1.12**	**1.20**	**1.20**
AFFO payout ratio	56%	56%	47%	47%
earnings payout	66%	66%	65%	65%
drip participation	29%	29%	29%	29%

(1) CFO before changes in working capital divided by average 2-year total debt.
(2) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Source: NBF Estimates, Company Reports

DISCLOSURES:

Ratings And What They Mean: PRIMARY STOCK RATING: NBF has a three-tiered rating system that is relative to the coverage universe of the particular analyst. Here is a brief description of each: **Outperform –** The stock is expected to outperform the analyst's coverage universe over the next 12 months; **Sector Perform –** The stock is projected to perform in line with the sector over the next 12 months; **Underperform –** The stock is expected to underperform the sector over the next 12 months. SECONDARY STOCK RATING: **Under Review** – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock. INDUSTRY RATING: NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months. **RISK RATING:** NBF utilizes a four-tiered risk rating system, **Low**, **Average**, **Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

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FTS (Fortis Inc.) - ADDITIONAL COMPANY RELATED DISCLOSURES

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NATIONAL BANK FINANCIAL

October 14, 2010 **Action List Bulletin**

Pipelines, Utilities & Infrastructure Trusts

Fortis Inc.

Earnings quality finally priced in

Removing from Action List: reiterate Outperform rating

FTS (T)	**Cdn $32.35**
Stock Rating:	**Outperform** (Unchanged)
Target:	**Cdn $33.50** (Unchanged)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**7.2%**

Stock Data:	
52-week High-Low (Canada)	$32.39 - $21.60
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2009a	2010e	2011e
Distr CF/Share - f.d.	$1.85	$1.99	$2.46
P/Distributable CF	17.5x	16.3x	13.1x
EPS - f.d.	$1.50	$1.69	$1.80
P/E	21.6x	19.1x	18.0x
D/EBITDA	$6.18	$6.13	$5.89
EV/Free-EBITDA	17.0x	15.4x	13.0x
Dividends	$1.04	$1.12	$1.20
Dividend Yield	3.2%	3.5%	3.7%

Financial Data:	
Shares Outstanding (mln)	172.9
Book Value per Share	$18.79
Market Capitalization (mln)	$5 590
Price/Book Ratio	1.7x
Net Debt (mln)	$6 784
Total Debt/Enterprise Value	55%
Debt/10 Distr. CF	10.1x
Total Return	7.2%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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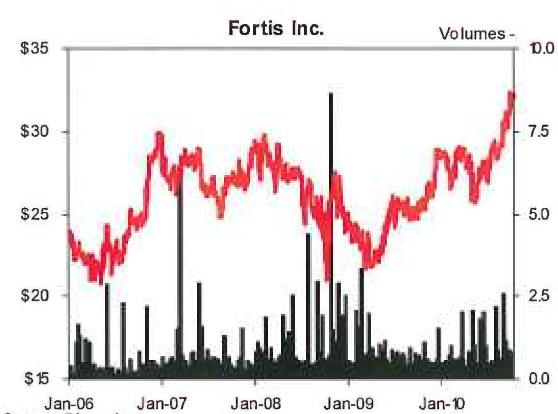
HIGHLIGHTS

- **Removing from Action List on strong out-performance**
  Since adding Fortis to the NBF Action List on Nov. 27, 2009, the stock has provided a total return (i.e., including dividends) of 28% versus the S&P/TSX composite index total return performance of 13% over the same timeframe – despite representing a group low market beta of 0.53. With our NBF Action List performance benchmarked to the S&P/TSX composite index (as opposed to our coverage list), we are removing Fortis from the NBF Action List following significant out-performance.

- **Maintain $33.50 target – reiterate Outperform**
  FTS is currently yielding 3.5%, in line with its historical average. However, when compared with the average 10-year BBB corporate bond yield, FTS is currently trading at a cash yield spread of -1.5% versus historical averages of -2.7% – implying further upside should investors lower their equity risk premiums in line with historical averages. Meanwhile, relative to our coverage list, despite an attractive 7% EPS / dividend growth profile through 2014e, and a lower cash flow risk profile, Fortis currently trades at 18.9x earnings and 7.8x cash flow, largely in line with the low payout group's average of 18.5x P/E and 7.9x P/CF. As such, combined with a 12-month total return opportunity of 7.2% (group avg.: 1.3%), we reiterate our Outperform rating.

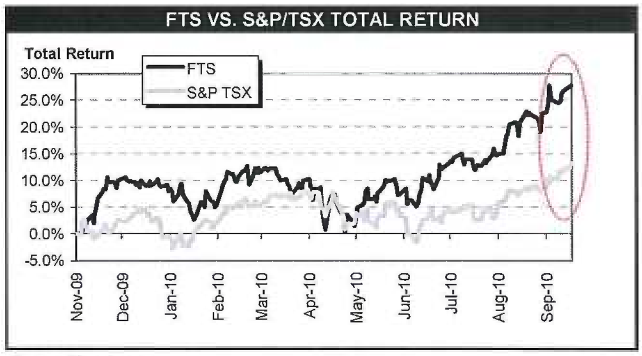
Stock Performance



Source: Bloomberg

Removing from NBF Action List on significant out-performance

Since adding Fortis to the NBF Action List on November 27, 2009, the stock has provided a total return (i.e., including dividends) of 28% versus the S&P/TSX Index total return performance of 13% over the same timeframe – despite FTS's group low five-year beta of 0.53. With our Action List performance benchmarked to the S&P/TSX Index (as opposed to our coverage list), we are removing Fortis from the NBF Action List following significant out-performance.



Source: Bloomberg

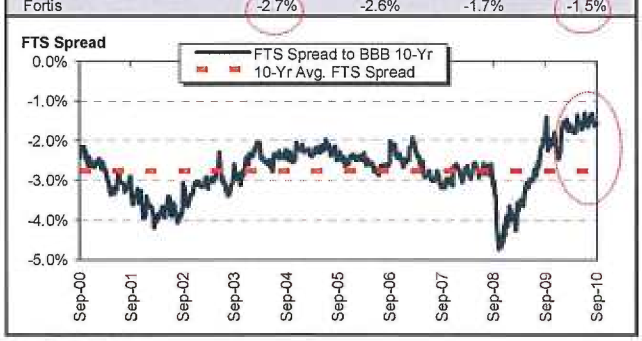
Maintain $33.50 target – reiterate Outperform rating

We maintain our $33.50 target, which is based on a risk-adjusted dividend yield of 3.6% applied to our 2011e dividend of $1.20/share, a 14.6x multiple of our 2011e Free-EBITDA of $949 million, and our discounted cash flow valuation of $33.75.

With government bond yields falling to all time lows, cash yields within the sector have followed suit as investors shift into lower risk, high-yield investments. As shown below, FTS is currently yielding 3.5%, in line with its historical average. However, when compared with the average 10-year BBB corporate bond yield, FTS is currently trading at a cash yield spread of -1.5% versus historical averages of -2.7%, i.e., implying further upside should investors lower their equity risk premiums in line with historical averages.

LONG-TERM CASH YIELD COMPARISON

	10-Yr Avg.	5-Yr Avg.	1-Yr Avg.	Current
Cash Yields				
BBB 10-YR	6.5%	6.1%	5.7%	5.0%
High Payout	9.1%	9.5%	9.1%	7.4%
Low Payout	4.2%	4.0%	4.6%	4.3%
Fortis	3.7%	3.5%	4.0%	3.5%
Spread to BBB 10-Yr				
High Payout	2.7%	3.3%	3.4%	2.5%
Low Payout	-2.3%	-2.1%	-1.1%	-0.7%
Fortis	-2.7%	-2.6%	-1.7%	-1.5%



Source: Bloomberg

Meanwhile, on a relative basis, despite a relatively attractive 7% EPS / dividend growth profile through 2014e, and a lower relative cash flow risk profile, Fortis currently trades at

NATIONAL BANK FINANCIAL

18.9x earnings and 7.8x cash flow, largely in line with the low payout group's average of 18.5x P/E and 7.9x P/CF. As such, combined with a 12-month total return opportunity of 7.2% (group avg.: 1.3%), we reiterate our Outperform rating.

MARKET VALUATION COMPARISON - NBF ESTIMATES

		Price	Mkt Cap	EV	Net Debt/ EBITDA	Cash Yield	Price/ Earnings	Price/ CF	EV/Free- EBITDA	12 mo. Target	Total Return %	Ratings
		13-Oct-10	$mln	$mln	2011E	2011e	2011e	2011e	2011e			
Capital Power	CPX	24.24	2 587	4 612	4.7	5.2%	20.7	7.4	10.7	21.00	-8.2%	UP
Emera	EMA	30.51	3 470	6 337	5.0	4.3%	18.3	8.8	13.2	27.50	-5.7%	SP
Enbridge	ENB	54.71	20 950	36 103	5.5	3.6%	18.4	9.6	12.5	62.00	16.8%	OP
Fortis	**FTS**	**32.35**	**5 590**	**12 374**	**6.1**	**3.7%**	**18.9**	**7.8**	**13.3**	**33.50**	**7.2%**	**OP**
TransAlta	TA	21.77	4 760	9 843	5.6	5.3%	17.7	5.9	14.1	19.50	-5.1%	UP
TransCanada	TRP	38.41	26 390	47 918	5.9	4.5%	16.9	7.9	10.3	40.50	9.8%	OP
Average					**5.5**	**4.4%**	**18.5**	**7.9**	**12.3**		**2.5%**	

Source: Company Reports, NBF Estimates

Fortis Inc.	2010e Previous	2010e Revised	2011e Previous	2011e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***172.7***	***172.7***	***176.2***	***176.2***
Ending Shares (mln)	***173.9***	***173.9***	***177.5***	***177.5***
Fully Diluted Shares (mln)	***188.1***	***188.1***	***191.7***	***191.7***
Consolidated EBITDA	1 168.6	1 168.6	1 285.4	1 285.4
Earnings	294.4	294.4	326.4	326.4
Terasen Gas	160.7	160.7	179.5	179.5
FortisAlberta	59.8	59.8	67.0	67.0
FortisBC	38.8	38.8	40.7	40.7
Newfoundland Power	49.4	49.4	53.4	53.4
Other Utilities	22.5	22.5	25.6	25.6
Caribbean Utilities	17.5	17.5	14.7	14.7
Fortis Generation	10.4	10.4	9.6	9.6
Fortis Properties	22.5	22.5	22.1	22.1
Corporate and Other	-87.3	-87.3	-86.2	-86.2
Cash Flow	710.5	710.5	786.4	786.4
Maintenance Capital	367.2	367.2	336.0	336.0
Distributable Cash Flow	343.3	343.3	450.4	450.4
Dividends	193.8	193.8	212.0	212.0
Acquisitions & Development	715.3	715.3	669.5	669.5
Adj. Free Cash Flow	-371.9	-371.9	-219.1	-219.1
Equity Issued (net)	309.2	309.2	61.5	61.5
Ending Net Debt	7 166.0	7 166.0	7 575.6	7 575.6
D / EBITDA	6.1	6.1	5.9	5.9
D / Total Capital	58%	58%	59%	59%
CF / D(1)	18%	18%	18%	18%
CF / Interest(2)	2.9	2.9	2.9	2.9
PER SHARE AMOUNTS				
Net Debt	**35.97**	**35.97**	**37.54**	**37.54**
EBITDA	**6.77**	**6.77**	**7.29**	**7.29**
Earnings - Fully Diluted	**1.69**	**1.69**	**1.80**	**1.80**
Cash Flow - FD	**3.98**	**3.98**	**4.23**	**4.23**
Distr CF - FD	**1.99**	**1.99**	**2.46**	**2.46**
Dividends	**1.12**	**1.12**	**1.20**	**1.20**
AFFO payout ratio	56%	56%	47%	47%
earnings payout	66%	66%	65%	65%
drip participation	29%	29%	29%	29%

(1) CFO before changes in working capital divided by average 2-year total debt.
(2) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Source: NBF Estimates, Company Reports

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NATIONAL BANK FINANCIAL

November 8, 2010 **The NBF Daily Bulletin**

Pipelines, Utilities & Infrastructure Trusts

Fortis Inc.

Q3 results in line

Revising rating on relative price strength

FTS (T)	**$33.26**
Stock Rating:	**Sector Perform** (Was Outperform)
Target:	**$34.00** (Was $33.50)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**5.6%**

Stock Data:	
52-week High-Low (Canada)	$33.58 - $21.60
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2009a	2010e	2011e
Distr CF/Share - f.d.	$1.85	$2.09	$2.43
P/Distributable CF	18.0x	15.9x	13.7x
EPS - f.d.	$1.50	$1.76	$1.77
P/E	22.2x	18.9x	18.8x
D/EBITDA	6.2x	6.1x	6.0x
EV/Free-EBITDA	17.5x	15.6x	13.5x
Dividends	$1.04	$1.12	$1.20
Dividend Yield	3.1%	3.4%	3.6%

Financial Data:	
Shares Outstanding (mln)	173.6
Book Value per Share	$18.75
Market Capitalization (mln)	$5 770
Price/Book Ratio	1.8x
Net Debt (mln)	$6 938
Total Debt/Enterprise Value	55%
Debt/10 Distr. CF	9.9x
Total Return	5.6%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

- **Q3 results in line**
  FTS reported Q3 EPS (FD) of $0.26, in line with our estimate of $0.25 and consensus of $0.24 (per ThomsonOne) with stronger earnings from Fortis Generation partially offset by lower earnings from Terasen Gas.

- **Growth outlook – Waneta Expansion begins construction**
  During the quarter, FTS announced that it has concluded definitive agreements to construct the $900 million ($459 million net), 335 MW Waneta hydroelectric generation facility in British Columbia. Construction of the project is expected to begin in November 2010 and placed into service in 2015. Overall, FTS' capital program remains in check with ~$5.5 billion of capital expenditures from 2011 through 2015. Meanwhile, we refresh our liquidity analysis inside suggesting little need for equity through mid-2011.

- **Target up $0.50 – revising rating on relative strength**
  Overall, our 2011e EPS nudges up $0.02 to $1.77 while our target bumps up $0.50 following the regulatory approval of the $900 million Waneta Expansion. Since initiating coverage on FTS with an Outperform rating on November 24, 2009, the stock has gained 28%, outperforming the group average performance of +22%. Combined with a 12-month total return opportunity of 5.6% (group avg.: 1.9%) we are revising our rating on FTS to Sector Perform from Outperform.

Stock Performance

Source: Bloomberg

Q3 results in line

Fortis Inc. reported Q3 2010 EPS (FD) of $0.26, in line with our estimate of $0.25 and consensus of $0.24 (per ThomsonOne). Higher than expected earnings from the company's non-regulated power generation assets (+$0.03) and Caribbean Utilities segment (+$0.02) were partially offset by lower earnings within Terasen Gas Distribution (-$0.03) and Newfoundland Power (-$0.02).

FTS - Q3 2010 EARNINGS RECONCILIATION

Q3 2010	$ mlns	Per Share
Estimated Earnings - FD	**$43.5**	**$0.25**
Difference Related to:		
Terasen Gas	-$5.0	(0.03)
FortisAlberta	$2.6	0.01
FortisBC	$2.2	0.01
Newfoundland Power	-$4.6	(0.02)
Other Cdn Utilities	-$2.2	(0.01)
Caribbean Utilities	$4.3	0.02
Fortis Generation	$5.8	0.03
Fortis Properties	-$0.6	(0.00)
Corporate & other	$1.1	0.01
Actual Earnings - FD	**$45.0**	**$0.26**

Source: NBF Estimates and Company Data

Terasen Gas – contributed a net loss of $5.0 million, below our earnings estimate of nil. Differences from our estimates include higher than expected labour and employee-benefit costs and higher planned maintenance and operating expenses as a result of the company's Negotiated Settlement Agreement (NSA) that was approved by the British Columbia Utilities Commission (BCUC) effective Jan. 1, 2010. Recall, the approved NSA does not include an earnings' sharing mechanism for earnings above or below the allowed ROE with customers – i.e., Fortis will retain 100% of the potential earnings upside or downside from its operations. Of note, Q3 typically represents a lower period of earnings due to lower customer demand as a result of warmer temperatures expected over the quarter.

FortisAlberta – reported earnings of $19.0 million, slightly above our estimate of $16.4 million owing to higher than expected investment in electrical infrastructure, customer growth and regulatory approved expenses.

FortisBC – contributed earnings of $11.0 million, $2.2 million above our estimate of $8.8 million on higher than expected performance bonus rate-setting (PBR) incentive mechanisms to be received from customers.

Newfoundland Power – reported earnings of $8.0 million, below our $12.6 million estimate owing to increased pension and wage expenses and the impact of Hurricane Igor impacting over half of FTS' service area on Sept. 1, 2010. The company is currently assessing the necessary regulatory action to respond to the additional costs resulting from the hurricane.

Other Canadian Utilities – earnings of $5.0 million were slightly below our estimate of $7.2 million.

Caribbean Utilities – reported earnings of $8.0 million, $4.3 million above our estimate of $3.7 million owing to the deferral of income taxes and lower than expected operating expenses.

Fortis Generation – earnings of $9.0 million were $5.8 million above our estimate of $3.2 million. During the quarter, Fortis reported aggregate energy sales of 134 GWh versus our 80 GWh estimate owing to higher rainfall in Belize.

Fortis Properties – contributed earnings of $9.0 million, largely in line with our estimate of $9.6 million. Revenues per available room (revpar) came in 1.8% higher than our estimate (i.e., $89.54 vs. our $88.00), while real estate occupancy decreased to 93.7% from 96.2% the year prior.

Growth outlook – Waneta hydro project begins construction

Overall, Fortis' capital spending program remains unchanged with $1.1 billion in gross consolidated capital expenditures expected for 2010e. Through 2011e-2015e, management expects to spend ~$5.5 billion in capital expenditures with ~63% allocated to its regulated electric utilities, largely driven by FortisAlberta and FortisBC. A further ~21% of the capital program is expected to be allocated to the company's regulated gas utilities (i.e., Terasen Gas) with the remaining 16% to be absorbed by non-regulated operations. Of note, the company continues to pursue regulated gas and electric distribution opportunities throughout the U.S., Canada and Caribbean.

Waneta hydro – In October, FTS concluded definitive agreements to construct the $900 million ($459 million net), 335 MW Waneta hydroelectric generating facility in British Columbia. Recall, we had previously awaited final completion and expiration of the competitive process objection deadline prior to building the project into our model and valuation (see our previous note, *"Executing low risk, NON-regulated growth"*, August 27, 2010 available at www.nbfinancial.com). Of note, FTS owns a 51% interest and will operate and maintain the non-regulated investment when the facility comes into service, which is expected in Spring 2015. Construction of the project is expected to begin in November 2010.

Terasen Gas – Fortis is currently considering an amalgamation of the three companies: Terasen Gas Inc. (TGI), Terasen Gas Vancouver Island Inc. (TGVI) and Terasen Gas Whistler Inc. (TGWI) which would require regulatory approval by the BCUC and consent from the Government of British Columbia. The company is considering bringing forth an application in 2011.

Refreshing liquidity analysis – well funded through mid-2011

Of note, in October 2010, DBRS upgraded FTS' unsecured debt credit rating to A (low) from BBB (high). Based on ~$1.4 billion of capex expected from Q4 2010e through 2011e, we continue to forecast sufficient cash available of ~$611 million by year-end 2011e. Meanwhile, by year-end 2011e, we forecast a debt-to-total capitalization ratio of 59%, i.e., largely in line with the company's longer-term target of 60% debt and 40% equity (including preferred shares), suggesting little need for equity through mid-2011.

FTS - FUNDING REQUIREMENT ANALYSIS

(mlns)	Q4 2010e	2011e
Cash flow from operations	214	781
Less maintenance capex	(129)	(336)
Less growth capex	(269)	(728)
Free cash flow (FCF)	(184)	(283)
Less dividends	(49)	(212)
FCF (net dividends)	**(233)**	**(495)**
AVAILABLE CASH RESOURCES:		
Opening cash balance (1)	64	1 045
Available debt capacity (1)	1 200	n/a
Dividend reinvestment	14	62
FCF (net dividends)	(233)	(495)
Funding surplus	**1 045**	**611**
D/Capitalization	58%	59%
D/EBITDA	6.1x	6.0x
D/EBITDA (2)	5.1x	5.1x

(1) As at Q3, 2010.
(2) Excluding preferred shares.
Source: NBF Estimates, Company Reports

Estimate revisions – little changes

We have adjusted our capex assumptions in line with management guidance. We have also trimmed our earnings contributions from Fortis Properties in light of lower than expected real estate occupancy rates. Elsewhere, we have nudged up our realized power pricing assumptions for Fortis Generation in line with the quarter and have modeled in the $900 million ($459 million net), 335 MW Waneta hydroelectric project.

Overall, our 2011e EPS (FD) nudges up a modest $0.02 to $1.77 while our 2011e distributable cash flow per share (FD) increases a similar $0.02 to $2.43. Meanwhile, we forecast a 2011e earnings payout ratio of 66% (was 67%) and an adjusted funds from operations (AFFO) payout ratio of 48% (unchanged). On the leverage front, our 2011e D/EBITDA remains unchanged at 6.0x.

Target up $0.50 – revising rating on relative price strength

Overall, our target bumps up $0.50 to $34.00 following regulatory approval of the $900 million ($459 million net), 335 MW Waneta Expansion project. Our target is based on a risk-adjusted dividend yield of 3.6% applied to our 2011e dividend of $1.20/share, a 14.9x multiple of our 2011e Free-EBITDA of $943 million, and our discounted cash flow valuation of $34.00.

Since initiating coverage on FTS with an Outperform on November 24, 2009, the stock has outperformed the group average by ~6% (group: +22%; FTS: +28%). Combined with a 12-month total return opportunity of 5.6% (group avg.: 1.9%), we are revising our rating on Fortis to Sector Perform from Outperform.

FTS VS. SECTOR RELATIVE PERFORMANCE

Source: Bloomberg

Fortis Inc.	2010e Previous	2010e Revised	2011e Previous	2011e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***172.7***	***172.8***	***176.2***	***176.5***
Ending Shares (mln)	***173.9***	***174.1***	***177.5***	***177.8***
Fully Diluted Shares (mln)	***188.1***	***188.3***	***191.7***	***192.0***
Consolidated EBITDA	1 170.0	1 176.9	1 274.9	1 278.6
Earnings	294.4	307.9	317.3	320.9
Terasen Gas	160.6	161.2	165.2	165.1
FortisAlberta	59.8	62.0	68.9	70.9
FortisBC	38.8	40.6	42.7	42.7
Newfoundland Power	49.6	50.6	55.5	55.4
Other Utilities	22.3	22.7	25.5	25.5
Caribbean Utilities	17.4	17.7	18.2	18.1
Fortis Generation	10.2	16.8	10.0	11.3
Fortis Properties	22.9	22.7	22.8	22.2
Corporate and Other	-87.4	-86.4	-91.5	-90.3
FFO	703.1	724.9	777.2	781.0
Maintenance Capital	367.2	363.0	336.0	336.0
AFFO	335.9	361.9	441.2	445.0
Dividends	193.8	194.0	212.0	212.4
Growth Capital	715.3	735.0	669.5	728.0
Adj. Free Cash Flow(1)	-379.3	-373.1	-228.3	-283.0
Equity Issued (net)	309.2	314.1	61.5	61.6
Ending Net Debt	7 173.3	7 168.7	7 592.2	7 650.5
D / EBITDA	6.1	6.1	6.0	6.0
D / Total Capital	58%	58%	59%	59%
CF / D(2)	17%	18%	18%	18%
CF / Interest(3)	2.9	3.0	2.8	2.9
PER SHARE AMOUNTS				
Net Debt	**36.02**	**35.93**	**37.64**	**37.90**
EBITDA	**6.77**	**6.81**	**7.23**	**7.24**
Earnings - FullyDiluted	**1.69**	**1.76**	**1.75**	**1.77**
Cash Flow - FD	**3.94**	**4.04**	**4.18**	**4.19**
Distr CF - FD	**1.95**	**2.09**	**2.41**	**2.43**
Dividends	**1.12**	**1.12**	**1.20**	**1.20**
AFFO payout ratio	58%	54%	48%	48%
earnings payout	66%	63%	67%	66%
drip participation	29%	29%	29%	29%

(1) AFFO less growth capital.
(2) CFO before changes in working capital divided by average 2-year total debt.
(3) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Source: NBF Estimates, Company Reports

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NATIONAL BANK FINANCIAL

December 15, 2010 **The NBF Daily Bulletin**

Pipelines, Utilities & Infrastructure Trusts

Fortis Inc.

Announces 3.6% dividend increase

Trimming annual EPS growth rate to 6%

FTS (T)	**$34.16**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**$33.50** (Was $34.00)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**1.5%**

Stock Data:	
52-week High-Low (Canada)	$33.63 - $21.60
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2009a	2010e	2011e
Distr CF/Share - f.d.	$1.85	$2.09	$2.43
P/Distributable CF	18.5x	16.3x	14.1x
EPS - f.d.	$1.50	$1.76	$1.77
P/E	22.8x	19.4x	19.3x
D/EBITDA	6.2x	6.1x	6.0x
EV/Free-EBITDA	17.7x	15.8x	13.7x
Dividends	$1.04	$1.12	$1.16
Dividend Yield	3.0%	3.3%	3.4%

Financial Data:	
Shares Outstanding (mln)	173.6
Book Value per Share	$18.75
Market Capitalization (mln)	$5 930
Price/Book Ratio	1.8x
Net Debt (mln)	$6 938
Total Debt/Enterprise Value	54%
Debt/10 Distr. CF	9.9x
Total Return	1.5%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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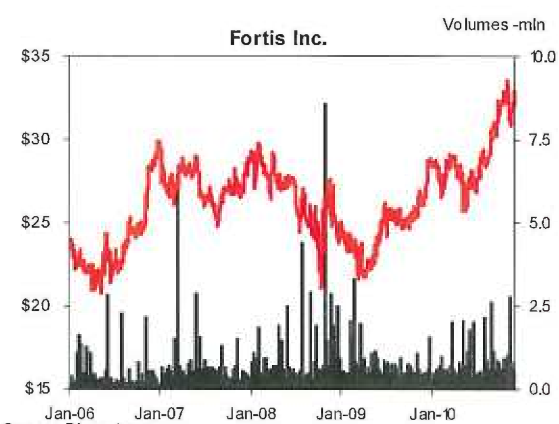
HIGHLIGHTS

- **Announces 3.6% dividend increase for 2011**
  FTS announced a 3.6% increase to its quarterly dividend rate to $0.29/share ($1.16/share annualized) from $0.28/share ($1.12/share annualized), below our previous estimate of a 7.1% increase to $0.30/share ($1.20/share annualized) and 2011e consensus calling for a 5.3% increase to $0.295/share ($1.18/share annualized).

- **Trimming annual EPS growth expectations to 6%**
  Recall, based on a $5.5 billion capital program through 2015, Fortis expected annual EPS growth of 6-8%. Given a slower than expected economic recovery within the Caribbean electric distribution and Fortis Properties segments, the company is guiding towards the lower end of its 6-8% annual growth range, while maintaining a 60-70% earnings payout ratio (i.e., in line with the low payout peer group). As such, we expect the company's dividend growth rate to migrate back towards our five-year EPS growth outlook of 6% (was 7%) for 2012 onwards. Based on our unchanged 2011e EPS of $1.77 and distr. CFPS of $2.43, we now forecast a 2011 earnings payout ratio of 64% (was 66%) and adjusted funds from operations payout of 46% (was 48%), i.e., remaining below the low payout group's average of 80% EPS and 49% AFFO.

- **Nudging target down $0.50 – maintain Sector Perform**
  Overall, our dividend discount model (DDM) valuation declines $1.00 to $32.75, however, with little changes to our Free-EBITDA and discounted cash flow valuation, our target nudges down $0.50 to $33.50. Combined with a 12-month total return opportunity of 1.5% (group avg.: 0.7%) we maintain our Sector Perform rating.

Stock Performance



Source: Bloomberg

Fortis Inc.	2010e Previous	2010e Revised	2011e Previous	2011e Revised
SUMMARY INFORMATION($mlns)				
Average Shares (mln)	***172.8***	***172.8***	***176.5***	***176.5***
Ending Shares (mln)	***174.1***	***174.1***	***177.8***	***177.7***
Fully Diluted Shares (mln)	***188.3***	***188.3***	***192.0***	***191.9***
Consolidated EBITDA	1 176.9	1 176.9	1 278.6	1 278.5
Earnings	307.9	307.9	320.9	321.0
Terasen Gas	161.2	161.2	165.1	165.1
FortisAlberta	62.0	62.0	70.9	70.9
FortisBC	40.6	40.6	42.7	42.7
Newfoundland Power	50.6	50.6	55.4	55.4
Other Utilities	22.7	22.7	25.5	25.5
Caribbean Utilities	17.7	17.7	18.1	18.1
Fortis Generation	16.8	16.8	11.3	11.3
Fortis Properties	22.7	22.7	22.2	22.2
Corporate and Other	-86.4	-86.4	-90.3	-90.3
FFO	724.9	724.9	781.0	781.0
Maintenance Capital	363.0	363.0	336.0	336.0
AFFO	361.9	361.9	445.0	445.0
Dividends	194.0	194.0	212.4	205.3
Growth Capital	735.0	735.0	728.0	728.0
Adj. Free Cash Flow(1)	-373.1	-373.1	-283.0	-283.0
Equity Issued (net)	314.1	314.1	61.6	59.5
Ending Net Debt	7 168.7	7 168.7	7 650.5	7 645.4
D / EBITDA	6.1	6.1	6.0	6.0
D / Total Capital	58%	58%	59%	59%
CF / D(2)	18%	18%	18%	18%
CF / Interest(3)	3.0	3.0	2.9	2.9
PER SHARE AMOUNTS				
Net Debt	**35.93**	**35.93**	**37.90**	**37.88**
EBITDA	**6.81**	**6.81**	**7.24**	**7.24**
Earnings - Fully Diluted	**1.76**	**1.76**	**1.77**	**1.77**
Cash Flow - FD	**4.04**	**4.04**	**4.19**	**4.19**
Distr CF - FD	**2.09**	**2.09**	**2.43**	**2.43**
Dividends	**1.12**	**1.12**	**1.20**	**1.16**
AFFO payout ratio	54%	54%	48%	46%
earnings payout	63%	63%	66%	64%
drip participation	29%	29%	29%	29%

(1) AFFO less growth capital.
(2) CFO before changes in working capital divided by average 2-year total debt.
(3) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Source: NBF Estimates, Company Reports

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NATIONAL BANK FINANCIAL

February 11, 2011

Fortis Inc.

Q4 results in line with our expectations

Revisiting ROE upside... and downside

FTS (T)	**$33.81**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**$34.00** (Unchanged)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**4.0%**

Stock Data:	
52-week High-Low (Canada)	$35.45 - $21.60
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2010a	2011e	2012e
Distr CF/Share - f.d.	$2.08	$2.57	$2.75
P/Distributable CF	16.2x	13.1x	12.3x
EPS - f.d.	$1.62	$1.75	$1.83
P/E	20.8x	19.3x	18.4x
D/EBITDA	6.1x	5.9x	5.9x
EV/Free-EBITDA	16.1x	13.5x	12.4x
Dividends	$1.12	$1.16	$1.22
Dividend Yield	3.3%	3.4%	3.6%

Financial Data:	
Shares Outstanding (mln)	174.1
Book Value per Share	$18.98
Market Capitalization (mln)	$5 887
Price/Book Ratio	1.8x
Net Debt (mln)	$7 023
Net Debt/Enterprise Value	54%
Debt/12 Distr. CF	15.3x
Total Return	4.0%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

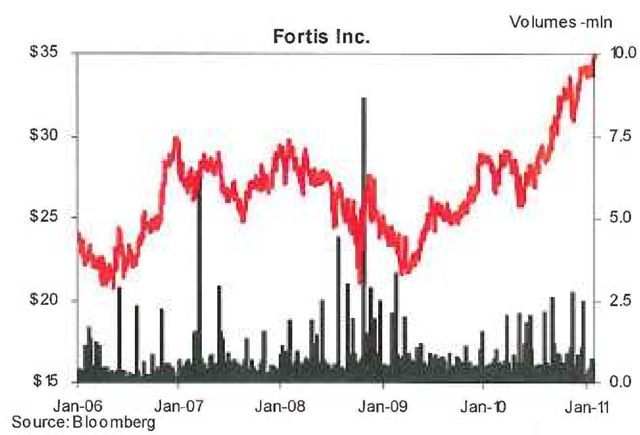
- **Q4 results in line with our expectations**
  FTS reported Q4 EPS (FD) of $0.47, in line with our estimate of $0.49, but slightly below consensus of $0.51 (per ThomsonOne). Higher earnings from FortisAlberta, FortisBC and Fortis Properties were partially offset by higher-than-expected corporate and other expenses.

- **Liquidity analysis – well funded through 2012e**
  Despite a $2.2 billion capital program over the next two years, we continue to forecast sufficient cash available of ~$660 million by year-end 2012e. That said, we forecast a 2012e D/Cap ratio of 59% – nudging up against the high end of the company's target ratio of 60%, suggesting the potential for an opportunistic equity (or preferred share) issue well before year-end 2012e.

- **Revisiting ROE upside... and downside**
  The allowed ROE for 2011 at Newfoundland Power has decreased to 8.38% from 9.00% in 2010 as a result of the automatic ROE adjustment mechanism. With FortisAlberta also currently reviewing their ROE methodology, we refresh our discounted cash flow (DCF) valuation sensitivities, highlighting that a 50 basis point change in ROE across all segments will increase / decrease our DCF per share valuation by ~$1.25 (or 4%).

- **Target unchanged – maintain Sector Perform**
  With our 2012e EPS largely unchanged at $1.83 (was $1.82), we maintain our $34.00 target. Combined with a 12-month total return opportunity of 4.0% (group avg.: 4.8%), we maintain our Sector Perform rating.

Stock Performance



Q4 results in line with our expectations

Fortis Inc. reported Q4 2010 EPS (FD) of $0.47, in line with our estimate of $0.49, but slightly below consensus of $0.51 (per ThomsonOne). Higher-than-expected earnings from the company's regulated electricity distribution assets in Western Canada (i.e., FortisAlberta and FortisBC) and Fortis Properties were partially offset by higher-than-expected corporate and other expenses. Meanwhile, for 2010, Fortis reported earnings (FD) of $1.62/share – representing an ~7% increase from 2009 EPS of $1.52, on track with the company's five-year annual EPS growth rate guidance.

FTS - Q4 2010 EARNINGS RECONCILIATION		
	$ mlns	Per Share
Estimated Earnings - FD	**$88.4**	**$0.49**
Difference Related to:		
Terasen Gas	-$1.7	(0.01)
FortisAlberta	$3.6	0.02
FortisBC	$4.0	0.02
Newfoundland Power	-$2.1	(0.01)
Other Cdn Utilities	-$1.1	(0.01)
Caribbean Utilities	$0.3	0.00
Fortis Generation	-$1.6	(0.01)
Fortis Properties	$2.0	0.01
Corporate & other	-$6.6	(0.04)
Actual Earnings - FD	**$85.0**	**$0.47**

Source: NBF Estimates and Company Data

Terasen Gas – reported net earnings of $45 million, slightly below our estimate of $47 million on slightly higher-than-expected labour and employee-benefit costs, as well as higher planned maintenance and operating expenses. Recall, owing to the seasonal nature of natural gas consumption patterns, earnings at Terasen are generally highest in Q1 and Q4.

FortisAlberta – contributed earnings of $17 million, ~$4 million above our estimate of $13 million owing to higher customer growth and higher-than-expected recoveries of regulatory-approved expenses.

FortisBC – contributed earnings of $10 million, ~$4 million above our estimate of $6 million. Higher than expected earnings were due to increased performance bonus rate-setting incentive adjustments and lower than expected income tax expenses.

Newfoundland Power – reported earnings of $9.0 million, slightly below our estimate of $11 million owing to higher energy supply costs associated with the company's hydroelectric generating facilities and increased pension and wage expenses.

Other Canadian Utilities – earnings of $5 million fell largely in line with our estimate.

Caribbean Utilities – reported earnings of $5 million, matching our estimate.

Fortis Generation – contributed earnings of $5 million, slightly below our estimate of $7 million with higher-than-expected production levels more than offset by unfavourable foreign exchange losses on the translation of U.S. denominated revenue.

Fortis Properties – reported earnings of $7 million, slightly above our estimate of $5 million with revenues per available room (revpar) ~6% below our estimate (i.e., $70.75 vs. our $75.00), more than offset by higher real estate revenues owing to rent increases.

Elsewhere, Fortis has opted to adopt U.S. generally accepted accounting principles (US GAAP) for all interim and annual periods beginning on or after Jan. 1, 2012. Of note, several other Canadian investor-owned rate-regulated utilities are also expected to take a similar approach in the adoption of US GAAP beginning 2012.

Growth outlook – five-year capital program remains in check

Overall, Fortis' capital spending program remains largely unchanged with $1.2 billion in gross consolidated capital expenditures expected for 2011e. Through 2011-2015e, management expects to spend ~$5.5 billion in capital expenditures (unchanged) with ~63% allocated to its regulated electric utilities – largely driven by FortisAlberta and FortisBC. A further ~20% of the capital program is expected to be allocated to the company's regulated gas utilities (i.e., Terasen Gas) with the remaining 17% to be absorbed by non-regulated operations. Of note, the company has reiterated that it will continue to pursue acquisitions of regulated electric and natural gas utilities in the United States and Canada as well as non-regulated businesses, supplementing the company's organic growth strategy.

Waneta hydro – Elsewhere, the $900 million ($459 million net, 51% interest), 335 MW Waneta expansion project remains on track. Recall, in October 2010, FTS concluded definitive agreements to construct the hydroelectric generating facility in British Columbia. Power generation of ~630 GWh will be sold to BC Hydro under a long-term energy purchase agreement while ~234 GWh will be sold to FortisBC under a long-term capacity purchase agreement. Construction of the project began in November 2010 and is expected to be in service by Spring 2015.

Refreshing liquidity analysis – well funded through 2012e

Based on ~$2.2 billion of net capex expected for 2011-2012e, we continue to forecast sufficient cash available of ~$660 million by year-end 2012e. That said, by year-end 2012e, we forecast a debt-to-total capitalization ratio of 59%, i.e., nudging up to the high end of the company's longer-term target ratio of 60%, suggesting the potential for an opportunistic equity (or preferred share) issue well before year-end 2012e.

FTS - FUNDING REQUIREMENT ANALYSIS

(mlns)	2011e	2012e
Cash flow from operations	785	826
Less maintenance capex	(311)	(307)
Less growth capex(1)	(774)	(775)
Free cash flow (FCF)	(299)	(256)
Less dividends	(205)	(221)
FCF (net dividends)	**(505)**	**(477)**
AVAILABLE CASH RESOURCES:		
Opening cash balance (2)	109	1 067
Available debt capacity (2)	1 400	n/a
Dividend reinvestment	63	68
FCF (net dividends)	(505)	(477)
Funding surplus	**1 067**	**658**
D/Capitalization	58%	59%
D/EBITDA	5.8x	5.8x
D/EBITDA (3)	5.0x	5.1x

(1) Includes FTS' 51% proportionate interest in Waneta's capex.
(2) As at Q4, 2010.
(3) Excluding preferred shares.
Source: NBF Estimates, Company Reports

FTS - 2012E D/CAP SENSITIVITY

Equity/Preferred Issued ($mlns)				
-	**100.0**	**200.0**	**300.0**	**400.0**
59.3%	58.4%	57.5%	56.7%	55.8%

Source: NBF Estimates

Revisiting ROE upside... and downside

Despite an expected increase in long-term interest rates, the allowed ROE for 2011 at Newfoundland Power has decreased to 8.38% from 9.00% in 2010 as a result of the automatic ROE adjustment mechanism. Meanwhile, other provincial regulators are currently reviewing their ROE formulas – namely FortisAlberta (currently 9.0%). As such, we include our discounted cash flow (DCF) valuation sensitivities, highlighting both valuation upside and downside should regulators implement higher / lower ROE's longer-term. Overall, each 50 basis point change in ROE across all segments increases / decreases our DCF/share valuation by ~$1.25 (or 4%).

FTS - DCF VALUATION SENSITIVITY							
	Change in ROE						
Change in Equity Capitalization	-0.75%	-0.50%	-0.25%	0.00%	0.25%	0.50%	0.75%
-7.5%	28.75	29.25	30.00	30.50	31.00	31.50	32.25
-5.0%	30.25	30.75	31.50	32.00	32.75	33.25	33.75
-2.5%	31.75	32.25	33.00	33.75	34.25	35.00	35.50
0.0%	33.25	34.00	34.50	35.25	36.00	36.50	37.25
2.5%	34.75	35.50	36.25	36.75	37.50	38.25	39.00
5.0%	36.25	37.00	37.75	38.50	39.25	40.00	40.75
7.5%	37.75	38.50	39.25	40.00	41.00	41.75	42.50

Source: NBF Estimates, Bloomberg

Estimate revisions – little change to outlook

We have tweaked our 2011e capex assumptions in line with guidance while also trimming our earnings contributions from Newfoundland Power reflecting a lower 2011 ROE, and nudging up our earnings contributions from Fortis Properties in line with the quarter.

Overall, our 2012e EPS (FD) remains largely unchanged at $1.83 (was $1.82) while our 2012e distributable cash flow per share (FD) bumps up $0.02 to $2.75. Meanwhile, we forecast a 2012e earnings payout ratio of 64% (was 65%) and an adjusted funds from operations (AFFO) payout ratio of 43% (unchanged) versus the low payout group averages of 84% and 50%. On the leverage front, our 2012e D/EBITDA trims to 5.9x from 6.0x.

Target and rating unchanged

With little changes to our estimates, we maintain our $34.00 target – which is based on a risk-adjusted dividend yield of 3.8% applied to our 2012e dividend of $1.22/share, a 13.0x multiple of our 2012e Free-EBITDA of $1,039 million, and our discounted cash flow valuation of $35.25. Combined with a 12-month total return opportunity of 4.0% (group avg.: 4.8%), we maintain our Sector Perform rating.

Fortis Inc.	2011e Previous	2011e Revised	2012e Previous	2012e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***176.5***	***176.6***	***180.2***	***180.4***
Ending Shares (mln)	***177.7***	***177.9***	***181.4***	***181.8***
Fully Diluted Shares (mln)	***191.9***	***192.1***	***195.6***	***196.0***
Consolidated EBITDA	1 265.4	1 265.8	1 340.5	1 346.4
Earnings	320.0	320.4	340.1	343.1
Terasen Gas	173.0	173.1	182.8	183.0
FortisAlberta	67.4	67.8	72.1	73.6
FortisBC	40.5	41.3	43.3	44.8
Newfoundland Power	54.4	52.6	57.2	55.2
Other Utilities	25.2	25.2	25.3	25.3
Caribbean Utilities	17.9	18.0	15.8	16.0
Fortis Generation	17.8	17.8	18.8	18.8
Fortis Properties	17.4	17.8	20.5	21.6
Corporate and Other	-93.6	-93.3	-95.7	-95.2
FFO	780.2	785.4	821.4	826.2
Maintenance Capital	307.2	310.6	307.2	307.2
AFFO	473.0	474.7	514.2	519.0
Dividends	205.3	205.4	220.4	220.7
Growth Capital	761.6	774.2	775.2	775.2
Adj. Free Cash Flow(1)	-288.6	-299.4	-261.0	-256.2
Equity Issued (net)	59.5	63.2	63.9	67.9
Ending Net Debt	7 642.2	7 496.6	8 107.6	7 949.7
D / EBITDA	6.0	5.9	6.0	5.9
D / Total Capital	59%	58%	60%	59%
CF / D(2)	18%	18%	19%	19%
CF / Interest(3)	2.9	3.0	2.9	2.9
PER SHARE AMOUNTS				
Net Debt	**37.86**	**37.02**	**39.66**	**38.71**
EBITDA	**7.17**	**7.17**	**7.44**	**7.46**
Earnings - Fully Diluted	**1.75**	**1.75**	**1.82**	**1.83**
Cash Flow - FD	**4.18**	**4.20**	**4.31**	**4.33**
Distr CF - FD	**2.57**	**2.57**	**2.73**	**2.75**
Dividends	**1.16**	**1.16**	**1.22**	**1.22**
AFFO payout ratio	43%	43%	43%	43%
earnings payout	64%	64%	65%	64%
drip participation	29%	31%	29%	31%

(1) AFFO less growth capital.
(2) CFO before changes in working capital divided by average 2-year total debt.
(3) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Note: Estimates include FTS' proportionate 51% interest in Waneta.
Source: NBF Estimates, Company Reports

DISCLOSURES:

Ratings And What They Mean: PRIMARY STOCK RATING: NBF has a three-tiered rating system that is relative to the coverage universe of the particular analyst. Here is a brief description of each: **Outperform –** The stock is expected to outperform the analyst's coverage universe over the next 12 months; **Sector Perform –** The stock is projected to perform in line with the sector over the next 12 months; **Underperform –** The stock is expected to underperform the sector over the next 12 months. **SECONDARY STOCK RATING: Under Review** – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock. **INDUSTRY RATING:** NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months. **RISK RATING:** NBF utilizes a four-tiered risk rating system, **Low**, **Average**, **Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

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FTS (Fortis Inc.) - ADDITIONAL COMPANY RELATED DISCLOSURES
If a company specific disclosure is not found herein for a listed company, NBF at this time does not provide research coverage or stock rating for the company in question
In the past 12 months NBF acted as financial advisor, fiscal agent, or underwriter to the company that is the subject of this report and received remuneration for its services.
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NATIONAL BANK FINANCIAL

FTS (T)	**$32.35**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**$34.00** (Unchanged)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**8.7%**

Stock Data:	
52-week High-Low (Canada)	$35.45 - $21.60
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2010a	2011e	2012e
Distr CF/Share - f.d.	$2.09	$2.40	$2.64
P/Distributable CF	15.5x	13.5x	12.3x
EPS - f.d.	$1.62	$1.73	$1.80
P/E	19.9x	18.8x	18.0x
D/EBITDA	6.1x	6.3x	6.1x
EV/Free-EBITDA	15.9x	14.5x	12.5x
Dividends	$1.12	$1.16	$1.22
Dividend Yield	3.5%	3.6%	3.8%

Financial Data:	
Shares Outstanding (mln)	175.4
Book Value per Share	$19.43
Market Capitalization (mln)	$5 675
Price/Book Ratio	1.7x
Net Debt (mln)	$7 094
Net Debt/Enterprise Value	56%
Debt/12 Distr. CF	16.5x
Total Return	8.7%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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May 5, 2011 **The NBF Daily Bulletin**
Pipelines, Utilities & Energy Infrastructure

Fortis Inc.

Q1 results in line

How to make $5.5-bln of growth look easy

HIGHLIGHTS

- **Q1 results in line**
FTS reported Q1 2011 EPS (FD) of $0.65, in line with our estimate and consensus (per ThomsonOne) of $0.62. Higher than expected earnings from FortisAlberta and FortisBC Electric were partially offset by lower earnings at Newfoundland Power and Fortis Generation.

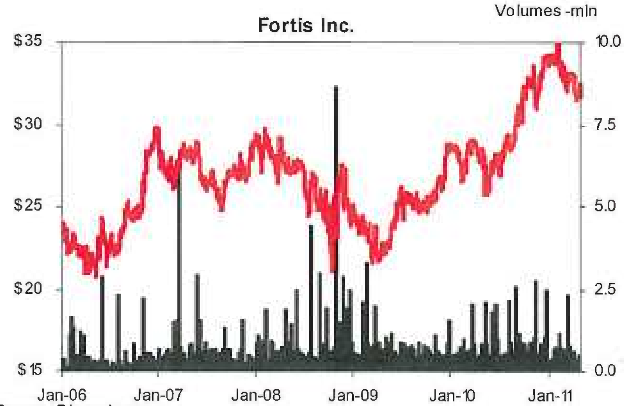
- **Making a $5.5-bln growth program look easy**
Once again, FTS reiterated its five-year capex guidance of ~$5.5 billion, with work continuing on the $900 million ($459 million net) 335 MW Waneta hydroelectric project in B.C. – remaining on track for a spring 2015 in service date.

- **Funding analysis – any equity requirements?**
Given a robust ~$2.0 billion (net) growth capital program through 2012 (~15% of current EV), we continue to highlight a D/Cap ratio of 60% by year-end 2012e – reaching FTS' target ratio of 60%. As such, we could see an opportunistic $200-300 million equity or preferred share issue before year-end 2012.

- **Estimates – largely unchanged**
Our 2012e EPS (FD) nudges up $0.02 to $1.80 (67% payout vs. group: 78%). while our 2012e AFFO/share remains unchanged at $2.64 (45% payout vs. group: 50%).

- **$34 target – trading multiples underpin Sector Perform**
With our outlook intact, we maintain our $34.00 target. FTS trades at forward consensus multiples of 17.7x P/E and 6.9x P/CF – in line with historical averages of 16.9x and 7.0x. Combined with a 12-month total return opportunity of 8.7% (group: 4.9%), we maintain our Sector Perform rating.

Stock Performance



Source: Bloomberg

Q1 results in line

Fortis reported Q1 2011 EPS (FD) of $0.65, largely in line with our estimate and consensus of $0.62 (per ThomsonOne). Overall, higher than expected earnings across the company's regulated electricity distribution assets in Western Canada (i.e., FortisAlberta and FortisBC Electric) were partially offset by lower earnings at Newfoundland Power and Fortis Generation.

FTS - Q1 2011 EARNINGS RECONCILIATION	$ mlns	Per Share
Estimated Earnings - FD	**$113.3**	**$0.62**
Difference Related to:		
FortisBC - Gas	$0.3	0.00
FortisAlberta	$1.2	0.01
FortisBC - Electric	$4.5	0.02
Newfoundland Power	-$1.9	(0.01)
Other Cdn Utilities	-$0.2	(0.00)
Caribbean Utilities	$0.2	0.00
Fortis Generation	-$1.8	(0.01)
Fortis Properties	-$0.6	(0.00)
Corporate & other	$2.2	0.01
Actual Earnings - FD	**$117.0**	**$0.65**

Source: NBF Estimates and Company Data

FortisBC Energy (Gas; formerly Terasen Gas) – contributed earnings of $76 million, matching our estimate. Recall, owing to the seasonal nature of natural gas consumption patterns, earnings at FortisBC's gas utilities generally peak in Q1 and Q4.

Meanwhile, effective March 1st, Terasen Gas Inc. was renamed to FortisBC Energy Inc. – in line with FTS' FortisBC Electric distribution utility for the purpose of sharing a common brand identity in the region.

FortisAlberta – reported earnings of $21 million, largely in line with our estimate of $20 million. Going-forward, the Alberta Utilities Commission (AUC) has initiated a process to reform utility rate regulation in Alberta, which could result in a performance-based rate-setting formula – potentially allowing FortisAlberta to earn higher incentive-based returns for 2012 and beyond. For 2011, the utility is expected to earn a ROE of 9.00% (subject to final approvals) based on a common equity capitalization of 41% (unchanged).

FortisBC Electric – reported earnings of $19 million, $5 million above our estimate of $14 million owing to higher than expected regulated rate-base growth.

Newfoundland Power – contributed earnings of $7 million, below our estimate of $9 million due to the timing of labour costs and initiatives completed in Q1 2011.

Other Canadian Utilities – earnings of $6 million fell in line with our estimate.

Caribbean Utilities – reported earnings of $4 million, matching our estimate.

Fortis Generation – contributed earnings of $3 million, below our estimate of $5 million owing to lower than expected generation of 76 GWh versus our 92 GWh estimate.

Fortis Properties – reported earnings of $1 million, slightly below our estimate of $2 million.

Growth outlook intact – $900-mln Waneta Expansion remains on track

Overall, Fortis has maintained its forecast of gross consolidated capex for 2011 at ~$1.2 billion. Meanwhile, through 2011-2015e, the company continues to anticipate capital expenditures of ~$5.5 billion with ~63% allocated to its regulated electric utilities – largely driven by FortisAlberta and FortisBC Electric. A further ~20% of the capital program is expected to be allocated to the company's regulated gas utilities (i.e., FortisBC Energy) with the remaining 17% to be absorbed by non-regulated operations. Of note, work continues on the $900 million ($459 million net) 335 MW Waneta hydroelectric project in B.C., which remains on track for a spring 2015 in service date.

FortisBC Gas – Construction of the $214 million liquefied natural gas storage facility on Vancouver Island continues and is expected to be completed in the next several weeks. Elsewhere, the company is expected to complete its $110 million customer care project by January 2012. Of note, capital projects within the company's regulated utilities are subject to regulatory approval.

FortisAlberta – FortisAlberta filed its 2012-2013 rate application in March proposing gross capital expenditures of ~$776 million, slightly above our previous assumptions of ~$760 million.

Fortis Properties – In March, Fortis Properties filed a development application to construct a 12-storey office building in St. John's, Newfoundland subject to municipal government approval. The $50 million project will provide ~145,000 sq. ft. of commercial office space and is expected to be completed in 2013. We continue to await final approvals prior to building the project into our estimates or valuation.

Funding analysis – any equity requirements?

With ~$2.0 billion in net capital spending through 2012 (~15% of current EV), we continue to forecast sufficient cash available of ~$675 million by year-end 2012. However, by year-end 2012, we forecast a debt-to-total capitalization ratio of 60% – i.e., reaching the company's long-term target capital structure of 60% debt and 40% equity (including preferred shares), suggesting the potential for an opportunistic $200-300 million equity or preferred share issue well before year-end 2012 (see sensitivity below).

FTS - FUNDING REQUIREMENT ANALYSIS

(mlns)	2011e	2012e
Cash flow from operations	516	799
Less maintenance capex	(246)	(307)
Less growth capex[(1)]	(613)	(792)
Free cash flow (FCF)	(343)	(301)
Less dividends	(154)	(220)
FCF (net dividends)	**(497)**	**(521)**
AVAILABLE CASH RESOURCES:		
Opening cash balance [(2)]	86	1 122
Available debt capacity [(2)]	1 482	n/a
Dividend reinvestment	51	73
FCF (net dividends)	(497)	(521)
Funding surplus	**1 122**	**674**
D/Capitalization	59%	60%
D/EBITDA	6.0x	5.7x
D/EBITDA [(3)]	5.2x	5.0x

(1) Includes FTS' 51% proportionate interest in Waneta's capex.
(2) As at Q1, 2011.
(3) Excluding preferred shares.
Source: NBF Estimates, Company Reports

FTS - 2012E D/CAP SENSITIVITY

Equity/Preferred Issued ($mlns)				
-	100.0	200.0	300.0	400.0
59.7%	58.8%	57.9%	57.0%	56.1%

Source: NBF Estimates

Estimates revisions – outlook unchanged

Overall, our 2012e EPS (FD) nudges up a modest $0.02 to $1.80 while our 2012e adjusted funds from operations (AFFO) per share remains unchanged at $2.64. Meanwhile, we forecast a 2012e earnings payout ratio of 67% and an AFFO payout ratio of 45% – both remaining below the low payout group averages of 78% and 50%.

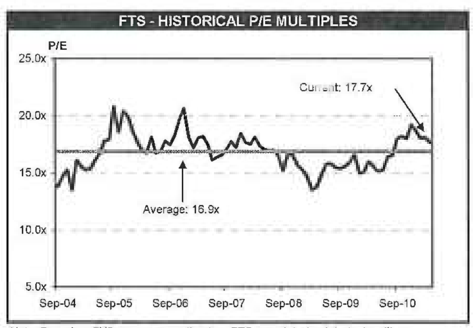
2012 ESTIMATE CHANGES					
(000's)	Previous	Revised	Change		Comments
EBITDA Contributions					
FortisBC - Gas	457 373	456 282	-1 091	0%	
FortisAlberta	284 841	283 323	-1 518	-1%	
FortisBC - Electric	149 296	150 769	1 473	1%	Quarterly adjustment ↑
Newfoundland Power	156 570	155 493	-1 076	-1%	
Other Utilities	81 806	81 606	-200	0%	
Caribbean Utilities	100 083	99 213	-870	-1%	
Fortis Generation	26 123	24 412	-1 711	-7%	Quarterly adjustment ↓
Fortis Properties	78 176	75 791	-2 385	-3%	Quarterly adjustment ↓
Corporate & Other	-16 000	6 000	22 000	-138%	Inter-segment allocations ↑
	1 318 268	**1 332 890**	**14 622**	**1%**	
Net Financing Expenses	-423 209	-441 151	-17 942	4%	Inter-segment allocations ↓
Preferred dividends	-30 000	-30 000	0	0%	
Current income tax	-79 740	-79 158	582	-1%	
Other	20 000	16 000	-4 000	-20%	Changes to estimates
FFO	**805 319**	**798 582**	**-6 738**	**-1%**	
Maintenance capex	-307 200	-307 440	-240	0%	
AFFO	**498 119**	**491 142**	**-6 978**	**-1%**	
per share (FD)	*$2.64*	*$2.64*	*$0.00*	*0%*	
AFFO payout	*44%*	*45%*			
Adjusted Earnings					
DD&A	-445 852	-445 852	0	0%	
Other	-6 208	-6 121	87	-1%	
	333 259	**330 608**	**-2 651**	**-1%**	
per share (FD)	*$1.78*	*$1.80*	*$0.02*	*1%*	Revision to dilutive securities ↑
EPS payout	*66%*	*67%*			

Source: NBF

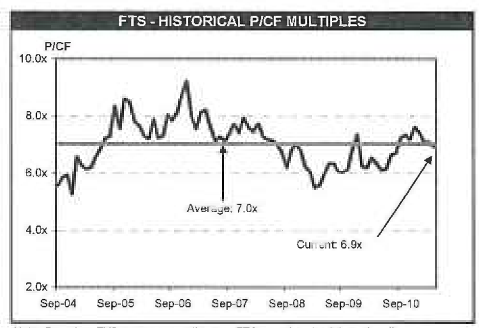
$34 target – trading multiples underpin Sector Perform rating

With little change to our estimates and outlook, we maintain our $34.00 target – which is based on a risk-adjusted dividend yield of 3.6% applied to our 2012e dividend of $1.22/share, a 13.0x multiple of our 2012e Free-EBITDA of $1,025 million, and our discounted cash flow valuation of $35.00.

As shown below, FTS is currently trading at forward consensus multiples of 17.7x P/E and 6.9x P/CF – in line with historical averages of 16.9x and 7.0x. Combined with a 12-month total return opportunity of 8.7% (group avg.: 4.9%), we maintain our Sector Perform rating.



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

Fortis Inc.	2011e Previous	2011e Revised	2012e Previous	2012e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***176.6***	***175.9***	***180.4***	***179.8***
Ending Shares (mln)	***177.9***	***177.1***	***181.8***	***181.2***
Fully Diluted Shares (mln)	***192.1***	***189.8***	***196.0***	***193.9***
Consolidated EBITDA	1 235.9	1 195.7	1 318.3	1 332.9
Earnings	309.4	309.9	333.3	330.6
FortisBC - Gas	134.5	135.2	143.9	143.9
FortisAlberta	67.8	69.7	73.6	73.7
FortisBC - Electric	41.3	43.9	44.8	46.2
Newfoundland Power	34.8	34.5	37.2	36.7
Other Utilities	21.2	21.9	21.2	21.2
Caribbean Utilities	29.1	26.1	31.2	30.6
Fortis Generation	16.8	14.7	17.8	16.4
Fortis Properties	15.8	15.9	19.5	19.3
Corporate and Other	-52.1	-52.0	-56.1	-57.5
FFO	763.9	750.3	805.3	798.6
Maintenance Capital	310.6	314.3	307.2	307.4
AFFO	453.2	436.0	498.1	491.1
Dividends	205.4	204.4	220.7	220.0
Growth Capital	774.2	778.4	775.2	791.9
Adj. Free Cash Flow(1)	-320.9	-342.5	-277.1	-300.7
Equity Issued (net)	63.2	77.7	67.9	72.6
Ending Net Debt	7 518.1	7 579.4	7 992.0	8 079.4
D / EBITDA	6.1	6.3	6.1	6.1
D / Total Capital	59%	59%	60%	60%
CF / D(2)	18%	17%	18%	18%
CF / Interest(3)	2.9	3.0	2.9	2.8
PER SHARE AMOUNTS				
Net Debt	**37.14**	**37.65**	**38.94**	**39.55**
EBITDA	**7.00**	**6.80**	**7.31**	**7.41**
Earnings - Fully Diluted	**1.69**	**1.73**	**1.78**	**1.80**
Cash Flow - FD	**4.09**	**4.06**	**4.22**	**4.23**
Distr CF - FD	**2.46**	**2.40**	**2.64**	**2.64**
Dividends	**1.16**	**1.16**	**1.22**	**1.22**
AFFO payout ratio	45%	47%	44%	45%
earnings payout	66%	66%	66%	67%
drip participation	31%	33%	31%	33%

(1) AFFO less growth capital.

(2) CFO before changes in working capital divided by average 2-year total debt.

(3) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.

Note: Estimates include FTS' proportionate 51% interest in Waneta.

Source: NBF Estimates, Company Reports

DISCLOSURES:

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FTS (Fortis Inc.) - ADDITIONAL COMPANY RELATED DISCLOSURES
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NATIONAL BANK FINANCIAL

June 16, 2011

The NBF Daily Bulletin

Pipelines, Utilities & Energy Infrastructure

Fortis Inc.

US$700-mln Vermont utility acquisition

Resuming coverage with Outperform rating

FTS (T)	**$31.35**
Stock Rating:	**Outperform** (Was Restricted)
Target:	**$34.50** (Was Restricted)
Risk Rating:	**Low** (Was Restricted)
Est. Total Return	**13.8%**

Stock Data:	
52-week High-Low (Canada)	$35.45 - $26.80
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2010a	2011e	2012e
AFFO/Share - f.d.	$2.09	$2.31	$2.55
P/AFFO	16.3x	13.6x	12.3x
EPS - f.d.	$1.62	$1.66	$1.77
P/E	20.9x	18.9x	17.7x
D/EBITDA	6.1x	6.2x	6.2x
EV/Free-EBITDA	16.1x	15.3x	12.6x
Dividends	$1.12	$1.16	$1.22
Dividend Yield	3.3%	3.7%	3.9%

Financial Data:	
Shares Outstanding (mln)	185.0
Book Value per Share	$19.36
Market Capitalization (mln)	$5 801
Price/Book Ratio	1.6x
Net Debt (mln)	$7 494
Net Debt/Enterprise Value	56%
Debt/12 Distr. CF	17.1x
Total Return	13.8%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

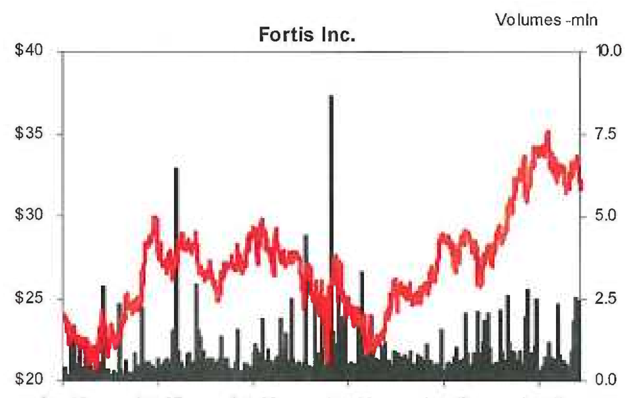
- **US$700-mln Vermont utility acquisition + $300-mln equity**
  We are resuming coverage of FTS following the closing of its ~$300-mln equity financing at $33.00 per share, with net proceeds being used to partially finance the recently announced US$700 million acquisition of rate regulated Central Vermont Public Service Corporation (CVPS; CV-NYSE) – Vermont's largest electric utility.

- **Deal metrics: 1.4x rate base; 3% EPS accretion**
  The US$700-mln purchase price represents a deal metric of ~1.4x rate base (in line with precedent transactions). CVPS is the largest electric utility in the state of Vermont serving ~160,000 customers across two-thirds of Vermont's cities and towns. With a 9.45% allowable ROE and 57% equity thickness approved for 2011, combined with 9% annual growth in rate base through at least 2015, we calculate ~3% accretion to our long-term EPS estimates (i.e., 2013 onward).

- **Funding analysis – equity needs fully satisfied**
  Despite a robust ~$2.0-bln (net) capital program through 2012 on top of the US$700-mln price tag for CVPS, we now forecast a D/Cap ratio of 60% by year-end 2012e – i.e., back in line with the company's long-term target ratio. As such, we have removed any further equity issue assumptions through 2012e.

- **$34.50 target, resuming coverage with Outperform rating**
  In line with a bump to our long-term EPS estimates, we resume coverage with a $34.50 target (was $34.00 prior to Restriction). Combined with a 12-month total return opportunity of 13.8% (group avg.: 6.1%), and no further equity needs through 2012, we are resuming coverage with an Outperform rating (was Sector Perform prior to Restriction).

Stock Performance



Source: Bloomberg

US$700-mln Vermont utility acquisition + $300-mln equity

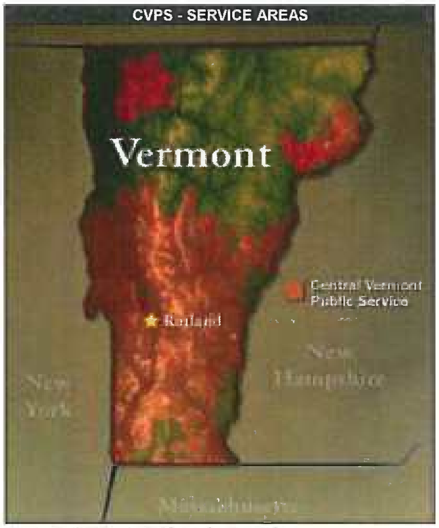
We are resuming coverage of Fortis following the closing of its ~$300 million equity financing of 9.1 million shares at $33.00 per share. Net proceeds are being used to partially fund the recently announced US$700 million acquisition of rate regulated Central Vermont Public Service Corporation (CVPS; CV-NYSE). The acquisition is expected to close over the next six to 12 months, representing the company's initial penetration into the U.S. regulated electric utility market. The acquisition is subject to CVPS shareholder approval as well as customary regulatory approvals including by the Vermont Public Service Board (PSB) and the U.S. Federal Energy Regulatory Commission (FERC).

Deal metrics: 1.4x rate base; ~3% EPS accretion

The ~US$700 million purchase price (including the assumption of US$230 million of corporate debt) represents a **transaction metric of ~1.4x 2011e mid-year rate base.**

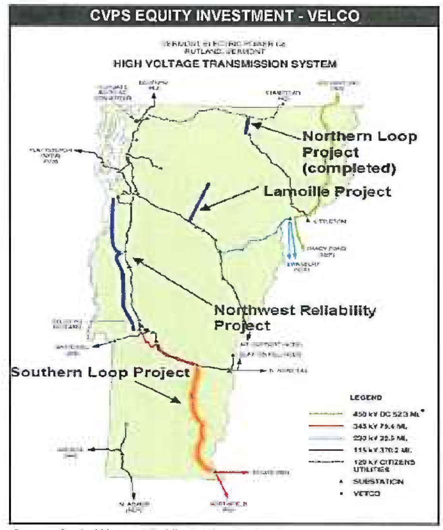
CVPS is the largest electric utility in Vermont primarily engaged in purchasing, producing, transmitting, distributing and selling electricity. CVPS serves ~160,000 customers across approximately two-thirds of the cities and towns throughout the state of Vermont. The majority of electricity sold by CVPS is purchased from Hydro-Quebec and to a lesser extent the Vermont Yankee nuclear power plant through long-term power purchase agreements. The PSB has approved a **return on equity for 2011 of 9.45% on deemed common equity of 57%.** Elsewhere, CVPS holds an ~41% common equity interest in Vermont Electric Power Company (Velco), which manages and partly owns the operations of Vermont Transco LLC – a high-voltage transmission system in the state of Vermont (see figures below).

CVPS - SERVICE AREAS



Source: Central Vermont Public Service Corporation

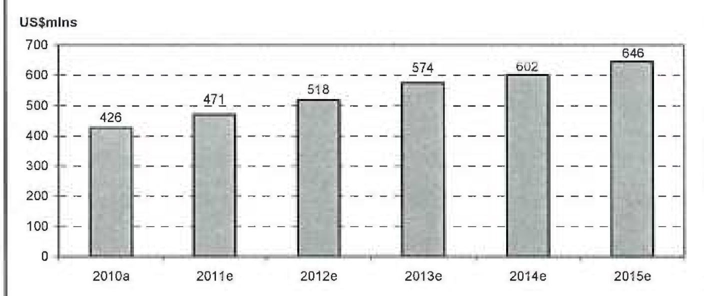
CVPS EQUITY INVESTMENT - VELCO



Source: Central Vermont Public Service Corporation

Overall, we forecast **~3% accretion to our longer-term EPS estimates** upon the first full year's contribution (i.e., 2013 onward). Of note, we have modeled a Q3 2012 closing date (i.e., 12 months) versus the company's guidance range for closing of six to 12 months. As shown in the chart below, CVPS expects to grow its rate base by 9% per year through at least 2015e (above Fortis' expected consolidated growth rate of ~6%). Of note, CVPS's current equity thickness of 57% sits well above the average U.S. utility's allowable equity thickness of ~50%, suggesting modest downside risk to our estimated EPS accretion assumption (see sensitivity below).

CVPS - FORECAST RATE BASE GROWTH(1)



(1) Rate base includes Velco investments and VP Marble acquisition expected to close in Q2 2011.
Source: CVPS

CVPS - 2012E EPS ACCRETION SENSITIVITY(1)

		Equity Thickness				
		46.5%	50.0%	53.5%	57.0%	60.5%
ROE	9.0%	1%	1%	2%	2%	3%
	9.2%	1%	1%	2%	3%	3%
	9.5%	1%	2%	2%	3%	3%
	9.7%	1%	2%	2%	3%	4%
	10.0%	1%	2%	3%	3%	4%

(1) Assumes full year contribution from CVPS acquisition.
Source: NBF

Funding analysis – equity needs satisfied

Despite ~$2.0 billion of net organic capital spending through 2012 (~15% of current EV) on top of the US$700 million price tag related to the CVPS acquisition, we continue to forecast sufficient cash available of ~$520 million (was ~$675 million) by year-end 2012. Meanwhile, our forecast debt-to-total capitalization ratio remains at or below 60%, in line with the company's long-term target capital structure of 60% debt and 40% equity (including preferred shares). As such, we have removed any further equity issue assumptions through 2012e.

FTS - FUNDING REQUIREMENT ANALYSIS

(mlns)	2011e	2012e
Cash flow from operations	512	819
Less maintenance capex	(246)	(321)
Less growth capex(1)	(613)	(1 522)
Free cash flow (FCF)	(348)	(1 024)
Less dividends	(162)	(231)
FCF (net dividends)	**(509)**	**(1 256)**
AVAILABLE CASH RESOURCES:		
Opening cash balance (2)(3)	374	1 700
Available debt capacity (2)	1 482	n/a
Dividend reinvestment	354	76
FCF (net dividends)	(509)	(1 256)
Funding surplus	**1 700**	**521**
D/Capitalization	56%	60%
D/EBITDA	6.2x	6.2x
D/EBITDA (4)	5.1x	5.2x

(1) Includes FTS' 51% proportionate interest in Waneta's capex.
(2) As at Q1 2011.
(3) Includes ~$288.3-mln net equity offering proceeds.
(4) Excluding preferred shares.
Source: NBF Estimates, Company Reports

Belize Government announces intention to acquire Belize Electric

On June 10, the Government of Belize announced its intention to acquire a majority ownership in Belize Electricity Limited (BEL) following several months of subsidizing the utility's energy purchases. To date, no purchase proposal has been received by Fortis. BEL is an integrated electric utility and principal distributor in Belize, Central America. Fortis currently holds an ~70% ownership interest in BEL (~25% by a Government pension fund and ~5% by local investors). The utility was acquired in 1999 following invitation by the Government for a net purchase price of ~$37 million. Currently, the utility represents a net investment of ~$125 million on FTS' balance sheet (i.e., ~2% of consolidated assets) with a 2010 ending rate base of ~$144 million.

Meanwhile, the Government of Belize also announced that should it take up a majority ownership stake in BEL, the Government will continue to honour all existing power purchase agreements (PPAs) with current stakeholders, including FTS' ~51 MW of non-regulated hydro-electric power generation capacity in Belize which sells power generation to BEL under 50-year PPAs expiring in 2055 and 2060.

Recall, on March 15th, the Supreme Court of Belize dismissed BEL's pursuit to overturn a rate order allowing the company to earn a reasonable rate of return on the company's investments that significantly impacted the financial position and operations of the entity. BEL has been in default of its debt covenants since 2008 and the Government has been subsidizing energy purchases over the past few months given the company's inability to access liquidity. A hearing is set for Q1 2012 to appeal the decision by the Supreme Court of Belize. Of note, BEL had previously earned an ROA of ~10.0%.

Overall, we have removed any future earnings contribution assumptions from BEL's assets, however, given the relative size of the investment (less than 2% FTS earnings), the impact on our valuation is largely immaterial.

Estimates – modest near-term dilution offset by long-term accretion

We have updated our financial model for the acquisition, equity financing and Belize update. Overall, our 2012e EPS (FD) nudges down a modest $0.03 to $1.77 while our 2012e adjusted funds from operations (AFFO) per share declines $0.09 to $2.55. Meanwhile, we forecast a 2012e earnings payout ratio of 68% and an AFFO payout ratio of 46% – both remaining below the low payout group averages of 78% and 50%. As noted above, we estimate ~3% accretion to our EPS estimates commencing in 2013 upon the first full year of contributions from the CVPS acquisition.

2012 ESTIMATE CHANGES

(000's)	Previous	Revised	Change		Comments
EBITDA Contributions					
FortisBC - Gas	456 282	456 310	29	0%	
FortisAlberta	283 323	283 336	13	0%	
FortisBC - Electric	150 769	150 778	8	0%	
Newfoundland Power	155 493	155 503	10	0%	
Other Utilities	81 606	81 612	6	0%	
Caribbean Utilities	99 213	93 870	-5 343	-5%	Revised outlook ↓
Central Vermont Public Service	0	48 689	48 689	n/a	CVPS acquisition ↑
Fortis Generation	24 412	24 412	0	0%	
Fortis Properties	75 791	75 791	0	0%	
Corporate & Other	6 000	6 000	0	0%	
	1 332 890	**1 376 301**	**43 411**	**3%**	
Net Financing Expenses	-441 151	-462 080	-20 929	5%	Increased debt levels ↓
Preferred dividends	-30 000	-30 000	0	0%	
Current income tax	-79 158	-81 375	-2 217	3%	U.S. cash taxes ↓
Other	16 000	16 000	0	0%	
FFO	**798 582**	**818 846**	**20 265**	**3%**	
Maintenance capex	-307 440	-321 221	-13 781	4%	CVPS maintenance expenditures ↓
AFFO	**491 142**	**497 625**	**6 484**	**1%**	
per share (FD)	*$2.64*	*$2.55*	*-$0.09*	*-3%*	
AFFO payout	*45%*	*46%*			
Adjusted Earnings					
DD&A	-445 852	-456 552	-10 700	2%	CVPS depreciation ↓
Other	-6 121	-5 587	534	-9%	
	330 608	**340 707**	**10 099**	**3%**	
per share (FD)	*$1.80*	*$1.77*	*-$0.03*	*-2%*	
EPS payout	*67%*	*68%*			

Source: NBF

$34.50 target – resuming coverage with Outperform rating

In line with accretion to our long-term earnings estimates stemming from the CVPS acquisition, partially offset by lower contributions from the company's Caribbean Utilities segment (i.e., Belize), we are resuming coverage with a $34.50 target (was $34.00 prior to

Restriction). Overall, our target is based on a risk-adjusted dividend yield of 3.6% applied to our 2012e dividend of $1.22/share, a 13.0x multiple of our 2012e Free-EBITDA of $1,055 million and our discounted cash flow valuation of $36.00. Combined with a 12-month total return opportunity of 13.8% (group avg.: 6.1%), and no further equity needs through 2012, we are resuming coverage with an Outperform rating (was Sector Perform prior to Restriction).

Fortis Inc.	2011e		2012e	
	Previous	Revised	Previous	Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***175.9***	***180.8***	***179.8***	***189.1***
Ending Shares (mln)	***177.1***	***186.3***	***181.2***	***190.6***
Fully Diluted Shares (mln)	***189.8***	***199.0***	***193.9***	***203.3***
Consolidated EBITDA	1 195.7	1 183.7	1 332.9	1 376.3
Earnings	309.9	305.9	330.6	340.7
FortisBC - Gas	135.2	135.2	143.9	143.9
FortisAlberta	69.7	69.7	73.7	73.7
FortisBC - Electric	43.9	43.9	46.2	46.2
Newfoundland Power	34.5	34.5	36.7	36.7
Other Utilities	21.9	21.9	21.2	21.2
Caribbean Utilities	26.1	22.5	30.6	25.8
Central Vermont Public Service	0.0	0.0	0.0	15.0
Fortis Generation	14.7	14.7	16.4	16.4
Fortis Properties	15.9	15.9	19.3	19.3
Corporate and Other	-52.0	-52.4	-57.5	-57.5
FFO	750.3	745.8	798.6	818.8
Maintenance Capital	314.3	314.3	307.4	321.2
AFFO	436.0	431.5	491.1	497.6
Dividends	204.4	212.4	220.0	231.3
Growth Capital	778.4	778.4	791.9	1 521.8
Adj. Free Cash Flow(1)	-342.5	-347.0	-300.7	-1 024.2
Equity Issued (net)	77.7	380.6	72.6	76.3
Ending Net Debt	7 579.4	7 288.9	8 079.4	8 520.1
D / EBITDA	6.3	6.2	6.1	6.2
D / Total Capital	59%	56%	60%	60%
CF / D(2)	17%	17%	18%	17%
CF / Interest(3)	3.0	3.0	2.8	2.8
PER SHARE AMOUNTS				
Net Debt	**37.65**	**34.24**	**39.55**	**39.92**
EBITDA	**6.80**	**6.55**	**7.41**	**7.28**
Earnings - Fully Diluted	**1.73**	**1.66**	**1.80**	**1.77**
AFFO - Basic(2)	**2.48**	**2.39**	**2.73**	**2.63**
AFFO - FD	**2.40**	**2.31**	**2.64**	**2.55**
Dividends	**1.16**	**1.16**	**1.22**	**1.22**
AFFO payout ratio	47%	49%	45%	46%
earnings payout	66%	69%	67%	68%
drip participation	33%	33%	33%	33%

(1) AFFO less growth capital.

(2) FFO before changes in working capital divided by average 2-year total debt.

(3) FFO before changes in working capital plus net interest expense divided by interest on debt less interest income.

Note: Estimates include FTS' proportionate 51% interest in Waneta.

Source: NBF Estimates, Company Reports

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Fortis Inc.

Gaz Métro seeks to trump CVPS offer

Downgrading on bidding war uncertainty

FTS (T)	**$31.64**
Stock Rating:	**Sector Perform** (Was Outperform)
Target:	**$34.50** (Unchanged)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**12.8%**

Stock Data:	
52-week High-Low (Canada)	$35.45 - $26.80
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2010a	2011e	2012e
AFFO/Share - f.d.	$2.09	$2.31	$2.55
P/AFFO	16.3x	13.7x	12.4x
EPS - f.d.	$1.62	$1.66	$1.77
P/E	20.9x	19.1x	17.9x
D/EBITDA	6.1x	6.2x	6.2x
EV/Free-EBITDA	16.1x	15.4x	12.7x
Dividends	$1.12	$1.16	$1.22
Dividend Yield	3.3%	3.7%	3.9%

Financial Data:	
Shares Outstanding (mln)	185.0
Book Value per Share	$19.36
Market Capitalization (mln)	$5 855
Price/Book Ratio	1.6x
Net Debt (mln)	$7 494
Net Debt/Enterprise Value	56%
Debt/12 Distr. CF	17.1x
Total Return	12.8%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

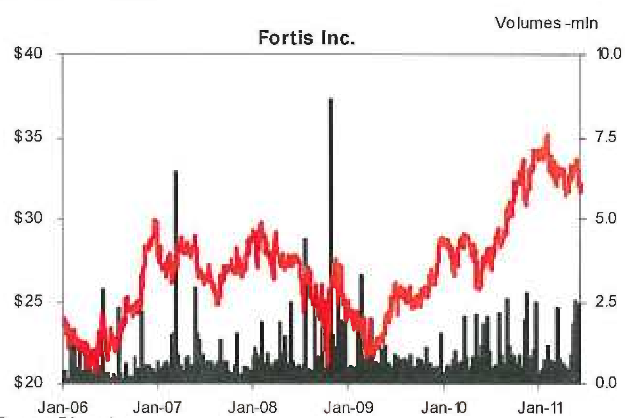
- **Gaz Métro seeks to trump CVPS deal with unsolicited bid**
  Gaz Métro has submitted to the Board of Directors of Central Vermont Public Service Corporation (CVPS; NYSE: CV) an unsolicited offer for US$35.25 per share (cash) – i.e., a 0.4% premium to Fortis' US$35.10 per share cash offer (see our June 16, 2011 note, *"US$700-mln Vermont utility acquisition – Resuming coverage with Outperform rating"*).

- **Assessing valuation downside risk**
  Recall, we estimated the transaction to be ~3% accretive to our go-forward EPS estimates, including the impact of the recent $300 million equity issuance at $33/share. As such, losing the transaction to another bidder would reduce our go-forward EPS estimates by ~7% (i.e., net ~4% dilution from the recent equity offering). From a valuation perspective, our discounted cash flow valuation would decline by ~$2.50 per share (~7%) to $33.50, with lower cash flow contributions partially offset by slightly lower leverage.

- **Potential bidding war?**
  Inside, we highlight a relatively immaterial impact to our expected accretion for every $0.50/share bump in offer price for CVPS. Therefore, we expect Fortis to increase its offer for CVPS, in line or above, Gaz Métro's current offer of US$35.25/share, while viewing the potential for a long-winded bidding war between the two companies as extremely high.

- **Downgrading rating amid bidding war uncertainty**
  Although we maintain our $34.50 target pending further clarity, we are revising our rating to Sector Perform from Outperform given the significant uncertainty surrounding a potential bidding war, final outcome and ultimate valuation impact.

Stock Performance



Source: Bloomberg

Gaz Métro seeks to trump CVPS acquisition with unsolicited offer

Gaz Métro LP announced yesterday (June 23rd) that it has submitted to the Board of Directors of Central Vermont Public Service Corporation (CVPS; NYSE: CV) an unsolicited offer to acquire all of the outstanding common shares of CVPS for US$35.25 per share (cash) – i.e., a 0.4% premium to Fortis' US$35.10 per share cash offer (see our June 16, 2011 note, *"US$700-mln Vermont utility acquisition – Resuming coverage with Outperform rating"*). As part of the transaction, Gaz Métro would consolidate the businesses of 100%-owned Green Mountain Power Corporation (an integrated electric utility in Vermont) with CVPS, while citing ~$144 million in customer savings over the first 10 years of operations through natural synergies. Meanwhile, Gaz Métro has committed to paying CVPS shareholders its regular quarterly dividend until closing (expected eight to 12 months), versus normal dividends for two quarters and $0.01 dividends through deal approval under the Fortis offer.

Impact of a potential bidding war?

Fortis has stated that it will respond in due course to any actions taken by CVPS following their review of the Gaz Métro offer. Recall, we estimated the transaction to be ~3% accretive to our go-forward EPS estimates, including the impact of the recent $300 million equity issuance at $33/share. As such, a loss of the transaction would reduce our go-forward EPS estimates by ~7% (i.e., net ~4% dilution from the recent equity offering). From a valuation perspective, our discounted cash flow valuation would decline by ~$2.50 per share (~7%) to $33.50, with lower cash flow contributions partially offset by lower leverage (see table below).

Meanwhile, as shown in the table below, each $0.50 per share bump in offer price for CVPS reduces our go-forward EPS estimates by a relatively immaterial 0.1% (i.e., no change to our valuation). As such, we expect Fortis to increase its offer for CVPS, in line or above, Gaz Metro's current offer of US$35.25/share, while viewing the potential for a long-winded bidding war between the two companies as extremely high.

CVPS - 2012E EPS ACCRETION SENSITIVITY(1)

		Offer (US$/share)				
		$35.10	$35.60	$36.10	$36.60	$37.10
ROE	9.0%	2.3%	2.2%	2.1%	2.0%	1.9%
	9.2%	2.5%	2.4%	2.3%	2.2%	2.1%
	9.5%	2.8%	2.7%	2.6%	2.5%	2.4%
	9.7%	3.0%	2.9%	2.8%	2.7%	2.6%
	10.0%	3.3%	3.2%	3.1%	3.0%	2.9%

(1) Assumes full year contribution and 57% equity thickness.

Source: NBF

Revising rating to Sector Perform amid bidding war uncertainty

We anticipate an extended review process on the part of CVPS, as well as an ensuing bidding war between Fortis and Gaz Métro (given the relative valuation downside for Fortis). With little clarity as to the outcome of the situation at this point, we expect the market to price in a worst case scenario over the near term – i.e., up to a $2.50 per share reduction to the current market price. As such, although we maintain our $34.50 target pending further clarity surrounding the situation, we are revising our rating to Sector Perform from Outperform.

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RESEARCH FLASH

July 12, 2011 **Patrick Kenny, CFA 403-290-5451, patrick.kenny@nbfinancial.com**
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Fortis Inc. – (TSX: FTS) $32.67

STOCK RATING: Sector Perform (Unchanged)

TARGET: $34.50 (Unchanged)

RISK RATING: Average (Unchanged)

Gaz Métro to acquire CVPS – Fortis merger agreement terminated

The Board of Directors of Central Vermont Public Service Corporation (CVPS; NYSE: CV) has informed Fortis (TSX: FTS) that it has determined that a proposed unsolicited acquisition of CVPS by Gaz Métro LP represents a 'superior offer' to that of Fortis' previously announced acquisition. Recall, on June 23rd Gaz Métro submitted an unsolicited offer to acquire all of the outstanding common shares of CVPS for US$35.25 per share (cash) – i.e., a 0.4% premium to Fortis' US$35.10 per share cash offer (see our June 16, 2011 note, "*US$700-mln Vermont utility acquisition*"). As part of the transaction, Gaz Métro will consolidate the businesses of 100% owned Green Mountain Power Corporation (an integrated electric utility in Vermont) with CVPS, having cited ~$144 million in customer savings over the first 10 years of operations through synergies. Meanwhile, Gaz Métro has committed to paying CVPS shareholders its regular quarterly dividend until closing (expected 8-12 months), versus normal dividends for two quarters and $0.01 dividends through deal approval under the Fortis deal. Overall, the Merger Agreement between Fortis and CVPS has been terminated resulting in an immediate payment of the termination fee to Fortis by CVPS of US$17.5 million as well as a US$2 million recovery of expenses.

Removing previous accretion, equity now dilutive to estimates

Recall, we estimated the transaction to be ~3% accretive to our go-forward EPS estimates, including the impact of the recent $300 million equity issuance at $33/share. The loss of this transaction reduces our go-forward EPS estimates by ~7% (i.e., net ~4% dilution from the recent equity offering). Of note, we had previously modelled for a Q3 2012 acquisition – i.e., our 2012e EPS lowers by ~3%.

Impact – negative to target, neutral to Sector Perform rating

From a valuation perspective, our discounted cash flow valuation declines by ~$2.50 per share (~7%) to $33.50, with lower cash flow contributions partially offset by lower leverage. However, with little change to our Free-EBITDA or Dividend Discount Model valuations, we expect a $1.00 reduction to our target. We currently rate FTS a Sector Perform with a $34.50 target.

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Fortis Inc.

CVPS deal terminated

Gaz Métro wins by first round knockout

FTS (T)	**$32.46**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**$33.50** (Was $34.50)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**6.9%**

Stock Data:	
52-week High-Low (Canada)	$35.45 - $27.65
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2010a	2011e	2012e
AFFO/Share - f.d.	$2.09	$2.30	$2.49
P/AFFO	16.3x	14.1x	13.0x
EPS - f.d.	$1.62	$1.66	$1.70
P/E	20.9x	19.6x	19.1x
D/EBITDA	6.1x	6.1x	5.8x
EV/Free-EBITDA	16.1x	14.7x	12.6x
Dividends	$1.12	$1.16	$1.22
Dividend Yield	3.3%	3.6%	3.8%

Financial Data:	
Shares Outstanding (mln)	186.9
Book Value per Share	$20.00
Market Capitalization (mln)	$6 066
Price/Book Ratio	1.6x
Net Debt (mln)	$6 743
Net Debt/Enterprise Value	53%
Debt/12 Distr. CF	15.8x
Total Return	6.9%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and two Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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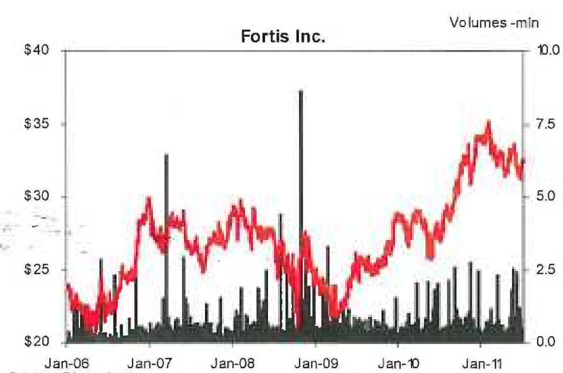
HIGHLIGHTS

- **Gaz Métro wins CVPS deal by first round knockout**
The Board of Directors of Central Vermont Public Service Corporation (CVPS; NYSE: CV) has determined that the unsolicited US$35.25/share offer by Gaz Métro LP represents a 'superior offer' to Fortis' US$35.10/share friendly deal. We had expected Fortis to counter with a higher offer, however, the knockout punch appears to stem from the regulatory (and political) side of the approval process – i.e., Gaz Métro citing ~$144 million in customer savings over the first 10 years of operations through synergies with Green Mountain Power. With the Merger Agreement terminated, Fortis receives a termination fee and recovery of expenses ($19.5 mln total).

- **Liquidity analysis – a little dry powder for the next deal?**
We now forecast cash available of ~$1.0 billion by year-end 2012 (was ~$520 million) with a debt-to-total cap ratio of 57% – i.e., slightly below the company's long-term target capital structure of 60% debt / 40% equity (including pref. shares), providing a little dry powder for another mid-size acquisition without further equity requirements.

- **Target down $1.00, maintain Sector Perform**
Our EPS estimates decline ~7% (2013e onward) with our discounted cash flow valuation (33% of target) declining $2.50 to $33.50. However, with little change to our Free-EBITDA and Dividend Discount Model valuations, our target declines $1.00 to $33.50 and we maintain our Sector Perform rating based on a 12-month total return opportunity of 6.9% (group avg.: 4.9%).

Stock Performance



Source: Bloomberg

NATIONAL BANK FINANCIAL

CVPS deal terminated – Gaz Métro wins by first round knockout

The Board of Directors of Central Vermont Public Service Corporation (CVPS; NYSE: CV) has informed Fortis (TSX: FTS) that the unsolicited offer for CVPS by Gaz Métro LP represents a 'superior offer' to the FTS friendly agreement. Recall, on June 23rd Gaz Métro submitted an unsolicited offer to acquire all of the outstanding common shares of CVPS for US$35.25 per share (cash) – i.e., a 0.4% premium to Fortis' US$35.10 per share cash offer (see our June 16, 2011 note, "*US$700-mln Vermont utility acquisition*").

Despite the skinny premium offered by Gaz Métro to CVPS shareholders relative to the FTS deal, Gaz Métro will consolidate the businesses of 100%-owned Green Mountain Power Corporation (an integrated electric utility in Vermont) with CVPS, citing ~$144 million in customer savings (rate payers) over the first 10 years of operations through synergies – i.e., the knockout punch from a regulatory (and political) approval perspective, effectively making a higher bid by Fortis to CVPS shareholders largely inconsequential.

Overall, the Merger Agreement between Fortis and CVPS has been terminated, resulting in an immediate payment of the termination fee to Fortis by CVPS of US$17.5 million as well as a US$2 million recovery of expenses.

Liquidity analysis – a little dry powder for the next deal?

With ~$2.0 billion of net organic capital spending through 2012 (~15% of current EV), we now forecast cash available of ~$1.0 billion (was ~$520 million) by year-end 2012 after removing the ~$700 million price tag for CVPS. Meanwhile, we forecast a debt-to-total capitalization ratio of 57% (including the recent exercise of the Underwriter's over-allotment option) – i.e., slightly below the company's long-term target capital structure of 60% debt and 40% equity (including preferred shares), providing a little dry powder for another mid-size acquisition without further equity requirements.

FTS - FUNDING REQUIREMENT ANALYSIS

(mlns)	Q2-Q4 2011e	2012e
Cash flow from operations	512	797
Less maintenance capex	(246)	(307)
Less growth capex(1)	(613)	(792)
Free cash flow (FCF)	(348)	(302)
Less dividends	(162)	(233)
FCF (net dividends)	**(510)**	**(535)**
AVAILABLE CASH RESOURCES:		
Opening cash balance (2)(3)	436	1 488
Available debt capacity (2)	1 482	n/a
Dividend reinvestment	80	77
FCF (net dividends)	(510)	(535)
Funding surplus	**1 488**	**1 030**
D/Capitalization	56%	57%
D/EBITDA	6.1x	5.8x
D/EBITDA (4)	5.0x	4.8x

(1) Includes FTS' 51% proportionate interest in Waneta's capex.
(2) As at Q1 2011.
(3) Includes ~$332-mln net equity offering proceeds, $17.5-mln in termination fees plus $2-mln in expense recoveries related to CVPS.
(4) Excluding preferred shares.
Source: NBF Estimates, Company Reports

NATIONAL BANK FINANCIAL

Estimates – Removing CVPS accretion

We have removed the CVPS transaction from our model (half-year contribution in 2012e based on an expected closing date of Q3 2012), reducing our long-term EPS estimates by ~7% (i.e., 2013e onward).

Overall, our 2012e EPS (FD) nudges down $0.07 to $1.70 while our 2012e adjusted funds from operations (AFFO) per share declines $0.06 to $2.49. Meanwhile, we forecast a 2012e earnings payout ratio of 71% and an AFFO payout ratio of 48% – both remaining below the low payout group averages of 78% and 50%.

2012 ESTIMATE CHANGES

(000's)	Prev.	Rev.	Change		Comments
EBITDA Contributions					
FortisBC - Gas	456 312	456 305	-7	0%	
FortisAlberta	283 336	283 325	-11	0%	
FortisBC - Electric	150 778	150 770	-8	0%	
Newfoundland Power	155 504	155 495	-9	0%	
Other Utilities	81 612	81 610	-2	0%	
Caribbean Utilities	93 870	93 866	-4	0%	
Central Vermont Public Service	48 689	0	-48 689	n/a	CVPS ↓
Fortis Generation	24 412	24 412	0	0%	
Fortis Properties	75 791	75 791	0	0%	
Corporate & Other	6 000	6 000	0	0%	
	1 376 305	**1 327 575**	**-48 730**	**-4%**	
Net Financing Expenses	-462 085	-437 537	24 548	-5%	Decreased debt levels ↑
Preferred dividends	-30 000	-30 000	0	0%	
Current income tax	-81 375	-78 948	2 427	-3%	Lower U.S. cash taxes ↑
Other	16 000	16 000	0	0%	
FFO	**818 845**	**797 090**	**-21 755**	**-3%**	
Maintenance capex	-321 221	-307 440	13 781	-4%	CVPS maintenance expenditures ↑
AFFO	**497 624**	**489 650**	**-7 974**	**-2%**	
per share (FD)	*$2.55*	*$2.49*	*-$0.05*	*-2%*	Equity dilution ↓
AFFO payout	*46%*	*48%*	*1%*	*2%*	
Adjusted Earnings			0	n/a	
DD&A	-456 552	-445 852	10 700	-2%	CVPS depreciation ↑
Other	-5 587	-5 587	0	0%	
	340 706	**329 651**	**-11 055**	**-3%**	
per share (FD)	*$1.77*	*$1.70*	*-$0.07*	*-3.7%*	Equity dilution ↓
EPS payout	*68%*	*71%*			

Source: NBF

Target down $1.00 – maintain Sector Perform rating

Our target declines $1.00 to $33.50, based on a risk-adjusted dividend yield of 3.6% (unchanged) applied to our 2012e dividend of $1.22/share, a 13.0x multiple (unchanged) of our 2012e Free-EBITDA of $1,020 million and our discounted cash flow valuation of $33.50 (was $36.00). Combined with a 12-month total return opportunity of 6.9% (group avg.: 4.9%), we maintain our Sector Perform rating.

FORTIS VALUATION SUMMARY

	Previous	Revised
EV/Free-EBITDA	33.00	32.50
Discounted Cash Flow	36.00	33.50
Dividend Discount Model	34.00	34.00
Average	**34.50**	**33.50**

Source: NBF

Fortis Inc.	2011e		2012e	
	Previous	Revised	Previous	Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***180.8***	***181.5***	***189.1***	***190.3***
Ending Shares (mln)	***186.3***	***187.5***	***190.6***	***191.8***
Fully Diluted Shares (mln)	***199.0***	***200.2***	***203.3***	***204.5***
Consolidated EBITDA	1 183.7	1 184.0	1 376.3	1 327.6
Earnings	305.9	305.9	340.7	329.7
FortisBC - Gas	135.2	135.2	143.9	143.9
FortisAlberta	69.7	69.7	73.7	73.7
FortisBC - Electric	43.9	43.9	46.2	46.2
Newfoundland Power	34.5	34.5	36.7	36.7
Other Utilities	21.9	21.9	21.2	21.2
Caribbean Utilities	22.5	22.5	25.8	25.8
Central Vermont Public Service	0.0	0.0	15.0	0.0
Fortis Generation	14.7	14.7	16.4	16.4
Fortis Properties	15.9	15.9	19.3	19.3
Corporate and Other	-52.4	-52.4	-57.5	-53.6
FFO	745.8	745.8	818.8	797.1
Maintenance Capital	314.3	314.3	321.2	307.4
AFFO	431.5	431.5	497.6	489.6
Dividends	212.4	213.1	231.3	232.8
Growth Capital	778.4	778.4	1 522.2	791.9
Adj. Free Cash Flow(1)	-347.0	-347.0	-1 024.5	-302.2
Equity Issued (net)	380.6	407.5	76.3	76.8
Ending Net Debt	7 288.9	7 243.2	8 520.4	7 753.4
D / EBITDA	6.2	6.1	6.2	5.8
D / Total Capital	56%	56%	60%	57%
CF / D(2)	17%	17%	17%	17%
CF / Interest(3)	3.0	3.0	2.8	2.8
PER SHARE AMOUNTS				
Net Debt	**34.24**	**33.77**	**39.92**	**35.66**
EBITDA	**6.55**	**6.53**	**7.28**	**6.98**
Earnings - Fully Diluted	**1.66**	**1.66**	**1.77**	**1.70**
AFFO - Basic(2)	**2.39**	**2.38**	**2.63**	**2.57**
AFFO - FD	**2.31**	**2.30**	**2.55**	**2.49**
Dividends	**1.16**	**1.16**	**1.22**	**1.22**
AFFO payout ratio	49%	49%	46%	48%
earnings payout	69%	70%	68%	71%
drip participation	33%	33%	33%	33%

(1) AFFO less growth capital.
(2) FFO before changes in working capital divided by average 2-year total debt.
(3) FFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Note: Estimates include FTS' proportionate 51% interest in Waneta.
Source: NBF Estimates, Company Reports

DISCLOSURES:

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FTS (Fortis Inc.) - ADDITIONAL COMPANY RELATED DISCLOSURES

If a company specific disclosure is not found herein for a listed company, NBF at this time does not provide research coverage or stock rating for the company in question

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NATIONAL BANK FINANCIAL

August 4, 2011

Fortis Inc.

Q2 results slightly below expectations

Trading multiples cap near-term upside

FTS (T)	**$30.87**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**$33.00** (Was $33.50)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**12.4%**

Stock Data:	
52-week High-Low (Canada)	$35.45 - $28.25
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2010a	2011e	2012e
AFFO/Share - f.d.	$2.09	$2.37	$2.60
P/AFFO	16.3x	13.0x	11.9x
EPS - f.d.	$1.62	$1.62	$1.68
P/E	20.9x	19.1x	18.4x
D/EBITDA	6.1x	6.0x	5.7x
EV/Free-EBITDA	16.1x	14.4x	12.4x
Dividends	$1.12	$1.16	$1.22
Dividend Yield	3.3%	3.8%	4.0%

Financial Data:	
Shares Outstanding (mln)	186.8
Book Value per Share	$20.21
Market Capitalization (mln)	$5 765
Price/Book Ratio	1.5x
Net Debt (mln)	$6 743
Net Debt/Enterprise Value	54%
Debt/12 Distr. CF	14.8x
Total Return	12.4%

Industry Rating: Underweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

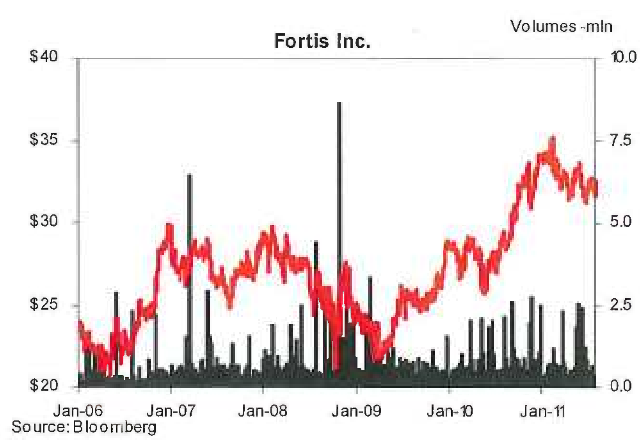
- **Q2 results slightly below expectations**
  FTS reported Q2 2011 EPS (FD) of $0.33, slightly below our estimate and consensus of $0.35. Overall, slightly lower earnings from FortisBC – Gas, Fortis Generation and higher than expected corporate costs were partially offset by stronger contributions from Caribbean Utilities and Fortis Properties.

- **Five-year capex program bumps up $200-mln to $5.7-bln**
  Fortis has bumped up its five-year capital guidance to ~$5.7 billion through 2015e, an increase of ~4% from previous guidance of ~$5.5 billion – reflecting higher capital expenditures expected at FortisBC Energy (Gas). Elsewhere, the ~$900 million, 335 MW Waneta hydroelectric project remains on track to be commissioned in the spring of 2015.

- **Estimate revisions – modest changes**
  Overall, our 2012e EPS (FD) nudges down to $1.68 (was $1.70) while our 2012e AFFO per share bumps up $0.11 to $2.60. We forecast a 2012e earnings payout ratio of 72% (group avg.: 78%) and an AFFO payout ratio of 46% (group avg.: 49%). Going-forward, we forecast a 2012e D/Cap of 56%, well below the company's long-term target of 60%.

- **$33 target, trading multiples cap near-term upside**
  Overall, our target declines a modest $0.50 to $33.00. FTS is currently trading at forward consensus multiples of 16.8x P/E and 6.8x P/CF – both in line with historical averages of 16.9x and 7.0x, but below our forecast multiples of 18.4x and 7.5x, suggesting downside risk to the Street's estimates. As such, we maintain our Sector Perform rating with a 12-month total return opportunity of 12.4% (group avg.: 8.2%).

Stock Performance



Q2 results slightly below expectations

Fortis reported Q2 2011 EPS (FD) of $0.33, slightly below our estimate and consensus of $0.35 (per ThomsonOne). Overall, lower than expected earnings from FortisBC – Gas, Fortis Generation and higher than expected corporate costs were partially offset by stronger contributions from Caribbean Utilities and Fortis Properties.

FTS - Q2 2011 EARNINGS RECONCILIATION	$ mlns	Per Share
Estimated Earnings - FD	$62.2	$0.35
Difference Related to:		
FortisBC - Gas	-$1.1	(0.01)
FortisAlberta	$0.8	0.00
FortisBC - Electric	$0.6	0.00
Newfoundland Power	$0.1	0.00
Other Cdn Utilities	$0.7	0.00
Caribbean Utilities	$1.0	0.01
Fortis Generation	-$1.9	(0.01)
Fortis Properties	$1.2	0.01
Corporate & other	-$5.6	(0.03)
Actual Earnings - FD	$58.0	$0.33

Source: NBF Estimates and Company Data

FortisBC Energy (Gas; formerly Terasen Gas) – contributed earnings of $15 million, slightly below our $16 million estimate due to higher than expected labour and consulting expense owing to the timing of these expenditures. Recall, owing to the seasonal nature of natural gas consumption patterns, earnings at FortisBC's gas utilities generally peak in Q1 and Q4.

FortisAlberta – reported earnings of $19 million versus our $18 million estimate. Of note, FortisAlberta has filed its two-year rate application (2012-2013) with the Alberta Utilities Commission (AUC) – proposing gross capital expenditures of ~$775 million over the two-year period (unchanged). Going-forward, the AUC has initiated a process to reform utility rate regulation in Alberta which could result in a performance-based rate-setting formula – potentially allowing FortisAlberta to earn higher incentive-based returns for 2012 and beyond. For 2011, the utility is expected to earn an ROE of 9.00% (subject to final approvals) based on a common equity capitalization of 41% (unchanged).

FortisBC Electric – reported earnings of $9 million versus our $8 million estimate.

Newfoundland Power – earnings of $11 million matched our estimate. In July, the utility filed an application with the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) for its 2012 capital expenditure plan totalling ~$77 million.

Other Canadian Utilities – contributed earnings of $6 million, slightly above our estimate of $5 million owing to stronger than expected electricity sales growth.

Caribbean Utilities – reported earnings of $7 million, slightly above our estimate of $6 million owing to operating cost control efforts. Effective September 2011, the Government of the Turks and Caicos Islands plans to implement a carbon tax which may not be permitted to be passed onto the utility's customers. If the carbon tax is implemented as scheduled, earnings from Fortis Turks and Caicos will decrease by ~$1 million for 2011. We continue to await further clarity surrounding management's negotiations with the Government prior to adjusting our estimates.

Fortis Generation – contributed earnings of $2 million, $2 million below our estimate of $4 million. While energy sales of 90 GWh fell in line with our 89 GWh estimate, the company reported higher than expected financing charges as a result of lower interest revenue on inter-company lending to regulated operations in Ontario.

Fortis Properties – earnings of $7 million versus our estimate of $6 million on stronger than expected rent increases across the company's real estate division.

Corporate & Other – reported operating expenses of $18 million, well above our estimate of $12 million on lower than expected corporate income tax recoveries.

Portfolio update – Five-year capital program bumps up $200 million

Overall, Fortis has bumped up its five-year capex guidance to ~$5.7 billion through 2015e, an increase of ~4% from previous guidance of ~$5.5 billion. The increase largely reflects higher capital expenditures expected at FortisBC Energy (Gas). Of note, ~61% of the capital spending is expected to be incurred at the regulated electric utilities driven by FortisAlberta and FortisBC. Meanwhile, ~23% and 16% of the company's capital guidance is expected to be incurred at FortisBC Energy and the company's other non-regulated operations.

Fortis Generation – The ~$900 million ($459 million net), 335 MW Waneta hydroelectric project remains on track to be commissioned in the spring of 2015.

Fortis Properties – In March, Fortis Properties filed a development application to construct a 12-storey office building in St. John's, Newfoundland subject to municipal government approval. The $50 million project will provide ~145,000 sqft of commercial office space and is expected to be completed in 2013. We continue to await final approvals prior to building the project into our estimates or valuation.

Accounting Standards – Elsewhere, in June, the Ontario Securities Commission (OSC) issued a decision allowing FTS and its subsidiaries to prepare their financial statements in accordance with U.S. GAAP effective January 1, 2012.

Belize Government expropriates Belize Electric

On June 20th, the Government of Belize (GOB) passed legislation and issued an order which was delivered on June 21st to expropriate FTS' ~70% ownership interest in Belize Electric Limited (BEL) – i.e., an integrated electric utility and the principal electricity distributor in Belize. The Government has also dismissed the Board of Directors of BEL including the nominees of FTS. Fortis has initiated proceedings for compensation from the GOB for the value of the company's previous investment in BEL (~$112 million in net book value, or <1% of enterprise value).

Of note, the GOB has indicated publicly that it does not intend to expropriate FTS' wholly-owned Belize Electric Company Limited (BECOL) and will honor all existing power purchase agreements (PPAs) with current stakeholders – including FTS' ~51 MW of non-regulated hydro-electric generation capacity in Belize which sells power generation to BEL under 50-year PPAs expiring in 2055 and 2060.

Recall, we had previously removed our contributions from BEL following regulatory uncertainty surrounding the ability for the company to earn an appropriate rate of return (see our previous note, *"Resuming coverage with Outperform rating"*, June 16, 2011 available at www.nbfinancial.com).

Estimates revisions – modest changes

Overall, our 2012e EPS (FD) nudges down to $1.68 (was $1.70) while our 2012e adjusted funds from operations (AFFO) per share bumps up $0.11 to $2.60 owing largely to revisions to our depreciation assumptions. Meanwhile, we forecast a 2012e earnings payout ratio of 72% (was 71%) and an AFFO payout ratio of 46% (was 48%) – both remaining slightly below the low payout group averages of 78% and 49%. On the leverage front, our 2012e D/EBITDA declines to 5.7x from 5.8x and we forecast a 2012e debt-to-capitalization of 56% (~64% including preferred shares as debt), well below the company's long-term target of 60%.

2012 ESTIMATE CHANGES					
(000's)	Prev.	Rev.	Change		Comments
Earnings					
FortisBC - Gas	143 936	141 000	-2 936	-2%	Rate base adjustment ↓
FortisAlberta	73 660	76 607	2 946	4%	Reduction in operating costs ↑
FortisBC - Electric	46 151	46 249	98	0%	
Newfoundland Power	36 689	36 689	0	0%	
Other Utilities	21 248	22 523	1 275	6%	
Caribbean Utilities	25 819	25 819	0	0%	
Fortis Generation	16 448	16 162	-286	-2%	
Fortis Properties	19 318	21 266	1 949	10%	Higher lease rates ↑
Corporate & Other	-53 548	-63 025	-9 477	18%	Higher corporate charges↓
	329 721	**323 290**	**-6 432**	**-2%**	
per share (FD)	*$1.70*	*$1.68*	*-$0.02*	*-2%*	
EPS payout	*71%*	*72%*	*1%*	*2%*	
FFO					
DD&A	445 852	471 852	26 000	6%	Quarterly adjustment ↑
Deferred Income Taxes	0	4 000	4 000	n/a	Increased deferred income taxes ↑
NCI	5 584	5 517	-68	-1%	
Other	16 000	12 000	-4 000	-25%	Quarterly adjustment ↓
FFO	**797 158**	**816 658**	**19 501**	**2%**	
Maintenance capex	-307 440	-307 440	0	0%	
AFFO	**489 718**	**509 218**	**19 501**	**4%**	
per share (FD)	*$2.49*	*$2.60*	*$0.11*	*4%*	
AFFO payout	*48%*	*46%*	*-2%*	*-4%*	

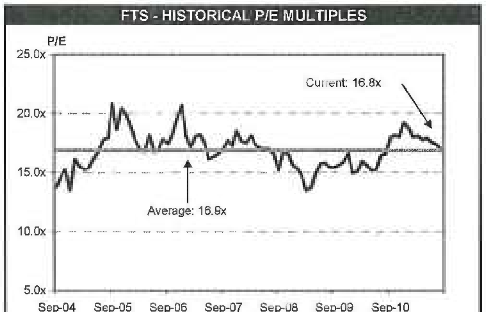
Source: NBF

$33 target, trading multiples cap near-term upside

Overall, our target nudges down a modest $0.50 to $33.00 – which is based on a risk-adjusted dividend yield of 3.6% applied to our 2012e dividend of $1.22/share, a 13.0x multiple of our 2012e Free-EBITDA of $1,011 million, and our discounted cash flow valuation of $32.75.

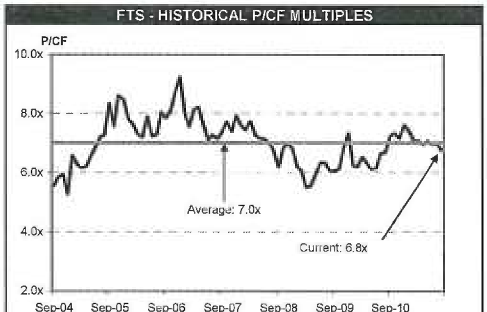
As shown below, FTS is currently trading at forward consensus multiples of 16.8x P/E and 6.8x P/CF – both in line with historical averages of 16.9x and 7.0x, but below our forecast multiples of 18.4x and 7.5x – suggesting downside risk to the Street's estimates. As such, we maintain our Sector Perform with a 12-month total return opportunity of 12.4% (group avg.: 8.2%).

FTS - HISTORICAL P/E MULTIPLES



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

FTS - HISTORICAL P/CF MULTIPLES



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

Fortis Inc.	2011e Previous	2011e Revised	2012e Previous	2012e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***181.5***	***181.4***	***190.3***	***189.8***
Ending Shares (mln)	***187.5***	***187.3***	***191.8***	***191.2***
Fully Diluted Shares (mln)	***200.2***	***200.0***	***204.5***	***203.9***
Consolidated EBITDA	1 192.0	1 186.8	1 327.3	1 318.5
Earnings	307.8	293.5	329.7	323.3
FortisBC - Gas	135.2	134.0	143.9	141.0
FortisAlberta	71.7	72.4	73.7	76.6
FortisBC - Electric	45.6	44.5	46.2	46.2
Newfoundland Power	34.5	34.6	36.7	36.7
Other Utilities	21.9	21.3	21.2	22.5
Caribbean Utilities	22.3	23.8	25.8	25.8
Fortis Generation	14.7	12.4	16.4	16.2
Fortis Properties	15.9	17.7	19.3	21.3
Corporate and Other	-54.0	-67.4	-53.5	-63.0
FFO	751.1	751.3	797.2	816.7
Maintenance Capital	314.3	315.2	307.4	307.4
AFFO	436.8	436.0	489.7	509.2
Dividends	213.1	213.0	232.8	232.2
Growth Capital	778.4	776.9	791.9	791.9
Adj. Free Cash Flow(1)	-341.6	-340.9	-302.1	-282.6
Equity Issued (net)	407.5	388.8	76.8	69.7
Ending Net Debt	7 237.8	7 090.5	7 748.0	7 559.7
D / EBITDA	6.1	6.0	5.8	5.7
D / Total Capital	56%	55%	57%	56%
CF / D(2)	17%	17%	17%	17%
CF / Interest(3)	3.0	3.1	2.8	3.0
Net Debt	**33.74**	**32.99**	**35.63**	**34.77**
EBITDA	**6.57**	**6.54**	**6.97**	**6.95**
Earnings - Fully Diluted	**1.67**	**1.62**	**1.70**	**1.68**
CFPS - FD	**3.95**	**4.01**	**4.01**	**4.11**
AFFO - FD	**2.33**	**2.37**	**2.49**	**2.60**
Dividends	**1.16**	**1.16**	**1.22**	**1.22**
AFFO payout ratio	49%	49%	48%	46%
earnings payout	69%	73%	71%	72%
drip participation	33%	30%	33%	30%

(2) FFO before changes in working capital divided by average 2-year total debt.
(3) FFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Note: Estimates include FTS' proportionate 51% interest in Waneta.
Source: NBF Estimates, Company Reports

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NATIONAL BANK FINANCIAL

November 4, 2011 **The NBF Daily Bulletin**

Pipelines, Utilities & Energy Infrastructure

Fortis Inc.

Q3 results largely in line

$5.7-bln growth capital program in check

FTS (T)	**$34.06**
Stock Rating:	**Sector Perform** (Unchanged)
Target:	**$33.50** (Was $33.00)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**1.9%**

Stock Data:	
52-week High-Low (Canada)	$35.45 - $28.24
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2010a	2011e	2012e
AFFO/Share - f.d.	$2.09	$2.55	$2.64
P/AFFO	16.3x	13.4x	12.9x
EPS - f.d.	$1.62	$1.69	$1.70
P/E	20.9x	20.1x	20.0x
D/EBITDA	6.1x	5.7x	5.6x
EV/Free-EBITDA	16.1x	14.4x	12.6x
Dividends	$1.12	$1.16	$1.22
Dividend Yield	3.3%	3.4%	3.6%

Financial Data:	
Shares Outstanding (mln)	186.9
Book Value per Share	$20.38
Market Capitalization (mln)	$6 367
Price/Book Ratio	1.7x
Net Debt (mln)	$6 495
Net Debt/Enterprise Value	50%
Debt/12 Distr. CF	14.2x
Total Return	1.9%

Industry Rating: Marketweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State with aggregate generation capacity of ~120 MW. The Company also owns and operates a hospitality and commercial real estate division with 21 hotels and over 4,000 rooms throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

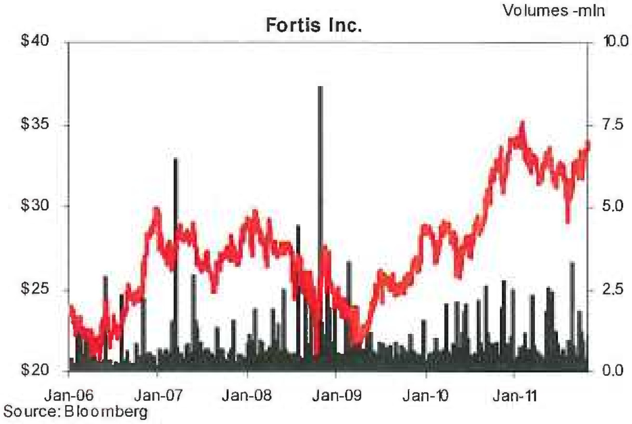
- **Q3 results largely in line**
  FTS reported Q3 2011 EPS (FD) of $0.25 (net of $11 million or $0.06/share in one-time termination fees received) – largely in line with our estimate of $0.23 and consensus of $0.24.

- **$5.7 billion, five-year growth capital program in check**
  Fortis has reiterated its five-year growth capex guidance at ~$5.7 billion (gross) through 2015e. Of note, ~61% of capex is expected to be incurred at the regulated electric utilities driven by FortisAlberta and FortisBC, while ~23% and 16% of the company's capital guidance is expected to be incurred at FortisBC Energy and the company's other non-regulated operations. Meanwhile, the ~$900 million ($459 million net), 335 MW Waneta hydroelectric project in B.C. remains on track to be commissioned in the spring of 2015. Elsewhere, the company recently acquired a 160-room hotel in Winnipeg for $25 million while receiving regulatory approval to develop a $50 million office tower in St. John's, Newfoundland by H2 2013.

- **Estimate revisions – modest bump to earnings**
  Overall, our 2012e EPS (FD) nudges up to $1.70 (was $1.68; earnings payout of 70% vs. group avg.: 78%) while our 2012e adjusted funds from operations per share bumps up $0.04 to $2.64 (AFFO payout of 45% vs. group avg.: 50%).

- **$33.50 target, maintain Sector Perform**
  In line with the changes to our estimates, our target bumps up $0.50 to $33.50. Combined with a 12-month total return opportunity of 1.9% (group avg.: 6.5%) we maintain our Sector Perform rating.

Stock Performance



Source: Bloomberg

Q3 results largely in line

Fortis Inc. reported Q3 2011 EPS (FD) of $0.25 (net of $11 million or $0.06/share in one-time termination fees received) – largely in line with our estimate of $0.23 and consensus of $0.24 (per ThomsonOne).

FTS - Q3 2011 EARNINGS RECONCILIATION	$ mlns	Per Share
Estimated Earnings - FD	**$42.8**	**$0.23**
Difference Related to:		
FortisBC - Gas	$1.0	0.01
FortisAlberta	$0.8	0.00
FortisBC - Electric	-$0.3	(0.00)
Newfoundland Power	-$0.7	(0.00)
Other Cdn Utilities	$0.7	0.00
Caribbean Utilities	-$0.3	(0.00)
Fortis Generation	$2.6	0.01
Fortis Properties	$2.2	0.01
Corporate & other	-$1.7	(0.01)
Actual Earnings - FD(1)	**$47.0**	**$0.25**

(1) Net of $11 million ($0.06/share) in after-tax earnings related to the termination fee paid by Central Vermont Public Service in July.
Source: NBF Estimates and Company Data

FortisBC Energy (Gas; formerly Terasen Gas) – contributed a loss of $3 million, largely in line with our estimated loss of $4 million. Recall, owing to the seasonal nature of natural gas consumption patterns, earnings at FortisBC's gas utilities generally peak in Q1 and Q4.

FortisAlberta – reported earnings of $19 million, $1 million above our estimate of $18 million on higher than expected customer growth and energy deliveries (i.e., 3,911 GWh versus our 3,780 GWh estimate).

Of note, FortisAlberta has filed its two-year rate application (2012-2013) with the Alberta Utilities Commission (AUC) – proposing gross capital expenditures of ~$775 million over the two-year period (unchanged). The AUC is currently undergoing a process to finalize the allowed ROE for 2011 (currently 9.0%; 41% common equity) and is also considering whether a return to a formula-based approach for setting the allowed ROE is warranted beginning 2012 – which could result in higher incentive-based returns for 2012 and beyond.

FortisBC Electric – earnings of $10 million matched our estimate.

Newfoundland Power – contributed earnings of $8 million, slightly below our estimate of $9 million owing to generally higher than expected operating expenses.

Other Canadian Utilities – earnings of $6 million were slightly ahead of our $5 million estimate reflecting higher than expected rate base growth.

Caribbean Utilities – contributed earnings of $6 million, matching our estimate.

Fortis Generation – reported earnings of $8 million, ahead of our $5 million estimate. Overall, energy sales of 111 GWh were largely in line with our 104 GWh estimate while realized pricing of ~$99/MWh exceeded our estimate of $85/MWh.

Fortis Properties – contributed earnings of $9 million, $2 million above our estimate of $7 million owing to higher revenues per available room in the hospitality division (i.e., $94.83 versus our $89.50 estimate).

Portfolio update – $5.7 billion growth capital program in check

Overall, Fortis has reiterated its five-year capex guidance at ~$5.7 billion (gross) through 2015e. Of note, ~61% of the capital spending is expected to be incurred at the regulated electric utilities driven by FortisAlberta and FortisBC (unchanged). Meanwhile, ~23% and ~16% of the company's capital guidance is expected to be incurred at FortisBC Energy and the company's other non-regulated operations.

Fortis Generation – The ~$900 million ($459 million net), 335 MW Waneta hydroelectric project remains on track to be commissioned in the spring of 2015. Major construction activities on-site include excavation of intake, powerhouse and power tunnels.

FortisAlberta – Fortis continues with the replacement of vintage poles under its pole management program, of which ~96,000 poles will be replaced. The total capital cost of the program through 2019 is now estimated to be ~$335 million (was $283 million) owing to higher labour and material costs estimated later in the project.

Fortis Properties – In August, Fortis Properties received approval to construct a 12-storey office building in St. John's, Newfoundland. The $50 million project will provide ~152,000 sqft of commercial office space and is expected to be completed in H2 2013. Elsewhere, the segment acquired the 160-room, full-service Hilton Suites Winnipeg Airport hotel in October for $25 million.

Belize Electric – Recall, on June 20th, the Government of Belize (GOB) passed legislation and issued an order which was delivered on June 21st to expropriate FTS' ~70% ownership interest in Belize Electric Limited (BEL) – i.e., an integrated electric utility and the principal electricity distributor in Belize. Fortis has commissioned an independent valuation of its previous investment in Belize and expects to submit a claim to the GOB during Q4 2011 (~$120 million in net book value, or <1% of enterprise value). Meanwhile, FTS has also commenced an action in the Belize Supreme Court – challenging the legality of the expropriation of its investment in BEL.

Of note, the GOB has indicated publicly that it does not intend to expropriate FTS' wholly-owned Belize Electric Company Limited (BECOL) and will honour all existing power purchase agreements (PPAs) with current stakeholders – including FTS' ~51 MW of non-regulated hydro-electric generation capacity in Belize which sells power generation to BEL under 50-year PPAs expiring in 2055 and 2060.

Estimate revisions – modest bump to earnings

Overall, our 2012e EPS (FD) nudges up to $1.70 (was $1.68) while our 2012e adjusted funds from operations (AFFO) per share bumps up $0.04 to $2.64 owing largely to revisions to our depreciation assumptions. Meanwhile, we forecast a 2012e earnings payout ratio of 70% (was 72%) and an AFFO payout ratio of 45% (was 46%) – both remaining slightly below the low payout group averages of 78% and 50%. On the leverage front, our 2012e D/EBITDA declines to 5.6x from 5.7x and we forecast a 2012e debt-to-capitalization of 56% (~64% including preferred shares as debt), well below the company's long-term target of 60%.

2012 ESTIMATE CHANGES

(000's)	Prev.	Rev.	Change		Comments
Earnings					
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FortisAlberta	76 607	76 607	0	0%	
FortisBC - Electric	46 249	46 249	0	0%	
Newfoundland Power	37 422	35 659	-1 763	-5%	Sale of Bell Aliant poles ↓
Other Utilities	22 523	22 523	0	0%	
Caribbean Utilities	25 819	25 819	0	0%	
Fortis Generation	16 162	16 901	739	5%	Revenue adjustment ↑
Fortis Properties	21 310	23 427	2 116	10%	Hilton acquisition, quarterly adj. ↑
Corporate & Other	-62 793	-60 619	2 175	-3%	Income tax assumptions ↑
	324 299	**329 926**	**5 627**	**2%**	
per share (FD)	*$1.68*	*$1.70*	*$0.02*	*1%*	
EPS payout	*72%*	*70%*	*-2%*	*-2%*	
FFO					
DD&A	471 852	476 000	4 148	1%	Quarterly adjustment ↑
Deferred Income Taxes	4 000	4 000	0	n/a	
NCI	5 511	5 456	-55	-1%	
Other	12 000	12 000	0	0%	
FFO	**817 662**	**827 382**	**9 720**	**1%**	
Maintenance capex	-307 440	-307 440	0	0%	
AFFO	**510 222**	**519 942**	**9 720**	**2%**	
per share (FD)	*$2.60*	*$2.64*	*$0.04*	*2%*	
AFFO payout	*46%*	*45%*	*-1%*	*-2%*	

Source: NBF

Target up $0.50, maintain Sector Perform rating

Overall, our target bumps up $0.50 to $33.50 – which is based on a risk-adjusted dividend yield of 3.5% applied to our 2012e dividend of $1.22/share, a 13.0x multiple of our 2012e Free-EBITDA of $1,020 million, and our discounted cash flow valuation of $33.25. Combined with a 12-month total return opportunity of 1.9% (group avg.: 6.5%) we maintain our Sector Perform rating.

Fortis Inc.	2011e		2012e	
	Previous	Revised	Previous	Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***181.4***	***181.4***	***189.8***	***189.9***
Ending Shares (mln)	***187.3***	***187.5***	***191.2***	***191.3***
Fully Diluted Shares (mln)	***200.0***	***200.0***	***203.9***	***203.8***
Consolidated EBITDA	1 196.8	1 209.8	1 318.8	1 327.0
Earnings	302.9	317.7	324.3	329.9
FortisBC - Gas	134.0	135.1	141.0	143.4
FortisAlberta	75.1	75.9	76.6	76.6
FortisBC - Electric	46.6	46.3	46.2	46.2
Newfoundland Power	35.3	34.7	37.4	35.7
Other Utilities	22.0	22.7	22.5	22.5
Caribbean Utilities	23.7	23.4	25.8	25.8
Fortis Generation	14.2	17.6	16.2	16.9
Fortis Properties	17.7	20.2	21.3	23.4
Corporate and Other	-65.7	-58.2	-62.8	-60.6
FFO	765.5	778.1	817.7	827.4
Maintenance Capital	315.2	313.7	307.4	307.4
AFFO	450.3	464.4	510.2	519.9
Dividends	213.0	213.1	232.2	232.3
Growth Capital	776.9	796.1	791.9	791.9
Adj. Free Cash Flow(1)	-326.6	-331.7	-281.6	-271.9
Equity Issued (net)	388.8	373.3	69.7	69.7
Ending Net Debt	7 076.3	6 949.8	7 544.5	7 408.3
D / EBITDA	5.9	5.7	5.7	5.6
D / Total Capital	55%	55%	56%	56%
CF / D(2)	17%	17%	17%	17%
CF / Interest(3)	3.1	3.2	3.0	3.1
Net Debt	**32.91**	**32.21**	**34.69**	**33.95**
EBITDA	**6.60**	**6.67**	**6.95**	**6.99**
Earnings - Fully Diluted	**1.67**	**1.69**	**1.68**	**1.70**
CFPS - FD	**4.09**	**4.21**	**4.12**	**4.16**
AFFO - FD	**2.44**	**2.55**	**2.60**	**2.64**
Dividends	**1.16**	**1.16**	**1.22**	**1.22**
AFFO payout ratio	47%	46%	46%	45%
earnings payout	70%	67%	72%	70%
drip participation	30%	30%	30%	30%

(2) FFO before changes in working capital divided by average 2-year total debt.
(3) FFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Note: Estimates include FTS' proportionate 51% interest in Waneta.
Source: NBF Estimates, Company Reports

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NATIONAL BANK FINANCIAL

February 10, 2012 **The NBF Daily Bulletin**

Pipelines, Utilities & Energy Infrastructure

Fortis Inc.

Q4 results in line

Revisiting regulatory downside risk

FTS (T)	**$33.89**
Stock Rating:	**Underperform** (Unchanged)
Target:	**$34.00** (Was $34.50)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**3.9%**

Stock Data:	
52-week High-Low (Canada)	$35.22 - $28.24
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2011a	2012e	2013e
AFFO/Share - f.d.	$2.56	$2.61	$2.69
P/AFFO	13.0x	13.0x	12.6x
EPS - f.d.	$1.74	$1.81	$1.86
P/E	19.2x	18.7x	18.2x
D/EBITDA	5.8x	5.8x	5.9x
EV/Free-EBITDA	15.5x	14.4x	13.6x
Dividends	$1.16	$1.20	$1.24
Dividend Yield	3.5%	3.5%	3.6%

Financial Data:	
Shares Outstanding (mln)	187.5
Book Value per Share	$20.68
Market Capitalization (mln)	$6 353
Price/Book Ratio	1.6x
Net Debt (mln)	$6 977
Net Debt/Enterprise Value	52%
Debt/13 Distr. CF	14.7x
Total Return	3.9%

Industry Rating: Overweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State. The Company also owns and operates a hospitality and commercial real estate division with over 20 throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

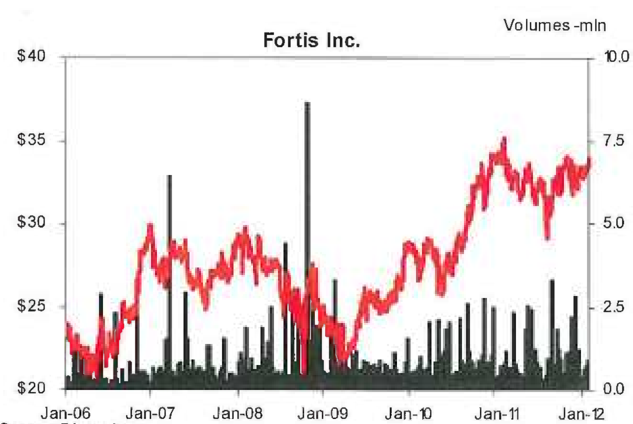
- **Q4 results in line**
  FTS reported Q4 2011 EPS (FD) of $0.45 – matching our estimate. For 2011, FTS reported EPS (FD) of $1.74, representing ~4% growth from 2010 levels (excluding $0.06 of one-time items).

- **Revisiting regulatory downside risk**
  In light of the current low interest rate environment, regulators in B.C., Alberta and Newfoundland have launched cost of capital reviews, which may result in lower allowable ROEs for FortisBC, FortisAlberta and Newfoundland Power. Inside, we highlight our 2013e EPS and DCF valuation sensitivities – highlighting that for every 50 bps decline in allowable ROEs at FortisBC (Gas and Electric), FortisAlberta and Newfoundland Power, we calculate a ~5% decline to our 2013e EPS (~$0.09/share) and $34.50 DCF valuation (~$1.50/share).

- **Estimates – largely unchanged**
  Our 2013e EPS (FD) remains largely unchanged at $1.86 (was $1.85) while our 2013e AFFO per share declines ~3% to $2.69 (owing to higher than expected maintenance capex) – representing an earnings payout ratio of 67% (low payout group avg.: 78%) and an AFFO payout ratio of 46% (low payout group avg.: 48%).

- **Target edges down $0.50 – maintain Underperform**
  With slightly higher maintenance capex going forward, our target edges down $0.50 to $34.00. Based on forward consensus multiples suggesting limited near-term upside (18.8x P/E vs. 17.0x historical avg.), combined with regulatory downside risk and a 12-month total return opportunity of 3.9% (group avg.: 11.4%), we maintain our Underperform rating.

Stock Performance



Source: Bloomberg

Q4 results in line

Fortis Inc. reported Q4 2011 EPS (FD) of $0.45 – matching our estimate (consensus: $0.46 per ThomsonOne). Overall, stronger earnings contributions from FortisBC (Gas & Electric) were partially offset by lower earnings from Caribbean Utilities. Meanwhile, FTS reported 2011 EPS (FD) of $1.74 – an increase of ~4% from 2010 levels of $1.62 (excluding ~$0.06/share related to an $11 million after-tax fee payable to FTS following the termination of its merger agreement with Central Vermont Public Service Corp. (CVPS) in July 2011).

FTS - Q4 2011 EARNINGS RECONCILIATION

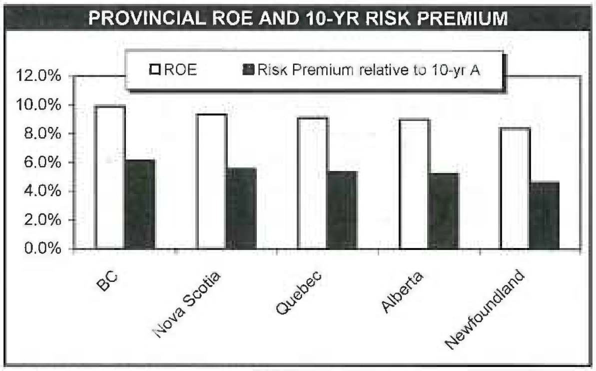
	$ mlns	Per Share
Estimated Earnings - FD	**$83.5**	**$0.45**
Difference Related to:		
FortisBC - Gas	$3.9	0.02
FortisAlberta	$0.1	0.00
FortisBC - Electric	$2.5	0.01
Newfoundland Power	-$0.5	(0.00)
Other Cdn Utilities	-$0.6	(0.00)
Caribbean Utilities	-$3.7	(0.02)
Fortis Generation	$0.4	0.00
Fortis Properties	$0.6	0.00
Corporate & other	-$0.2	(0.00)
Actual Earnings - FD	**$86.0**	**$0.45**

Source: NBF Estimates and Company Data

Revisiting regulatory downside risk

Recall, in our 2012 sector outlook (*"2012 sector outlook & top picks... Encore! Encore!"*, Feb. 1, 2012) we highlighted downside risk to our earnings and cash flow estimates for the utilities on our coverage list given the current low interest rate environment. In other words, provincial regulators have initiated cost of capital reviews which may result in lower allowable ROEs on the basis of relatively wide implied equity risk premiums (i.e., 4.0 to 6.0%).

PROVINCIAL ROE AND 10-YR RISK PREMIUM



Source: Company Reports, Bloomberg

B.C. Utilities Commission (BCUC) – In November 2011, the BCUC gave preliminary notification to public utilities subject to its regulation that it will initiate a Generic Cost of Capital proceeding in early 2012 which will: 1) set the appropriate cost of capital for a benchmark low-risk utility; 2) establish a ROE automatic adjustment mechanism; and 3) establish a deemed capital structure / cost of capital methodology. For 2012, the allowed ROEs at FortisBC Gas and Electric will be maintained pending the outcome of the proceeding (FortisBC Gas: 9.5% – B.C.;10.0% – Vancouver Island / Whistler / 40% equity; FortisBC Electric: 9.9% / 40% equity).

Alberta Utilities Commission (AUC) – The AUC issued a decision in December 2011 which set the 2011 and 2012 allowed ROE at 8.75% (was 9.0% in 2010) and maintained this rate for 2013 on an interim basis (equity thickness unchanged at 41%). Going forward, the AUC concluded that it would not return to a formula-based ROE automatic adjustment mechanism at this time and would initiate a proceeding to determine the final allowable ROE for 2013e in due time.

Newfoundland & Labrador – In November 2011, Newfoundland Power's allowed ROE for 2012 was calculated at 7.85% under the ROE automatic adjustment formula – a decrease of 53 bps from 8.38% for 2011. However, the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) suspended the use of the ROE automatic adjustment formula for 2012 and has maintained an 8.38% ROE for 2012 on an interim basis subject to a full cost of capital review expected to be held sometime in 2012.

In the following tables, we refresh our 2013e EPS and discounted cash flow (DCF) valuation sensitivities – highlighting that for every 50 bps decline in allowable ROEs at FortisBC (Gas and Electric), FortisAlberta and Newfoundland Power, we calculate ~5% decline to our 2013e EPS (~$0.09/share) and DCF valuation (~$1.50/share).

FTS - 2013E EPS SENSITIVITY

Equity Capitalization	Change in ROE: -0.50%	-0.25%	0.00%	0.25%	0.50%
-5.0%	1.44	1.47	1.51	1.54	1.58
-2.5%	1.61	1.65	1.68	1.72	1.76
0.0%	1.77	1.82	1.86	1.90	1.95
2.5%	1.94	1.99	2.04	2.09	2.14
5.0%	2.11	2.16	2.21	2.27	2.32

Source: NBF Estimates, Bloomberg

FTS - DCF VALUATION SENSITIVITY

Equity Capitalization	Change in ROE: -0.50%	-0.25%	0.00%	0.25%	0.50%
-5.0%	28.00	28.50	29.25	29.75	30.25
-2.5%	30.50	31.25	31.75	32.25	33.00
0.0%	33.00	33.75	34.50	35.00	35.75
2.5%	35.50	36.25	37.00	37.75	38.50
5.0%	38.00	38.75	39.75	40.50	41.25

Source: NBF Estimates, Bloomberg

Portfolio update – five-year, $5.5 billion capital program

Overall, Fortis expects to incur ~$5.5 billion of capital expenditures through 2016 with ~64% incurred at the regulated electric utilities driven largely by FortisAlberta and FortisBC. Meanwhile, ~23% and ~13% of the company's capital expenditures are expected to be incurred at FortisBC Gas and the company's other non-regulated operations. Overall, ~38% of utility capital spending (~$1.8 billion) is earmarked for sustaining capital expenditures.

Fortis Generation – The ~$900 million (FTS: 51%), 335 MW Waneta hydroelectric project remains on track to be commissioned in the spring of 2015. Generation from the facility is contracted to both BC Hydro and FortisBC Electric under a long-term PPA. To date, ~$244 million has been incurred on the project for excavation of the intake, powerhouse and power tunnels.

FortisAlberta – Fortis continues with the replacement of vintage poles under its pole management program, of which ~96,000 poles will be replaced. The total capital cost of the program through 2019 is now estimated to be ~$335 million (was $283 million) owing to higher labour and material costs.

Fortis Properties – In August, Fortis Properties received approval to construct a 12-storey office building in St. John's, Newfoundland. The $47 million project will provide ~152,000 sq ft of commercial office space and is expected to be completed in H2 2013.

Estimates – largely unchanged

Overall, our 2013e EPS (FD) remains largely unchanged at $1.86 (was $1.85) – representing an unchanged 2013e earnings payout ratio of 67% (low payout group avg.: 78%). However, our 2013e adjusted funds from operations (AFFO) per share declines ~3% to $2.69 (owing to higher than expected maintenance capex) – representing an AFFO payout ratio of 46% (was 44%), in line with the low payout group average of 48%.

On the leverage front, our 2013e D/EBITDA remains unchanged at 5.9x (low payout group avg.: 5.0x) and we forecast a 2013e debt-to-capitalization of 57% (~64% including preferred shares as debt), below the company's long-term target ratio of 60%.

2013 ESTIMATE CHANGES

(000's)	Prev.	Rev.	Change		Comments
Earnings					
FortisBC - Gas	149 564	149 926	363	0%	
FortisAlberta	80 465	86 279	5 814	7%	Rate base assumption ↑
FortisBC - Electric	48 955	49 076	121	0%	
Newfoundland Power	36 468	34 989	-1 479	-4%	Rate base assumption ↓
Other Utilities	22 548	22 548	0	0%	
Caribbean Utilities	26 991	23 843	-3 148	-12%	Quarterly adjustment ↓
Fortis Generation	20 444	20 444	0	0%	
Fortis Properties	29 613	30 085	473	2%	
Corporate & Other	-56 273	-56 779	-506	1%	Higher corporate debt levels ↓
	358 776	**360 413**	**1 637**	**0%**	
per share (FD)	*$1.85*	*$1.86*	*$0.01*	*0%*	
EPS payout	*67%*	*67%*	*0%*		
FFO					
DD&A	440 000	440 000	0	0%	
Deferred Income Taxes	14 996	14 577	-419	n/a	
NCI	12 000	12 000	0	0%	
Other	40 000	40 000	0	0%	
FFO	**865 772**	**866 990**	**1 218**	**0%**	
Maintenance capex	-320 000	-340 000	-20 000	6%	Management guidance ↓
AFFO	**545 772**	**526 990**	**-18 782**	**-3%**	
per share (FD)	*$2.78*	*$2.69*	*-$0.09*	*-3%*	
AFFO payout	*44%*	*46%*	*2%*		

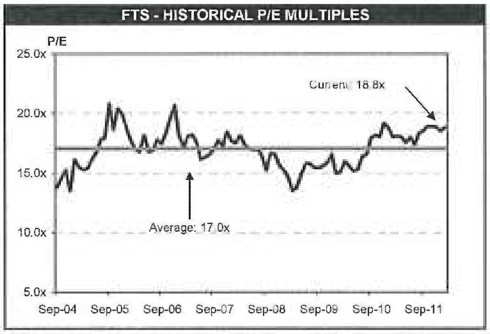
Source: NBF

Target edges down $0.50, maintain Underperform

With slightly higher than expected maintenance capex through 2016, our target edges down $0.50 to $34.00 – which is based on a risk-adjusted dividend yield of 3.5% applied to our 2013e dividend of $1.24/share, a 13.5x multiple of our 2013e free-EBITDA of $981 million and our DCF valuation of $34.50.

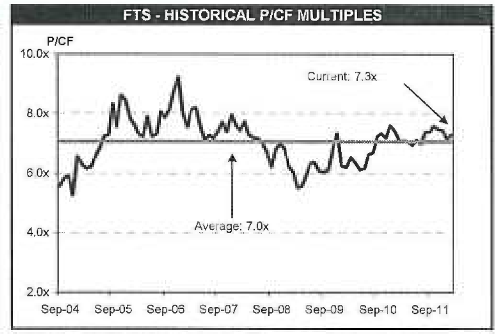
As shown in the following tables, FTS is currently trading at forward consensus multiples of 18.8x P/E and 7.3x P/CF – both ahead of historical averages of 17.0x and 7.0x. Combined with regulatory downside risk noted above and a 12-month total return opportunity of 3.9% (group avg.: 11.4%), we maintain our Underperform rating.

FTS - HISTORICAL P/E MULTIPLES



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF

FTS - HISTORICAL P/CF MULTIPLES



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Source: ThomsonOne, Bloomberg, NBF

Fortis Inc.	2012e Previous	2012e Revised	2013e Previous	2013e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***189.9***	***189.8***	***193.7***	***193.6***
Ending Shares (mln)	***191.1***	***191.1***	***195.1***	***195.0***
Fully Diluted Shares (mln)	***203.6***	***203.6***	***207.6***	***207.5***
Consolidated EBITDA	1 267.3	1 268.8	1 318.6	1 321.4
Earnings	343.1	343.3	358.8	360.4
FortisBC - Gas	146.1	146.4	149.6	149.9
FortisAlberta	76.6	80.9	80.5	86.3
FortisBC - Electric	46.2	46.3	49.0	49.1
Newfoundland Power	34.7	33.3	36.5	35.0
Other Utilities	21.7	21.7	22.5	22.5
Caribbean Utilities	25.8	22.9	27.0	23.8
Fortis Generation	20.2	20.2	20.4	20.4
Fortis Properties	26.3	26.7	29.6	30.1
Corporate and Other	-54.6	-55.0	-56.3	-56.8
FFO	841.1	841.0	865.8	867.0
Maintenance Capital	320.0	340.0	320.0	340.0
AFFO	521.1	501.0	545.8	527.0
Dividends	228.4	228.3	240.0	239.9
Growth Capital	791.9	756.6	815.2	789.1
Adj. Free Cash Flow(1)	-270.8	-255.6	-269.4	-262.1
Equity Issued (net)	63.9	63.0	67.2	66.2
Ending Net Debt	7 329.5	7 350.0	7 735.7	7 737.9
D / EBITDA	5.8	5.8	5.9	5.9
D / Total Capital	56%	56%	56%	56%
CF / D(2)	17%	17%	17%	17%
CF / Interest(3)	3.3	3.3	3.2	3.2
Net Debt	**33.58**	**33.69**	**34.98**	**35.01**
EBITDA	**6.68**	**6.68**	**6.81**	**6.82**
Earnings - Fully Diluted	**1.81**	**1.81**	**1.85**	**1.86**
CFPS - FD	**4.29**	**4.29**	**4.33**	**4.34**
AFFO - FD	**2.71**	**2.61**	**2.78**	**2.69**
Dividends	**1.20**	**1.20**	**1.24**	**1.24**
AFFO payout ratio	44%	46%	44%	46%
earnings payout	67%	67%	67%	67%
drip participation	28%	28%	28%	28%

(1) AFFO less growth capital.
(2) FFO before changes in working capital divided by average 2-year total debt.
(3) FFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Note: Estimates include FTS' proportionate 51% interest in Waneta.
Source: NBF Estimates, Company Reports

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NATIONAL BANK FINANCIAL

RESEARCH FLASH

February 21, 2012 Patrick Kenny, CFA 403-290-5451, patrick.kenny@nbfinancial.com
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Fortis Inc. – (TSX: FTS) $32.85

STOCK RATING: Underperform (Unchanged)

TARGET: $34.00 (Unchanged)

RISK RATING: Low (Unchanged)

To acquire CH Energy Group for US$1.5-bln

Fortis Inc. (TSX: FTS) announced today that it has entered into an agreement to acquire CH Energy Group Inc. (NYSE: CHG) for US$65.00 per common share and representing an aggregate purchase price of US$1.5 billion (including the assumption of US$500 million of debt). The purchase price represents a 10.5% premium to CHG's closing price of US$58.77 on Feb. 17 and is expected to close within 12-months – subject to the receipt of shareholder, regulatory and other approvals including those of the New York Public Service Commission (NYPSC) and the Federal Energy Regulatory Commission (FERC).

Approximately 93% of the company's assets are involved in regulated electric and natural gas distribution in New York State servicing ~300,000 electric and ~75,000 natural gas customers. The remaining 7% is comprised primarily of a fuel delivery business servicing ~56,000 customers in the mid-Atlantic region. That said, the company generated US$45 million in net income in 2011 with the company's regulated assets contributing ~97% under a regulated return on equity (ROE) of 10% based on an equity capitalization of 48%.

Modest accretion – paying ~17x 2013e earnings

In 2011, CHG reported adjusted EPS of $3.15. Based on capex guidance of $100 million per year through 2016, we estimate ~10% annual earnings growth and 2013e EPS of ~$3.80 (i.e., 17.1x transaction multiple). With FTS currently trading at 17.7x, we anticipate modest accretion to our 2013 estimates.

On the financing front, Fortis intends to initially finance the transaction with existing credit facilities, with more permanent financing longer-term in line with the company's current capital structure (i.e., ~60% debt; 40% equity including preferred shares). Recall, in mid-2011, FTS raised $300 million of equity – potentially limiting equity needs for this transaction (~US$600 million).

NBF PIPELINES, UTILITIES & ENERGY INFRASTRUCTURE COMPARABLES

		Price	Market Cap	EV	D / CAP	Net Debt/ EBITDA	CF / D(1)	CF / I(2)	Cash Yield	AFFO Payout	Price/ Earnings	Price/ AFFO	EV/Free-EBITDA	12 mo. Target	Total Return %	Ratings
		21-Feb-12	$mln	$mln	2013E	2013E	2013E	2013E		2013E	2013E	2013E	2013E			
Low Payout																
Capital Power	CPX	$25.33	2 461	4 491	40%	4.7x	21%	5.8x	5.0%	39%	15.0x	7.5x	10.3x	$27.00	11.6%	SP
Emera	EMA	$33.54	4 100	7 786	70%	6.0x	11%	3.1x	4.1%	64%	18.5x	15.1x	13.6x	$33.50	3.9%	UP
Enbridge	ENB	$37.58	29 337	48 058	66%	5.4x	15%	3.7x	3.0%	42%	20.6x	12.1x	14.7x	$44.00	20.1%	OP
Fortis	**FTS**	**$32.85**	**6 158**	**13 135**	**56%**	**5.9x**	**17%**	**3.2x**	**3.7%**	**46%**	**17.7x**	**12.2x**	**13.4x**	**$34.00**	**7.2%**	**UP**
TransAlta	TA	$20.77	4 630	9 506	59%	3.8x	20%	4.1x	5.6%	59%	18.1x	10.5x	12.6x	$20.00	1.9%	UP
TransCanada	TRP	$41.99	29 561	53 147	52%	4.5x	17%	4.1x	4.1%	37%	17.3x	8.6x	11.5x	$42.50	5.4%	UP
Low Payout Average					**57%**	**5.0x**	**17%**	**4.0x**	**4.2%**	**48%**	**17.9x**	**11.0x**	**12.7x**		**8.3%**	

(1) CFO before changes in working capital divided by average 2-year total net debt.

(2) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.

Note: UP = Underperform; SP = Sector Perform; OP = Outperform; NR = Not Rated

Source: Company reports, NBF Estimates, pricing per ThomsonOne

Impact – slightly positive

We will release a more detailed note after discussions with management. Overall, we expect a modest bump to our estimates and valuation. We currently rate FTS an Underperform with a $34.00 target.

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INDUSTRY RATING: NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months. **RISK RATING:** NBF utilizes a four-tiered risk rating system, **Low**, **Average**, **Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

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FTS (T)	$32.38
Stock Rating:	**Underperform** (Unchanged)
Target:	**$34.00** (Unchanged)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**8.7%**

Stock Data:	
52-week High-Low (Canada)	$34.39 - $28.24
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2011a	2012e	2013e
AFFO/Share - f.d.	$2.56	$2.61	$2.69
P/AFFO	13.0x	12.4x	12.0x
EPS - f.d.	$1.74	$1.81	$1.86
P/E	19.2x	17.9x	17.4x
D/EBITDA	5.8x	5.8x	5.9x
EV/Free-EBITDA	15.5x	14.0x	13.3x
Dividends	$1.16	$1.20	$1.24
Dividend Yield	3.5%	3.7%	3.8%

Financial Data:	
Shares Outstanding (mln)	187.5
Book Value per Share	$20.68
Market Capitalization (mln)	$6 070
Price/Book Ratio	1.6x
Net Debt (mln)	$6 977
Net Debt/Enterprise Value	53%
Debt/13 Distr. CF	14.7x
Total Return	8.7%

Industry Rating: Overweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State. The Company also owns and operates a hospitality and commercial real estate division with over 20 throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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Fortis Inc.

To acquire CH Energy Group for US$1.5-bln

$1.00 target bump pending shareholder approval

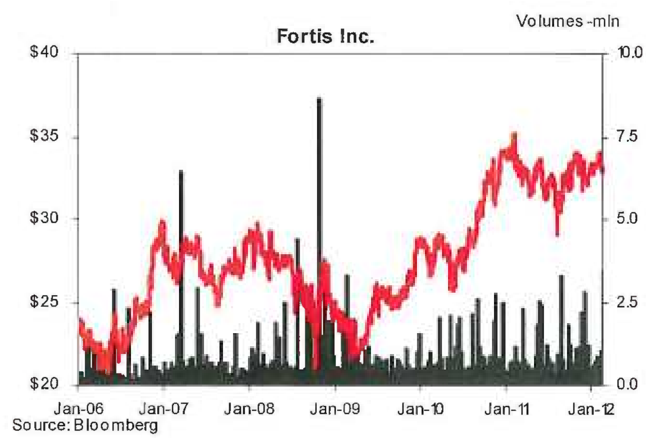
HIGHLIGHTS

- **To acquire CH Energy Group for US$1.5 billion**
  FTS announced that it entered into an agreement to acquire CH Energy Group Inc. (CHG: NYSE; a New York based rate regulated electric and gas distribution utility) for US$65.00/share, representing an aggregate purchase price of US$1.5 billion (including the assumption of US$500 million of debt). The transaction is expected to close within 12 months, subject to shareholder / regulatory approvals.

- **Transaction metrics: 18x 2013e earnings, 1.4x rate base**
  Overall, we calculate a 2013e P/E transaction multiple of 18.2x versus FTS' 2013e P/E multiple of 17.4x (low payout group avg.: 17.9x). From a rate base perspective, we calculate a transaction metric of 1.4x current rate base (excluding ~$90 million in value attributed to the Griffith assets) – in line with precedent transaction metrics.

- **$1.00 target bump pending shareholder approval**
  Assuming a Dec. 31, 2012 closing date, we calculate ~2% accretion to our estimates, with pro-forma 2013e EPS (FD) of $1.90 (was $1.86) and adjusted funds from operations (AFFO) per share of $2.75 (was $2.69). Overall, we estimate the transaction adds $1.00/share to our $34.00 target. However, we continue to exclude the transaction from our estimates and valuation pending shareholder approval (expected within the next six months) and the potential for a superior offer to emerge (CHG closing today at US$66.22/share; a 2% premium to FTS' offer of US$65.00/share). Combined with the potential for a significant equity issue pending shareholder approval, and a 12-month total return opportunity of 8.7% (group avg.: 11.0%), we maintain our Underperform rating.

Stock Performance



To acquire CH Energy Group for US$1.5 billion

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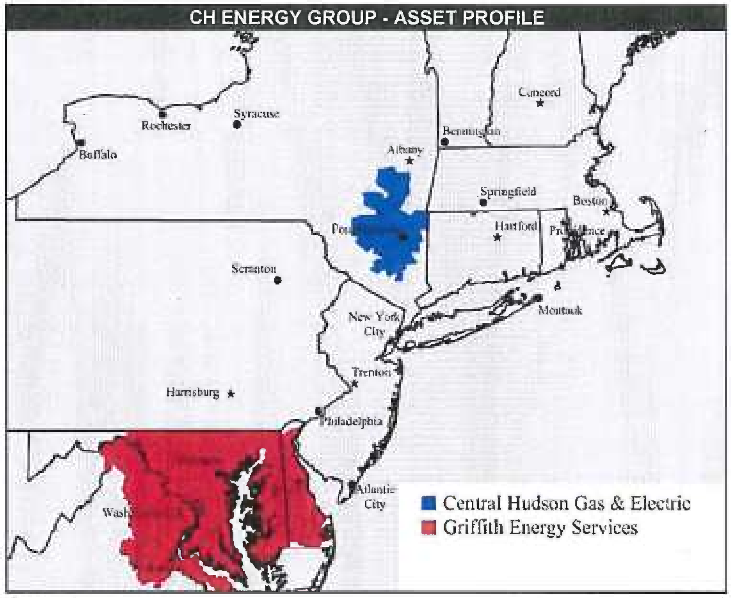
Approximately 93% of CHG's assets (Central Hudson Gas & Electric) are comprised of regulated electric and natural gas distribution activities in New York State servicing ~300,000 electric and ~75,000 natural gas customers. The remaining 7% is comprised primarily of a fuel delivery business (Griffith Energy Services) servicing ~56,000 customers in the mid-Atlantic region. In 2011, CHG reported ~US$47 million of adjusted net income with regulated assets contributing ~97% under a regulated return on equity (ROE) of 10% based on an equity thickness of 48%.

CH ENERGY GROUP - ASSET PROFILE



Source: Company Reports

Transaction metrics: 18x 2013e earnings; 1.4x rate base

Based on capex guidance of $100 million per year through 2016 (~40% maintenance), we estimate long-term rate base growth of ~6-7% (in line with management guidance) suggesting 2013e EPS of ~$3.57 – i.e., representing an 18.2x transaction multiple versus FTS' 2013e P/E multiple of 17.4x (low payout group avg.: 17.9x). From a rate base perspective, we calculate a transaction metric of 1.4x current rate base (excluding ~$90 million in value attributed to the Griffith assets) – in line with precedent transaction metrics.

UTILITY ACQUISITIONS - RATE BASE COMPARABLES

Acquirer	Utility	EV ($blns)	Rate Base ($blns)	Multiple
AltaGas	Pacific Northern Gas	0.2	0.2	1.3x
AltaGas	SEMCO[(1)]	1.1	0.7	1.6x
Fortis	**CH Energy Group**	**1.4**	**1.0**	**1.4x**
Gaz Metro	Central Vermont Public Service	0.9	0.6	1.4x
			Average	**1.4x**

(1) Excludes any value associated with the non-regulated gas storage assets acquired.

Source: Company Reports, NBF Estimates

NBF PIPELINES, UTILITIES & ENERGY INFRASTRUCTURE COMPARABLES														
		Price	Market Cap	EV	D / CAP	Net Debt/ EBITDA	Cash Yield	AFFO Payout	Price/ Earnings	Price/ AFFO	EV/Free-EBITDA	12 mo. Target	Total Return %	Ratings
		21-Feb-12	$mln	$mln	2013E	2013E		2013E	2013E	2013E	2013E			
Low Payout														
Capital Power	CPX	$25.20	2 448	4 478	40%	4.7x	5.0%	39%	15.0x	7.4x	10.3x	$27.00	12.1%	SP
Emera	EMA	$33.18	4 056	7 742	70%	6.0x	4.1%	64%	18.3x	15.0x	13.5x	$33.50	5.1%	UP
Enbridge	ENB	$38.52	30 071	48 792	66%	5.4x	2.9%	42%	31.1x	12.4x	14.9x	$44.00	17.2%	OP
Fortis	**FTS**	**$32.38**	**6 070**	**13 047**	**56%**	**5.9x**	**3.7%**	**46%**	**17.4x**	**12.0x**	**13.3x**	**$34.00**	**8.7%**	**UP**
TransAlta	TA	$20.89	4 656	9 532	59%	3.8x	5.6%	59%	18.2x	10.6x	12.6x	$20.00	1.3%	UP
TransCanada	TRP	$42.26	29 751	53 337	52%	4.5x	4.1%	37%	17.4x	8.6x	11.6x	$42.50	4.7%	UP
Low Payout Average					**57%**	**5.0x**	**4.2%**	**48%**	**17.9x**	**11.0x**	**12.7x**		**8.2%**	

(1) CFO before changes in working capital divided by average 2-year total net debt.

(2) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.

Note: UP = Underperform; SP = Sector Perform; OP = Outperform; NR = Not Rated

Source: Company reports, NBF Estimates, pricing per ThomsonOne

On the financing front, Fortis intends to initially finance the transaction with existing credit facilities, with more permanent financing longer term in line with the company's current capital structure (i.e., ~60% debt; 40% equity including preferred shares). Recall, in mid-2011, FTS raised $300 million of equity – partially mitigating the equity needs for this transaction to ~$500 million (~33% of gross transaction value), with timing of an equity issue pending shareholder approval in June / July 2012.

Pro-forma estimates – calculating ~2% accretion

Assuming a Dec. 31, 2012 closing date, we calculate ~2% accretion to our estimates, with pro-forma 2013e EPS (FD) of $1.90 (was $1.86) and adjusted funds from operations (AFFO) per share of $2.75 (was $2.69). Meanwhile, we forecast a pro-forma 2013e earnings payout ratio of 66% (low payout group avg.: 78%) and an AFFO pro-forma payout ratio of 45% (low payout group avg.: 48%). On the leverage front, our 2013e pro-forma D/EBITDA nudges down to 5.8x – remaining above the low payout group average of 4.0x.

However, we exclude the transaction from our estimates and valuation pending shareholder approval expected within the next six months. Recall, in mid-2011, Fortis terminated its agreement to acquire Central Vermont Public Service Corp. (CVPS; CV: NYSE) for US$700 million owing to the emergence of a superior offer from Gaz Metro LP. Combined with CHG closing today at US$66.22/share (i.e., a 2% premium to FTS' offer of US$65.00/share), we cautiously await shareholder approval prior to building the acquisition into our estimates and valuation.

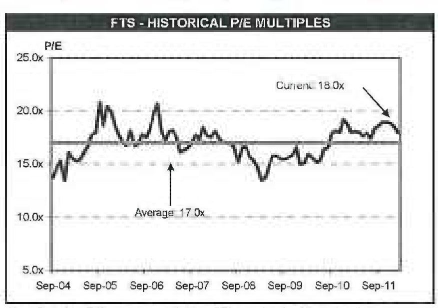
Fortis Inc.	2012e Current	2012e Pro-forma	2013e Current	2013e Pro-forma
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	*189.8*	*189.8*	*193.6*	*207.5*
Ending Shares (mln)	*191.1*	*191.1*	*195.0*	*210.8*
Fully Diluted Shares (mln)	*203.6*	*203.6*	*207.5*	*223.3*
Consolidated EBITDA	1 268.8	1 248.8	1 321.4	1 514.5
Earnings	343.3	326.9	360.4	394.9
FortisBC - Gas	146.4	146.4	149.9	149.9
FortisAlberta	80.9	80.9	86.3	86.3
Fortis New York	0.0	0.0	0.0	50.8
FortisBC - Electric	46.3	46.3	49.1	49.1
Newfoundland Power	33.3	33.3	35.0	35.0
Other Utilities	21.7	21.7	22.5	22.5
Caribbean Utilities	22.9	22.9	23.8	23.8
Fortis Generation	20.2	20.2	20.4	20.4
Fortis Properties	26.7	26.7	30.1	30.1
Corporate and Other	-55.0	-71.4	-56.8	-73.2
FFO	841.0	828.2	867.0	957.7
Maintenance Capital	340.0	340.0	340.0	380.0
AFFO	501.0	488.2	527.0	577.7
Dividends	228.3	228.3	239.9	259.3
Growth Capital	756.6	2 225.0	789.1	857.6
Adj. Free Cash Flow(1)	-255.6	-1 736.8	-262.1	-280.0
Equity Issued (net)	63.0	543.0	66.2	71.6
Ending Net Debt	7 350.0	8 351.1	7 737.9	8 770.9
D / EBITDA	5.8	6.7	5.9	5.8
D / Total Capital (excl. prefs)	56%	57%	56%	58%
CF / D(2)	17%	16%	17%	17%
CF / Interest(3)	3.3	3.2	3.2	3.1
Net Debt	**33.69**	**38.93**	**35.01**	**37.29**
EBITDA	**6.68**	**6.58**	**6.82**	**7.30**
Earnings - Fully Diluted	**1.81**	**1.72**	**1.86**	**1.90**
CFPS - FD	**4.29**	**4.23**	**4.34**	**4.48**
AFFO - FD	**2.61**	**2.55**	**2.69**	**2.75**
Dividends	**1.20**	**1.20**	**1.24**	**1.24**
AFFO payout ratio	46%	47%	46%	45%
earnings payout	67%	70%	67%	66%
drip participation	28%	28%	28%	28%

(1) AFFO less growth capital.
(2) FFO before changes in working capital divided by average 2-year total debt.
(3) FFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Note: Estimates include FTS' proportionate 51% interest in Waneta.
Source: NBF Estimates, Company Reports

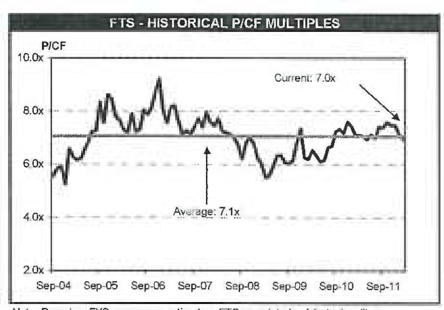
Maintain $34.00 target and Underperform, noting ~$1.00/share upside

With ~2% earnings and cash flow accretion, we estimate the transaction will add ~$1.00 per share to our valuation upon regulatory and shareholder approvals. Our current target of $34.00 remains based on a risk-adjusted dividend yield of 3.5% applied to our 2013e dividend of $1.24/share, a 13.5x multiple of our 2013e free-EBITDA of $981 million and our DCF valuation of $34.50.

As shown in the following figures, FTS is currently trading at consensus multiples of 18.0x P/E and 7.0x P/CF – versus historical averages of 17.0x and 7.0x. Combined with a significant equity issue pending shareholder approval, and a 12-month total return opportunity of 8.7% (group avg.: 11.0%), we maintain our Underperform rating.



Note: Based on FY2 consensus estimates. FTS completed a 4:1 stock split on October 12, 2005.
Source: ThomsonOne, Bloomberg, NBF



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NATIONAL BANK FINANCIAL

FTS (T)	**$34.55**
Stock Rating:	**Underperform** (Unchanged)
Target:	**$34.00** (Unchanged)
Risk Rating:	**Low** (Unchanged)
Est. Total Return	**1.9%**

Stock Data:	
52-week High-Low (Canada)	$34.39 - $28.24
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2011a	2012e	2013e
AFFO/Share - f.d.	$2.56	$2.60	$2.81
P/AFFO	13.0x	13.3x	12.3x
EPS - f.d.	$1.74	$1.76	$1.84
P/E	19.2x	19.7x	18.7x
D/EBITDA	5.9x	6.0x	6.1x
EV/Free-EBITDA	15.7x	14.6x	13.7x
Dividends	$1.16	$1.20	$1.24
Dividend Yield	3.5%	3.5%	3.6%

Financial Data:	
Shares Outstanding (mln)	189.3
Book Value per Share	$20.61
Market Capitalization (mln)	$6 539
Price/Book Ratio	1.7x
Net Debt (mln)	$7 473
Net Debt/Enterprise Value	53%
Debt/13 Distr. CF	15.3x
Total Return	1.9%

Industry Rating: Overweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State. The Company also owns and operates a hospitality and commercial real estate division with over 20 throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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Fortis Inc.

Q1 results in line

Refreshing regulatory downside risk

HIGHLIGHTS

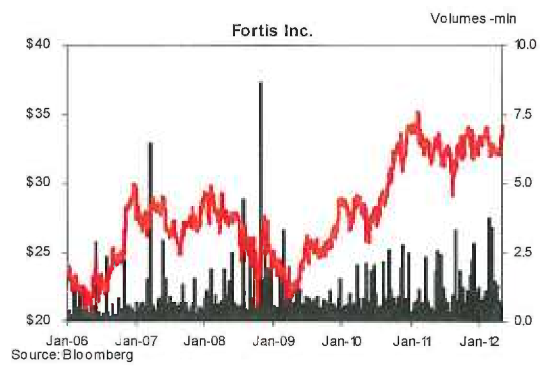
- **Q1 results in line**
  Fortis reported Q1 2012 EPS (basic) of $0.66 (net of $0.02/share in one-time acquisition expenditures) – in line with our expectations and consensus of $0.67.

- **Refreshing regulatory downside risk**
  With interest rates remaining below long-term averages, regulators in B.C. and Newfoundland have set cost of capital reviews – which could result in lower allowable ROEs (as recently experienced in Alberta). Inside, we refresh our 2013e EPS and long-term DCF valuation sensitivities – highlighting that for every 50 bps decline in allowable ROEs at FortisBC (Gas and Electric) and Newfoundland Power, we calculate ~4% decline to our 2013e EPS (~$0.07/share) and DCF valuation (~$1.25/share).

- **Estimates – EPS largely unchanged**
  Our 2013e EPS (FD) remains largely unchanged at $1.84 (payout: 67%; group avg.: 72%). Meanwhile, our 2013e AFFO/share bumps up $0.12 to $2.81 (payout: 44%; group avg.: 46%) and our 2013e D/EBITDA nudges up to 6.1x (was 5.9x) on account of changes to U.S. GAAP reporting.

- **$34.00 target, maintain Underperform**
  Overall, we maintain our $34.00 target. FTS is currently trading at a forward P/E of 18.7x – exceeding its long-term average of 17.0x and the peer group average of 18.1x. Combined with regulatory downside risk and a 12-month total return opportunity of 1.9% (group avg.: 9.9%), we maintain our Underperform rating.

Stock Performance



Q1 results in line

Fortis reported Q1 2012 EPS (basic) of $0.66 (net of $0.02/share in one-time acquisition expenditures related to the CH Energy transaction) – in line with our expectations and consensus of $0.67 (per ThomsonOne). Overall, regulated earnings of $133 million from the company's Canadian natural gas and electric distribution utilities were largely in line with our estimate of $130 million. That said, Fortis reported lower than expected contributions from Caribbean Utilities and Fortis Properties.

FTS - Q1 2012 EARNINGS RECONCILIATION		
	$ mlns	Per Share
Estimated Earnings - basic	**$126.7**	**$0.67**
Difference Related to:		
FortisBC - Gas	$0.7	0.00
FortisAlberta	-$0.3	(0.00)
FortisBC - Electric	$1.2	0.01
Newfoundland Power	$0.4	0.00
Other Cdn Utilities	$1.3	0.01
Caribbean Utilities	-$2.9	(0.02)
Fortis Generation	-$0.3	(0.00)
Fortis Properties	-$2.3	(0.01)
Corporate & other(1)	$0.4	0.00
Actual Earnings - basic(1)	**$125.0**	**$0.66**

(1) Net of $4 million ($0.02/share) in one-time acquisition charges related to CH Energy Group, Inc.
Source: NBF Estimates and Company Data

Caribbean Utilities – reported earnings of $3 million, half our estimate of $6 million. Earnings were impacted by higher insurance and employee-related costs at Caribbean Utilities along with depreciation expense and finance charges associated with the company's continued investment in rate-base.

Recall, on June 20, 2011, the Government of Belize (GOB) passed legislation and issued an order to expropriate FTS' ~70% ownership interest in Belize Electric Limited (BEL) – an integrated electric utility and the principal electricity distributor in Belize. In Q4 2011, FTS submitted its claim for compensation to the GOB who has determined that the fair value of Belize Electricity is substantially lower than Fortis' claim. Fortis has recorded ~$104 million in assets related to Belize Electricity and is currently assessing alternative options for fair compensation.

Fortis Properties – contributed earnings of $1 million, $2 million below our estimate of $3 million on account of higher than expected operating costs.

Refreshing regulatory downside risk

BC Utilities Commission (BCUC) – In November 2011, the BCUC gave preliminary notification to public utilities subject to its regulation that it will initiate a Generic Cost of Capital (GCOC) proceeding in early 2012 which will: 1) set the appropriate cost of capital for a benchmark low-risk utility; 2) establish a ROE automatic adjustment mechanism; and 3) establish a deemed capital structure / cost of capital methodology. For 2012, the allowed ROEs at FortisBC Gas and Electric will be maintained pending the outcome of the proceeding (FortisBC Gas: 9.5% – B.C.; 10.0% – Vancouver Island / Whistler / 40% equity; FortisBC Electric: 9.9% / 40% equity).

Newfoundland Power – Newfoundland Power's allowed ROE for 2012 was calculated at 7.85% under the ROE automatic adjustment formula – a decrease of 53 bps from 8.38% for 2011. However, the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) suspended the use of the ROE automatic adjustment formula for 2012 and has maintained an 8.38% ROE for 2012 on an interim basis subject to a full cost of capital review expected to be held in June 2012.

Recall, the Alberta Utilities Commission (AUC) issued a decision in December 2011 which reduced the 2011 and 2012 allowed ROE to 8.75% (from 9.0% in 2010) and maintained this rate for 2013 on an interim basis (equity thickness unchanged at 41%) – potentially setting further precedence to provincial regulator's cost of capital reviews.

In the following tables, we refresh our 2013e EPS and discounted cash flow (DCF) valuation sensitivities – highlighting that for every 50 bps decline in allowable ROEs at FortisBC (Gas and Electric) and Newfoundland Power, we calculate ~4% decline to our 2013e EPS (~$0.07/share) and DCF valuation (~$1.25/share).

FTS - 2013E EPS SENSITIVITY

Equity Capitalization	Change in ROE: -0.50%	-0.25%	0.00%	0.25%	0.50%
-5.0%	1.35	1.38	1.41	1.44	1.46
-2.5%	1.56	1.59	1.63	1.66	1.69
0.0%	1.77	1.81	1.84	1.88	1.92
2.5%	1.98	2.02	2.06	2.10	2.14
5.0%	2.19	2.24	2.28	2.33	2.37

Source: NBF Estimates, Bloomberg

FTS - DCF VALUATION SENSITIVITY

Equity Capitalization	Change in ROE: -0.50%	-0.25%	0.00%	0.25%	0.50%
-5.0%	27.25	27.50	28.00	28.50	28.75
-2.5%	30.25	30.75	31.25	31.75	32.25
0.0%	33.25	34.00	34.50	35.00	35.50
2.5%	36.50	37.00	37.75	38.25	39.00
5.0%	39.50	40.25	41.00	41.50	42.25

Source: NBF Estimates, Bloomberg

US$1.5 billion CH Energy acquisition on track

On Feb. 21, FTS announced that it had entered into an agreement to acquire CH Energy Group, Inc. – a New York-based rate regulated electric and gas distribution utility. The US$1.5 billion acquisition (including the assumption of US$500 million of debt) remains on track to be completed by the end of Q1 2013 (unchanged). In April 2012, FTS and CH Energy filed a joint petition with the New York State Public Service Commission as well as similar filings with the Federal Energy Regulatory Commission seeking regulatory approvals. Meanwhile, CH Energy shareholders are expected to vote on the transaction in mid-2012. Recall, we had previously highlighted 2% accretion to our estimates – representing ~$1.00/share upside to our valuation pending approvals (see our previous note *"$1.00 target bump pending shareholder approval"*, Feb. 22, 2012 available at www.nbfinancial.com).

Meanwhile, over the next five years, Fortis continues to forecast ~$5.5 billion of capital expenditures (excluding acquisitions) with ~$1.3 billion expected to be incurred in 2012. The company's capital will be deployed ~64% at its regulated electric utilities (largely FortisAlberta and FortisBC), ~23% at FortisBC Gas and the remaining ~13% at the company's non-regulated operations.

Fortis Generation – Elsewhere, the ~$900 million (FTS: 51%), 335 MW Waneta hydroelectric project remains on track to be commissioned in the spring of 2015. Generation from the facility is contracted to both BC Hydro and FortisBC Electric under a long-term PPA. To date, ~$290 (gross) million has been incurred on the project for excavation of the intake, powerhouse and power tunnels.

Estimates – EPS largely unchanged

We have reduced our rate base assumptions for Caribbean Utilities and increased our operating cost assumptions for Fortis Properties. Elsewhere, we have bumped up our go-forward regulated depreciation expenses in line with the quarter and the company's revised reporting under U.S. GAAP. Recall, effective Q1 2012, Fortis is reporting its financial statements under U.S. GAAP (previously Canadian GAAP), resulting in an increase to both assets and liabilities for changes in the classification of regulatory / utility capital assets, capital lease obligations and pension liabilities.

Overall, our 2013e EPS (FD) remains largely unchanged at $1.84 (was $1.85) – representing an unchanged 2013e earnings payout ratio of 67% (low payout group avg.: 72%). However, our 2013e adjusted funds from operations (AFFO) per share bumps up $0.12 to $2.81 – representing an AFFO payout ratio of 44% (was 46%), in line with the low payout group average of 46%. On the leverage front, our 2013e D/EBITDA nudges up to 6.1x (was 5.9x; low payout group avg.: 5.2x) and we forecast a 2013e debt-to-capitalization of 58% (~66% including preferred shares as debt), slightly below the company's long-term target ratio of 60%.

2013 ESTIMATE CHANGES					
(000's)	Prev.	Rev.	Change		Comments
Earnings					
FortisBC - Gas	149 926	149 926	0	0%	
FortisAlberta	86 279	86 279	0	0%	
FortisBC - Electric	49 076	49 557	481	1%	
Newfoundland Power	34 989	34 989	0	0%	
Other Utilities	22 548	23 450	902	4%	
Caribbean Utilities	23 843	21 576	-2 268	-10%	Reducing rate base assumptions ↓
Fortis Generation	20 444	20 438	-6	0%	
Fortis Properties	29 709	27 764	-1 946	-7%	Higher operating costs ↓
Corporate & Other	-57 642	-58 595	-954	2%	
	359 175	**355 384**	**-3 790**	**-1%**	
per share (FD)	*$1.85*	*$1.84*	*-$0.01*	*-1%*	
EPS payout	*67%*	*67%*	*0%*		
FFO					
DD&A	440 000	468 000	28 000	6%	U.S. GAAP revisions ↓
Deferred Income Taxes	14 691	13 607	-1 084	n/a	
NCI	12 000	4 000	-8 000	-67%	Quarterly adjustment ↓
Other	40 000	40 000	0	0%	
FFO	**865 866**	**880 991**	**15 125**	**2%**	
Maintenance capex	-340 000	-340 000	0	0%	
AFFO	**525 866**	**540 991**	**15 125**	**3%**	
per share (FD)	*$2.69*	*$2.81*	*$0.12*	*5%*	
AFFO payout	*46%*	*44%*	*-2%*		

Source: NBF

$34.00 target, maintain Underperform rating

With higher cash flows offset by an increase in debt levels, we maintain our $34.00 target – which is based on a risk-adjusted dividend yield of 3.5% applied to our 2013e dividend of $1.24/share, a 13.5x multiple of our 2013e free-EBITDA of $1,020 million and our DCF valuation of $34.50 (unchanged).

As shown in the following table, FTS is currently trading at a forward P/E of 18.7x – exceeding the long-term average of 17.0x and the peer group average of 18.1x. Combined with regulatory downside risk noted above and a 12-month total return opportunity of 1.9% (group avg.: 9.9%), we maintain our Underperform rating.

NBF PIPELINES, UTILITIES & ENERGY INFRASTRUCTURE COMPARABLES														
		Price	Market Cap	EV	D / EV	Net Debt/ EBITDA	Cash Yield	AFFO Payout	Price/ Earnings	Price/ AFFO	EV/Free-EBITDA	12 mo. Target	Total Return %	Ratings
Regulated Utilities														
Canadian Utilities	CU	$71.16	9 082	15 120	40%	5.5x	2.5%	35%	16.1x	12.8x	13.4x	$69.00	-0.5%	SP
Emera	EMA	$35.00	4 278	7 964	46%	6.0x	3.9%	64%	19.3x	15.8x	13.9x	$33.50	-0.4%	UP
Fortis	FTS	$34.55	6 539	14 012	53%	6.1x	3.5%	44%	18.7x	12.3x	13.7x	$34.00	1.9%	UP
Utilities Average					47%	5.8x	3.3%	48%	18.1x	13.6x	13.7x		0.3%	

(1) CFO before changes in working capital divided by average 2-year total net debt.

(2) CFO before changes in working capital plus net interest expense divided by interest on debt less interest income.

Note: UP = Underperform; SP = Sector Perform; OP = Outperform; NR = Not Rated

Source: Company reports, NBF Estimates, pricing per ThomsonOne

Fortis Inc.	2012e Previous	2012e Revised	2013e Previous	2013e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***189.8***	***189.7***	***193.6***	***192.6***
Ending Shares (mln)	***191.1***	***190.6***	***195.0***	***193.8***
Fully Diluted Shares (mln)	***203.6***	***201.9***	***207.5***	***205.1***
Consolidated EBITDA	1 275.9	1 302.9	1 328.8	1 359.9
Earnings	342.8	333.4	359.2	355.4
FortisBC - Gas	146.4	146.9	149.9	149.9
FortisAlberta	80.9	82.1	86.3	86.3
FortisBC - Electric	46.3	48.2	49.1	49.6
Newfoundland Power	33.3	33.0	35.0	35.0
Other Utilities	21.7	22.6	22.5	23.5
Caribbean Utilities	22.8	18.8	23.8	21.6
Fortis Generation	20.2	19.6	20.4	20.4
Fortis Properties	26.3	23.7	29.7	27.8
Corporate and Other	-55.1	-61.4	-57.6	-58.6
FFO	841.3	833.9	865.9	881.0
Maintenance Capital	340.0	340.0	340.0	340.0
AFFO	501.3	493.9	525.9	541.0
Dividends	228.3	227.9	239.9	238.6
Growth Capital	756.6	792.7	789.1	789.1
Adj. Free Cash Flow(1)	-255.3	-298.8	-263.3	-248.1
Equity Issued (net)	63.0	41.4	66.2	54.9
Ending Net Debt	7 497.6	7 872.6	7 886.6	8 256.5
D / EBITDA	5.9	6.0	5.9	6.1
D / Total Capital	56%	57%	56%	58%
CF / D(2)	17%	17%	17%	18%
CF / Interest(3)	3.2	3.2	3.1	3.2
Net Debt	**34.46**	**36.52**	**35.77**	**37.91**
EBITDA	**6.72**	**6.87**	**6.86**	**7.06**
Earnings - Fully Diluted	**1.81**	**1.76**	**1.85**	**1.84**
CFPS - FD	**4.30**	**4.37**	**4.34**	**4.54**
AFFO - FD	**2.62**	**2.60**	**2.69**	**2.81**
Dividends	**1.20**	**1.20**	**1.24**	**1.24**
AFFO payout ratio	46%	46%	46%	44%
earnings payout	67%	68%	67%	67%
drip participation	28%	23%	28%	23%

(1) AFFO less growth capital.
(2) FFO before changes in working capital divided by average 2-year total debt.
(3) FFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Note: Estimates include FTS' proportionate 51% interest in Waneta.
Source: NBF Estimates, Company Reports

DISCLOSURES:

Ratings And What They Mean: **PRIMARY STOCK RATING**: NBF has a three-tiered rating system that is relative to the coverage universe of the particular analyst. Here is a brief description of each: **Outperform –** The stock is expected to outperform the analyst's coverage universe over the next 12 months; **Sector Perform –** The stock is projected to perform in line with the sector over the next 12 months; **Underperform –** The stock is expected to underperform the sector over the next 12 months. **SECONDARY STOCK RATING: Under Review** – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock. **INDUSTRY RATING**: NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months. **RISK RATING:** NBF utilizes a four-tiered risk rating system, **Low**, **Average**, **Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

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NATIONAL BANK FINANCIAL

June 29, 2012

The NBF Daily Bulletin

Pipelines, Utilities & Energy Infrastructure

Fortis Inc.

Completes $601-mln equity issue

Equity overhang removed, BCUC downside priced in – revising rating to Sector Perform

FTS (T)	**$32.09**
Stock Rating:	**Sector Perform** (Was Restricted)
Target:	**$35.00** (Was Restricted)
Risk Rating:	**Low** (Was Restricted)
Est. Total Return	**12.9%**

Stock Data:	
52-week High-Low (Canada)	$34.98 - $28.24
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2011a	2012e	2013e
AFFO/Share - f.d.	$2.56	$2.60	$2.83
P/AFFO	13.0x	12.3x	11.3x
EPS - f.d.	$1.74	$1.76	$1.87
P/E	19.2x	18.3x	17.2x
D/EBITDA	5.9x	6.0x	6.1x
EV/Free-EBITDA	15.7x	16.2x	13.7x
Dividends	$1.16	$1.20	$1.24
Dividend Yield	3.5%	3.7%	3.9%

Financial Data:	
Shares Outstanding (mln)	210.8
Book Value per Share	$20.61
Market Capitalization (mln)	$6 766
Price/Book Ratio	1.6x
Net Debt (mln)	$8 829
Net Debt/Enterprise Value	57%
Debt/13 Distr. CF	15.7x
Total Return	12.9%

Industry Rating: Overweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. The company also holds a regulated natural gas / electric utility in New York. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State. The Company also owns and operates a hospitality and commercial real estate division with over 20 hotels throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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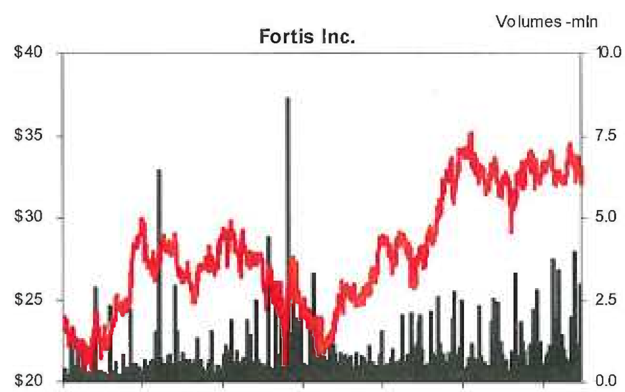
HIGHLIGHTS

- **Completes $601 million equity issue**
  We are resuming coverage of FTS following the completion of its $601 million offering of subscription receipts (18.5 million receipts at $32.50/receipt; TSX: FTS.R). Net proceeds will be used to finance the 40% equity component of the company's US$1.5 billion acquisition of CH Energy Group Inc. (expected to close by the end of Q1 2013).

- **CH Energy financing in place; growth strategy intact**
  With the CH Energy financing in place, over the next five years, Fortis expects to incur ~$5.9 billion of capital expenditures (excluding acquisitions) with ~$1.3 billion expected to be deployed in 2012. Overall, we forecast a debt-to-capitalization ratio of 58% by 2013e, remaining slightly under the company's long-term target of 60%. Combined with over ~$2.0 billion of available credit facilities as at Q1 2012, we forecast sufficient liquidity with ~$0.9 billion of available cash resources as at YE2013e.

- **$35 tgt, BCUC downside priced in – revising rating to SP**
  Based on ~2% accretion to our long-term estimates stemming from the CH Energy acquisition, we resume coverage with a $35.00 target (was $34.00 prior to restriction). That said, we continue to highlight ~4% downside risk to our valuation for every 50 bps decline in allowable ROEs for B.C. and Newfoundland (hearings throughout 2012) and recommend investors await final regulatory decisions prior to accumulating the name. However, with a 12-month total return opportunity of 12.9% (group avg.: 18.5%), suggesting the BCUC (British Columbia Utilities Commission) downside risk is largely priced into the stock, we resume coverage with a Sector Perform rating (was Underperform prior to restriction).

Stock Performance



Source: Bloomberg

Completes $601 million equity issue

We are resuming coverage of Fortis Inc. following the completion of its $601 million offering of subscription receipts (18.5 million receipts at $32.50/receipt). The subscription receipts began trading on the TSX under the symbol FTS.R on June 27, 2012. Net proceeds from the financing will be used to finance the equity component of the company's previously announced US$1.5 billion (including US$0.5 billion of debt) acquisition of CH Energy Group Inc. (see our previous note, *"$1.00 target bump pending shareholder approval"*, Feb. 22, 2012 available at www.nbfinancial.com). Each subscription receipt will entitle the holder to receive one common share of Fortis and a cash payment equal to dividends accrued from the closing of the offering to the date of issuance of the common shares – expected upon closing of the CH Energy acquisition (end of Q1 2013). Of note, the underwriters have been granted an over-allotment option to acquire an additional 2.775 million subscription receipts (15%) under the same terms and conditions up to 30 days following closing the offering.

Recall, on Feb. 21, 2012, FTS announced the acquisition of CH Energy for US$65.00 per common share representing an aggregate purchase price of US$1.5 billion. The company received shareholder approvals on June 19, 2012. Approximately 93% of CH Energy's assets (Central Hudson Gas & Electric) are comprised of regulated electric and natural gas distribution activities in New York State servicing ~300,000 electric and ~75,000 natural gas customers. The remaining 7% is comprised primarily of a fuel delivery business (Griffith Energy Services) servicing ~56,000 customers in the mid-Atlantic region. Overall, we calculate a rate base transaction metric of 1.4x – matching precedent transaction metrics.

CH Energy financing in place; long-term growth strategy intact

Overall, the acquisition will be financed ~60% debt and ~40% equity (excluding the over-allotment option) – in line with the company's long-term capital structure of 60/40 D/E (including preferred shares as equity).

CH ENERGY - ACQUISITION FINANCING

Financing	Type	($mlns) [1]	Proportion
Subscription Receipts	Equity	601	40%
Assumed Debt	Debt	500	33%
Remaining Debt	Debt	399	27%
Total		**1500**	100%

(1) Note assumes an USD/CAD exchange rate of parity and excludes the impact of the over-allotment option.

Source: Company Reports

Meanwhile, over the next five years, Fortis expects to incur ~$5.9 billion of capital expenditures (excluding acquisitions) with ~$1.3 billion expected to be deployed in 2012. Overall, we estimate FTS' debt-to-capitalization ratio will nudge up to 58% by 2013e (from 57% in 2012e), remaining slightly under the company's long-term target of 60%. Combined with over ~$2.0 billion of available credit facilities as at Q1 2012, we forecast sufficient liquidity with ~$0.9 billion of available cash resources as at year-end 2013e.

FTS - FUNDING REQUIREMENT ANALYSIS

(mlns)	Q2-Q4 2012e	2013e
Cash flow from operations	600	954
Less maintenance capex	(255)	(370)
Less growth capex[1]	(604)	(2 249)
Free cash flow (FCF)	(259)	(1 665)
Less dividends	(171)	(273)
FCF (net dividends)	**(430)**	**(1 938)**
AVAILABLE CASH RESOURCES:		
Opening cash balance [2]	110	1 743
Available debt capacity [2]	2 024	n/a
Assumed debt	n/a	500
Dividend reinvestment / equity	39	640
FCF (net dividends)	(430)	(1 938)
Funding surplus	**1 743**	**945**
D/Capitalization (excl. preferreds)	57%	58%
D/EBITDA	6.0x	6.1x

(1) Includes FTS' 51% proportionate interest in Waneta's capex.

(2) As at Q1 2012.

Source: NBF Estimates, Company Reports

Estimates: ~2% accretive to long-term estimates

Recall, we had previously highlighted ~2% accretion to our long-term estimates – representing ~$1.00/share upside to our valuation pending shareholder approvals. With the acquisition expected to close in late Q1 2013, our 2013e EPS (FD) nudges up $0.03 (1%) to $1.87 – representing a 2013e earnings payout ratio of 71% (low payout group avg.: 72%).

Meanwhile, our 2013e adjusted funds from operations (AFFO) per share bumps up $0.02 to $2.83 – representing an AFFO payout ratio of 47% (was 44%), in line with the low payout group average of 46%. On the leverage front, our 2013e D/EBITDA remains unchanged at 6.1x. Going forward, we continue to call for a 3% dividend increase to $1.24/share annually beginning Q1 2013e.

2013 ESTIMATE CHANGES

(000's)	Prev.	Rev.	Change		Comments
Earnings					
FortisBC - Gas	149 926	149 926	0	0%	
FortisAlberta	86 279	86 279	0	0%	
FortisBC - Electric	49 557	49 557	0	0%	
Newfoundland Power	34 989	34 989	0	0%	
Other Utilities	23 450	23 450	0	0%	
Caribbean Utilities	21 576	21 576	0	0%	
Fortis New York	0	30 643	30 643	n/a	CH Energy acquisition ↑
Fortis Generation	20 438	20 438	0	0%	
Fortis Properties	27 764	27 764	0	0%	
Corporate & Other	-58 595	-58 913	-318	1%	
	355 384	**385 710**	**30 326**	**9%**	
per share (FD)	*$1.84*	*$1.87*	*$0.03*	*1%*	
EPS payout	*67%*	*71%*	*4%*	*5%*	
FFO					
DD&A	468 000	504 000	36 000	8%	
Deferred Income Taxes	13 607	20 176	6 569	n/a	
NCI	4 000	4 000	0	0%	
Other	40 000	40 000	0	0%	
FFO	**880 991**	**953 886**	**72 894**	**8%**	
Maintenance capex	-340 000	-370 000	-30 000	9%	CH Energy acquisition ↓
AFFO	**540 991**	**583 886**	**42 894**	**8%**	
per share (FD)	*$2.81*	*$2.83*	*$0.02*	*1%*	
AFFO payout	*44%*	*47%*	*3%*		

Source: NBF

$35.00 target, BCUC downside priced in – revising rating to SP

In line with the changes to our estimates, we resume coverage of Fortis with a $35.00 target (was $34.00 prior to restriction) – which is based on a risk-adjusted dividend yield of 3.5% applied to our 2013e dividend of $1.24/share, a 13.5x multiple (unchanged) of our 2013e free-EBITDA of $1,135 million and our DCF valuation of $35.50 (was $34.50).

That said, we continue to highlight ~4% downside risk to our 2013e EPS (~$0.07/share) and DCF valuation ($1.25/share) for every 50 bps decline in allowable ROEs at FortisBC (Gas & Electric) and Newfoundland Power. Recall, in November 2011 the BC Utilities Commission (BCUC) gave preliminary notification to public utilities subject to its regulation that it will initiate a generic cost of capital proceeding in 2012. Meanwhile, the Newfoundland and Labrador Board of Commissioners of Public Utilities also suspended its use of the ROE automatic adjustment formula for 2012 and has initiated a full cost of capital review (see our previous note, *"Refreshing regulatory downside risk"*, May 3, 2012 available at www.nbfinancial.com). Both hearings are expected throughout 2012 and we recommend investors await both decisions prior to accumulating a position in the name. However, with a 12-month total return opportunity of 12.9% (group avg.: 18.5%), suggesting the downside related to the BCUC decision is largely priced into the stock, we resume coverage of Fortis with a Sector Perform rating (was Underperform prior to restriction).

FTS - 2013E EPS SENSITIVITY						
		Change in ROE				
		-0.50%	-0.25%	0.00%	0.25%	0.50%
Equity Capitalization	-5.0%	1.39	1.41	1.44	1.47	1.50
	-2.5%	1.59	1.62	1.66	1.69	1.72
	0.0%	1.80	1.83	1.87	1.91	1.94
	2.5%	2.00	2.04	2.08	2.12	2.16
	5.0%	2.20	2.25	2.29	2.34	2.38

Source: NBF Estimates, Bloomberg

FTS - DCF VALUATION SENSITIVITY						
		Change in ROE				
		-0.50%	-0.25%	0.00%	0.25%	0.50%
Equity Capitalization	-5.0%	28.25	28.50	29.00	29.50	30.00
	-2.5%	31.25	31.75	32.25	32.75	33.25
	0.0%	34.25	35.00	35.50	36.00	36.75
	2.5%	37.50	38.00	38.75	39.25	40.00
	5.0%	40.50	41.25	42.00	42.50	43.25

Source: NBF Estimates, Bloomberg

Fortis Inc.	2012e Previous	2012e Revised	2013e Previous	2013e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***189.7***	***189.7***	***192.6***	***206.4***
Ending Shares (mln)	***190.6***	***190.6***	***193.8***	***212.5***
Fully Diluted Shares (mln)	***201.9***	***201.9***	***205.1***	***223.8***
Consolidated EBITDA	1 302.9	1 302.9	1 359.9	1 505.1
Earnings	333.4	333.4	355.4	385.7
FortisBC - Gas	146.9	146.9	149.9	149.9
FortisAlberta	82.1	82.1	86.3	86.3
FortisBC - Electric	48.2	48.2	49.6	49.6
Newfoundland Power	33.0	33.0	35.0	35.0
Other Utilities	22.6	22.6	23.5	23.5
Caribbean Utilities	18.8	18.8	21.6	21.6
Fortis New York	0.0	0.0	0.0	30.6
Fortis Generation	19.6	19.6	20.4	20.4
Fortis Properties	23.7	23.7	27.8	27.8
Corporate and Other	-61.4	-61.4	-58.6	-58.9
FFO	833.9	833.9	881.0	953.9
Maintenance Capital	340.0	340.0	340.0	370.0
AFFO	493.9	493.9	541.0	583.9
Dividends	227.9	227.9	238.6	272.7
Growth Capital	792.7	792.7	789.1	840.5
Adj. Free Cash Flow(1)	-298.8	-298.8	-248.1	-256.6
Equity Issued (net)	41.4	41.4	54.9	639.7
Ending Net Debt	7 872.6	7 872.6	8 256.5	9 182.6
D / EBITDA	6.0	6.0	6.1	6.1
D / Total Capital	57%	57%	58%	58%
CF / D(2)	17%	17%	18%	18%
CF / Interest(3)	3.2	3.2	3.2	3.0
Net Debt	**36.52**	**36.52**	**37.91**	**38.92**
EBITDA	**6.87**	**6.87**	**7.06**	**7.29**
Earnings - Fully Diluted	**1.76**	**1.76**	**1.84**	**1.87**
CFPS - FD	**4.37**	**4.37**	**4.54**	**4.58**
AFFO - FD	**2.60**	**2.60**	**2.81**	**2.83**
Dividends	**1.20**	**1.20**	**1.24**	**1.24**
AFFO payout ratio	46%	46%	44%	47%
earnings payout	68%	68%	67%	71%
drip participation	23%	23%	23%	23%

(1) AFFO less growth capital.
(2) FFO before changes in working capital divided by average 2-year total debt.
(3) FFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Note: Estimates include FTS' proportionate 51% interest in Waneta.
Source: NBF Estimates, Company Reports

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DISCLOSURES:

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FTS (Fortis Inc.) -ADDITIONAL COMPANY RELATED DISCLOSURES
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Fortis Inc.

Solid Q2 results

BCUC downside largely priced in – maintain Sector Perform

FTS (T)	$33.54
Stock Rating:	Sector Perform (Unchanged)
Target:	$35.00 (Unchanged)
Risk Rating:	Low (Unchanged)
Est. Total Return	8.0%

Stock Data:	
52-week High-Low (Canada)	$34.98 - $28.24
Bloomberg/Reuters: Canada	FTS CT / FTS.TO

(Year-End Dec.31)	2011a	2012e	2013e
AFFO/Share - f.d.	$2.56	$2.43	$2.74
P/AFFO	13.0x	13.8x	12.2x
EPS - f.d.	$1.74	$1.72	$1.86
P/E	19.2x	19.5x	18.1x
D/EBITDA	5.9x	6.0x	6.0x
EV/Free-EBITDA	15.7x	16.7x	14.0x
Dividends	$1.16	$1.20	$1.24
Dividend Yield	3.5%	3.6%	3.7%

Financial Data:	
Shares Outstanding (mln)	211.2
Book Value per Share	$20.68
Market Capitalization (mln)	$7 084
Price/Book Ratio	1.6x
Net Debt (mln)	$8 682
Net Debt/Enterprise Value	55%
Debt/13 Distr. CF	15.9x
Total Return	8.0%

Industry Rating: Overweight (Utilities)
(NBF Economics & Strategy group)

Company Profile:
Fortis Inc. is primarily a natural gas and electricity distribution utility holding company providing service to more than 2,000,000 customers. Fortis' regulated holdings include a natural gas distribution utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Its non-regulated holdings include electricity generation assets in Canada, Belize and upper New York State. The Company also owns and operates a hospitality and commercial real estate division with over 20 throughout Canada and 2.8 million square feet of commercial real estate in Atlantic Canada.

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HIGHLIGHTS

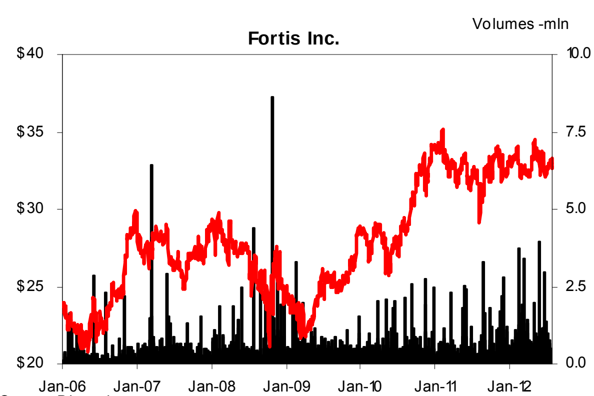
- **Solid Q2 results**
  FTS reported Q2 2012 EPS (FD) of $0.35 (net of $0.02/share in one-time acquisition expenditures) – in line with our estimate and consensus of $0.34 (per ThomsonOne).

- **BCUC downside risk largely priced in**
  The BCUC (British Columbia Utilities Commission) cost of capital proceedings are expected to take place through December 2012 – which could result in lower allowable ROEs for FortisBC (Gas and Electric) effective Jan. 1, 2013. As highlighted inside, assuming a 50 bps reduction in allowable ROEs at FortisBC (Gas and Electric), our 2013e EPS declines ~$0.06 (~3%) while our DCF per share valuation declines ~$1.00 (~3%) to $33.75 versus the current share price of $33.54 – suggesting the downside risk associated with the upcoming BCUC decision is largely priced into the stock.

- **Estimates – offsetting changes**
  Overall, our 2013e EPS (FD) remains unchanged at $1.86 – representing a 2013e earnings payout ratio of 71% (low payout group avg.: 74%). Meanwhile, our 2013e AFFO per share declines a modest $0.06 to $2.74 owing to higher maintenance capex – representing an AFFO payout ratio of 48% (was 47%; group avg.: 47%).

- **Maintain $35 target and Sector Perform rating**
  With our estimates intact, we maintain our $35.00 target. Combined with a 12-month total return opportunity of 8.0% (group avg.: 12.4%), we maintain our Sector Perform rating.

Stock Performance



Source: Bloomberg

Solid Q2 results

Fortis reported Q2 2012 EPS (FD) of $0.35 (excluding $0.02 in one-time acquisition expenditures related to the CH Energy transaction) – in line with our estimate and consensus of $0.34 (per ThomsonOne). Stronger contributions from FortisAlberta were partially offset by lower contributions from FortisBC - Gas.

FTS - Q2 2012 EARNINGS RECONCILIATION	$ mlns	Per Share
Estimated Earnings - basic	**$64.2**	**$0.34**
Difference Related to:		
FortisBC - Gas	-$5.1	(0.03)
FortisAlberta	$3.8	0.02
FortisBC - Electric	-$0.9	(0.00)
Newfoundland Power	$1.2	0.01
Other Cdn Utilities	-$0.9	(0.00)
Caribbean Utilities	$0.3	0.00
Fortis Generation	$0.4	0.00
Fortis Properties	$0.1	0.00
Corporate & other(1)	$1.8	0.01
Actual Earnings - basic(1)	**$65.0**	**$0.35**

(1) Net of $3 million ($0.02/share) in one-time acquisition charges related to CH Energy Group, Inc.

Source: NBF Estimates and Company Data

FortisBC: Gas – earned $13 million, $5 million below our estimate of $18 million. Lower earnings were due to lower than expected capitalized allowance for funds used during construction and lower rate-base growth. Recall, owing to the seasonal nature of natural gas consumption patterns, FortisBC's earnings generally peak during Q1 and Q4 of each year.

FortisAlberta – earnings of $26 million came in $4 million ahead of our estimate of $22 million. Overall, higher earnings were due to continued rate-base growth and ~$3 million in transmission revenue recognized during Q2 (~$1 million related to Q1 2012) as a result of a favourable regulatory decision.

Portfolio update – BCUC proceedings to last through late 2012

BC Utilities Commission (BCUC) – In November 2011, the BCUC gave preliminary notification to public utilities subject to its regulation that it will initiate a Generic Cost of Capital (GCOC) proceeding in early 2012 which will: 1) set the appropriate cost of capital for a benchmark low-risk utility; 2) establish a benchmark ROE for 2013; 3) determine whether a ROE automatic adjustment mechanism would be warranted post 2014; 4) a generic methodology in establishing a utility's cost of capital; 5) establish a deemed capital structure / cost of capital methodology; and 6) methodology to determine a deemed interest rate. The allowed ROEs at FortisBC Gas and Electric will be maintained pending the outcome of the proceedings expected to be held through December 2012, with any ROE revisions taking effect Jan. 1, 2013. (FortisBC Gas: 9.5% – B.C.; 10.0% – Vancouver Island / Whistler / 40% equity; FortisBC Electric: 9.9% / 40% equity).

Recall, the Alberta Utilities Commission (AUC) issued a decision in December 2011 which reduced the 2011 and 2012 allowed ROE to 8.75% (from 9.0% in 2010) and maintained this rate for 2013 on an interim basis (equity thickness unchanged at 41%) – potentially setting further precedence to provincial regulator's cost of capital reviews.

Alberta – The AUC (Alberta Utilities Commission) expects to commence a proceeding in due course to establish a final allowed ROE for 2013. During this proceeding, the AUC will revisit the matter of a return to a formula-based approach. A decision is also expected in Q4 2012 for the introduction of performance-based service rates beginning in 2013 for a five-year term.

Newfoundland Power – In March 2012, Newfoundland Power filed a cost of capital application with the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) to discontinue the use of the current ROE adjustment mechanism and to approve a just and reasonable rate of return for 2012. In June 2012, Newfoundland Power received regulatory approval of an increase to its allowed ROE to 8.8% for 2012, up from 8.38% for 2011.

Meanwhile, over the next five years, Fortis continues to forecast ~$6.0 billion of capital expenditures (excluding acquisitions; ~$5.5 billion excluding CH Energy) with ~$1.3 billion expected to be incurred in 2012. The company's capital will be deployed ~65% at its regulated electric utilities (largely FortisAlberta and FortisBC), ~21% at FortisBC Gas and the remaining ~14% at the company's non-regulated operations.

CH Energy acquisition on track for Q1 2013 – Recall, on Feb. 21, FTS announced that it entered into an agreement to acquire CH Energy Group, Inc. – a New York based rate regulated electric and gas distribution utility. The US$1.5 billion acquisition received shareholder approvals in June 2012 and FERC / Foreign Investment regulatory approvals in July 2012. The acquisition remains on track to be closed by the end of Q1 2013 (of note, we previously modeled in ~2% accretion to our long-term estimates).

FortisBC Electric – FortisBC is currently in preliminary discussions with the City of Kelowna to acquire the City's electricity distribution utility which currently services ~15,000 customers. The assets have been operated and maintained by FortisBC since 2000. Subject to the negotiation of definitive agreements and certain approvals (municipal and regulatory), the transaction could close by the end of Q1 2013.

Fortis Generation – Elsewhere, the ~$900 million (FTS: 51%), 335 MW Waneta hydroelectric project remains on track to be commissioned in the spring of 2015. Generation from the facility is contracted to both BC Hydro and FortisBC Electric under a long-term PPA. To date, ~$345 (gross) million has been incurred on the project for excavation of the intake, powerhouse and power tunnels.

Estimates – offsetting changes

We updated our rate base assumptions at FortisBC Gas and FortisAlberta and bumped up our go-forward ROE assumption at Newfoundland Power in line with an increase to the company's approved ROE. Elsewhere, we nudged up our maintenance capex expenditures in line with management guidance.

Overall, our 2013e EPS (FD) remains unchanged at $1.86 – representing a 2013e earnings payout ratio of 71% (low payout group avg.: 74%). Meanwhile, our 2013e adjusted funds from operations (AFFO) per share declines a modest $0.06 to $2.74 – representing an AFFO payout ratio of 48% (was 47%), in line with the low payout group average of 47%. On the leverage front, our 2013e D/EBITDA declines to 6.0x (was 6.1x; low payout group avg.: 5.3x) and we forecast a 2013e debt-to-capitalization of 58% (~65% including preferred shares as debt), slightly below the company's long-term target ratio of 60%.

2013 ESTIMATE CHANGES

(000's)	Prev.	Rev.	Change		Comments
Earnings					
FortisBC - Gas	149 926	147 098	-2 829	-2%	Rate base adjustment ↓
FortisAlberta	86 279	89 731	3 451	4%	Rate base adjustment ↑
FortisBC - Electric	49 557	49 477	-81	0%	
Newfoundland Power	34 989	36 742	1 754	5%	Increase in ROE ↑
Other Utilities	23 450	22 136	-1 315	-6%	
Caribbean Utilities	21 576	21 576	0	0%	
Fortis New York	30 643	30 643	0	n/a	
Fortis Generation	20 430	20 445	15	0%	
Fortis Properties	27 722	27 804	81	0%	
Corporate & Other	-61 568	-61 591	-23	0%	
	383 006	**384 060**	**1 054**	**0%**	
per share (FD)	*$1.86*	*$1.86*	*$0.00*	*0%*	
EPS payout	*71%*	*71%*	*0%*	*0%*	
FFO					
DD&A	504 000	504 000	0	0%	
Deferred Income Taxes	17 577	15 442	-2 135	n/a	
NCI	4 000	4 000	0	0%	
Other	40 000	40 000	0	0%	
FFO	**948 583**	**947 502**	**-1 081**	**0%**	
Maintenance capex	-370 000	-380 000	-10 000	3%	Management guidance ↓
AFFO	**578 583**	**567 502**	**-11 081**	**-2%**	
per share (FD)	*$2.80*	*$2.74*	*-$0.06*	*-2%*	
AFFO payout	*47%*	*48%*	*1%*		

Source: NBF

$35 target – BCUC downside largely priced in, maintain Sector Perform

With our estimates intact, we maintain our $35.00 target – which is based on a risk-adjusted dividend yield of 3.5% applied to our 2013e dividend of $1.24/share, a 13.5x multiple of our 2013e free-EBITDA of $1,125 million and our DCF valuation of $34.75 (was $35.50).

As shown below, assuming a 50 bps reduction in allowable ROEs at FortisBC (Gas and Electric), our 2013e EPS declines ~$0.06 (~3%) while our DCF per share valuation declines ~$1.00 (~3%) to $33.75 versus the current share price of $33.54 – suggesting the downside risk associated with the BCUC decision is largely priced into the stock. Combined with a 12-month total return opportunity of 8.0% (group avg.: 12.4%), we maintain our Sector Perform rating.

FTS - 2013E EPS SENSITIVITY

Equity Capitalization	Change in ROE: -0.50%	-0.25%	0.00%	0.25%	0.50%
-5.0%	1.48	1.51	1.53	1.55	1.57
-2.5%	1.64	1.67	1.69	1.72	1.75
0.0%	1.80	1.83	1.86	1.89	1.92
2.5%	1.95	1.99	2.02	2.06	2.09
5.0%	2.11	2.15	2.19	2.22	2.26

Source: NBF Estimates, Bloomberg

FTS - DCF VALUATION SENSITIVITY

Equity Capitalization	Change in ROE: -0.50%	-0.25%	0.00%	0.25%	0.50%
-5.0%	29.25	29.50	30.00	30.25	30.50
-2.5%	31.50	32.00	32.25	32.75	33.25
0.0%	33.75	34.25	34.75	35.25	35.75
2.5%	36.25	36.75	37.25	37.75	38.25
5.0%	38.50	39.00	39.50	40.00	40.75

Source: NBF Estimates, Bloomberg

Fortis Inc.	2012e Previous	2012e Revised	2013e Previous	2013e Revised
SUMMARY INFORMATION ($mlns)				
Average Shares (mln)	***189.7***	***189.9***	***206.4***	***206.8***
Ending Shares (mln)	***190.6***	***190.9***	***212.5***	***212.9***
Fully Diluted Shares (mln)	***201.9***	***202.2***	***223.8***	***224.2***
Consolidated EBITDA	1 299.2	1 291.1	1 505.8	1 505.4
Earnings	328.6	327.0	383.0	384.1
FortisBC - Gas	144.1	140.6	149.9	147.1
FortisAlberta	82.1	87.7	86.3	89.7
FortisBC - Electric	48.2	48.1	49.6	49.5
Newfoundland Power	33.0	35.9	35.0	36.7
Other Utilities	22.6	21.6	23.5	22.1
Caribbean Utilities	18.8	19.5	21.6	21.6
Fortis New York	0.0	0.0	30.6	30.6
Fortis Generation	19.5	20.3	20.4	20.4
Fortis Properties	23.3	24.2	27.7	27.8
Corporate and Other	-63.1	-71.0	-61.6	-61.6
FFO	822.4	806.2	948.6	947.5
Maintenance Capital	340.0	345.0	370.0	380.0
AFFO	482.4	461.2	578.6	567.5
Dividends	227.9	228.2	272.7	273.2
Growth Capital	792.7	817.1	840.5	842.6
Adj. Free Cash Flow(1)	-310.3	-355.8	-261.9	-275.0
Equity Issued (net)	41.4	32.3	639.7	639.8
Ending Net Debt	7 884.1	7 725.9	9 199.4	9 050.8
D / EBITDA	6.1	6.0	6.1	6.0
D / Total Capital	57%	57%	58%	58%
CF / D(2)	17%	17%	18%	18%
CF / Interest(3)	3.2	3.2	3.0	3.0
Net Debt	**36.58**	**35.69**	**39.00**	**38.23**
EBITDA	**6.85**	**6.80**	**7.30**	**7.28**
Earnings - Fully Diluted	**1.73**	**1.72**	**1.86**	**1.86**
CFPS - FD	**4.31**	**4.23**	**4.56**	**4.55**
AFFO - FD	**2.54**	**2.43**	**2.80**	**2.74**
Dividends	**1.20**	**1.20**	**1.24**	**1.24**
AFFO payout ratio	47%	49%	47%	48%
earnings payout	69%	70%	71%	71%
drip participation	23%	24%	23%	23%

(1) AFFO less growth capital.
(2) FFO before changes in working capital divided by average 2-year total debt.
(3) FFO before changes in working capital plus net interest expense divided by interest on debt less interest income.
Note: Estimates include FTS' proportionate 51% interest in Waneta.
Source: NBF Estimates, Company Reports

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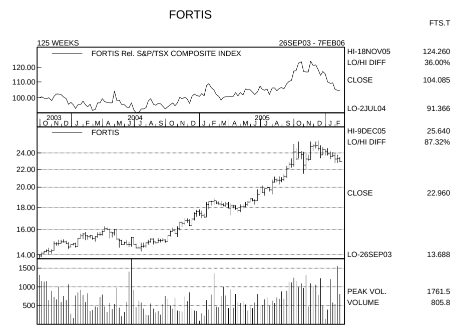
RBC Capital Markets

Research Comment

February 8, 2006



Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Q4/05 Results Largely In Line; 2006 and 2007 EPS Estimates Increased

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Price:	$22.96	Target Price:	$27.50
52-Wk High:	$25.64	52-Wk Low:	$17.25
Float (MM):	103.2	Debt-to-Cap:	0.59
Shs O/S (MM):	103.2	Mkt Cap (MM):	$2,370
Dividend:	$0.64	Yield:	2.8%

(FY Dec. 31)	2004A	2005A	2006E	2007E
EPS				
New Basic	$1.10	$1.15	$1.26	$1.33
New Diluted(1)	$1.09	$1.13	$1.25	$1.32
Old Basic	$1.11	$1.15	$1.20	$1.28
Old Diluted(1)	$1.09	$1.13	$1.19	$1.27
P/E	20.9	20.0	18.2	17.3
EPS	Q1	Q2	Q3	Q4
2004A(2)	$0.27	$0.31	$0.27	$0.27
2005A(2)	$0.29	$0.28	$0.30	$0.27
2006E(2)	$0.35	$0.35	$0.31	$0.26

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

(2) Sum of quarterly EPS does not equal annual EPS

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 3.

Event

Fortis reported its fourth quarter results.

Investment Opinion

- **Results Largely In Line.** Fortis' normalized Q4/05 EPS were $0.27 compared to our estimate of $0.28, consensus of $0.27, and normalized Q4/04 EPS of $0.27. Management disclosed a number of normalizations that were not explicitly broken out in the fourth quarter release that brought most segmented results into line with our estimates. Only FortisBC was lower than our expectations due to higher-than-expected operating expenses, amortization costs and finance charges.
- **2006 and 2007 EPS Estimates Increased.** Reflecting several changes to our financial model, we have increased our 2006 and 2007 EPS estimates from $1.20 and $1.28, respectively, to $1.26 and $1.33.
- **FortisAlberta and Fortis Generation Drive Changes to Earnings.** We have increased our 2006 and 2007 earnings forecasts for FortisAlberta to reflect higher anticipated efficiencies at the utility and we increased our estimates for Fortis Generation to reflect the larger-than-expected difference between our forecast Ontario power prices and Fortis'. We have also increased our earnings forecasts for Caribbean Utilities to reflect cost recoveries of Hurricane Ivan, which are expected to last three years. Partially offsetting the aforementioned positive deltas to our forecast is a change in our projected C$/US$ exchange rate to reflect a higher-than-previously forecast Canadian dollar.
- **Conclusion.** We continue to view Fortis as one of the more attractively valued Energy Infrastructure companies in our coverage universe. We believe that growth will be driven by capital spending at the regulated utilities FortisAlberta and FortisBC. We also believe we will see continued improvement in the earnings contributions from Caribbean Utilities and BECOL. Furthermore, Fortis has a low payout ratio, thereby providing the company with room for above average increases in its dividend.
- **Valuation.** Our target price of $27.50 reflects a forecast 12-month dividend distribution one-year forward of $0.74 and a required dividend yield of 2.60%. Fortis is ranked Outperform, Average Risk.

Details

Fortis' normalized Q4/05 EPS were $0.27 compared to our estimate of $0.28, consensus of $0.27, and normalized Q4/04 EPS of $0.27. Management disclosed a number of normalizations that were not explicitly broken out in the fourth quarter release that brought most segmented results into line with our estimates. Only FortisBC was lower than our expectations due to higher-than-expected operating expenses, amortization costs and finance charges.

Exhibit 1: Segmented Earnings ($MM except EPS or otherwise noted)

	Q4 2005	RBC CM Q4/05 Est.	Q4 2004	2005	2004	Comments: Q4/05 compared to Q4/04
Newfoundland Power	$ 2.8	$ 3.2	$ 3.3	$ 29.3	$ 31.1	Lower electricity sales
Maritime Electric	1.7	1.5	1.8	9.1	8.2	
FortisOntario	1.0	0.8	0.9	3.5	4.3	
FortisAlberta	7.2	6.9	7.5	27.3	18.6	
FortisBC	5.7	7.1	7.9	24.6	14.0	Increased op. exp., amort. costs and finance charges
Regulated Utilities - Canadian	18.3	19.5	21.4	93.9	76.1	
Belize Electricity	2.0	2.5	1.6	8.1	7.2	Higher-than-expected energy supply costs
Caribbean Utilities	2.8	2.9	2.4	9.5	9.0	Post-hurricane economic recovery, insurance claims, Cost Recovery Surcharge
Regulated Utilities - Caribbean	4.8	5.4	4.0	17.6	16.2	
Non-regulated - Fortis Generation	9.6	10.1	4.7	22.7	12.8	Lower-than-expected production from Central Nfld.
Non-regulated - Fortis Properties	2.9	2.4	2.8	14.1	11.8	
Corporate	(7.8)	(8.0)	(7.2)	(31.7)	(23.4)	
Normalized Earnings	$ 27.9	$ 29.3	$ 25.7	$ 116.6	$ 93.6	
Normalized EPS	$ 0.27	$ 0.28	$ 0.27	$ 1.15	$ 1.10	
Average shares outstanding (MM)	103.1	103.3	95.5	101.8	84.7	
Normalization adjustments:						
One-time tax benefit					1.8	Corporate
Hurricane Ivan			(8.2)		(8.2)	Caribbean Utilities
Unbilled electricity adjustment			3.7		3.7	FortisBC
Favourable resolution of CRA reassessment				1.6		FortisOntario
Estimation of insurance recovery				1.8		FortisAlberta
F/X gain				1.7		Corporate
Newfoundland Power tax settlement				1.4		Newfoundland Power
FortisAlberta tax settlement				7.0		FortisAlberta
Caribbean Utilities accounting change				1.1		Caribbean Utilities
Settlement of contractual matters with OPG				7.9		Fortis Generation
Recovery of Hurricane Ivan damages				0.7		Caribbean Utilities
Early retirements	(0.8)			(0.8)		FortisOntario
Writedown of Rankine facility	(1.1)			(1.1)		Fortis Generation
Clean up of closing adjustments	(0.8)			(0.8)		Corporate
Negotiated Rate Settlement	(3.0)					FortisAlberta
Effect of new purchased power rate structure	0.1					Newfoundland Power
Reported Earnings	$ 22.3		$ 21.2	$ 137.1	$ 90.9	

Source: Company reports, RBC Capital Markets estimates

Fourth Quarter Results

The normalized results from most of Fortis' business segments were largely in line with our expectations. After the more detailed breakdown of normalizations provided by management, only FortisBC was notably out of line with our forecast. FortisBC's earnings were $5.7 million in Q4/05 compared to our estimate of $7.1 million due to higher-than-expected operating expenses, amortization costs and finance charges. There were pluses and minuses in other segments, but the shortfall at

FortisBC was just over $0.01 per share and accounts for most of the discrepancy between our estimates and the normalized results for the quarter.

EPS Estimates

We have revised our financial model for Fortis to reflect a number of changes. We have increased our 2006 and 2007 earnings forecasts for FortisAlberta to reflect higher anticipated efficiencies at the utility and we increased our estimates for Fortis Generation to reflect the larger-than-expected difference between our forecast Ontario power prices and Fortis'. We have also increased our earnings forecasts for Caribbean Utilities to reflect cost recoveries of Hurricane Ivan, which are expected to last three years. Partially offsetting the aforementioned positive deltas to our forecast is a change in our projected C$/US$ exchange rate to reflect a higher-than-previously forecast Canadian dollar. Based on these changes to our financial model, we have increased our 2006 and 2007 EPS estimates from $1.20 and $1.28, respectively, to $1.26 and $1.33.

Conclusion

We continue to view Fortis as one of the more attractively valued Energy Infrastructure companies in our coverage universe. We believe that growth will be driven by capital spending at the regulated utilities FortisAlberta and FortisBC. We also believe we will see continued improvement in the earnings contributions from Caribbean Utilities and BECOL. Furthermore, Fortis has a low payout ratio, thereby providing the company with room for above average increases in its dividend.

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $27.50 reflects a forecast 12-month dividend distribution one-year forward of $0.74 and a required dividend yield of 2.60%. We believe a required yield of 2.60% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The political environment in Belize, economic/tourism conditions in Atlantic Canada, operational issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 37% interest in Caribbean Utilities.

Required Disclosures

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Ratings
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Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

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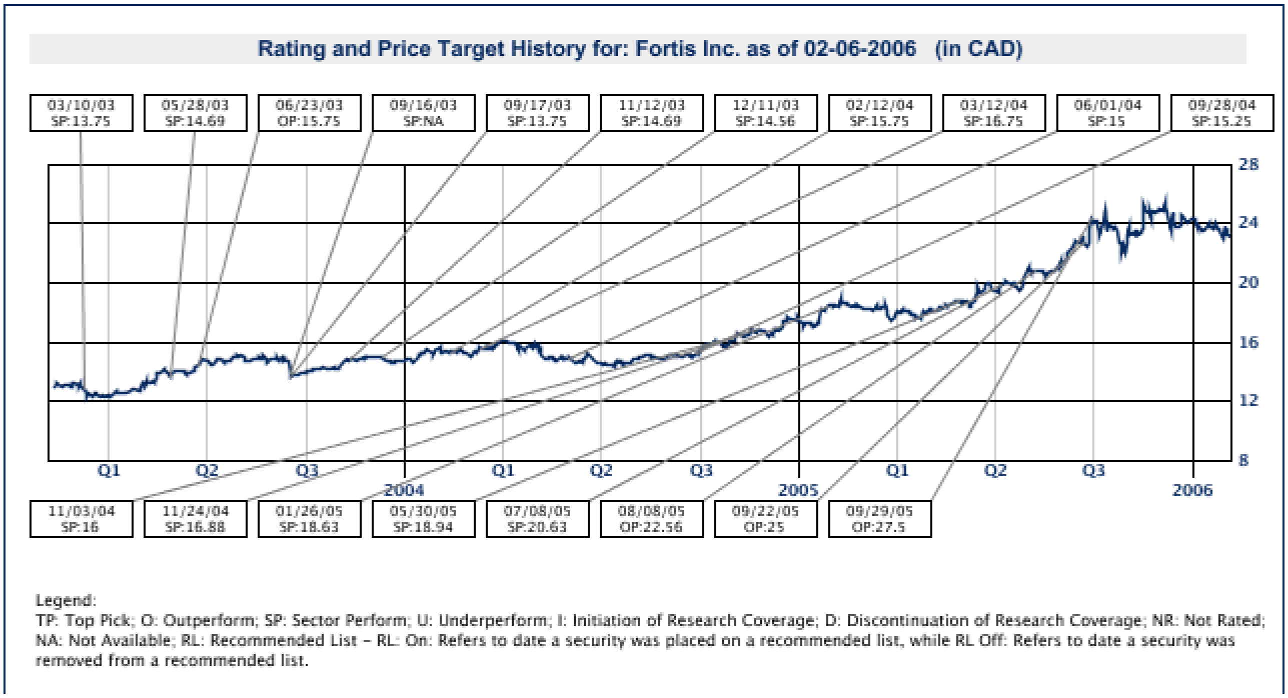
BUY [TP/O]	404	42.57	172	42.57
HOLD [SP]	453	47.73	137	30.24
SELL [U]	92	9.69	23	25.00



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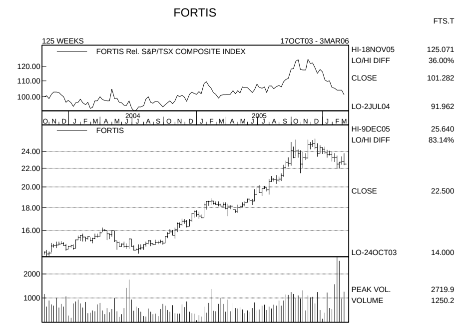

Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

BCUC Revises Generic ROE Formula; EPS Estimates Increased

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Price:	$22.50	Target Price:	$27.50
52-Wk High:	$25.64	52-Wk Low:	$17.25
Float (MM):	103.2	Debt-to-Cap:	0.59
Shs O/S (MM):	103.2	Mkt Cap (MM):	$2,323
Dividend:	$0.64	Yield:	2.8%

(FY Dec. 31)	2004A	2005A	2006E	2007E
EPS				
New Basic	$1.10	$1.15	$1.27	$1.34
New Diluted(1)	$1.09	$1.13	$1.26	$1.33
Old Basic	$1.11	$1.15	$1.26	$1.33
Old Diluted(1)	$1.09	$1.13	$1.25	$1.32
P/E	20.5	19.6	17.7	16.8
EPS	Q1	Q2	Q3	Q4
2004A(2)	$0.27	$0.31	$0.27	$0.27
2005A(2)	$0.29	$0.28	$0.30	$0.27
2006E(2)	$0.35	$0.35	$0.31	$0.25

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

(2) Sum of quarterly EPS does not equal annual EPS

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 3.

Event

The British Columbia Utilities Commission (BCUC) revised the calculation of the ROE allowed in rates for public utilities.

Investment Opinion

- **Revises Automatic Adjustment Mechanism.** The BCUC revised the Automatic Adjustment Mechanism (AAM) used to calculate the ROE allowed in rates for public utilities regulated by the BCUC. For 2006, the approved generic ROE for a low-risk utility increases to 8.80% from the previously calculated 8.29% and is effective January 1, 2006. FortisBC's ROE is set at a 40bp premium to that of the "generic" low-risk utility to reflect its higher risk profile.
- **Changes to AAM.** The BCUC reduced the base ROE for the benchmark low-risk utility to 9.145% from 9.50% assuming a 30-year long Canada bond yield of 5.25%. The previously assumed long Canada bond yield was 6.0%. Partially offsetting the reduced long Canada bond yield was an increase in the equity risk premium to 3.895% from 3.5%. In addition, the BCUC implemented a symmetric adjustment factor of 75% of the change in forecast long Canada bond yields.
- **Impact to Fortis.** We view the BCUC decision as slightly positive for Fortis relative to our expectations. Under the decision, FortisBC's allowed ROE was increased to 9.20% from 8.69%. FortisBC's deemed common equity component was not impacted by the decision, remaining at 40%.
- **EPS Estimates Increased.** We have revised our financial model to reflect the actual approved ROE of 9.20% for FortisBC. Accordingly, we have increased our 2006 and 2007 EPS estimates for Fortis from $1.26 and $1.33, respectively, to our new estimates of $1.27 and $1.34.
- **Valuation.** Our target price of $27.50 reflects a forecast 12-month dividend distribution one-year forward of $0.74 and a required dividend yield of 2.60%. Fortis is ranked Outperform, Average Risk.

Details

The British Columbia Utilities Commission (BCUC) revised the Automatic Adjustment Mechanism (AAM) used to calculate the ROE allowed in rates for public utilities regulated by the BCUC. For 2006, the approved generic ROE for a low-risk utility increases to 8.80% from the previously calculated 8.29% and is effective January 1, 2006. FortisBC's ROE is set at a 40bp premium to that of the "generic" low-risk utility to reflect its higher risk profile.

BCUC Generic ROE

The BCUC reduced the base ROE for the benchmark low-risk utility to 9.145% from 9.50% assuming a 30-year long Canada bond yield of 5.25%. The previously assumed long Canada bond yield was 6.0%. Partially offsetting the reduced long Canada bond yield was an increase in the equity risk premium for a low-risk benchmark utility from 3.5% to 3.895%. In addition, the BCUC implemented a symmetric adjustment factor of 75% of the change in forecast long Canada bond yields.

Previously, the AAM utilized an asymmetric adjustment factor which increased the annual allowed ROE by 80% of the change in forecast long Canada yields above 6.0%, and reduced the annual allowed ROE by 100% of the change in forecast long Canada yields below 6.0%. The move to a symmetric adjustment factor of 75% puts B.C. utilities on a similar footing as their Canadian peers.

Exhibit 1 summarizes the calculation of the generic ROE with the new assumptions and new adjustment factor.

Exhibit 1: 2006 BCUC Generic ROE For a Low-Risk Benchmark Utility

BCUC 2006E ROE Calculation	
Consensus economic forecast 10-yr bond yield (3 Months Out)	4.40%
Consensus economic forecast 10-yr bond yield (12 Months Out)	4.70%
Average	4.55%
Add: average basis point spread between 10-year and 30-year GOC bond	0.24%
2006 Forecast of the 30-year Government of Canada bond yield	4.79%
Base 30-year Government of Canada bond yield	5.25%
Difference between 2006 and 5.25% base forecast	-0.46%
Adjustment Factor	0.75
	-0.35%
Base ROE	9.145%
2006 ROE	8.80%

Source: Consensus Economics Inc., Bloomberg, BCUC

EPS Estimates

We view the BCUC decision as slightly positive for Fortis relative to our expectations. Under the decision, since FortisBC is deemed to have a 40bp risk premium (unchanged) over the benchmark low-risk utility ROE, its allowed ROE was increased to 9.20% from 8.69%. FortisBC's deemed common equity component was not impacted by the decision, remaining at 40%. Accordingly, to reflect the actual approved ROE of 9.20% for FortisBC we have increased our 2006 and 2007 EPS estimates for Fortis from $1.26 and $1.33, respectively, to our new estimates of $1.27 and $1.34.

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $27.50 reflects a forecast 12-month dividend distribution one-year forward of $0.74 and a required dividend yield of 2.60%. We believe a required yield of 2.60% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The political environment in Belize, economic/tourism conditions in Atlantic Canada, operational issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 37% interest in Caribbean Utilities.

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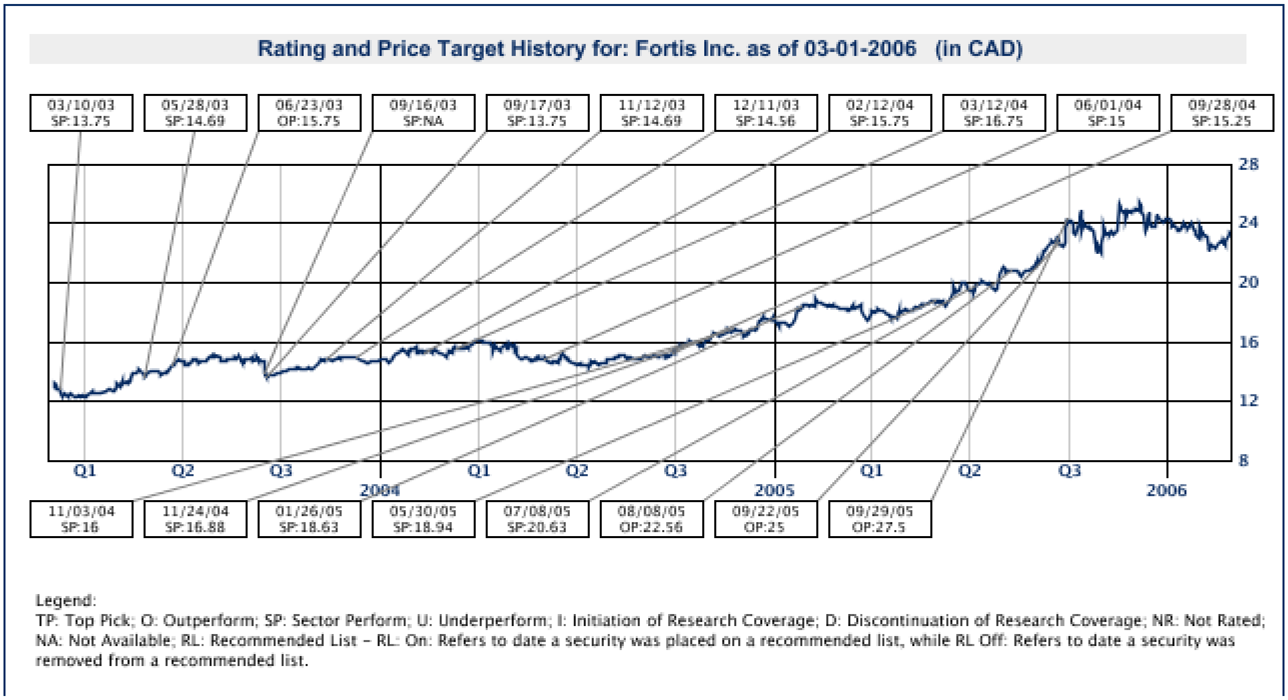

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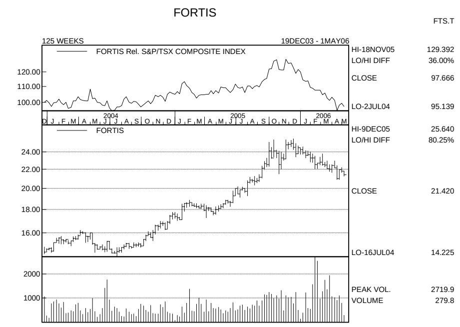
Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Q1/06 Results Better Than Expected; EPS Estimates Increased



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Price:	$21.42	Target Price:	$24.50
52-Wk High:	$25.64	52-Wk Low:	$17.82
Float (MM):	103.4	Debt-to-Cap:	0.59
Shs O/S (MM):	103.4	Mkt Cap (MM):	$2,214
Dividend:	$0.64	Yield:	3.0%

(FY Dec. 31)	2004A	2005A	2006E	2007E
EPS				
Old Basic	$1.10	$1.15	$1.25	$1.34
Old Diluted(1)	$1.09	$1.13	$1.24	$1.33
New Basic	$1.10	$1.15	$1.28	$1.39
New Diluted(1)	$1.09	$1.13	$1.27	$1.38
P/E	19.5	18.6	16.7	15.4
EPS	Q1	Q2	Q3	Q4
2004A(2)	$0.27	$0.31	$0.27	$0.27
2005A(2)	$0.31	$0.28	$0.29	$0.27
2006E(2)	$0.36A	$0.33	$0.33	$0.27

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

(2) Sum of quarterly EPS does not equal annual EPS

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 3.

Event

Fortis reported its Q1/06 results.

Investment Opinion

- **Q1/06 Results.** Fortis' normalized Q1/06 EPS of $0.36 was higher than our estimate of $0.33. The consensus Q1/06 EPS estimate was $0.36 and Q1/05 normalized EPS was $0.31. Better-than-expected earnings from FortisBC, FortisAlberta and Belize Electricity were partially offset by lower-than-expected earnings contribution from Newfoundland Power.
- **Strong Earnings From Western Canada.** FortisAlberta's earnings were higher due in part to a $2.9 million benefit from a lower effective tax rate as a result of changing its accounting for federal taxes from a deferred tax method to a cash basis. FortisBC's earnings benefited from a $2.4 million increase in capitalized overhead, which reduced operating expenses. Each of these accounting changes consisted of the bulk of the difference between our estimates and actual results for FortisAlberta and FortisBC. Management expressed confidence in Fortis' ability to maintain the earnings benefits of these changes.
- **Newfoundland Power Accounting Change.** Newfoundland Power changed its revenue recognition policy to an accrual basis, which reduced earnings in the first quarter of 2006 by approximately $2.0 million, or $0.02 per share. The accounting change is simply a timing difference that will result in reduced earnings in the first and second quarters of 2006 compared to 2005, and increased earnings in the third and fourth quarters of 2006 compared to 2005.
- **EPS Estimates Increased.** Largely reflecting continued high capital expenditures and greater achieved efficiencies at FortisBC and FortisAlberta, we have increased our 2006 and 2007 EPS estimates from $1.25 and $1.34 respectively, to $1.28 and $1.39.
- **Conclusion.** Fortis continues to appear to be one of the more attractively valued Energy Infrastructure companies in our coverage universe. We believe that capital spending and earning efficiencies at the regulated utilities FortisAlberta and FortisBC will drive growth. Fortis has a low payout ratio as well as strong forecast earnings per share growth, which combine to provide room for above average increases in its dividend.
- **Valuation.** Our target price of $24.50 reflects a forecast 12-month dividend distribution one-year forward of $0.75 and a required dividend yield of 3.10%. Fortis is ranked Outperform, Average Risk.

Details

Fortis' normalized Q1/06 EPS of $0.36 was higher than our estimate of $0.33. The consensus first quarter 2006 EPS estimate was $0.36 and Q1/05 normalized EPS was $0.31. Better-than-expected earnings from FortisBC, FortisAlberta and Belize Electricity were partially offset by lower-than-expected earnings contribution from Newfoundland Power.

Exhibit 1: Normalized Segmented Earnings ($MM except EPS or otherwise noted)

	Q1 2006	RBC CM Q1/06 Est.	Q1 2005	Comments
Newfoundland Power	$10.7	$11.4 *	$13.0	Lower electricity sales; accounting change
Maritime Electric	2.1	2.2	2.1	
FortisOntario	1.0	1.6	1.1	
FortisAlberta	9.5	7.3	6.8	Lower effective corporate income tax rate
FortisBC	11.9	9.4	8.9	Increased capitalized overhead
Regulated Utilities - Canadian	35.1	31.9	32.0	
Belize Electricity	1.5	1.1	1.0	Higher electricity sales due to economic growth
Caribbean Utilities	1.7	1.6	1.8	
Regulated Utilities - Caribbean	3.2	2.7	2.8	
Non-regulated - Fortis Generation	5.4	5.6	2.1	
Non-regulated - Fortis Properties	1.5	1.5	1.5	
Corporate	(8.4)	(7.8)	(8.3)	Decrease in inter-company interest revenue
Normalized Earnings	$36.8	$33.9	$30.0	
Normalized EPS	$0.36	$0.33	$0.31	
Average shares outstanding (MM)	103.3	103.5	98.0	
Normalization adjustments:				
Settlement of contractual matters with OPG			7.9	Fortis Generation
Recovery of Hurricane Ivan damages			0.7	Caribbean Utilities
F/X gain (loss)	(0.1)		(0.4)	Corporate
Negotiated rate settlement			1.0	FortisAlberta
Reported Earnings	$36.6		$39.2	

* - We restated our Newfoundland Power estimate to reflect the change to accrual accounting.

Source: Company reports; RBC Capital Markets estimates

Issues of Note:

NEWFOUNDLAND POWER

Newfoundland Power changed its revenue recognition policy to an accrual basis, which reduced earnings in the first quarter of 2006 by approximately $2.0 million, or $0.02 per share. Under the previous accounting method, revenue was recognized when bills were sent to customers. The result was that the quarterly revenue recorded by Newfoundland Power would reflect approximately 15 days of sales from the previous quarter, and exclude the sales from the last 15 days of the calendar quarter. Under the newly implemented accrual basis of recognizing revenue, revenue is recorded in the same month that the electricity is delivered. The change has resulted in the last 15 days of December, which were previously recorded in the first quarter, being replaced with electricity sales made during the last 15 days in March. The accounting change is simply a timing difference that will result in reduced earnings in the first and second quarters of 2006 compared to 2005, and increased earnings in the third and fourth quarters of 2006 compared to 2005. There should be no material annual impact.

WESTERN UTILITIES

FortisAlberta's earnings were higher due in part to a $2.9 million benefit from a lower effective tax rate as a result of changing its accounting for federal taxes from a deferred tax method to a cash basis. FortisBC's earnings benefited from a $2.4 million increase in capitalized overhead which reduced operating expenses. Each of these accounting changes consisted of the bulk of the difference between our estimates and actual results for FortisAlberta and FortisBC respectively. Going forward, management expressed confidence in its ability to maintain the earnings benefits of these changes.

EPS Estimates

We revised our financial model for Fortis to incorporate a number of changes. Largely reflecting greater anticipated achieved efficiencies at FortisBC and FortisAlberta, we have increased our 2006 and 2007 earnings estimates for both utilities. We also modestly increased our 2006 and 2007 estimates for Caribbean Utilities. Partially offsetting these positive changes are slightly higher expected Corporate expenses due to higher anticipated corporate development costs. The net effect of these modifications to our model is that we have increased our 2006 and 2007 EPS estimates from $1.25 and $1.34 respectively, to $1.28 and $1.39.

Conclusion

Fortis continues to appear to be one of the more attractively valued Energy Infrastructure companies in our coverage universe. We believe that growth will be driven by capital spending at the regulated utilities FortisAlberta and FortisBC. In addition, Fortis has a low payout ratio as well as strong forecast earnings per share growth, which combine to provide room for above average increases in its dividend.

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $24.50 reflects a forecast 12-month dividend distribution one-year forward of $0.75 and a required dividend yield of 3.10%. We believe a required yield of 3.10% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in Atlantic Canada, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 37% interest in Caribbean Utilities.

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Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
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Risk Qualifiers (any of the following criteria may be present):
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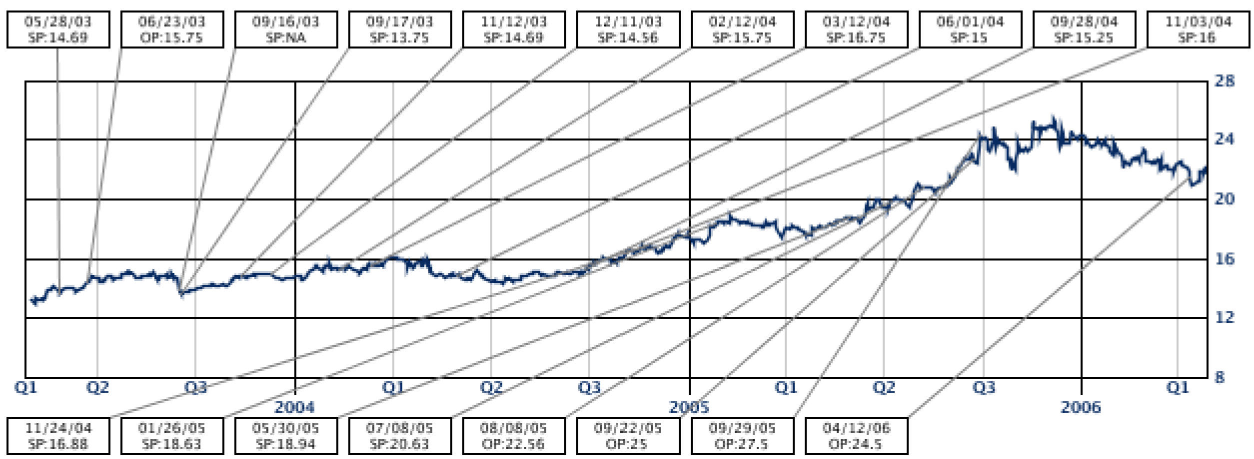
BUY [TP/O]	380	40.99	165	43.42
HOLD [SP]	463	49.95	146	31.53
SELL [U]	84	9.06	25	29.76

Rating and Price Target History for: Fortis Inc. as of 04-28-2006 (in CAD)



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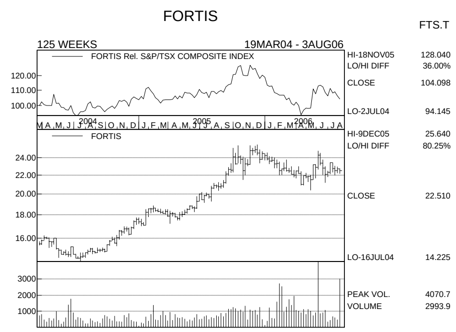
RBC Capital Markets

First Glance

August 4, 2006



Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

First Glance: Q2/06 Results In Line With Expectations

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Price:	$22.51		
52-Wk High:	$25.64	52-Wk Low:	$20.33
Float (MM):	103.6	Debt-to-Cap:	0.6
Shs O/S (MM):	103.6	Mkt Cap (MM):	$2,332
Dividend:	$0.64	Yield:	2.8%
Strategic Shareholders:		Widely held	

All values in Canadian unless otherwise noted.

Impact

Neutral.

First Impression

- **Q2/06 EPS in line.** Fortis' Q2/06 normalized EPS was $0.32 compared to our estimate of $0.33 and compared to Q2/05 normalized EPS of $0.28. The Consensus Estimate for the quarter was $0.33.
- **Segment variations net out.** Higher-than-expected earnings at FortisAlberta were essentially offset by lower-than-expected earnings from the remaining Canadian regulated utilities.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 2.

Exhibit 1: Normalized Earnings ($MM except EPS or otherwise noted)

	Q2 2006	RBC CM Q2/06 Est.	Q2 2005	Comments
Newfoundland Power	$8.0	$9.5	$10.1	
Maritime Electric	1.8	2.3	2.3	
FortisOntario	0.4	0.8	0.9	
FortisAlberta	12.0	7.1	6.8	
FortisBC	3.4	5.7	5.4	
Regulated Utilities - Canadian	25.7	25.5	25.4	
Belize Electricity	2.3	2.0	1.9	
Caribbean Utilities	2.1	2.0	2.0	
Regulated Utilities - Caribbean	4.4	4.0	3.9	
Non-regulated - Fortis Generation	6.0	7.0	3.2	
Non-regulated - Fortis Properties	4.9	4.8	4.8	
Corporate	(8.3)	(7.7)	(8.6)	
Normalized Earnings	$32.6	$33.6	$28.7	
Normalized EPS	$0.32	$0.33	$0.28	
Average shares outstanding (MM)	103.4	103.4	102.9	
Normalization adjustments:				
Newfoundland Power tax settlement			1.4	
FortisAlberta tax settlement			7.0	
Caribbean Utilities accounting change			1.1	
Redist. Negotiated Rate Settlement	(0.7)		1.0	FortisAlberta
F/X gain (loss)	1.6		(1.0)	Corporate
Gain on sale of Days Inn Sydney hotel	1.6			Properties
Impact on future taxes from rate reduction	2.1			Properties, Maritime Electric, FortisOntario
Insurance gain from Dolgeville flood	0.7			Fortis Generation
Reported Earnings	$37.9		$38.2	

Source: Company reports, RBC Capital Markets estimates

Company Description

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Ratings

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Outperform (O): Expected to materially outperform sector average over 12 months.
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Distribution of Ratings, Firmwide

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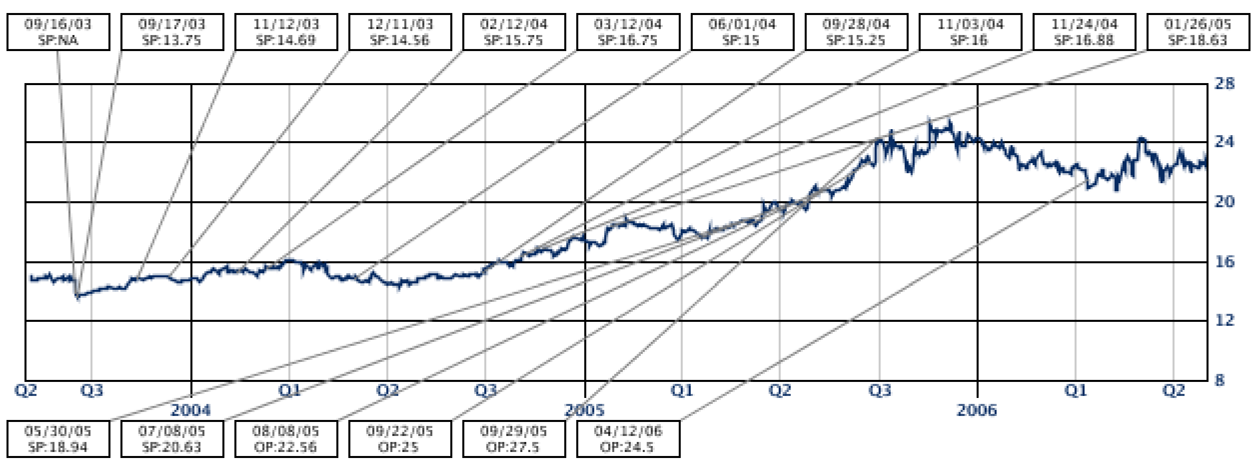
BUY [TP/O]	405	42.72	167	41.23
HOLD [SP]	453	47.78	144	31.79
SELL [U]	90	9.49	32	35.56

Rating and Price Target History for: Fortis Inc. as of 08-02-2006 (in CAD)



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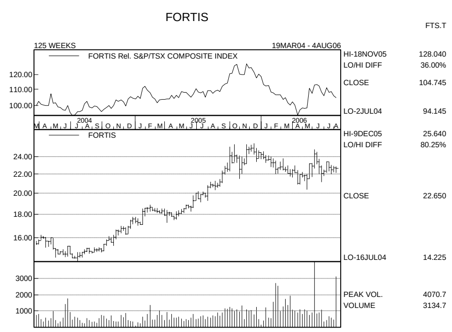

Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Q2/06 Results In Line With Expectations; Target Price and EPS Estimates Increased

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		Old Price Target:		$24.50
Price:	$22.65	New Target:		$26.00
52-Wk High:	$25.64	52-Wk Low:		$20.33
Float (MM):	103.6	Debt-to-Cap:		0.59
Shs O/S (MM):	103.6	Mkt Cap (MM):		$2,347
Dividend:	$0.64	Yield:		2.8%
(FY Dec. 31)	2005A	2006E	2007E	2008E
EPS				
Basic	$1.15	$1.27	$1.38	$1.48
Diluted(1)	$1.13	$1.26	$1.37	$1.47
New Basic	$1.15	$1.29	$1.40	$1.48
New Diluted(1)	$1.13	$1.28	$1.39	$1.47
P/E	19.7	17.6	16.2	15.3
EPS	Q1	Q2	Q3	Q4
2004A(2)	$0.27	$0.31	$0.27	$0.27
2005A(2)	$0.31	$0.28	$0.29	$0.27
2006E(2)	$0.36A	$0.32A	$0.33	$0.29

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

(2) Sum of quarterly EPS does not equal annual EPS due to equity issuances.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 3.

Event

Fortis reported its Q2/06 results.

Investment Opinion

- **Target price increased to $26.00 to reflect Fortis' low P/E and low payout ratio.** Fortis has one of the lowest P/E multiples in the sector and one of the better outlooks for growth in earnings per share. It also has one of the lowest payout ratios in the sector implying that there is room for dividend growth going forward. For these reasons, we believe that the spread between Fortis' dividend yield and the 10-year Government of Canada yield will widen in the future, implying a lower required dividend yield by investors. Reflecting this view, we have increased our target price to $26.00 from our previous target of $24.50.
- **FortisAlberta drives increases to EPS estimates.** FortisAlberta's earnings during the quarter benefited from the reversal of a previous tax provision. Looking forward, we believe that FortisAlberta will be able to maintain high efficiencies and earn above its allowed ROE. Some what tempering the positive impact on earnings from our change in outlook for FortisAlberta is a slightly higher forecast Corporate expense than previously reflected in our financial model The net effect is that we have increased our 2006 and 2007 EPS estimates to $1.29 and $1.40 respectively, from $1.27 and $1.38.
- **Q2/06 EPS in line.** Fortis' Q2/06 normalized EPS was $0.32 compared to our estimate of $0.33 and compared to Q2/05 normalized EPS of $0.28. The consensus estimate for the quarter was $0.33.
- **Segment variations net out.** Higher-than-expected earnings at FortisAlberta were essentially offset by lower-than-expected earnings from the remaining Canadian regulated utilities.
- **Outlook.** Fortis has one of the most attractive valuations in the sectors and one of the best outlooks for EPS growth. We believe there is significant room for dividend growth going forward. Fortis is ranked Outperform, Average Risk
- **Valuation.** Our target price of $26.00 reflects a forecast 12-month dividend distribution one-year forward of $0.77 and a required dividend yield of 3.00%.

Details

Fortis' Q2/06 normalized EPS was $0.32 compared to our estimate of $0.33 and compared to Q2/05 normalized EPS of $0.28. The Consensus Estimate for the quarter was $0.33. Higher-than-expected earnings at FortisAlberta were essentially offset by lower-than-expected earnings from the remaining Canadian regulated utilities.

Exhibit 1: Normalized Segmented Earnings ($MM except EPS or otherwise noted)

	Q2 2006	RBC CM Q2/06 Est.	Q2 2005	Comments
Newfoundland Power	$8.0	$9.5	$10.1	
Maritime Electric	1.8	2.3	2.3	
FortisOntario	0.4	0.8	0.9	
FortisAlberta	12.0	7.1	6.8	
FortisBC	3.4	5.7	5.4	
Regulated Utilities - Canadian	25.7	25.5	25.4	
Belize Electricity	2.3	2.0	1.9	
Caribbean Utilities	2.1	2.0	2.0	
Regulated Utilities - Caribbean	4.4	4.0	3.9	
Non-regulated - Fortis Generation	6.0	7.0	3.2	
Non-regulated - Fortis Properties	4.9	4.8	4.8	
Corporate	(8.3)	(7.7)	(8.6)	
Normalized Earnings	$32.6	$33.6	$28.7	
Normalized EPS	$0.32	$0.33	$0.28	
Average shares outstanding (MM)	103.4	103.4	102.9	
Normalization adjustments:				
Newfoundland Power tax settlement			1.4	
FortisAlberta tax settlement			7.0	
Caribbean Utilities accounting change			1.1	
Redist. Negotiated Rate Settlement	(0.7)		1.0	FortisAlberta
F/X gain (loss)	1.6		(1.0)	Corporate
Gain on sale of Days Inn Sydney hotel	1.6			Properties
Impact on future taxes from rate reduction	2.1			Properties, Maritime Electric, FortisOntario
Insurance gain from Dolgeville flood	0.7			Fortis Generation
Reported Earnings	$37.9		$38.2	

Source: Company reports; RBC Capital Markets estimates

EPS Estimates Increased on Improved Outlook for FortisAlberta

As previously stated, FortisAlberta's earnings benefited during the quarter from the reversal of a previous period's tax provision. Looking forward, we believe that FortisAlberta will be able to maintain high efficiencies and earn above its allowed ROE. Partially offsetting our improved outlook for FortisAlberta is higher expected Corporate expenses due to higher-than-previously-forecast corporate development costs. The net effect is that we have increased our 2006 and 2007 EPS estimates to $1.29 and $1.40 respectively, from $1.27 and $1.38.

Valuation: Target Price Increased to $26.00

Fortis' 2007 P/E multiple of 16.2x is one of the lowest in the sector and well below the average for Canadian Corporate Energy Infrastructure companies of 17.9x. Further, its payout ratio of 50.4% is also among the lowest in the sector and compares to the group average of 64.1%. Combined with our view that Fortis has one of the best EPS growth outlooks in the group, and that this growth is fueled by low-risk organic growth in the company's regulated sector, leads us to the view that the spread between the 10-year Government of Canada yield and the company's dividend yield will widen in the future, resulting in a lower required dividend yield for Fortis. Reflecting this view, we have increased the spread used in our valuation to 150 basis points, up from the spread previously used of 140 basis points. The required dividend yield used in our valuation for Fortis is 3.00%. The forecast 10-year GOC yield is 4.5%. The forecast 12-month dividend distribution one-year forward is $0.77. Our new target price for Fortis increases to $26.00, up from our previous target of $24.50.

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. We believe a required yield of 3.00% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Conclusion

The Company delivered solid second quarter results. Looking forward, we believe the company will deliver above average EPS growth, largely driven by the expansion of its western Canadian regulated businesses. Notwithstanding this low risk source of organic growth, Fortis has one of the most attractive valuations in the Canadian corporate Energy Infrastructure sector. Reflecting this view and its above average all in return, we rank Fortis Outperform – Average Risk.

Price Target Impediments

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in Atlantic Canada, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 37% interest in Caribbean Utilities.

Required Disclosures

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Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
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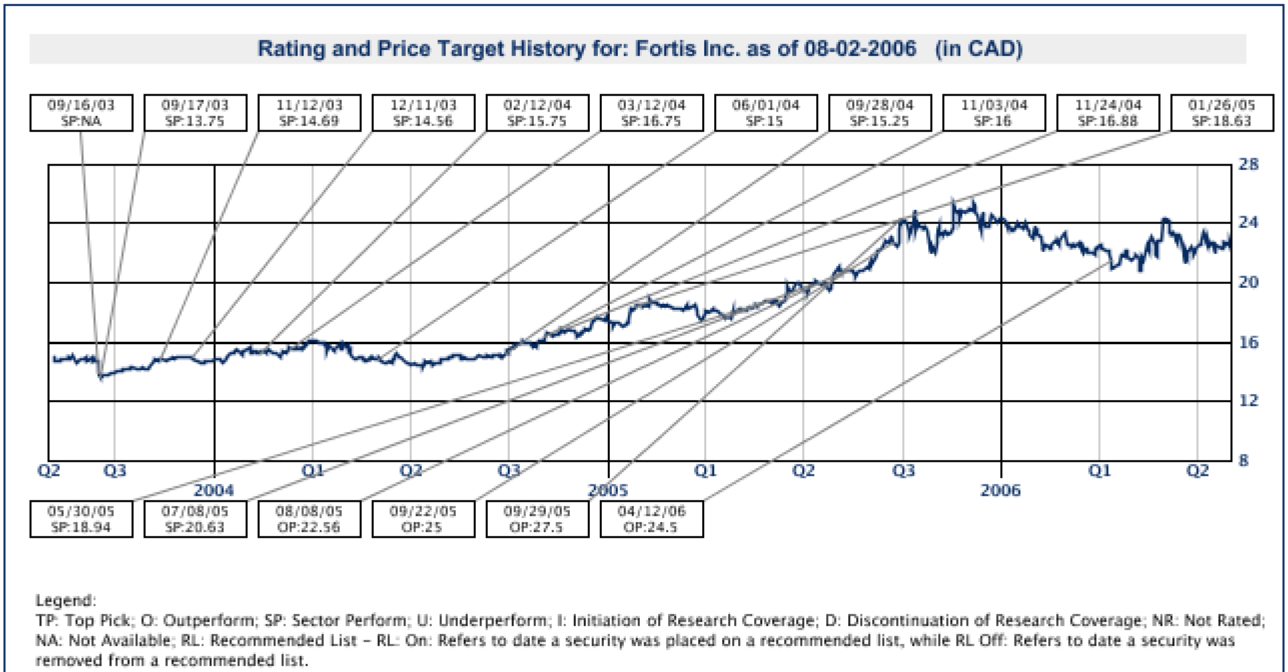
Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	405	42.72	167	41.23
HOLD [SP]	453	47.78	144	31.79
SELL [U]	90	9.49	32	35.56



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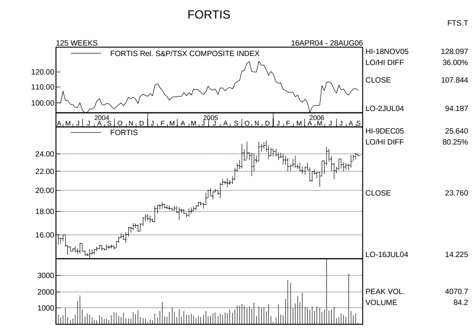
RBC Capital Markets

Research Comment

August 29, 2006



Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Acquires Two Electric Utilities in the Turks and Caicos Islands; EPS Estimates Increased

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Price:	$23.76	Target Price:	$26.00
52-Wk High:	$25.64	52-Wk Low:	$20.36
Float (MM):	103.6	Debt-to-Cap:	0.59
Shs O/S (MM):	103.6	Mkt Cap (MM):	$2,462
Dividend:	$0.64	Yield:	2.7%

(FY Dec. 31)	2005A	2006E	2007E	2008E
EPS				
Basic	$1.15	$1.29	$1.40	$1.48
Diluted(1)	$1.13	$1.28	$1.39	$1.47
New Basic	$1.15	$1.30	$1.44	$1.53
New Diluted(1)	$1.13	$1.29	$1.43	$1.52
P/E	20.7	18.3	16.5	15.5
EPS	Q1	Q2	Q3	Q4
2004A(2)	$0.27	$0.31	$0.27	$0.27
2005A(2)	$0.31	$0.28	$0.29	$0.27
2006E(2)	$0.36A	$0.32A	$0.33	$0.29

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

(2) Sum of quarterly EPS does not equal annual EPS due to equity issuances.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 3.

Event

Fortis announced that it has acquired P.P.C. Limited and Atlantic Equipment and Power Limited.

Investment Opinion

- **Acquires two utilities in Caribbean for US$90 million.** Fortis acquired all of the outstanding shares of P.P.C. Limited (PPC) and Atlantic Equipment and Power Limited (Atlantic) from T.C. Energy Holdings Inc. for approximately US$90 million, including assumed debt of about US$20 million. With an estimated 3% EPS accretion in 2007 coupled with Fortis' track record for successful transactions, we view the acquisition as a modest positive.
- **Attractive regulated rate of return.** Each utility is regulated under a cost-of-service methodology with a fixed 17.5% return on rate base. The two utilities have a combined defined asset base of approximately US$50 million at June 30, 2006.
- **Positive EPS impact.** We estimate that the acquisition is accretive to earnings. As such, our 2006, 2007 and 2008 EPS estimates increase from $1.29, $1.40 and $1.48 respectively, to $1.30, $1.44 and $1.53.
- **Strong rate base growth expected.** Discussions with management revealed that Fortis expects energy sales at the utilities to grow by 30%-60% over the next 5 years, driven by 20-30 hotels/condominium developments that are either under construction or planned during this period. To meet this growth, Fortis expects capital expenditures to be approximately US$6-US$10 million per year, resulting in an excess of 10% growth in rate base per year over the next 5 years.
- **Utilities serve Turks and Caicos Islands.** Together, PPC and Atlantic serve approximately 80% of electricity customers in the Turks and Caicos Islands with a combined diesel-fired generating capacity of about 35 MW. PPC has an exclusive 50-year license that expires in 2037 to provide electricity in Providenciales, North Caicos and Middle Caicos. Atlantic has an exclusive 50-year license that expires in 2036 to provide electricity in South Caicos.
- **Valuation.** Our target price of $26.00 reflects a forecast 12-month dividend distribution one-year forward of $0.77 and a required dividend yield of 3.00%.

Details

Fortis acquired all of the outstanding shares of P.P.C. Limited (PPC) and Atlantic Equipment and Power Limited (Atlantic) from T.C. Energy Holdings Inc. for approximately US$90 million, including assumed debt of about US$20 million. Each utility is regulated under a cost-of-service methodology with a fixed 17.5% return on rate base. The two utilities have a combined defined asset base of approximately US$50 million at June 30, 2006.

Together, PPC and Atlantic serve approximately 80% of electricity customers in the Turks and Caicos Islands with a combined diesel-fired generating capacity of about 35 MW. The vast majority of the value of the acquisition is in PPC, which operates in the highest population areas on the islands. PPC has an exclusive 50-year license that expires in 2037 to provide electricity in Providenciales, North Caicos and Middle Caicos. Atlantic has an exclusive 50-year license that expires in 2036 to provide electricity in South Caicos.

Ratebase Growth Outlook and Risks

Discussions with management revealed that Fortis expects energy sales at the utilities to grow by 30%-60% over the next 5 years, driven by 20-30 hotels/condominium developments that are either under construction or planned during this period. To meet this growth, Fortis expects capital expenditures to be approximately US$6-US$10 million per year, resulting in an excess of 10% growth in rate base per year over the next 5 years.

Potential risks that could affect Fortis' growth assumptions include the general risk of hurricanes in the region as well as the possibility of government intervention in the license.

Analysis: Incremental EPS Impact is a Modest Positive

Assuming acquisition financing of 40% equity, a cost of debt of 6%, and an after-tax opportunity cost of equity of 4%, we estimate the EPS impact in 2007 (the first full year of ownership) to be about $0.04. Management has indicated that the acquired utilities are not subject to income taxes. In 2008, we expect the effect of rate base growth to increase the EPS impact to $0.05. The transaction closed on August 28, 2006, implying a 2006 EPS impact of about $0.01. As such, our 2006, 2007 and 2008 EPS estimates increase from $1.29, $1.40 and $1.48 respectively, $1.30, $1.44 and $1.53. Our analysis set out in Exhibit 1.

With an estimated 3% EPS accretion in 2007 coupled with Fortis' track record for successful transactions, we view the acquisition as a modest positive.

Exhibit 1: Estimated EPS impact of acquisition of electric utilities in Turks and Caicos Islands ($MM except EPS or otherwise noted)

			2007E	2008E	Comments
Purchase price	(US$MM)	90.0			
Assumed equity component		40.0%			
Assumed equity financing of purchase price	(US$MM)	36.0			
Combined defined asset base	(US$MM)		50.0	55.0	
Fixed rate of return			17.5%	17.5%	
Return on defined asset base	(US$MM)		8.8	9.6	
Cost of debt	(US$MM)	6.0%	(3.2)	(3.2)	Management indicated no taxes payable
Opportunity cost of equity (after tax)	(US$MM)	4.0%	(1.4)	(1.4)	Approx. foregone after-tax int. savings using FCF to repay corp. level debt
Estimated net earnings impact of investment	(US$MM)		4.1	4.9	
C$/US$ exchange rate			1.1	1.1	
Canadian dollar impact	(C$MM)		4.5	5.4	
Shares outstanding	(MM)		104.0	104.5	
Estimated EPS impact	(C$/share)		$0.04	$0.05	

Source: Company reports; RBC Capital Markets estimates

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $26.00 reflects a forecast 12-month dividend distribution one-year forward of $0.77 and a required dividend yield of 3.00% We believe a required yield of 3.00% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in Atlantic Canada, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 37% interest in Caribbean Utilities.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):
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Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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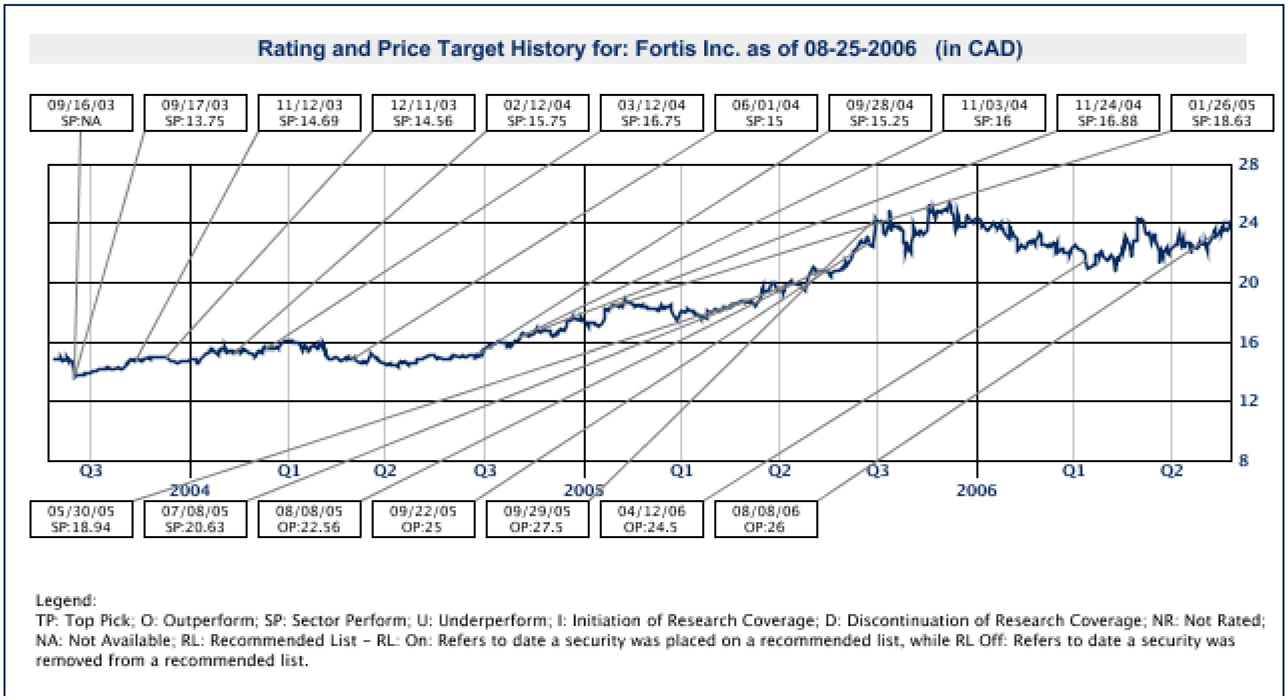
Rating	Count	Percent	Count	Percent
BUY [TP/O]	405	43.32	162	40.00
HOLD [SP]	445	47.59	140	31.46
SELL [U]	85	9.09	30	35.29



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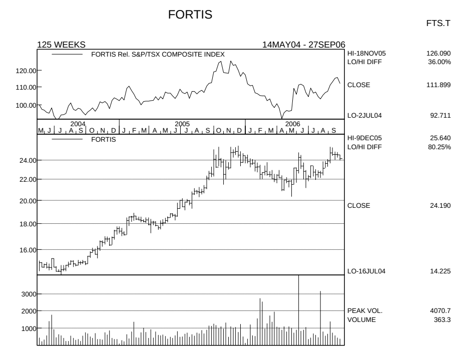
RBC Capital Markets

Research Comment

Intraday Comment
September 28, 2006



Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Increases Dividend 18.75%

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Price:	$24.19	Target Price:	$31.00
Yield:	3.14%	All-In Return:	31%
52-Wk High:	$25.64	52-Wk Low:	$20.36
Float (MM):	103.6	Debt-to-Cap:	0.59
Shs O/S (MM):	103.6	Mkt Cap (MM):	$2,506
Dividend:	$0.76		

(FY Dec. 31)	2005A	2006E	2007E	2008E
EPS				
Basic	$1.15	$1.30	$1.44	$1.53
Diluted(1)	$1.13	$1.29	$1.43	$1.52
P/E	21.0	18.6	16.8	15.8
EPS	Q1	Q2	Q3	Q4
2004A	$0.27	$0.31	$0.27	$0.27
2005A	$0.31	$0.28	$0.29	$0.27
2006E	$0.36A	$0.32A	$0.33	$0.29

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 2.

Event

Fortis announced an 18.75% increase to its dividend.

Investment Opinion

- **18.75% dividend increase is slightly lower than expected, but our view on the stock remains the same.** Fortis' Board of Directors increased the annual dividend by $0.12, or 18.75%, to a new annual rate of $0.76. We had forecast a $0.14 increase. The new dividend is payable on December 1, 2006 to the common shareholders of record at the close of business on November 3, 2006. In spite of the slightly lower-than-expected dividend increase, our view on the stock remains the same.
- **Payout ratio still relatively low.** Fortis' payout ratio is still lower than the sector average, giving it more room for dividend growth going forward than for many other stocks in the sector. Notwithstanding the increased dividend, Fortis' dividend yield and payout ratio remain lower than the sector average.
- **Valuation.** Despite the slightly lower-than-expected dividend increase, we have maintained our target price of $31.00 (unchanged), which reflects a forecast 12-month dividend distribution one-year forward of $0.76 and a required dividend yield of 2.45%.

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $31.00 reflects a forecast 12-month dividend distribution one-year forward of $0.76 and a required dividend yield of 2.45% We believe a required yield of 2.45% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in Atlantic Canada, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 37% interest in Caribbean Utilities.

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Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

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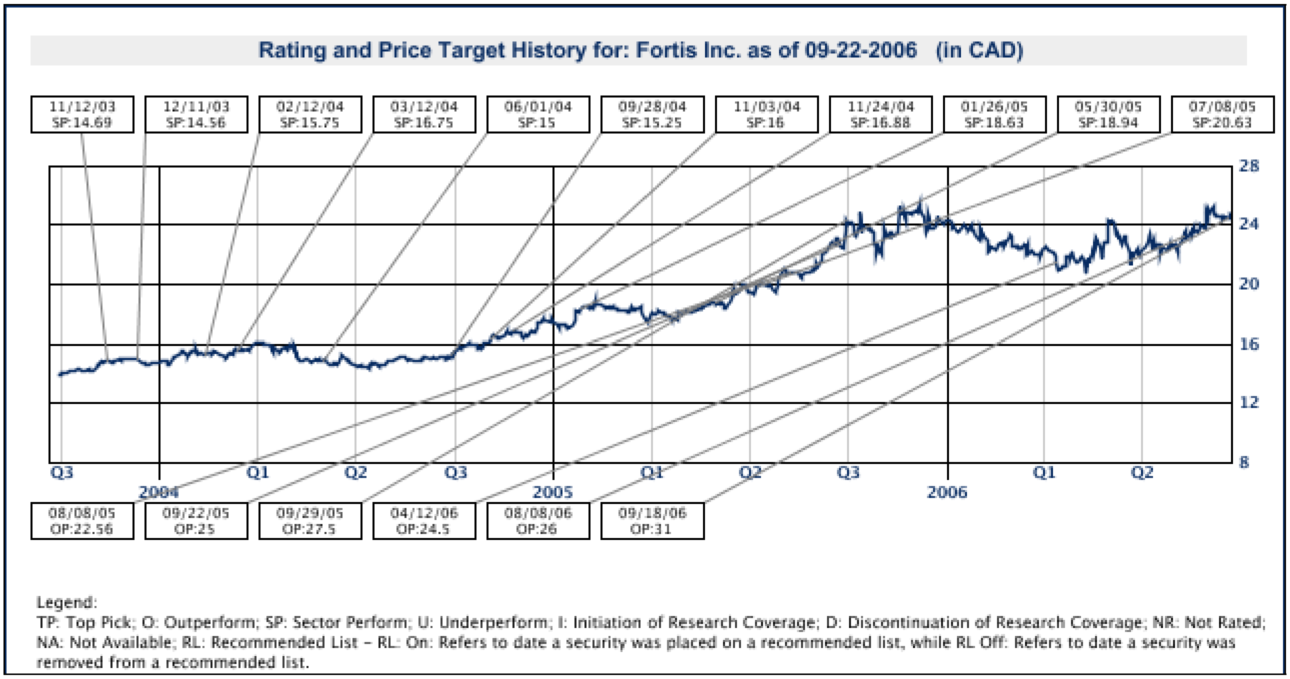
HOLD [SP]	439	46.75	119	27.11
SELL [U]	96	10.22	22	22.92



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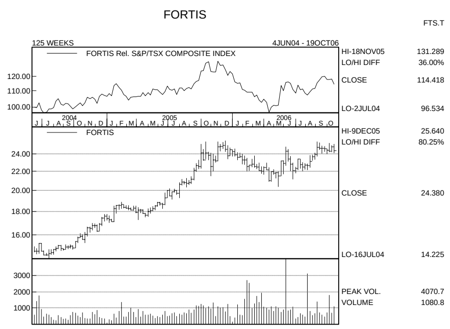

Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Acquires 4 Hotels in Alberta and British Columbia

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Peter Heusel, CFA (Associate)
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Price:	$24.38	Target Price:	$31.00
Yield:	3.12%	All-In Return:	30%
52-Wk High:	$25.64	52-Wk Low:	$20.36
Float (MM):	103.6	Debt-to-Cap:	0.59
Shs O/S (MM):	103.6	Mkt Cap (MM):	$2,526
Dividend:	$0.76		

(FY Dec. 31)	2005A	2006E	2007E	2008E
EPS				
Basic	$1.15	$1.27	$1.44	$1.53
Diluted(1)	$1.13	$1.26	$1.43	$1.52
P/E	21.2	19.2	16.9	15.9
EPS	Q1	Q2	Q3	Q4
2004A	$0.27	$0.31	$0.27	$0.27
2005A	$0.31	$0.28	$0.29	$0.27
2006E	$0.36A	$0.32A	$0.30	$0.29

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 3.

Event

Fortis Properties announced the acquisition of four hotels in Alberta and British Columbia.

Investment Opinion

- **Slightly accretive, but maintaining EPS estimates.** We estimate that the acquisition is slightly accretive to earnings, but the EPS impact in 2007, the first full year, is minimal. As such, we have left our EPS estimates unchanged.
- **$51.6 million for 4 hotels.** Fortis Properties acquired Holiday Inn Express and Suites, and Best Western, in Medicine Hat, Alberta; Ramada Hotel and Suites in Lethbridge, Alberta; and Holiday Inn Express in Kelowna, British Columbia. The $51.6 million (including assumed debt) acquisition adds 454 rooms to the hospitality operations of Fortis Properties.
- **Hotel expansion potential.** Management disclosed that included with the purchase of each of the hotels in Lethbridge and Kelowna is some adjacent land. This offers some expansion potential that could create further upside to the acquisition.
- **Valuation.** Our target price of $31.00 reflects a forecast 12-month dividend distribution one-year forward of $0.83 and a required dividend yield of 2.70%.

Acquires Four Hotels for $51.6 Million

Fortis' subsidiary, Fortis Properties, acquired Holiday Inn Express and Suites, and Best Western, in Medicine Hat, Alberta; Ramada Hotel and Suites in Lethbridge, Alberta; and Holiday Inn Express in Kelowna, British Columbia. The $51.6 million (including assumed debt) acquisition adds 454 rooms to the hospitality operations of Fortis Properties. The transaction is expected to close on October 31, 2006.

Minimal EPS Impact

We estimate that the earnings impact in 2007, before considering the opportunity cost of equity, would add about $0.01 per share. However, after factoring in the opportunity cost of equity, the EPS impact of the acquisition is minimal. As such, we have left our estimates unchanged. Exhibit 1 outlines our analysis.

Expansion Potential

Management disclosed that included with the purchase of each of the hotels in Lethbridge and Kelowna is some adjacent land. This offers some expansion potential that could create further upside to the acquisition.

No Equity Issue Yet

We have not assumed an equity issue, but with the completion of this acquisition we feel that Fortis is starting to approach the upper end of its debt-to-total capital target and that any further acquisitions would likely trigger an equity issue. While we have not built it into our model, given Fortis' track record of making acquisitions on a relatively regular basis, we would anticipate further acquisition announcements in the next 12 months with an equity issue before the end of 2007 to maintain its debt-to-total capital target of approximately 65%.

Exhibit 1: Estimated Earnings Impact of Hotel Acquisitions ($MM except EPS or otherwise noted)

Purchase price	($MM)	51.6	
Assumed equity component		35%	
Assumed equity financing of purchase price	($MM)	18.1	
Interest rate		6%	
Tax rate		39%	
Opportunity cost of equity		4%	
Rooms		454	
REVPAR	($)	77	
Gross margin		30%	
		2006E	2007E
Room revenue	($MM)	2.1	12.8
Other revenue	($MM)	1.1	6.4
Total revenue	($MM)	3.2	19.3
Operating expense	($MM)	(2.3)	(13.5)
EBITDA	($MM)	1.0	5.8
Depreciation	($MM)	(0.3)	(2.1)
EBIT	($MM)	0.6	3.7
Interest	($MM)	(0.3)	(2.0)
EBT	($MM)	0.3	1.7
Taxes	($MM)	(0.1)	(0.7)
Net income	($MM)	0.2	1.0
Opportunity cost of equity	($MM)	(0.1)	(0.7)
Incremental earnings	($MM)	0.1	0.3
Shares outstanding	(MM)	103.5	104.0
Estimated EPS impact	($/share)	$0.00	$0.00

Source: Company reports; RBC Capital Markets estimates

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $31.00 reflects a forecast 12-month dividend distribution one-year forward of $0.83 and a required dividend yield of 2.70% We believe a required yield of 2.70% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in Atlantic Canada, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 37% interest in Caribbean Utilities.

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Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

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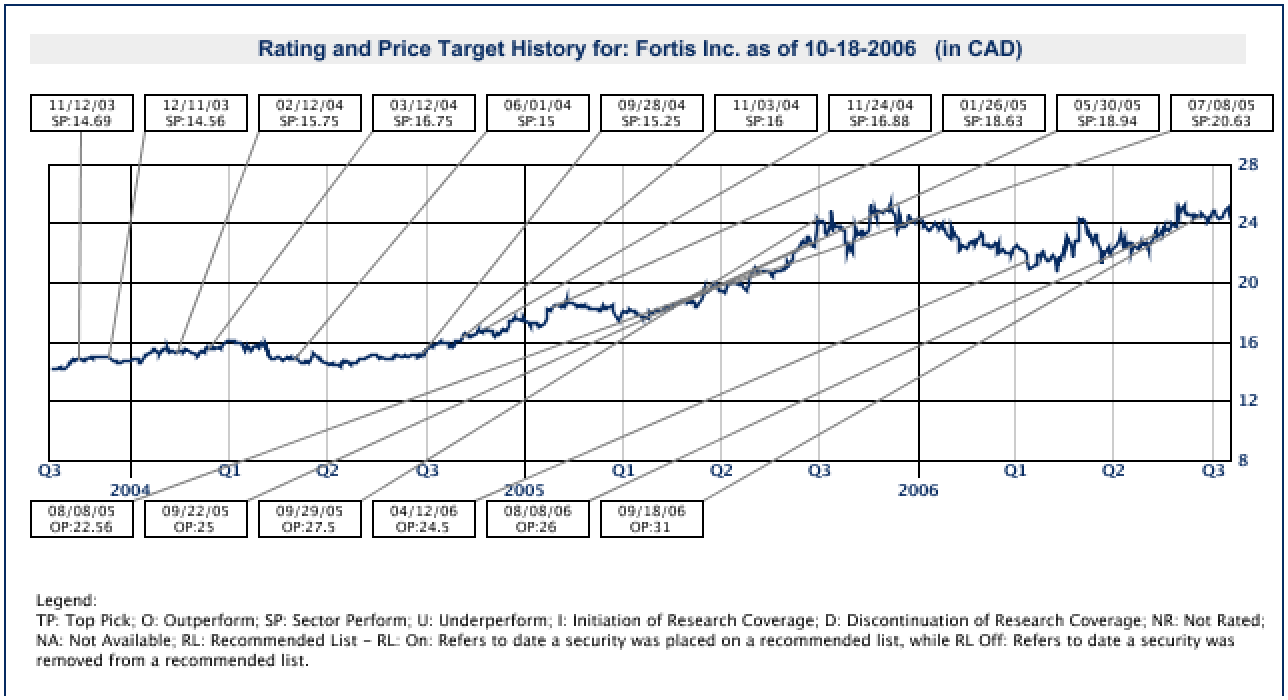
Distribution of Ratings, Firmwide

	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [TP/O]	398	41.81	147	36.93
HOLD [SP]	452	47.48	131	28.98
SELL [U]	102	10.71	24	23.53



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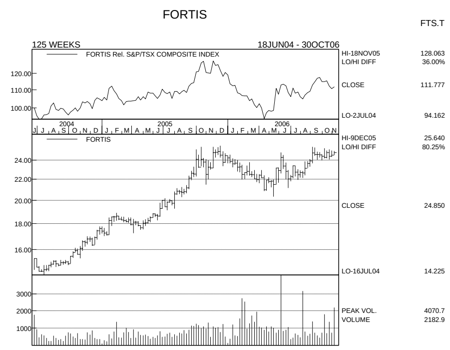

Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Higher-Than-Expected Third Quarter Results

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Price:	$24.85		
52-Wk High:	$25.64	52-Wk Low:	$20.36
Float (MM):	103.8	Debt-to-Cap:	0.6
Shs O/S (MM):	103.8	Mkt Cap (MM):	$2,579
Dividend:	$0.76	Yield:	3.1%
Strategic Shareholders:		Widely held	

All values in Canadian unless otherwise noted.

Impact

Positive.

First Impression

- **FortisAlberta drives higher-than-expected Q3/06 results.** Fortis' Q3/06 normalized EPS was $0.37 compared to our estimate of $0.30 and compared to Q3/05 normalized EPS of $0.29. The consensus estimate for the quarter was $0.31. Higher-than-expected earnings from FortisAlberta due to increased deductions for income tax purposes were partially offset by lower-than-expected earnings from Newfoundland Power due to the adoption of accrual accounting.
- **Adoption of accrual accounting shifts Newfoundland Power earnings.** The adoption of accrual accounting at Newfoundland Power continues to shift earnings from earlier quarters to the end of the year. We had expected the shift in earnings in the first two quarters of the year to start balancing out in the third quarter, however it appears that the shift will balance out almost entirely in the fourth quarter of 2006. The shift in earnings is not expected to affect annual earnings.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 2.

Exhibit 1: Normalized Earnings ($MM except EPS or otherwise noted)

	Q3 2006	RBC CM Q3/06 Est.	Q3 2005	Comments
Newfoundland Power	$2.6	$6.1	$3.4	Adoption of accrual accounting expected to balance in Q4/06
Maritime Electric	3.2	3.0	3.0	
FortisOntario	1.6	1.0	0.6	Lower operating expenses
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Non-regulated - Fortis Generation	7.8	5.9	7.8	Higher proportion of tax-exempt Belizean operations
Non-regulated - Fortis Properties	6.3	4.8	4.9	Higher contributions from property expansions
Corporate	(8.3)	(8.3)	(7.0)	
Normalized Earnings	$38.8	$31.1	$30.0	
Normalized EPS	$0.37	$0.30	$0.29	
Average shares outstanding (MM)	103.4	103.6	103.0	
Normalization adjustments:				
Estimation of insurance recovery			1.8	FortisAlberta
Favourable resolution of CRA reassessment			1.6	FortisOntario - Cornwall Electric
F/X gain			3.1	Corporate
Redist. Negotiated Rate Settlement			1.0	FortisAlberta
Reported Earnings	$38.8		$37.5	

Source: Company reports, RBC Capital Markets estimates

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 37% interest in Caribbean Utilities.

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Ratings

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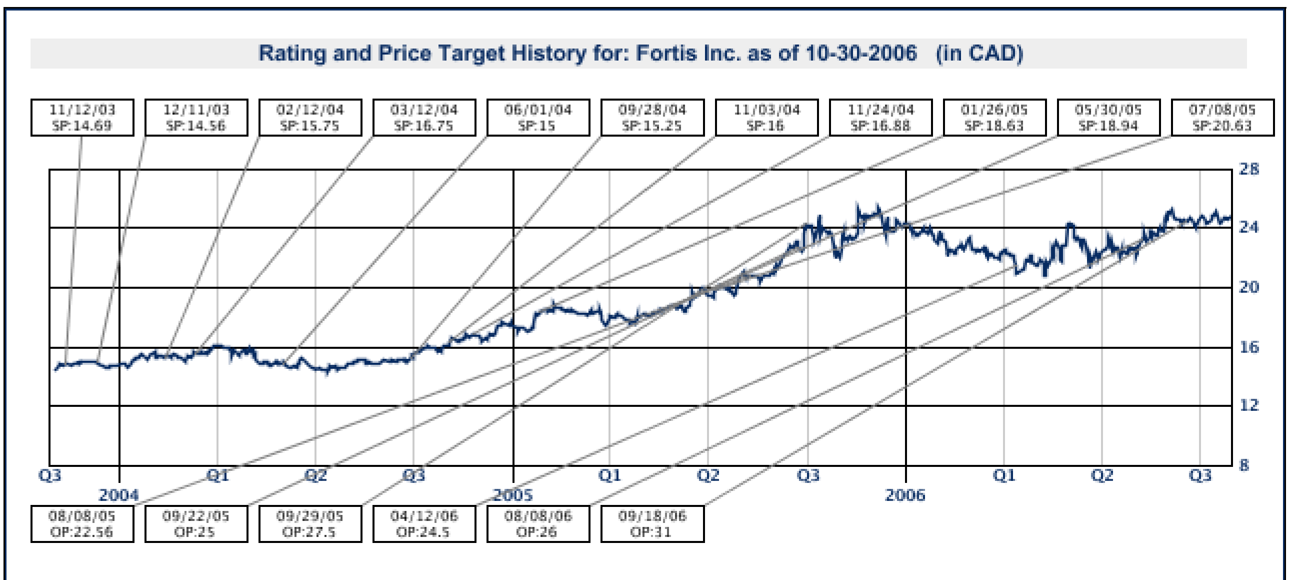
Rating	Count	Percent	Count	Percent
BUY [TP/O]	407	42.35	149	36.61
HOLD [SP]	452	47.03	127	28.10
SELL [U]	102	10.61	26	25.49



Legend:
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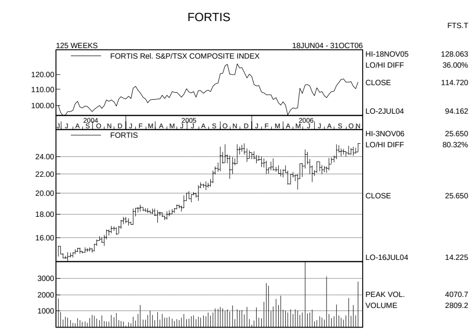

Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Estimates Increased for 2006-2008 Following Higher-than-Expected Third Quarter Results

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Price:	$25.65	Target Price:	$31.00
Yield:	2.96%	All-In Return:	24%
52-Wk High:	$25.65	52-Wk Low:	$20.36
Float (MM):	103.8	Debt-to-Cap:	0.57
Shs O/S (MM):	103.8	Mkt Cap (MM):	$2,662
Dividend:	$0.76		

(FY Dec. 31)	2005A	2006E	2007E	2008E
EPS				
Basic	$1.15	$1.27	$1.38	$1.47
Diluted(1)	$1.13	$1.26	$1.37	$1.46
New Basic	$1.15	$1.42	$1.49	$1.56
New Diluted(1)	$1.13	$1.41	$1.48	$1.55
P/E	22.3	18.1	17.2	16.4
EPS	Q1	Q2	Q3	Q4
2004A	$0.27	$0.31	$0.27	$0.27
2005A	$0.31	$0.28	$0.29	$0.27
2006E	$0.36A	$0.32A	$0.37A	$0.37

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 3.

Event

Fortis reported its third quarter results.

Investment Opinion

- **2006-2008 EPS estimates increased.** We have increased our 2006, 2007 and 2008 EPS estimates to $1.42, $1.49, and $1.56, respectively, from $1.27, 1.38, and $1.47. Our higher forecasts reflect the better-than-expected earnings contribution from FortisAlberta during the quarter as well as an improved outlook for FortisAlberta, Fortis Generation and Fortis Properties in 2006, 2007 and 2008.
- **FortisAlberta drives higher-than-expected Q3/06 results.** Fortis' Q3/06 normalized EPS was $0.37 compared to our estimate of $0.30 and compared to Q3/05 normalized EPS of $0.29. The Consensus Estimate for the quarter was $0.31. Higher-than-expected earnings from FortisAlberta were due to lower taxes and higher efficiencies earned under its negotiated settlement. This was partially offset by lower-than-expected earnings during the quarter from Newfoundland Power due to the adoption of accrual accounting.
- **Adoption of accrual accounting shifts Newfoundland Power earnings.** The adoption of accrual accounting at Newfoundland Power continues to shift earnings from earlier quarters to the end of the year. We had expected the shift in earnings in the first two quarters of the year to start balancing out in the third quarter, however it appears that the shift will balance out almost entirely in the fourth quarter of 2006. The shift in earnings is not expected to affect annual earnings.
- **Attractive valuation.** Fortis offers good EPS growth, and its P/E ratio, P/ACFFO and dividend payout ratio are all below the averages for the Utilities sector in Canada. The combination of Fortis' growth outlook and its attractive valuation provides investors with an implied all-in return of 24%. Our target price of $31.00 reflects a forecast 12-month dividend distribution one-year forward of $0.84 and a required dividend yield of 2.70%.

Higher-Than-Expected Third Quarter Results

Fortis' third quarter 2006 normalized EPS was $0.37 compared to our estimate of $0.30 and compared to third quarter 2005 normalized EPS of $0.29. The Consensus Estimate for the quarter was $0.31. Higher-than-expected earnings from FortisAlberta were due to lower taxes and higher efficiencies earned under its negotiated settlement. This was partially offset by lower-than-expected earnings during the quarter from Newfoundland Power due to the adoption of accrual accounting.

We believe that the earnings pickup from lower taxes at FortisAlberta is in part due to a higher amount of CCA being claimed for tax purposes than for in the calculation of taxes payable under the regulatory model. This situation that Fortis has inherited has arisen because the assets were written-up for tax purposes when Aquila originally purchased them from TransAlta. The result is that FortisAlberta can recover a higher tax expense in rates charged to customers than it pays in the form of cash taxes. We expect this impact to continue into the future.

The adoption of accrual accounting at Newfoundland Power continues to shift earnings from earlier quarters to the end of the year. We had expected the shift in earnings in the first two quarters of the year to start balancing out in the third quarter, however it appears that the shift will balance out almost entirely in the fourth quarter of 2006. The shift in earnings is not expected to affect annual earnings.

Exhibit 1: Normalized Earnings ($MM except EPS or otherwise noted)

	Q3 2006	RBC CM Q3/06 Est.	Q3 2005	Comments
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Non-regulated - Fortis Properties	6.3	4.8	4.9	Higher contributions from property expansions
Corporate	(8.3)	(8.3)	(7.0)	
Normalized Earnings	$38.8	$31.1	$30.0	
Normalized EPS	$0.37	$0.30	$0.29	
Average shares outstanding (MM)	103.4	103.6	103.0	
Normalization adjustments:				
Estimation of insurance recovery			1.8	FortisAlberta
Favourable resolution of CRA reassessment			1.6	FortisOntario - Cornwall Electric
F/X gain			3.1	Corporate
Redist. Negotiated Rate Settlement			1.0	FortisAlberta
Reported Earnings	$38.8		$37.5	

Source: Company reports; RBC Capital Markets estimates

2006-2008 EPS Estimates Increased

We have increased our 2006, 2007 and 2008 EPS estimates to $1.42, $1.49, and $1.56, respectively, from $1.27, 1.38, and $1.47. Our higher forecasts reflect the better-than-expected earnings contribution from FortisAlberta during the quarter as well as an improved outlook for FortisAlberta, Fortis Generation and Fortis Properties in 2006, 2007 and 2008. Most notably, we expect that FortisAlberta will continue to benefit from lower taxes and higher efficiencies in the fourth quarter of 2006 through our forecast period.

We have also increased our 2006-2008 forecast generation for the hydroelectric facilities in Belize within the Fortis Generation segment as well as raised our earnings estimates at Fortis Properties for the greater-than-expected impact of expansions to hotel and real estate properties.

Conclusion

We believe that Fortis is still capable of delivering above-average EPS growth from the expansion of its western Canadian regulated businesses despite our recent forecast of lower ROEs for 2007. In particular, we expect that FortisAlberta will continue to earn in excess of its allowed ROE due to lower taxes and higher efficiencies. With the low-risk organic growth of Fortis' western Canadian regulated businesses and its above-average, all-in return, Fortis has one of the most attractive valuations in the Canadian corporate Energy Infrastructure sector. As such, we rank Fortis Outperform, Average Risk.

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $31.00 reflects a forecast 12-month dividend distribution one-year forward of $0.84 and a required dividend yield of 2.70% We believe a required yield of 2.70% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in Atlantic Canada, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 37% interest in Caribbean Utilities.

Required Disclosures

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An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
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Rating	Count	Percent	Count	Percent
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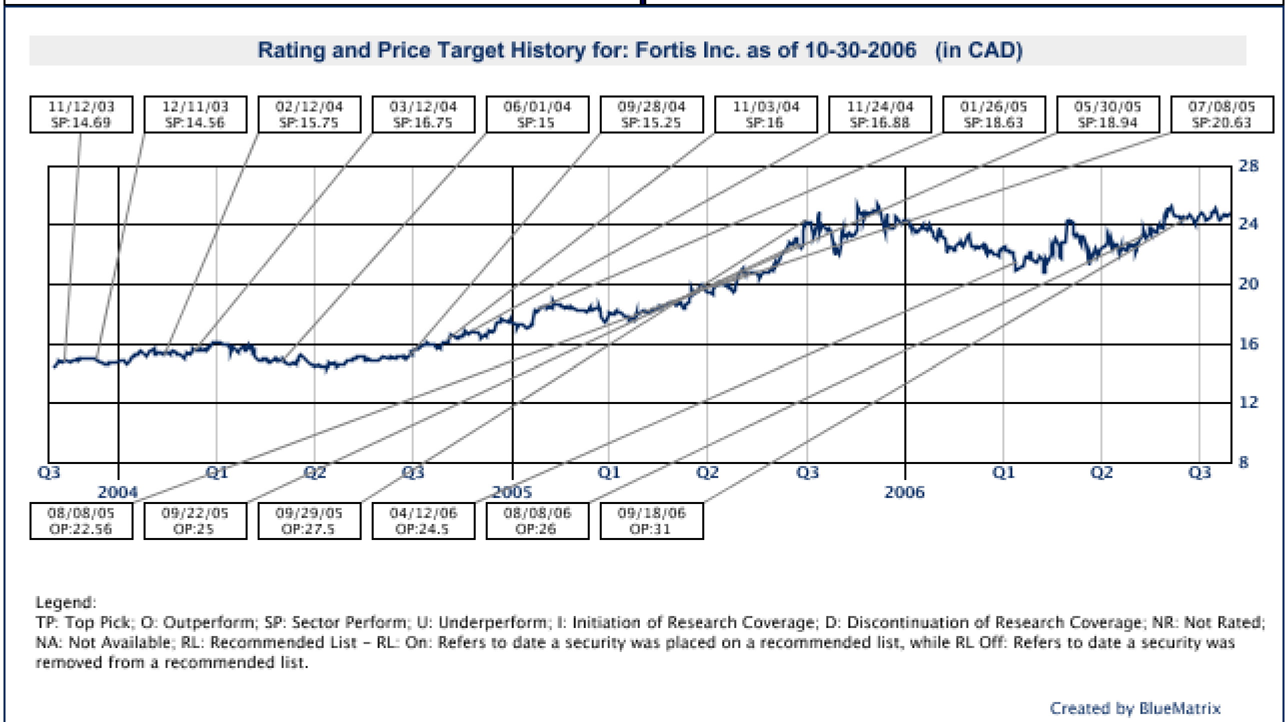
SELL [U]	103	10.71	26	25.24



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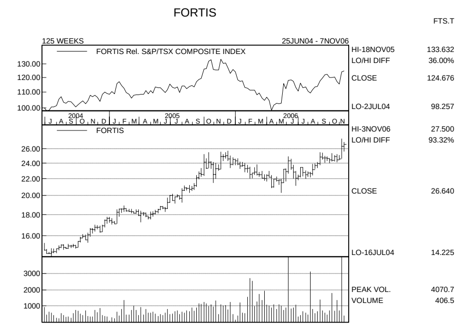
November 8, 2006 | COMMENT



Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Buys Controlling Interest of Caribbean Utilities

RBC Dominion Securities Inc.

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Price:	$26.64	Target Price:	$31.00
Yield:	2.85%	All-In Return:	19%
52-Wk High:	$27.50	52-Wk Low:	$20.36
Float (MM):	103.8	Debt-to-Cap:	0.57
Shs O/S (MM):	103.8	Mkt Cap (MM):	$2,765
Dividend:	$0.76		

(FY Dec. 31)	2005A	2006E	2007E	2008E
EPS				
Basic	$1.15	$1.42	$1.49	$1.56
Diluted(1)	$1.13	$1.41	$1.48	$1.55
New Basic	$1.15	$1.42	$1.52	$1.59
New Diluted(1)	$1.13	$1.41	$1.51	$1.58
P/E	23.2	18.8	17.5	16.8
EPS	Q1	Q2	Q3	Q4
2004A	$0.27	$0.31	$0.27	$0.27
2005A	$0.31	$0.28	$0.29	$0.27
2006E	$0.36A	$0.32A	$0.37A	$0.37

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

Event

Fortis purchased an additional 4.1 million shares of Caribbean Utilities for US$48.9 million, increasing its interest to 54%.

Investment Opinion

- **Increased 2007 and 2008 EPS estimates.** As a result of Fortis' increased interest in Caribbean Utilities Co. (CUC), we have increased our 2007 and 2008 EPS estimates by $0.03 per share to $1.52 and $1.59 respectively, from $1.49 and $1.56. The 2006 EPS impact is expected to be minimal.
- **Becomes controlling shareholder.** Fortis' purchase of an additional 4.1 million shares of CUC from International Power Holdings increased its ownership interest in CUC from approximately 37% to a controlling interest level of 54%. The purchase price was about US$48.9 million and was completed on November 7, 2006. As a result of gaining control of CUC, Fortis will begin consolidating CUC's results in its financial statements.
- **Effective tax rate will decline.** As CUC is a non-taxable entity, the consolidation of its results will serve to lower Fortis' effective tax rate. However, the incremental impact of the investment on the effective tax rate will be minimal as Fortis was for practical purposes already benefiting from the tax-free equity income of its previous investment in CUC.
- **US$40 million convertible debenture issue.** Fortis also announced a private placement, US$40 million issue of convertible debentures. The debentures have an annual interest rate of 5.5% and are convertible into Fortis common shares at a 30% premium to current market prices.
- **Attractive valuation.** Fortis offers good EPS growth, and its P/E ratio, P/ACFFO and dividend payout ratio are all below the averages for the Utilities sector in Canada. The combination of Fortis' growth outlook and its attractive valuation provides investors with an implied all-in return of 19%, supporting our ranking of Outperform, Average Risk (unchanged). Our target price of $31.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $0.84 and a required dividend yield of 2.70%.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 3.

Gains Control of Caribbean Utilities

Fortis purchased an additional 4.1 million shares of Caribbean Utilities Co. (CUC) from International Power Holdings, increasing its ownership interest in CUC from approximately 37% to a controlling interest level of 54%. The purchase price was about US$48.9 million. As a result of gaining control of CUC, Fortis will begin consolidating CUC's results in its financial statements.

As CUC is a non-taxable entity, the consolidation of its results will serve to lower Fortis' effective tax rate. However, the incremental impact of the investment on the effective tax rate will be minimal as Fortis was for practical purposes already benefiting from the tax-free equity income of its previous investment in CUC.

Fortis also announced a private placement, US$40 million issue of convertible debentures. The debentures have an annual interest rate of 5.5% and are convertible into Fortis common shares at a 30% premium to current market prices.

EPS Estimates Increased for 2007 and 2008

The transaction was completed on November 7, 2006, and we estimate that the impact of Fortis' increased interest in CUC in the first full year will be about $0.03 per share. As such, we have maintained our 2006 EPS estimate and increased our 2007 and 2008 EPS estimates to $1.52 and $1.59 respectively, from $1.49 and $1.56. Our analysis in Exhibit 1 assumes the use of the entire proceeds of its US$40 million issue of convertible debentures. We think that Fortis is approaching a balance sheet leverage level that could require an equity issue if it undertakes additional acquisitions or major capital expenditures.

Exhibit 1: Estimated earnings impact of increased interest in Caribbean Utilities

					Comments
Purchase price	(US$MM)	48.9			
Convertible debenture issue	(US$MM)	40.0			Assume use of US$40MM of convertible debentures issued
Funded from free cash flow	(US$MM)	8.9			
			2007E	2008E	
Forecast CUC earnings	(US$MM)		27.8	27.6	
CUC shares outstanding	(MM)		25.3	25.3	
Previous CUC shares held by Fortis	(MM)		9.5	9.5	
New CUC shares held by Fortis	(MM)		13.6	13.6	
Previous Interest in CUC	(%)		37%	37%	Previously accounted for investment on an equity basis
New Interest in CUC	(%)		54%	54%	
Previous estimated CUC earnings impact	(US$MM)		10.4	10.3	
New estimated CUC earnings impact	(US$MM)		14.9	14.8	
Incremental CUC earnings impact	(US$MM)		4.5	4.5	
Cost of debt (after tax)	(US$MM)	3.6%	(1.4)	(1.4)	5.5% pre-tax
Opportunity cost of using FCF (after tax)	(US$MM)	4.0%	(0.4)	(0.4)	Approx. foregone after-tax int. savings using FCF to repay corp. level debt
Estimated net earnings impact of investment	(US$MM)		2.7	2.7	
C$/US$ exchange rate			1.1	1.1	
Canadian dollar impact	(C$MM)		3.0	3.0	
Estimated wtd. avg. Fortis shares outstanding	(MM)		104.0	104.5	
Estimated EPS impact	(C$/share)		$0.03	$0.03	

Source: Company reports, RBC Capital Markets estimates

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $31.00 reflects a forecast 12-month dividend distribution one-year forward of $0.84 and a required dividend yield of 2.70% We believe a required yield of 2.70% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

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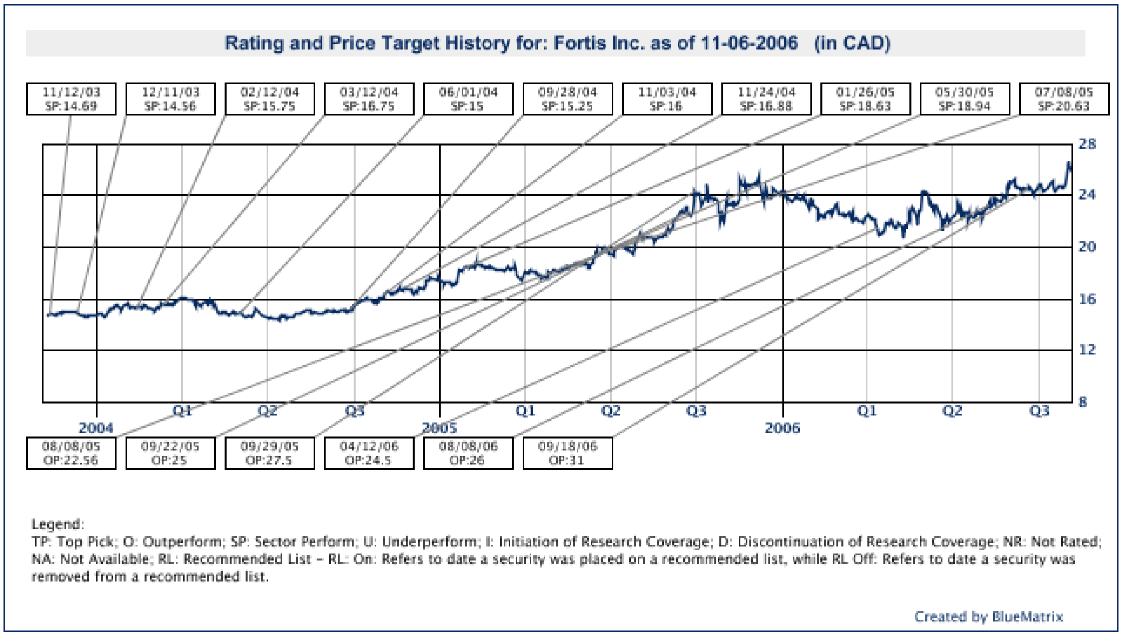
BUY [TP/O]	395	41.15	149	37.72
HOLD [SP]	461	48.02	125	27.11
SELL [U]	104	10.83	29	27.88



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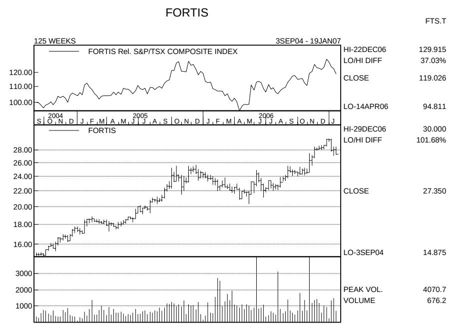
RBC Capital Markets

EQUITY | RESEARCH

January 22, 2007 | **COMMENT**



Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Revised Forecast for Recent Share Issuance; Target Price Increased to $33.00

RBC Dominion Securities Inc.

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		Old Price Target:	$31.00
Price:	$27.35	New Target Price:	$33.00
Yield:	2.78%	All-In Return:	23%
52-Wk High:	$30.00	52-Wk Low:	$20.36
Float (MM):	109.0	Debt-to-Cap:	0.57
Shs O/S (MM):	109.0	Mkt Cap (MM):	$2,980
Dividend:	$0.76		

(FY Dec. 31)	2005A	2006E	2007E	2008E
EPS				
Basic	$1.15	$1.42	$1.52	$1.59
Diluted(1)	$1.12	$1.39	$1.48	$1.56
New Basic	$1.15	$1.42	$1.49	$1.54
New Diluted(1)	$1.12	$1.39	$1.45	$1.51
P/E	23.8	19.3	18.4	17.8
EPS	Q1	Q2	Q3	Q4
2005A	$0.31	$0.28	$0.29	$0.27
2006E	$0.36A	$0.32A	$0.37A	$0.37

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

Event

We are resuming coverage after a publishing restriction.

Investment Opinion

- **Target price increased to $33.00.** In light of the growth opportunities available to Fortis, we expect to see its valuation parameters improve and move more in line with the companies with premium valuations in the group.
- **2007 and 2008 EPS estimates lowered.** As a result of Fortis' share issuance and subsequent dilution, we have lowered our 2007 and 2008 EPS estimates from $1.52 and $1.59 respectively to $1.49 and 1.54.
- **Issues 5.17 million common shares for $149.9 million.** Fortis recently issued 5.17 million common shares at $29.00 per share for gross proceeds of approximately $149.9 million. With the 2006 acquisitions of the two utilities in the Turks & Caicos and four more hotels in Western Canada, as well as its increased interest in Caribbean Utilities, we were expecting any additional acquisitions to trigger an equity issue by the end of 2007 to maintain its debt-to-capital target of approximately 65%.
- **Growth opportunities.** Discussions with management identified several areas where the company expects growth to occur. Fortis expects substantial spending in its regulated utilities, particularly in Western Canada, to drive growth in the company over the next five years. Fortis also expects growth through economic recovery in the Caribbean region, expansion of its non-regulated hydro business and opportunistic additions of hotels to its Properties business.
- **Major initiatives.** In addition to ongoing optimization of the company's operations referenced above, we believe Fortis is well positioned to make a major acquisition, such as the purchase of a gas or power distribution company.
- **Attractive valuation.** Fortis offers good EPS growth, and its P/E ratio, P/ACFFO and dividend payout ratio are all below the averages for the Utilities sector in Canada. The combination of Fortis' growth outlook and its attractive valuation provides investors with an implied all-in return of 23%, supporting our ranking of Outperform, Average Risk (unchanged). Our target price of $33.00 (increased from $31.00) reflects a forecast 12-month dividend distribution one-year forward of $0.85 and a required dividend yield of 2.60%.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 3.

Dilution Lowers 2007 and 2008 EPS Estimates

As a result of Fortis' share issuance and subsequent dilution, we have lowered our 2007 and 2008 EPS estimates from $1.52 and $1.59 respectively to $1.49 and 1.54.

Equity Issue Raises Approximately $149.9 Million

Fortis recently issued 5.17 million common shares at $29.00 per share for gross proceeds of approximately $149.9 million. With the 2006 acquisitions of the two utilities in the Turks & Caicos and four more hotels in Western Canada, as well as its increased interest in Caribbean Utilities, we were expecting any additional acquisitions to trigger an equity issue by the end of 2007 to maintain its debt-to-capital target of approximately 65%.

Growth Opportunities

Discussions with Fortis' management identified several areas where the company expects growth to occur:

- **Substantial capex in Utilities.** Management expects substantial spending in its regulated utilities will drive growth in the company over the next five years. In particular, the utilities in Western Canada are expected to lead the way in capital spending in 2007, with FortisAlberta expecting to spend approximately $273 million and FortisBC expecting to spend approximately $128 million.
- **Economic recovery in the Caribbean.** The region has largely recovered from the damage from recent hurricanes and appears to be back on the economic upswing. In addition, there could be further upside associated with customer growth at the recently acquired Turks & Caicos utilities.
- **Expansion of non-regulated hydro business.** Fortis is looking to expand their non-regulated hydroelectric business in Canada and the Caribbean.
- **Opportunistically looking to expand Properties expansion.** Fortis is always on the lookout for the purchase of new hotels across Canada.

Looking for the Next Big Acquisition

After now having absorbed the utilities in Western Canada (FortisAlberta and FortisBC) through their acquisition from Aquila in 2003, Fortis management now feels that they are ready to once again grow in a material way. Fortis would consider the acquisition of a gas or electric distribution utility if available. We believe that a couple potential opportunities on the gas distribution side could include companies such as Terasen Gas or Union Gas. On the electric utility side, we believe companies such as Nova Scotia Power or Emera [TSX: EMA; $22.25; Sector Perform, Average Risk] (subject to removal of existing ownership restrictions) would make sense geographically, although we suspect the Board of Emera may not be receptive to a sale or merger.

Valuation: Target Price Increased to $33.00

Fortis offers good EPS growth, and its P/E ratio, P/ACFFO and dividend payout ratio are all below the averages for the Utilities sector in Canada. In light of the growth opportunities available to Fortis, we expect to see its valuation parameters improve and move more in line with the premium valuations of the group. As such, we have increased our target price to $33.00 from $31.00.

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $33.00 reflects a forecast 12-month dividend distribution one-year forward of $0.85 and a required dividend yield of 2.60% We believe a required yield of 2.60% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

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Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.

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Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
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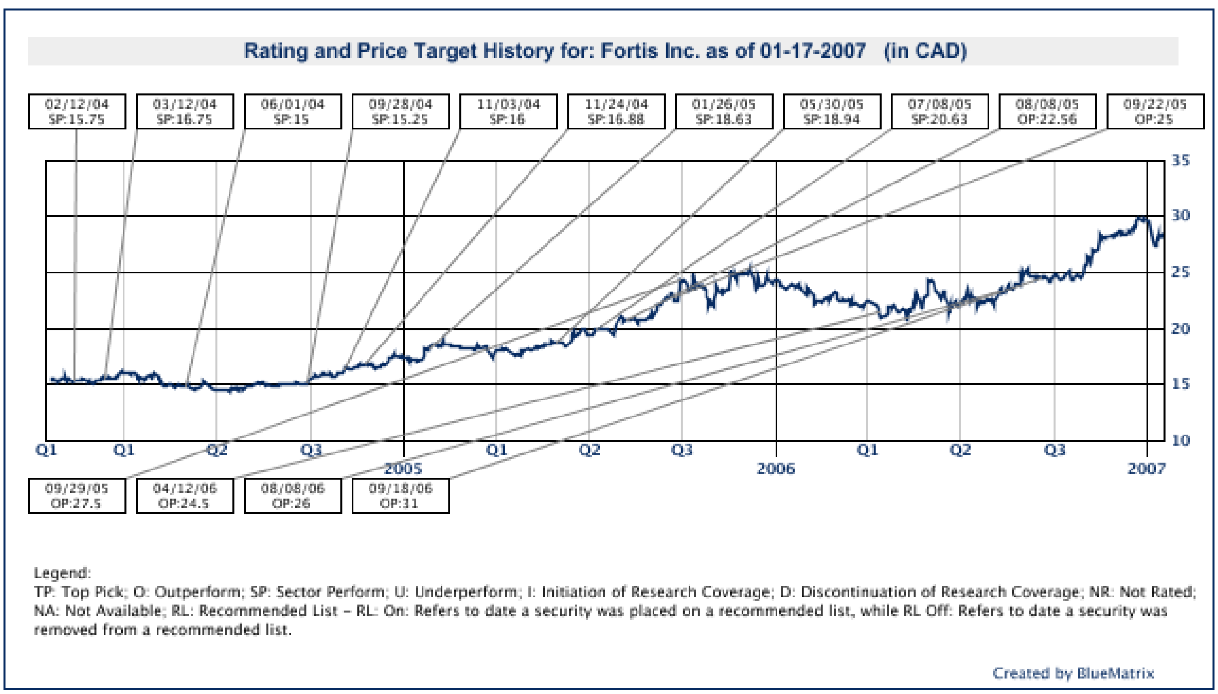
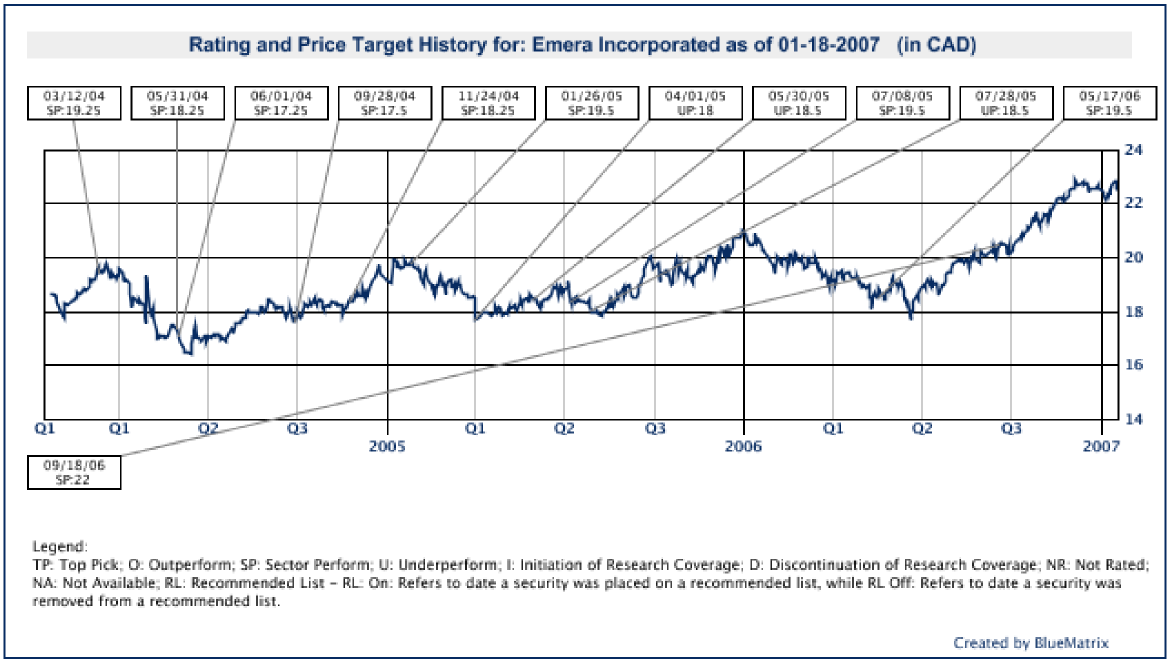
Rating	Count	Percent	Count	Percent
BUY [TP/O]	407	42.48	159	39.07
HOLD [SP]	450	46.97	114	25.33
SELL [U]	101	10.54	24	23.76





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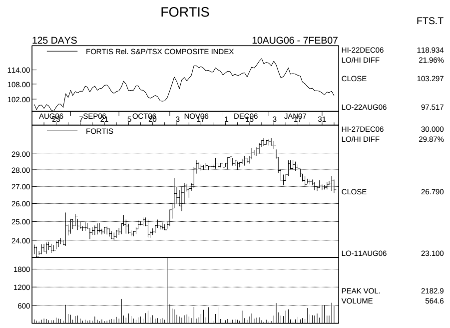

Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Lower-Than-Expected Q4 Results; Surprise Dividend Increase

RBC Dominion Securities Inc.

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Price:	$27.24		
52-Wk High:	$30.00	52-Wk Low:	$20.36
Float (MM):	109.3	Debt-to-Cap:	0.6
Shs O/S (MM):	109.3	Mkt Cap (MM):	$2,976
Dividend:	$0.84	Yield:	3.1%
Strategic Shareholders:		Widely held	

All values in Canadian unless otherwise noted.

Impact

Positive.

First Impression

- **Q4/06 EPS.** Fortis' fourth quarter 2006 normalized EPS was $0.33 compared to our estimate of $0.37 and compared to fourth quarter 2005 EPS of $0.27. The Thomson One consensus estimate for the quarter was $0.27. The shortfall from our estimates was primarily due to lower-than-expected earnings from its western operations and higher Corporate expenses.
- **Surprise 10.5% dividend increase – bigger and earlier.** Fortis increased its annual dividend by 10.5% to $0.84 per share from $0.76 per share. This is $0.01 more than the $0.83 annual dividend that we were expecting to be declared in September 2007.
- **Positive implications.** Although the quarter's results fell short of our estimates, they were well ahead of the consensus estimate. In addition, we believe the improved year-over-year results, and the surprise dividend increase, will be received positively by the market.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 2.

Exhibit 1: Normalized Earnings ($MM except EPS or otherwise noted)

	Q4 2006	RBC CM Q4/06 Est.	Q4 2005	2006	2005	Comments
Newfoundland Power	$ 8.8	$ 9.0	$ 2.9	$ 30.1	$ 29.3	
Maritime Electric	2.3	2.3	1.7	9.4	9.1	
FortisOntario	1.0	0.9	1.0	4.0	3.5	
FortisAlberta	8.3	10.0	7.2	42.7	27.3	
FortisBC	6.4	7.3	5.7	27.4	24.6	
Regulated Utilities - Canadian	26.9	29.6	18.4	113.5	93.9	
Belize Electricity	2.8	1.1	2.0	10.4	8.1	Lower finance charges and growth in electricity sales
Caribbean Utilities	2.8	2.8	2.8	9.7	9.5	
Turks & Caicos	2.8	1.5		3.5		Higher-than-expected growth in electricity sales
Regulated Utilities - Caribbean	8.4	5.4	4.8	23.6	17.6	
Non-regulated - Fortis Generation	6.7	7.7	9.6	26.0	22.7	Lower power prices in Ontario
Non-regulated - Fortis Properties	2.8	3.8	2.9	15.5	14.1	
Corporate	(11.0)	(8.6)	(7.8)	(36.0)	(31.7)	Higher preference share divs
Normalized Earnings	$ 33.9	$ 37.9	$ 28.0	$ 142.7	$ 116.6	
Normalized EPS	$ 0.33	$ 0.37	$ 0.27	$ 1.38	$ 1.15	
Average shares outstanding (MM)	104.0	103.7	103.1	103.6	101.8	
Normalization adjustments:						
Redist. Negotiated Rate Settlement				(1.3)		FortisAlberta
Gain on sale of Days Inn Sydney hotel				1.6		Properties
Impact on future taxes from rate reduction				2.1		Properties, Maritime Electric, FortisOntario
Insurance gain from Dolgeville flood				0.7		Fortis Generation
Favourable resolution of CRA reassessment					1.6	FortisOntario
Estimation of insurance recovery					1.8	FortisAlberta
F/X gain (loss)				1.5	1.7	Corporate
Newfoundland Power tax settlement					1.4	Newfoundland Power
FortisAlberta tax settlement					7.0	FortisAlberta
Caribbean Utilities accounting change					1.1	Caribbean Utilities
Settlement of contractual matters with OPG					7.9	Fortis Generation
Recovery of Hurricane Ivan damages					0.7	Caribbean Utilities
Early retirements			(0.8)		(0.8)	FortisOntario
Writedown of Rankine facility			(1.1)		(1.1)	Fortis Generation
Clean up of closing adjustments			(0.8)		(0.8)	Corporate
Negotiated Rate Settlement			(3.0)			FortisAlberta
	-		(5.7)	4.5	20.5	
Reported Earnings	$ 33.9		$ 22.3	$ 147.2	$ 137.1	

Source: Company reports, RBC Capital Markets estimates

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 68%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

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Ratings
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Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
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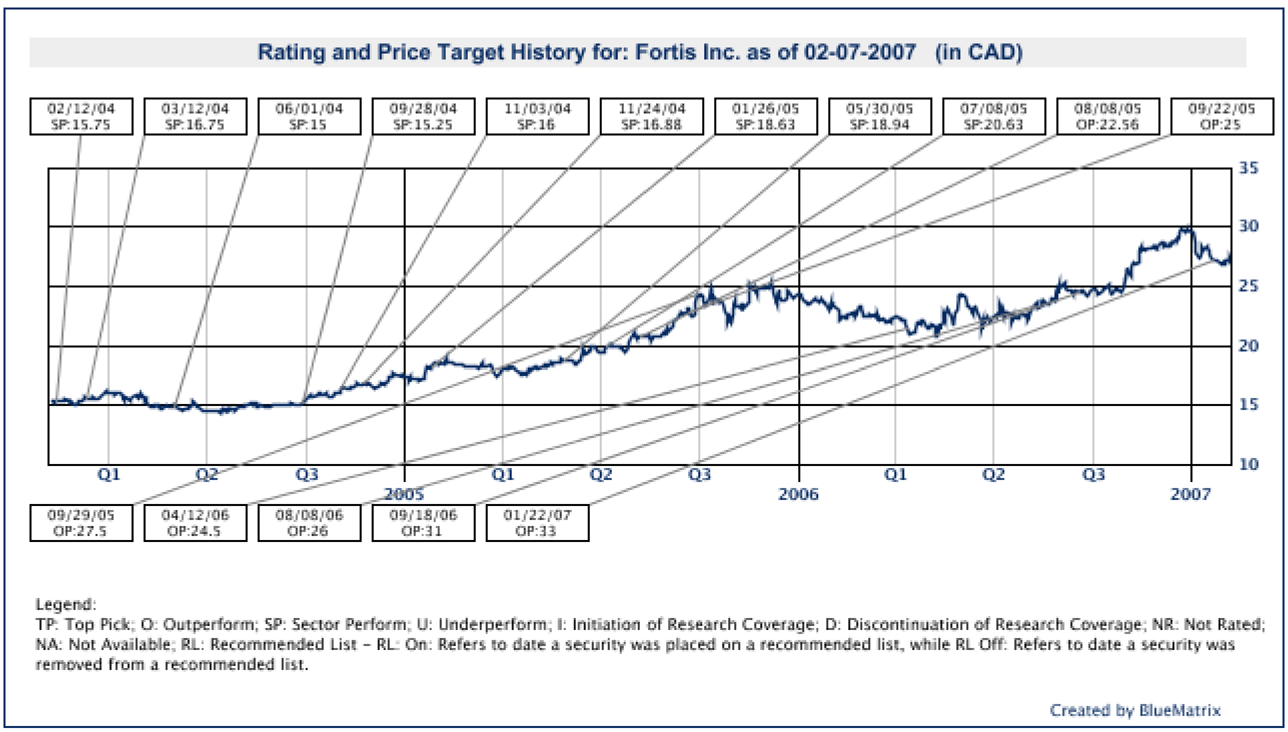
Rating	Count	Percent	Count	Percent
BUY [TP/O]	416	43.33	154	37.02
HOLD [SP]	445	46.35	111	24.94
SELL [U]	99	10.31	20	20.20



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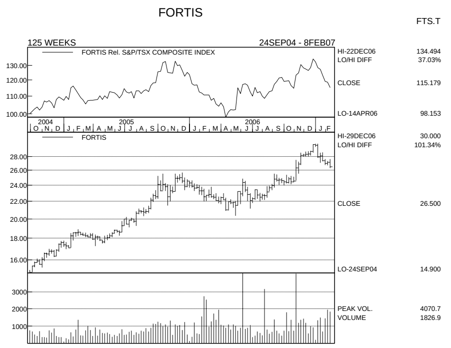
RBC Capital Markets

EQUITY | RESEARCH

February 9, 2007 | **COMMENT**



Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Positive Implications From Fourth Quarter Results

RBC Dominion Securities Inc.

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Price:	$26.50	Target Price:	$33.00
Yield:	3.17%	All-In Return:	28%
52-Wk High:	$30.00	52-Wk Low:	$20.36
Float (MM):	109.3	Debt-to-Cap:	0.60
Shs O/S (MM):	109.3	Mkt Cap (MM):	$2,895
Dividend:	$0.84		

(FY Dec. 31)	2005A	2006A	2007E	2008E
EPS				
Basic	$1.15	$1.38	$1.49	$1.54
Diluted[(1)]	$1.12	$1.35	$1.45	$1.51
P/E	23.0	19.2	17.8	17.2
EPS	Q1	Q2	Q3	Q4
2005A	$0.31	$0.28	$0.29	$0.27
2006A	$0.36	$0.32	$0.37	$0.33

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

(1) Excludes redeemable convertible preferred shares.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 4.

Event

Fortis reported its fourth quarter 2006 results.

Investment Opinion

- **Q4/06 results strong, but not as strong as we were expecting.** Fortis' fourth quarter 2006 normalized EPS was $0.33 compared to our estimate of $0.37 and compared to fourth quarter 2005 EPS of $0.27. The Thomson One consensus estimate for the quarter was $0.27. The shortfall from our estimates was primarily due to lower-than-expected earnings from its western operations and higher Corporate expenses.
- **Surprise 10.5% dividend increase – bigger and earlier.** Fortis increased its annual dividend by 10.5% to $0.84 per share from $0.76 per share. This is $0.01 more than the $0.83 annual dividend that we were expecting to be declared in September 2007.
- **$2.6 billion investment in utilities over 5 years.** We expect organic earnings growth to be driven by Fortis' plan to invest approximately $2.6 billion in all of its utilities over the next 5 years. Further, over the next 2 years, the rate bases for FortisAlberta and FortisBC are each expected to grow by about 30%.
- **Looking for more acquisitions.** We continue to believe that Fortis is well positioned to make a major acquisition, such as the purchase of a gas or power distribution company. Further, Fortis stated that it "will continue to seek regulated utility acquisitions in Canada, the Caribbean and the United States."
- **Positive implications.** Although the quarter's results fell short of our estimates, they were well ahead of the consensus estimate. In addition, we believe the improved year-over-year results, the surprise dividend increase, and the significant utility spending program bode well for the company.
- **Attractive valuation.** Fortis offers good EPS growth, and its P/E ratio, P/ACFFO and dividend payout ratio are all below the averages for the Utilities sector in Canada. The combination of Fortis' growth outlook and its attractive valuation provides investors with a forecasted implied all-in return of 28%, supporting our ranking of Outperform, Average Risk (unchanged). Our target price of $33.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $0.92 and a required dividend yield of 2.80%.

Strong, But Still Lower-Than-Expected Fourth Quarter Results

Fortis’ fourth quarter 2006 normalized EPS was $0.33 compared to our estimate of $0.37 and compared to fourth quarter 2005 EPS of $0.27. The Thomson One consensus estimate for the quarter was $0.27. The shortfall from our estimates was primarily due to lower-than-expected earnings from its western operations and higher Corporate expenses.

Exhibit 1: Normalized fourth quarter earnings ($MM except EPS or otherwise noted)

	Q4 2006	RBC CM Q4/06 Est.	Q4 2005	2006	2005	Comments
Newfoundland Power	$ 8.8	$ 9.0	$ 2.9	$ 30.1	$ 29.3	
Maritime Electric	2.3	2.3	1.7	9.4	9.1	
FortisOntario	1.0	0.9	1.0	4.0	3.5	
FortisAlberta	8.3	10.0	7.2	42.7	27.3	
FortisBC	6.4	7.3	5.7	27.4	24.6	
Regulated Utilities - Canadian	26.9	29.6	18.4	113.5	93.9	
Belize Electricity	2.8	1.1	2.0	10.4	8.1	Lower finance charges and growth in electricity sales
Caribbean Utilities	2.8	2.8	2.8	9.7	9.5	
Turks & Caicos	2.8	1.5		3.5		Higher-than-expected growth in electricity sales
Regulated Utilities - Caribbean	8.4	5.4	4.8	23.6	17.6	
Non-regulated - Fortis Generation	6.7	7.7	9.6	26.0	22.7	Lower power prices in Ontario
Non-regulated - Fortis Properties	2.8	3.8	2.9	15.5	14.1	
Corporate	(11.0)	(8.6)	(7.8)	(36.0)	(31.7)	Higher preference share divs
Normalized Earnings	$ 33.9	$ 37.9	$ 28.0	$ 142.7	$ 116.6	
Normalized EPS	$ 0.33	$ 0.37	$ 0.27	$ 1.38	$ 1.15	
Average shares outstanding (MM)	104.0	103.7	103.1	103.6	101.8	
Normalization adjustments:						
Redist. Negotiated Rate Settlement				(1.3)		FortisAlberta
Gain on sale of Days Inn Sydney hotel				1.6		Properties
Impact on future taxes from rate reduction				2.1		Properties, Maritime Electric, FortisOntario
Insurance gain from Dolgeville flood				0.7		Fortis Generation
Favourable resolution of CRA reassessment					1.6	FortisOntario
Estimation of insurance recovery					1.8	FortisAlberta
F/X gain (loss)				1.5	1.7	Corporate
Newfoundland Power tax settlement					1.4	Newfoundland Power
FortisAlberta tax settlement					7.0	FortisAlberta
Caribbean Utilities accounting change					1.1	Caribbean Utilities
Settlement of contractual matters with OPG					7.9	Fortis Generation
Recovery of Hurricane Ivan damages					0.7	Caribbean Utilities
Early retirements			(0.8)		(0.8)	FortisOntario
Writedown of Rankine facility			(1.1)		(1.1)	Fortis Generation
Clean up of closing adjustments			(0.8)		(0.8)	Corporate
Negotiated Rate Settlement			(3.0)			FortisAlberta
	-		(5.7)	4.5	20.5	
Reported Earnings	$ 33.9		$ 22.3	$ 147.2	$ 137.1	

Source: Company reports, RBC Capital Markets estimates

Surprise 10.5% Dividend Increase

Fortis increased its annual dividend by 10.5% to $0.84 per share from $0.76 per share. This is $0.01 more than the $0.83 annual dividend that we were expecting to be declared in September 2007. Fortis has now increased its dividend by 47% over the past 18 months, but at 56% its 2007 payout ratio remains below 60% and is still lower than the average 2007 payout ratio of 62% for the Canadian energy infrastructure companies in our coverage universe.

$2.6 Billion Spending Program In Utilities to Drive Organic Earnings Growth

We expect organic earnings growth to be driven by Fortis' plan to invest approximately $2.6 billion in all of its utilities over the next 5 years. Further, over the next 2 years, the rate bases for FortisAlberta and FortisBC are each expected to grow by about 30%. In particular, the company will benefit form low-risk earnings growth from its regulated utilities, especially FortisAlberta and FortisBC.

Well Positioned and Looking For Acquisitions

We continue to believe that Fortis is well positioned to make a major acquisition, such as the purchase of a gas or power distribution company. Further, Fortis stated that it "will continue to seek regulated utility acquisitions in Canada, the Caribbean and the United States."

Conclusion

Although the quarter's results fell short of our estimates, they were well ahead of the consensus estimate. In addition, we believe the improved year-over-year results, the surprise dividend increase, and the significant utility spending program bode well for the company. Most notably, we expect the company to benefit from low-risk, organic earnings growth from its significant planned spending program in its utility businesses.

Valuation

Fortis offers good EPS growth, and its P/E ratio, P/ACFFO and dividend payout ratio are all below the averages for the Canadian energy infrastructure sector companies that we cover (Exhibit 2). We believe that this combination of growth, attractive valuation and the low-risk nature of its regulated operations give Fortis an attractive risk/return profile relative to the sector.

Exhibit 2: Fortis' valuation ratios are all below the averages in our coverage universe

	2007 P/E	2007 P/ACFFO	2007 Payout Ratio
Energy Infrastructure (Average)	19.0x	13.3x	62%
Fortis	17.8x	11.4x	56%

Note: The Energy Infrastructure average does not include Canadian Hydro Developers.
Source: RBC Capital Markets estimates

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $33.00 reflects a forecast 12-month dividend distribution one-year forward of $0.92 and a required dividend yield of 2.80% We believe a required yield of 2.80% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

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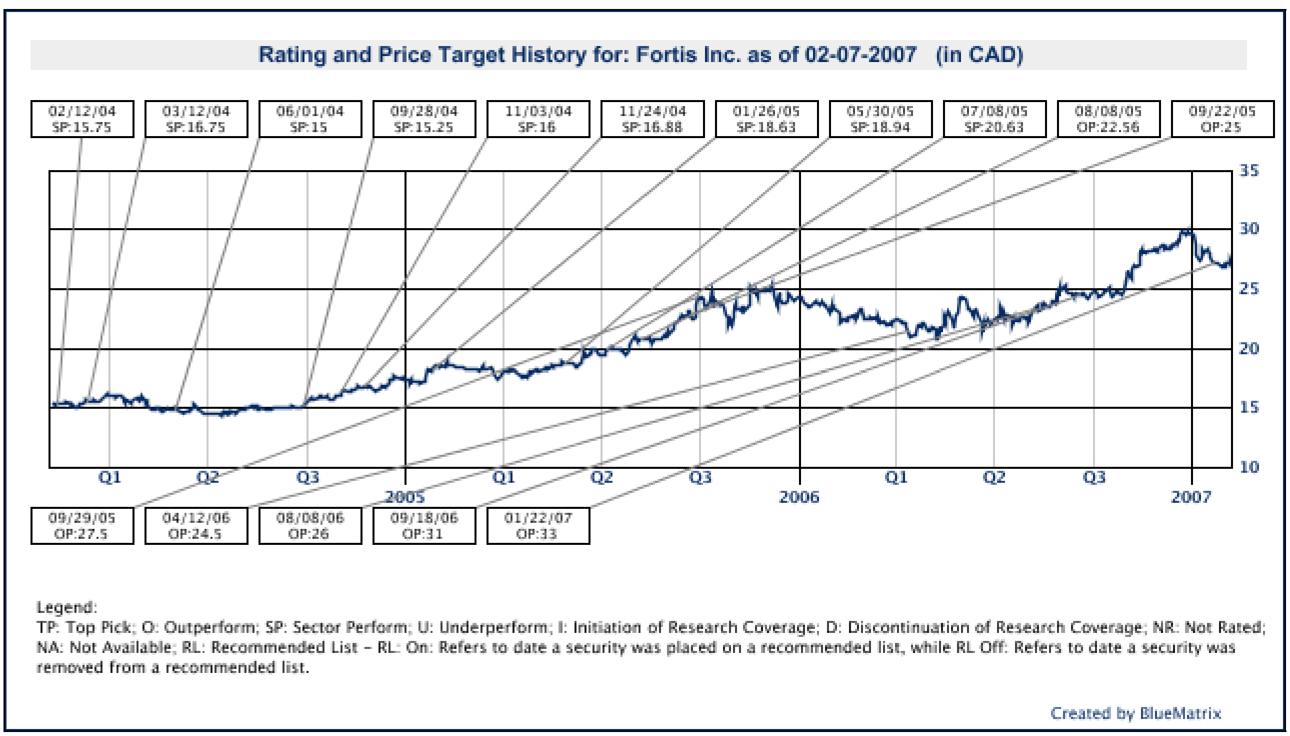
SELL [U]	99	10.31	20	20.20



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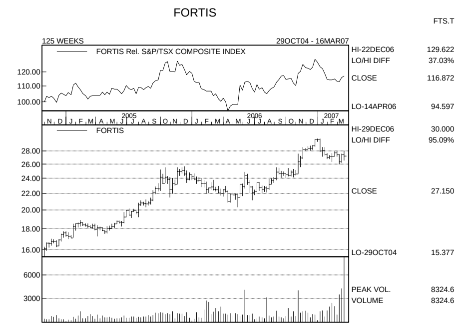
March 19, 2007 | **COMMENT**



Fortis Inc.

(TSX: FTS)

Outperform

Average Risk

Terasen Acquisition: Strategic and Accretive

RBC Dominion Securities Inc.

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Price:	$27.15	Target Price:	$33.00
Yield:	3.09%	All-In Return:	25%
52-Wk High:	$30.00	52-Wk Low:	$20.36
Float (MM):	153.5	Debt-to-Cap:	0.60
Shs O/S (MM):	153.5	Mkt Cap (MM):	$4,169
Dividend:	$0.84		

(FY Dec. 31)	2005A	2006A	2007E	2008E
EPS				
Old Basic	$1.15	$1.38	$1.49	$1.54
Old Diluted(1)	$1.12	$1.35	$1.45	$1.51
Basic	$1.15	$1.38	$1.52	$1.62
Diluted(1)	$1.12	$1.35	$1.49	$1.59
P/E	23.6	19.7	17.9	16.8
EPS	Q1	Q2	Q3	Q4
2005A	$0.31	$0.28	$0.29	$0.27
2006A	$0.36	$0.32	$0.37	$0.33
2007E	$0.39	$0.34	$0.39	$0.39

All values in C$ unless otherwise noted.

EPS are normalized for unusual and non-recurring items.

Figures may not conform with GAAP.

Event

We are resuming coverage following a publishing restriction.

Investment Opinion

- **Terasen Acquisition Looks Attractive.** Fortis acquired the B.C.-based gas distribution utility from Kinder Morgan for $3.7 billion including the assumption of about $2.3 billion in debt. Based on Fortis' financing of the acquisition, we estimate that the company paid about 14.5x 2008E earnings for Terasen. The acquisition is subject to regulatory approval and is expected to close in mid-2007.
- **Immediately Accretive to EPS.** We estimate that the acquisition is approximately $0.08 accretive to EPS in 2008, the first full year of the acquisition. We have increased our 2007 and 2008 EPS estimates from $1.49 and $1.54 respectively, to our new estimates of $1.52 and $1.62. Our 2007 estimate assumes a mid-year 2007 close of the transaction.
- **Acquisition Financing Includes $1.15 Billion of Equity.** Fortis issued 44.3 million subscription receipts (including over-allotment option) at $26.00 for gross proceeds of $1.15 billion. The company also plans to finance the balance of the purchase price (approximately $200 million) using preferred shares.
- **Entry into Gas Distribution Business.** The assets acquired include the gas distribution utilities in the B.C. Lower Mainland, Vancouver Island and the southern interior of the province. The acquisition does not include the crude oil pipelines that were previously owned by Terasen. Terasen Gas is a cost-of-service regulated gas distribution business that allows the recovery of prudently-incurred gas and operational costs. Further, Terasen Gas is not exposed to throughput risk.
- **Strategic Acquisition.** Management commented on the geographic fit with its western electric utility operations. Further, management stated that experience in the gas distribution business would better position Fortis for a potential acquisition in the U.S. where there are companies that own a combined gas & electric utility.
- **Positive Move for Fortis.** We view the acquisition positively as it immediately contributes to EPS and increases the company's earnings contribution from Canadian regulated operations.
- **Valuation.** Our target price of $33.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $0.93 and a required dividend yield of 2.80%. Fortis is ranked Outperform, Average Risk.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 4.

Acquisition Looks Attractive

Fortis acquired the B.C.-based gas distribution utility from Kinder Morgan for $3.7 billion including the assumption of about $2.3 billion in debt. Based on Fortis' financing of the acquisition, we estimate that the company paid about 14.5x 2008E earnings for Terasen. The acquisition is subject to regulatory approval and is expected to close in mid-2007.

In Exhibit 1, we have set out our financial analysis of the acquisition.

Exhibit 1: Forecast EPS Impact of the Terasen Acquisition ($MM except EPS or otherwise noted)

Total Purchase Price	$3,700			
Assumed Debt	(2,347)			
Equity Value	$1,353			
New Equity Issued	$1,151			
New Preferred Financing	202			
	2008E			
	Terasen Gas	TGVI	Consolidated	Comments
Average Rate Base	$2,506	$508		
Equity Component	35%	40%		
Base ROE	8.37%	8.37%		Assumed same as 2007 ROE
Approved Risk Premium	0.00%	0.70%		
Efficiencies	0.80%	0.80%		
Earned ROE	9.17%	9.87%		
Regulated Return	$80	$20	**$100**	
Unregulated Net Income, net			**5**	
Interest on Unregulated Debt			**(25)**	Estimated $450mm at a 5.50% effective rate
Tax Shield on Unegulated Debt			**9**	
Dividends on Preferred Shares			**(10)**	Estimated $202mm at 4.75%
Incremental Net Income			**$80**	
Pre-Acquisition Fortis Earnings			$170	
Incremental Net Income			80	
Pro Forma Net Income			$249	
Pre-Acquisition Average Shares			110	
New Shares Issued			44	
Pro Forma Shares			154	
Pre-Acquisition EPS			$1.54	
Pro Forma EPS			$1.62	
EPS Accretion			**$0.08**	

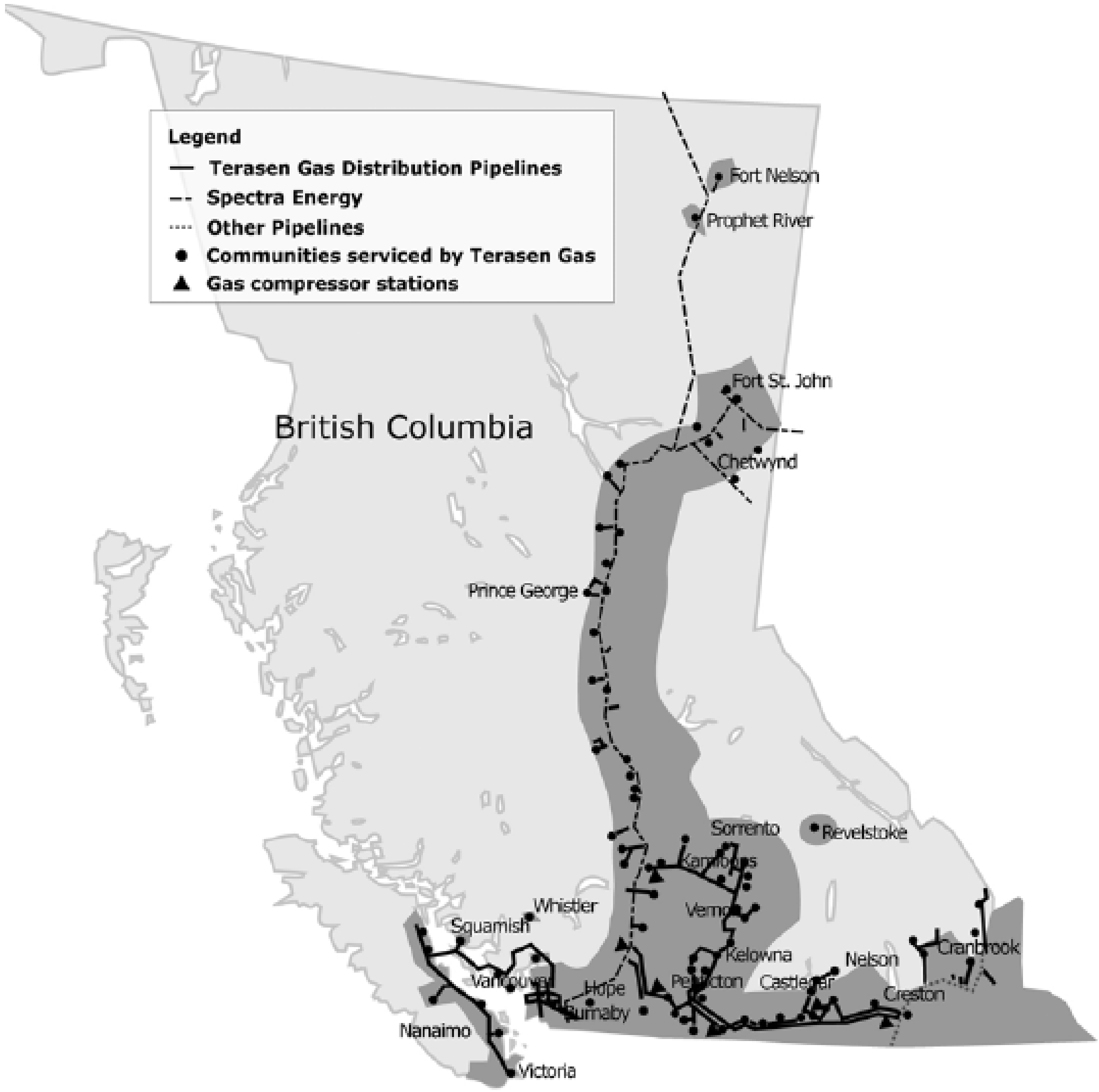
Source: BCUC, Company reports, RBC Capital Markets estimates

Description of Acquired Assets

The assets acquired include the gas distribution utilities in the B.C. Lower Mainland, Vancouver Island and the southern interior of the province. The acquisition does not include the crude oil pipelines that were previously owned by Terasen. Terasen Gas is a cost-of-service regulated gas distribution business that allows the recovery of prudently-incurred gas and operational costs. Further, Terasen Gas is not exposed to throughput risk.

Terasen Gas is British Columbia's largest natural gas distribution utility serving about 900,000 customers (approximately 95% of the natural gas customers in the province). The utility owns 44,100 kilometres of natural gas distribution pipelines and 4,300 kilometres of natural gas transmission pipelines.

Exhibit 2: Map of Terasen Gas and TGVI Service Territories



Source: Company reports

Conclusion

We view the acquisition positively as it immediately contributes to EPS and increases the company's earnings contribution from Canadian regulated operations. The acquisition of Terasen Gas fits geographically with Fortis' western Canadian operations, and will provide management with a base of knowledge and experience in natural gas distribution resulting in a platform for future growth through acquisitions of gas distribution utilities.

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $33.00 reflects a forecast 12-month dividend distribution one-year forward of $0.93 and a required dividend yield of 2.80% We believe a required yield of 2.80% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediments

The failure to close the Terasen acquisition, political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities. The company has agreed to acquire Terasen Inc., which operates gas distribution utilities in British Columbia.

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Outperform (O): Expected to materially outperform sector average over 12 months.
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Rating	Count	Percent	Count	Percent
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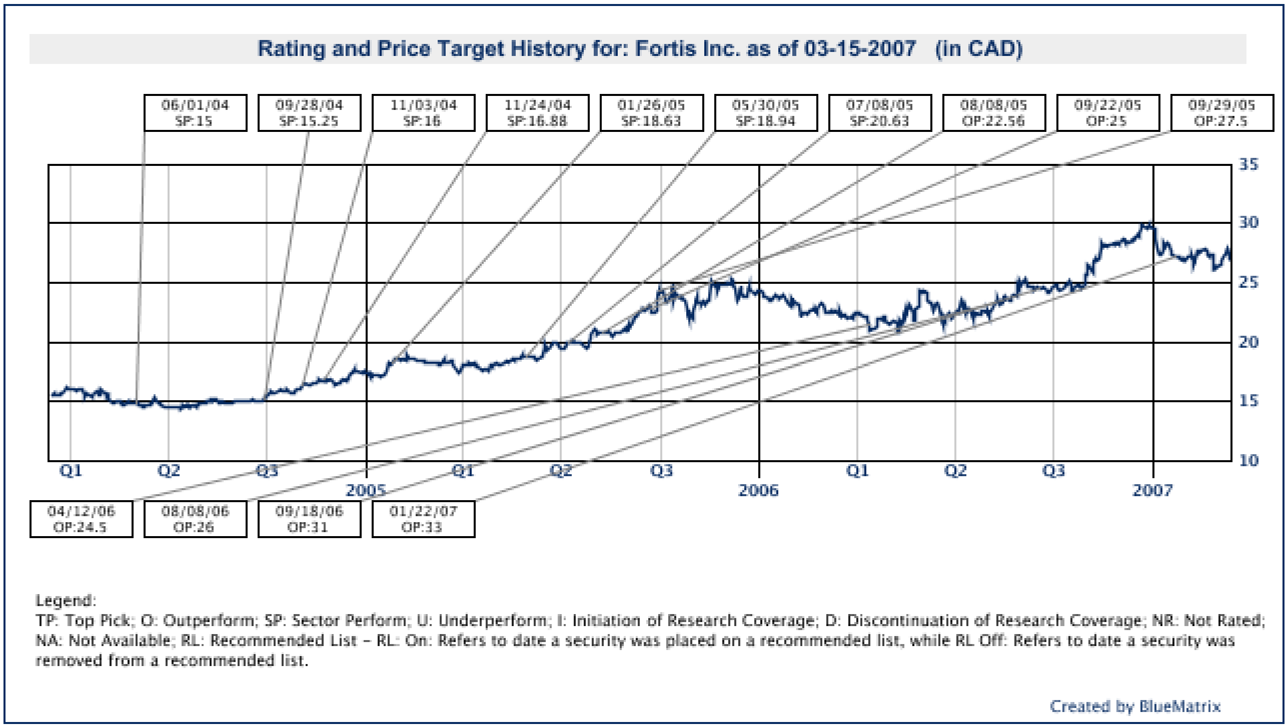
HOLD [SP]	461	45.96	138	29.93
SELL [U]	105	10.47	20	19.05



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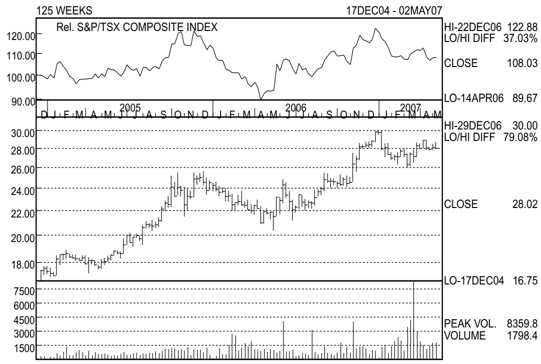
FIRST GLANCE | COMMENT

MAY 3, 2007

Fortis Inc. (TSX: FTS; 28.02)

Q1/07 Results In Line



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All values in CAD unless otherwise noted.

Outperform
Average Risk

Impact

Neutral.

First Impression

- **Q1/07 Results In Line.** Fortis' normalized Q1/07 EPS was $0.40 compared to our estimate of $0.39, consensus of $0.37, and Q1/06 normalized EPS of $0.36. In general, segment results were all in line with slightly higher-than-expected results from Belize Electricity offset by slightly lower-than-expected results from Turks & Caicos.

Details

Exhibit 1: Normalized Earnings ($MM Except EPS)

	Q1 2007	RBC CM Q1/07 Est.	Q1 2006	Comments
Newfoundland Power	$ 10.5	$ 10.3	$ 10.7	
Maritime Electric	2.6	2.3	2.1	
FortisOntario	1.3	1.3	1.0	
FortisAlberta	11.9	11.9	10.1	
FortisBC	11.6	11.4	11.9	
Regulated Utilities - Canadian	38.0	37.3	35.7	
Belize Electricity	2.7	1.6	1.5	Electric sales growth, lower finance charges
Caribbean Utilities	2.0	1.9	1.7	
Turks & Caicos	1.8	2.7		
Regulated Utilities - Caribbean	6.5	6.3	3.2	
Non-regulated - Fortis Generation	7.3	7.0	5.4	
Non-regulated - Fortis Properties	1.8	1.6	1.5	
Corporate	(9.7)	(9.8)	(8.4)	
Normalized Earnings	**$ 43.9**	**$ 42.3**	**$ 37.4**	
Normalized EPS	**$ 0.40**	**$ 0.39**	**$ 0.36**	
Average shares outstanding (MM)	109.4	109.0	103.3	
Normalization adjustments:				
F/X gain (loss)			(0.1)	Corporate
2006/2007 NSA			(0.6)	FortisAlberta
Disposal of steam system	(2.4)			Caribbean Utilities
	(2.4)		(0.8)	
Reported Earnings	$ 41.5		$ 36.6	

Source: Company reports, RBC Capital Markets estimates

Company Description

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Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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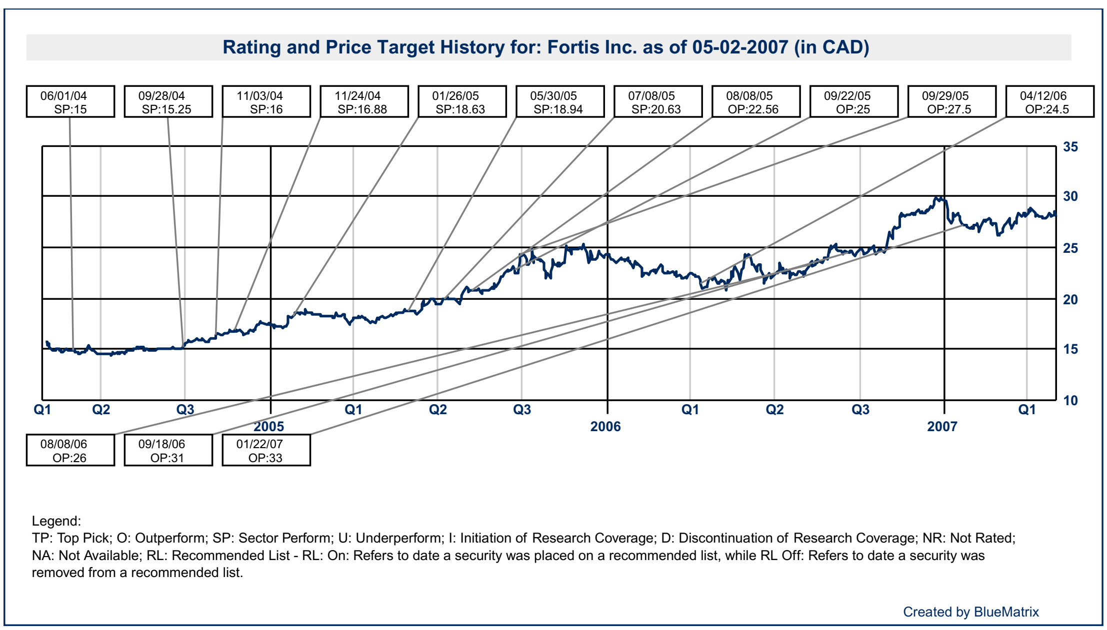
SELL[U]	108	10.34	21	19.44



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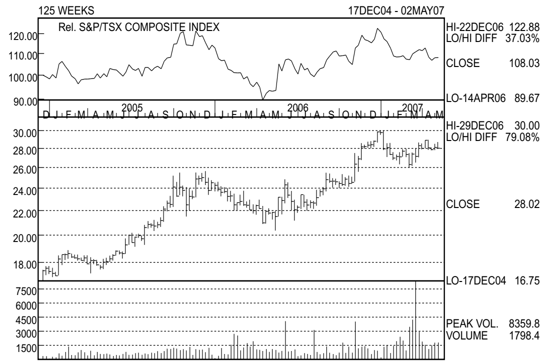

RBC Dominion Securities Inc.

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FY Dec	2005A	2006A	2007E	2008E
EPS (Op) - Basic	1.15	1.38	1.50	1.62
P/E	24.37x	20.30x	18.68x	17.30x
EPS (Op) - FD	1.12	1.35	1.47	1.59
P/E	25.02x	20.76x	19.06x	17.62x

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2005	0.31A	0.28A	0.29A	0.27A
2006	0.36A	0.32A	0.37A	0.33A
2007	0.40A	0.35E	0.23E	0.52E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

MAY 4, 2007

Fortis Inc. (TSX: FTS)

First Quarter 2007 Results In Line With Expectations

Outperform
Average Risk

Price:	28.02	**Price Target:**	33.00
		Implied All-In Return:	20.8%
Shares O/S (MM):	153.9	**Market Cap (MM):**	4,312.3
Dividend:	0.84	**Yield:**	3.0%
Float (MM):	153.9		
Debt to Cap:	56.9%		

Event

Fortis reported its first quarter results for 2007.

Investment Opinion

- **Q1 Results In Line.** Fortis' normalized first quarter 2007 EPS was $0.40 compared to our estimate of $0.39, consensus of $0.37, and first quarter 2006 normalized EPS of $0.36. In general, segment results were all in line with slightly higher-than-expected results from Belize Electricity offset by slightly lower-than-expected results from Turks & Caicos. Fortis also benefited from slightly better-than-expected hydroelectric production during the quarter.
- **Heavy Planned Capex Drives Strong Rate Base Growth.** In 2007, Fortis plans to spend approximately $631 million in capital expenditures on its electric utilities. Over the next 5 years, Fortis plans to spend approximately $2.8 billion at its electric utilities and over $1 billion of capex at its gas utilities. Most of this spending will be to meet customer growth and update infrastructure at FortisAlberta and FortisBC. We expect Fortis to benefit from low-risk, organic earnings growth from significant additions to rate base.
- **Adjusting 2007 EPS Estimate for Terasen Seasonality.** Fortis recently received BCUC approval for its acquisition of Terasen, which it expects to close by the end of the quarter. Reflecting the significant seasonality in Terasen's results (Q3 is Terasen's worst quarter) partially offset by other changes to our financial model, we have reduced our 2007 EPS estimate from $1.52 to $1.50. Our 2008 EPS estimate is unchanged.
- **Attractive Outlook.** We expect Fortis to benefit from low-risk, organic earnings growth from its significant rate base expansion program in its utility businesses. Fortis offers good EPS growth, and its P/E ratio and dividend payout ratio are both below the averages for the Canadian energy infrastructure companies that we cover. We believe that this combination of growth, attractive valuation and the low-risk nature of its regulated operations give Fortis an attractive risk/return profile relative to the sector.
- **Valuation.** Our target price of $33.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $0.94 and a required dividend yield of 2.80%. Fortis is ranked Outperform, Average Risk.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 5.

First Quarter Results On Track

Fortis' normalized first quarter 2007 EPS was $0.40 compared to our estimate of $0.39, consensus of $0.37, and first quarter 2006 normalized EPS of $0.36. In general, segment results were all in line with slightly higher-than-expected results from Belize Electricity offset by slightly lower-than-expected results from Turks & Caicos. Fortis also benefited from slightly better-than-expected hydroelectric production during the quarter.

Exhibit 1: Normalized Earnings ($MM Except EPS)

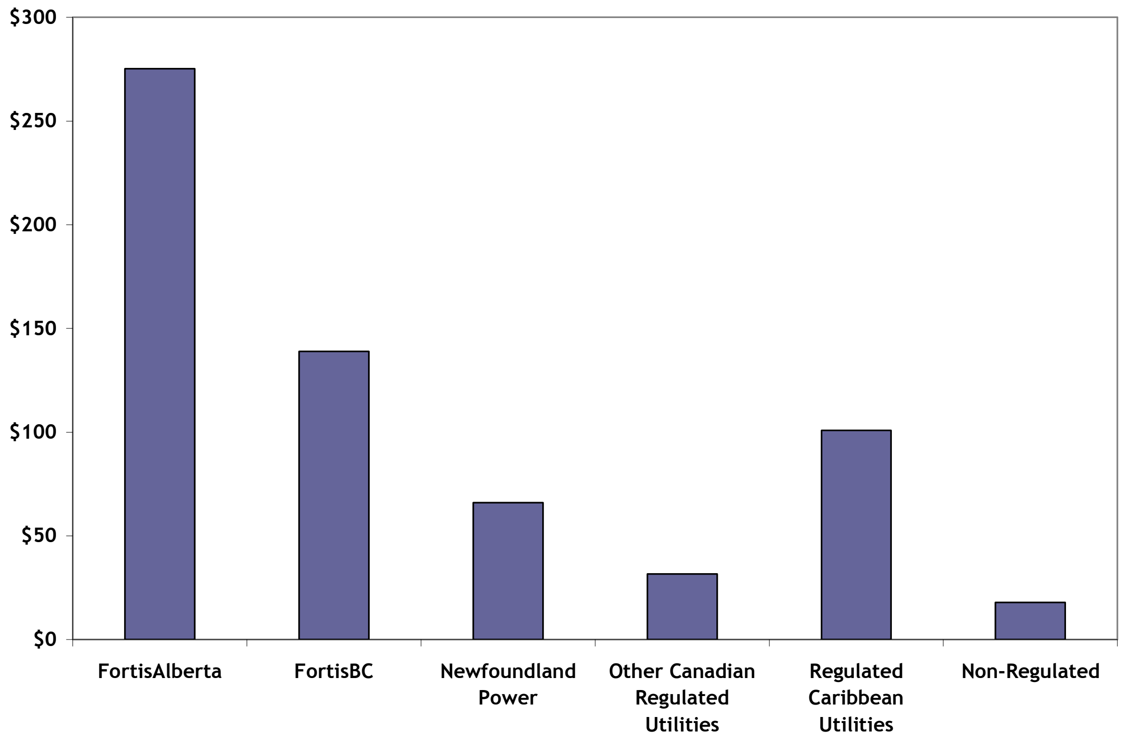
	Q1 2007	RBC CM Q1/07 Est.	Q1 2006	Comments
Newfoundland Power	$ 10.5	$ 10.3	$ 10.7	
Maritime Electric	2.6	2.3	2.1	
FortisOntario	1.3	1.3	1.0	
FortisAlberta	11.9	11.9	10.1	
FortisBC	11.6	11.4	11.9	
Regulated Utilities - Canadian	38.0	37.3	35.7	
Belize Electricity	2.7	1.6	1.5	Electric sales growth, lower finance charges
Caribbean Utilities	2.0	1.9	1.7	
Turks & Caicos	1.8	2.7		
Regulated Utilities - Caribbean	6.5	6.3	3.2	
Non-regulated - Fortis Generation	7.3	7.0	5.4	
Non-regulated - Fortis Properties	1.8	1.6	1.5	
Corporate	(9.7)	(9.8)	(8.4)	
Normalized Earnings	**$ 43.9**	**$ 42.3**	**$ 37.4**	
Normalized EPS	**$ 0.40**	**$ 0.39**	**$ 0.36**	
Average shares outstanding (MM)	109.4	109.0	103.3	
Normalization adjustments:				
F/X gain (loss)			(0.1)	Corporate
2006/2007 NSA			(0.6)	FortisAlberta
Disposal of steam system	(2.4)			Caribbean Utilities
	(2.4)		(0.8)	
Reported Earnings	$ 41.5		$ 36.6	

Source: Company reports, RBC Capital Markets estimates

$631 Million of Utilities Capex Planned for 2007

In 2007, Fortis plans to spend approximately $631 million in capital expenditures on its electric utilities. Over the next 5 years, Fortis plans to spend approximately $2.8 billion at its electric utilities with gross consolidated gas utility capex of over $1 billion (assuming the Terasen Gas acquisition closes in the second quarter of 2007). Most of this electric utility spending will be to meet customer growth and update infrastructure at FortisAlberta and FortisBC. Exhibit 2 illustrates the company's planned spending on electric utilities for 2007.

Exhibit 2: Forecast Gross Utility Capital Expenditures for 2007 ($MM)



Source: Company reports, RBC Capital Markets

Upcoming Regulatory Filings for FortisAlberta, Newfoundland Power and Maritime Electric

- **FortisAlberta.** During the second quarter of 2007, FortisAlberta intends to file its 2008/2009 Distribution Access Tariff Application for Alberta Energy and Utilities Board approval of customer rates and capital expenditures for 2008 and 2009. According to management, rate increases will be required to recover the large capital expenditures planned for 2008 and 2009 as well as to recover the excess capex spent in 2006 and 2007 due to the stronger-than-expected growth in Alberta.
- **Newfoundland Power.** In the second quarter of 2007, Newfoundland Power plans to file a general rate application with the Newfoundland and Labrador Board of Public Commissioners of Public Utilities to set customer rates for 2008.
- **Maritime Electric.** In the fall of 2007, Maritime Electric expects to file a rate application with the Island Regulatory and Appeals Commission to set rates for 2008.

2007 EPS Estimate Adjusted for Terasen Seasonality

Fortis recently received BCUC approval for its acquisition of Terasen, which it expects to close by the end of the quarter. Reflecting the significant seasonality in Terasen's results (Q3 is Terasen's worst quarter) partially offset by other changes to our financial model, we have reduced our 2007 EPS estimate from $1.52 to $1.50. Our 2008 EPS estimate is unchanged.

Conclusion

We expect Fortis to benefit from low-risk, organic earnings growth from its significant rate base expansion program in its utility businesses. Fortis offers good EPS growth, and its P/E ratio and dividend payout ratio are both below the averages for the Canadian energy infrastructure companies that we cover. We believe that this combination of growth, attractive valuation and the low-risk nature of its regulated operations give Fortis an attractive risk/return profile relative to the sector.

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $33.00 reflects a forecast 12-month dividend distribution one-year forward of $0.94 and a required dividend yield of 2.80% We believe a required yield of 2.80% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediment

The failure to close the Terasen acquisition, political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

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Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities. The company has agreed to acquire Terasen Inc., which operates gas distribution utilities in British Columbia.

Required Disclosures

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Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

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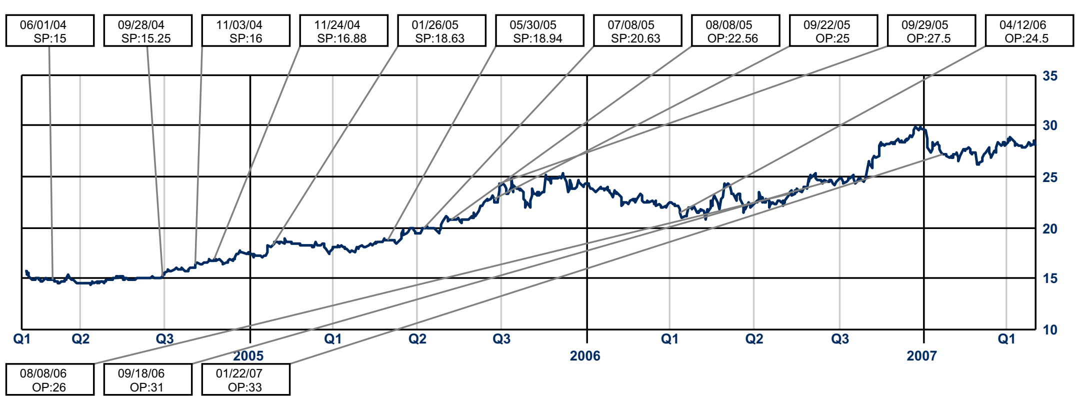
			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY[TP/O]	446	42.72	190	42.60
HOLD[SP]	490	46.93	142	28.98
SELL[U]	108	10.34	21	19.44

Rating and Price Target History for: Fortis Inc. as of 05-02-2007 (in CAD)



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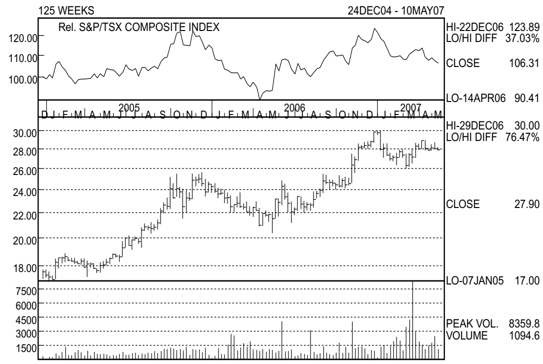
COMPANY UPDATE | COMMENT

MAY 11, 2007

Fortis Inc. (TSX: FTS)

Newfoundland Power Files Rate Case



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Dividend:	0.84	**Yield:**	3.0%
Float (MM):	153.9		
Debt to Cap:	56.9%		

Event

Newfoundland Power filed a General Rate Application (GRA).

Investment Opinion

- **No Major Impact Expected to our Earnings Forecast.** Based on our assessment, we do not expect the filing of the GRA to impact our 2007 and 2008 earnings estimates. Although Newfoundland Power has proposed to increase its allowed ROE to 10.25% (from 8.6%), we do not expect the Newfoundland and Labrador Board of Commissioners to Public Utilities (PUB) to approve the change in ROE.
- **Rate Application Expected to Benefit Cash Flow.** For the past couple of years, Newfoundland Power has deferred the amortization of certain costs per a previous PUB order, which also stated the intention to deal with these costs at a later date. In the GRA, Newfoundland Power has applied for higher depreciation to recover these previously incurred costs in rates.
- **Application for Higher ROE Unlikely to Succeed.** Newfoundland Power has applied for an increase in its allowed ROE to 10.25% (from 8.6%). Despite support for higher allowed returns, allowed ROEs for most regulated utilities in Canada are sub-9%. The company has also applied for a change in the automatic ROE adjustment mechanism to more closely follow other utilities in Canada, which could be approved. However, a change in the formula is not expected to materially impact our earnings forecast.
- **Overall Rate Increase Appears Manageable.** Newfoundland Power applied for a 5.3% average increase in 2008 electricity rates (primarily based on higher cost recovery and a higher ROE). For 2008, not changing the ROE would reduce the average rate increase to approximately 3.4%, which we believe is more than manageable from a ratepayer perspective.
- **No Change to Outlook.** We expect the company to be successful in its application for cost recovery, but not its application for a higher ROE. As such, we do not expect the outcome of the GRA to materially change our earnings outlook for Fortis.
- **Valuation.** Our target price of $33.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $0.94 and a required dividend yield of 2.80%.

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			Investment Banking Serv./Past 12 Mos.	
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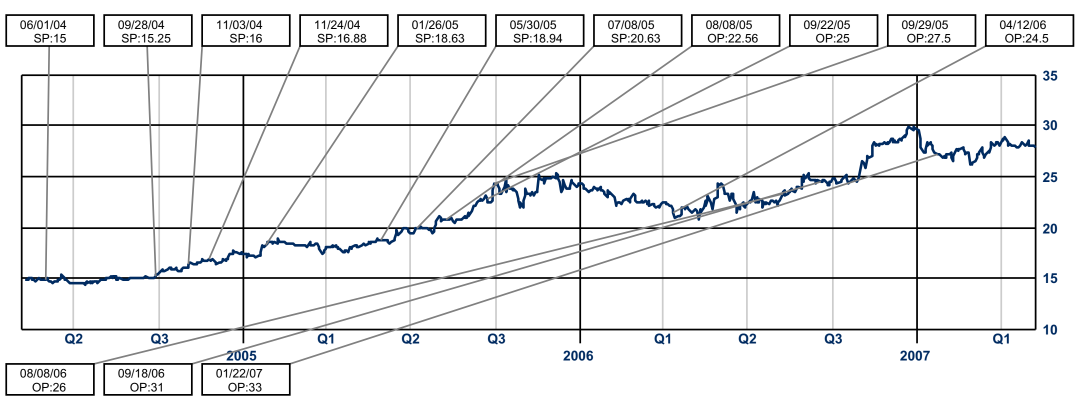
SELL[U]	106	10.11	21	19.81

Rating and Price Target History for: Fortis Inc. as of 05-09-2007 (in CAD)



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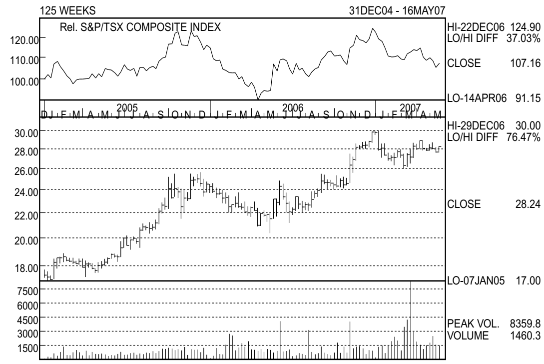
COMPANY UPDATE | COMMENT

MAY 17, 2007

Fortis Inc. (TSX: FTS)

Completes Acquisition of Terasen Gas



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FY Dec	2005A	2006A	2007E	2008E
EPS (Op) - Basic	1.15	1.38	1.47	1.62
Prev.			1.50	
P/E	24.6x	20.5x	19.2x	17.4x
EPS (Op) - FD	1.12	1.35	1.44	1.59
Prev.			1.47	
P/E	25.2x	20.9x	19.6x	17.8x

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2005	0.31A	0.28A	0.29A	0.27A
2006	0.36A	0.32A	0.37A	0.33A
2007	0.40A	0.32E	0.23E	0.52E
Prev.		0.35E		

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Outperform
Average Risk

Price:	28.24	**Price Target:**	33.00
		Implied All-In Return:	19.8%
Shares O/S (MM):	153.9	**Market Cap (MM):**	4,346
Dividend:	0.84	**Yield:**	3.0%
Float (MM):	153.9		
Debt to Cap:	56.9%		

Event

Fortis announced the completion of its acquisition of Terasen Gas.

Investment Opinion

- **Completes $3.7 Billion Purchase.** Fortis closed its $3.7-billion purchase of Terasen from Kinder Morgan. Please refer to our *Morning Comment* published March 19, 2007 for details regarding the announcement of the transaction.
- **Adjusting 2007 EPS Estimate to Reflect Earlier-than-Expected Closing; No Change in Positive Outlook.** Our previous estimates assumed that the transaction would close on June 30, 2007. Due to the seasonality of Terasen Gas' results (Q2 and Q3 are seasonally weak quarters), the early closing has a modest negative impact on our 2007 estimates. As such, we have reduced our 2007 FD EPS estimate from $1.47 to $1.44. Our 2008 EPS estimate and our positive view on the transaction remain unchanged.
- **Subscription Receipts Converted to Common Shares.** The 44.3 million subscription receipts issued in March 2007 to finance a significant portion of the Terasen acquisition have been automatically exchanged for common shares along with a $0.21/receipt cash payment to reflect dividends declared since the issuance of the receipts.
- **Entry into Gas Distribution Business.** The assets acquired include the gas distribution utilities in the B.C. Lower Mainland, Vancouver Island and the southern interior of the province. The acquisition does not include the crude oil pipelines that were previously owned by Terasen. Terasen Gas is a cost-of-service regulated gas distribution business that allows the recovery of prudently-incurred gas and operational costs. Further, Terasen Gas is not exposed to throughput risk. The Terasen Gas business is a well run, low-risk gas distribution utility that we expect to provide Fortis with an enhanced platform for future acquisitions of North American utility operations.
- **Valuation.** Our target price of $33.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $0.94 and a required dividend yield of 2.80%.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 3.

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $33.00 reflects a forecast 12-month dividend distribution one-year forward of $0.94 and a required dividend yield of 2.80% We believe a required yield of 2.80% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

Required Disclosures

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Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
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			Investment Banking Serv./Past 12 Mos.	
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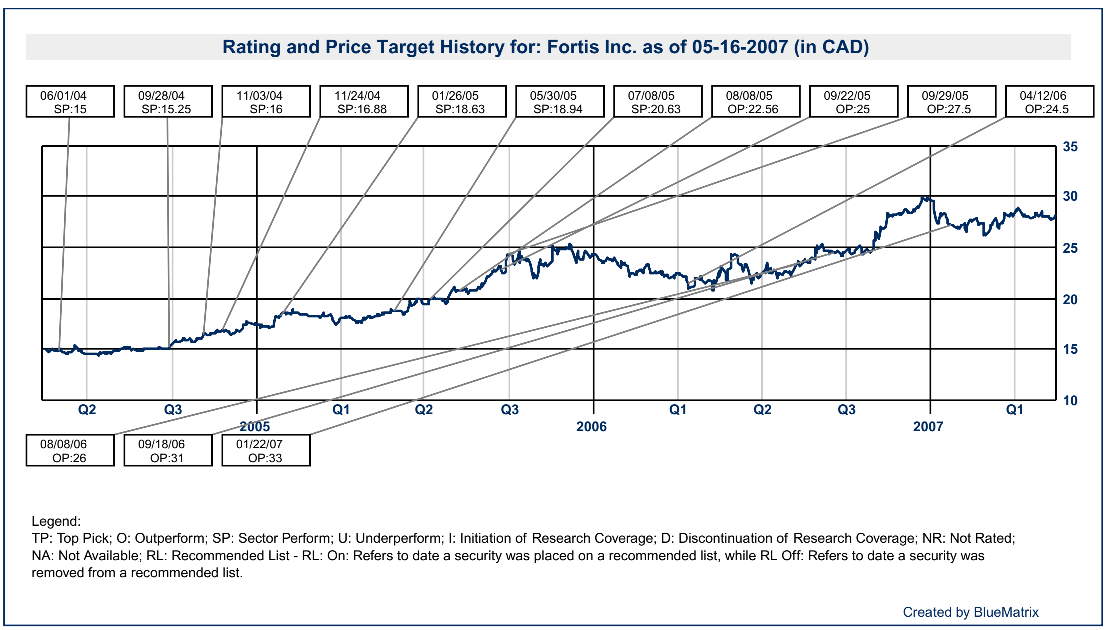
HOLD[SP]	500	47.62	153	30.60
SELL[U]	105	10.00	19	18.10



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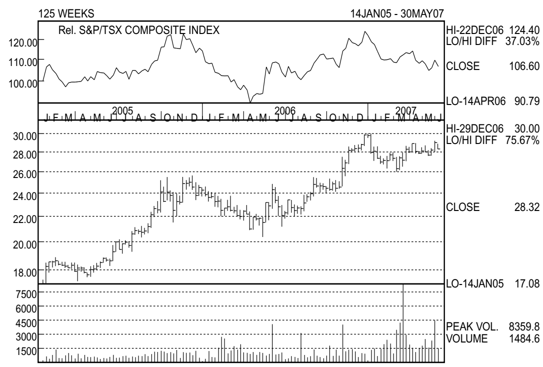

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P/E	24.6x	20.5x	19.3x	17.5x
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P/E	25.3x	21.0x	19.7x	17.8x

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2005	0.31A	0.28A	0.29A	0.27A
2006	0.36A	0.32A	0.37A	0.33A
2007	0.40A	0.32E	0.23E	0.52E

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All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

MAY 31, 2007

Fortis Inc. (TSX: FTS)

Building New Hydro Facility in Belize

Outperform
Average Risk

Price:	28.32	**Price Target:**	33.00
		Implied All-In Return:	19.5%
Shares O/S (MM):	153.9	**Market Cap (MM):**	4,358
Dividend:	0.84	**Yield:**	3.0%
Float (MM):	153.9		
Debt to Cap:	56.9%		

Event

Fortis will construct an 18 MW hydro facility in Belize.

Investment Opinion

- **New US$52.5 Million Hydro Plant in Belize.** Fortis, through its BECOL subsidiary, will construct an 18 megawatt hydroelectric facility in Belize at an estimated cost of US$52.5 million. All major approvals have been received and the construction has begun with an estimated commissioning in late 2009. The facility will be located at Vaca on the Macal River, which is the same river as the company's existing 25-MW Mollejon and 7-MW Chalillo plants. The output from the plant will be sold to Belize Electricity Limited under a 50-year contract.
- **Project Appears to be $0.02 Accretive to EPS in 2010, the First Full Year of Operations.** The Vaca facility looks like an attractive project for Fortis with an expected earnings accretion of $0.02 per share, even when we factor in a full common share issuance to fund the equity for the project. Further, the ROE appears attractive at approximately 15%.
- **Estimates Unchanged.** As the commissioning of the project (expected in late 2009) is outside of our forecast period, we have left our EPS estimates unchanged.
- **Solid Growth, and Below Average P/E and Payout Ratio Drive Outperform Ranking.** We continue to recommend Fortis due to its above average growth rate (about 8% CAGR from 2006 through 2008 vs. sector average of about 5%), and its below average P/E (17.5x 2008E EPS vs. sector average of 18.5x) and payout ratio (52% of 2008E EPS vs. sector average of 58%).
- **Valuation.** Our target price of $33.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $0.94 and a required dividend yield of 2.80%. A 10 bp change in our required yield would impact our target price by approximately $1.00 per share.

New Hydro Facility in Belize Looks Accretive to Earnings

Fortis, through its BECOL subsidiary, will construct an 18 megawatt hydroelectric facility in Belize at an estimated cost of US$52.5 million. All major approvals have been received and the construction has begun with an estimated commissioning in late 2009. The facility will be located at Vaca on the Macal River, which is the same river as the company's existing 25-MW Mollejon and 7-MW Chalillo plants. The output from the plant will be sold to Belize Electricity Limited under a 50-year contract.

Our forecast earnings analysis is set out in Exhibit 1. In our analysis, we would note the following:

- **Project Appears to be $0.02 Accretive to EPS in 2010, the First Full Year of Operations.** As shown in the sensitivity analysis in Exhibit 1, the EPS accretion is not very sensitive to either our equity issue price or our foreign exchange rate assumption. Predictably, the EPS accretion is sensitive to the actual hydrology. However, we would note that even if water flows were 50% of the long-term expectation, the project would still be very modestly accretive to earnings. As we do not have a published 2010 EPS estimate, we have used our 2008E EPS grown at 5% in our analysis as a proxy for 2010. With the expiration of the water rights for the 75 MW Rankine hydro facility in Ontario in April 2009, we believe that lower expected growth from 2008 through 2010 is reasonable.
- **Financing:** The company expects to finance the project using approximately 40% debt (estimated interest rate of 10%). Although the company will not explicitly finance the equity portion of the project using new common shares, we expect the company to issue equity to fund its growth capex (new projects such as Vaca, and utility rate base expansion). As such, we have examined the project economics as if Fortis issued new common shares to fund the equity portion. Our assumed issue price is our one-year price target for Fortis, which is $33.00.
- **Capital Cost Protection:** As part of the power sales agreement, the energy price will be adjusted upward or downward if the actual capital cost varies outside of a tight band around the estimated US$52.5 million forecast cost. This helps reduce the capital cost risk for Fortis.

Exhibit 1: Forecast Earnings Analysis (In US$MM except EPS)

Assumptions

Capital Cost	$52.5
Production (GWh)	80
Pricing	
Est. Capacity Payment	$2.5
Est. Energy Payment ($/MWh)	$70.00

Debt Financing	40%
Interest Rate	10%
Equity Financing	60%
Share Issue Price	C$33.00
FX Rate (C$ per US$)	1.10

		2010E
Revenue		$8.1
Operating Costs		(0.2)
Depreciation	50 years	(1.1)
Interest Expense		(2.1)
Taxes (no taxes expected)		0.0
Net Income Contribution		4.8
FX Rate		1.10
Net Income Contribution (C$)		C$5.2
Theoretical 2010E Net Income (C$)		C$262.4
Pro Forma Net Income (C$)		C$267.7
Shares Outstanding		154.3
Theoretical Share Issuance		1.1
Pro Forma Shares		155.3
Theoretical 2010E EPS		C$1.70
Pro Forma EPS		C$1.72
Accretion (Dilution)		**C$0.02**

Sensitivity Analysis (All Figures in C$)

		FX Rate (C$ per US$)				
		1.00	1.05	1.10	1.15	1.20
	C$23.00	$0.016	$0.016	$0.017	$0.018	$0.019
Share	C$28.00	$0.018	$0.019	$0.020	$0.021	$0.022
Issue	C$33.00	$0.020	$0.021	**$0.022**	$0.023	$0.024
Price	C$38.00	$0.022	$0.023	$0.024	$0.025	$0.026
	C$43.00	$0.023	$0.024	$0.025	$0.026	$0.027

		FX Rate (C$ per US$)				
		1.00	1.05	1.10	1.15	1.20
	50%	$0.002	$0.002	$0.002	$0.002	$0.003
% of	75%	$0.011	$0.012	$0.012	$0.013	$0.013
Expected	100%	$0.020	$0.021	**$0.022**	$0.023	$0.024
Generation	125%	$0.029	$0.031	$0.032	$0.034	$0.035
	150%	$0.038	$0.040	$0.042	$0.044	$0.046

Source: Company reports, RBC Capital Markets estimates

Conclusion

The Vaca facility looks like an attractive project for Fortis with an expected earnings accretion of $0.02 per share, even when we factor in a full common share issuance to fund the equity for the project. Further, the ROE appears attractive at approximately 15%.

Valuation

Our valuation for Fortis is based on a dividend yield approach. When the current yield of the 10-year Government of Canada benchmark bond is below 6%, we believe that a dividend yield approach is an appropriate valuation method for Fortis. Our target price of $33.00 reflects a forecast 12-month dividend distribution one-year forward of $0.94 and a required dividend yield of 2.80% We believe a required yield of 2.80% is appropriate based on expected interest rate levels, Fortis' risk profile, its low payout ratio and growth prospects.

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Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

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Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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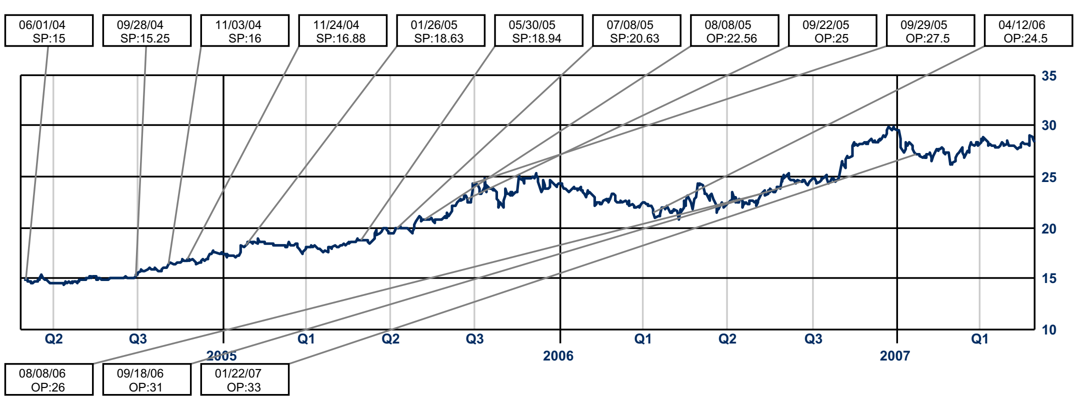
Distribution of Ratings/IB Services
RBC Capital Markets

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	441	42.37	186	42.18
HOLD[SP]	503	48.32	158	31.41
SELL[U]	97	9.32	18	18.56

Rating and Price Target History for: Fortis Inc. as of 05-30-2007 (in CAD)



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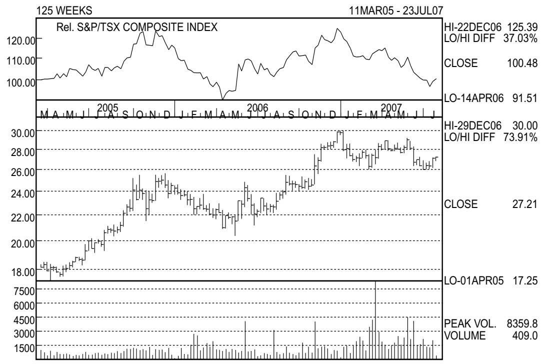
COMPANY UPDATE | COMMENT

JULY 24, 2007

Fortis Inc. (TSX: FTS)

Acquires Delta Regina Hotel in Saskatchewan



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FY Dec	2005A	2006A	2007E	2008E
EPS (Op) - Basic	1.15	1.38	1.47	1.62
P/E	23.7x	19.7x	18.5x	16.8x
EPS (Op) - FD	1.12	1.35	1.44	1.59
P/E	24.3x	20.2x	18.9x	17.1x

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2005	0.31A	0.28A	0.29A	0.27A
2006	0.36A	0.32A	0.37A	0.33A
2007	0.40A	0.32E	0.23E	0.52E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Outperform
Average Risk

Price:	27.21	**Price Target:**	30.00
		Implied All-In Return:	13.3%
Shares O/S (MM):	153.9	**Market Cap (MM):**	4,188
Dividend:	0.84	**Yield:**	3.1%
Float (MM):	153.9		
Debt to Cap:	56.9%		

Event

Fortis Properties acquired the Delta Regina for $49.95 million.

Investment Opinion

- **Purchases the Delta Regina for $50 Million.** Fortis Properties agreed to purchase the Delta Regina from Remai Investment Corp. for $49.95 million. The transaction is expected to close in the third quarter of 2007. The Delta Regina is comprised of 274 hotel rooms, the Saskatchewan Trade and Convention Centre, 52,000 square feet of Class A commercial office space and a parking garage.
- **Small EPS Accretion.** We estimate that the transaction will be less than $0.01 per share accretive in 2008, the first full year after the acquisition. As such, we have left our estimates unchanged.
- **Valuation.** Our target price of $30.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $0.96 and a required dividend yield of 3.20%. A 10 bp change in our required yield would impact our target price by approximately $1.00 per share.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 4.

Small EPS Accretion from Delta Regina Acquisition

Fortis Properties agreed to purchase the Delta Regina from Remai Investment Corp. for $49.95 million. The transaction is expected to close in the third quarter of 2007. The Delta Regina is comprised of 274 hotel rooms, the Saskatchewan Trade and Convention Centre (26,600 square feet), 52,000 square feet of Class A commercial office space and a parking garage.

Based on our financial analysis of the acquisition in Exhibit 1, we estimate that the transaction will be less than $0.01 per share accretive in 2008, the first full year after the acquisition. As such, we have left our estimates unchanged.

Exhibit 1: EPS Impact of Acquisition of Delta Regina

Purchase price	$50 million
Debt-to-total capital	60%
Interest rate	5.5%
Tax rate	35%
Opportunity cost of equity	3.6%
Rooms	274
REVPAR	$85
Gross margin	35%
Commercial office space (sqft)	52,000
Commercial revenue per sqft	$25
Assumed closing date	15-Aug-07

	2007E	2008E
Room revenue	$3.2	$8.5
Other revenue	1.6	4.3
Total revenue	4.8	12.8
Operating expense	(3.1)	(8.3)
EBITDA	1.7	4.5
Depreciation	(0.3)	(0.8)
EBIT	1.4	3.7
Interest	(0.6)	(1.6)
EBT	0.8	2.0
Taxes	(0.3)	(0.7)
Net income	0.5	1.3
Opportunity cost of equity (after-tax)	(0.3)	(0.7)
Incremental earnings	$0.2	$0.6
Weighted average shares outstanding (MM)	136.9	154.3
EPS impact	**$0.002**	**$0.004**

Source: Company reports, RBC Capital Markets estimates

Valuation

Our target price for Fortis of $30.00 is based on a 12-month dividend distribution one year forward of $0.96 and a required dividend yield of 3.20%. A 10 bp change in the required dividend yield would impact our price target by approximately $1.00 per share.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

Required Disclosures

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Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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Distribution of Ratings/IB Services
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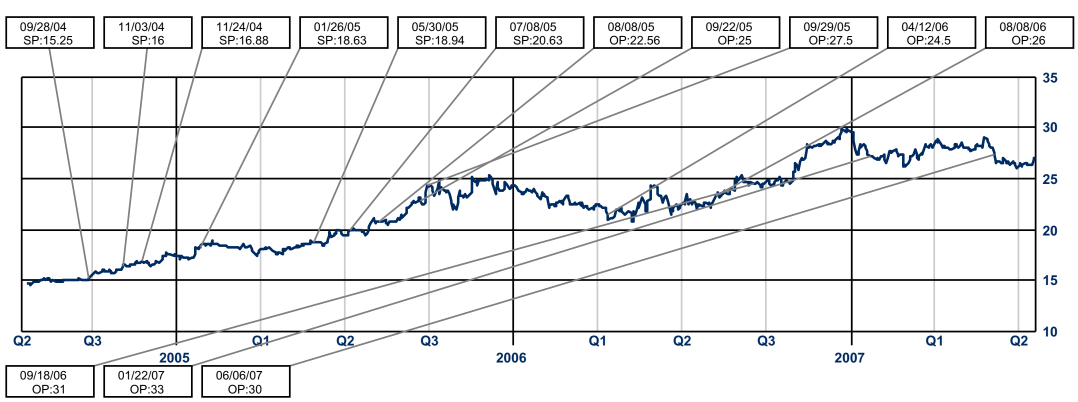
			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	434	42.38	183	42.17
HOLD[SP]	497	48.54	151	30.38
SELL[U]	93	9.08	23	24.73

Rating and Price Target History for: Fortis Inc. as of 07-20-2007 (in CAD)



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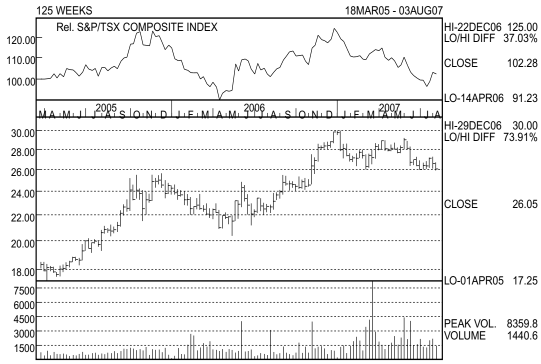

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FY Dec	2006A	2007E	2008E	2009E
EPS (Op) - Basic	1.38	1.38	1.62	1.66
Prev.		1.47		
P/E	18.9x	18.9x	16.1x	15.7x
EPS (Op) - FD	1.35	1.35	1.59	1.63
Prev.		1.44		
P/E	19.3x	19.3x	16.4x	16.0x

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2006	0.36A	0.32A	0.37A	0.33A
2007	0.40A	0.31A	0.19E	0.48E
Prev.		0.32E	0.23E	0.52E
2008	0.63E	0.29E	0.21E	0.49E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

AUGUST 7, 2007

Fortis Inc. (TSX: FTS)

Results In Line; Low Payout Ratio Supports Outlook for Solid Dividend Growth

Outperform
Average Risk

Price:	26.05	**Price Target:**	30.00
		Implied All-In Return:	18.4%
Shares O/S (MM):	154.2	**Market Cap (MM):**	4,017
Dividend:	0.84	**Yield:**	3.2%
Float (MM):	154.2		
Debt to Cap:	63.0%		

Event

Fortis reported its second quarter results for 2007.

Investment Opinion

- **Low Risk and Visible Utility Growth.** We expect Fortis' EPS to grow at a 6% CAGR through 2009 despite the expiration of the hydro license at the 75 MW Rankine facility in April 2009 (approximate $0.10/share drag on earnings). The majority of growth is expected to come from significant utility rate base expansion at the western Canadian electric utilities coupled with earnings accretion from the Terasen acquisition.
- **Low Payout Ratio Supports the Potential for Superior Dividend Growth.** We expect Fortis to grow dividends by $0.10 per share annually (about 10% per year), which would result in a 2009E payout ratio of 63%. A 63% payout ratio is lower than the current and projected 2009E payout ratios for Emera, Enbridge and TransCanada.
- **Q2 Results.** Fortis' normalized Q2/07 EPS was $0.31 compared to our estimate of $0.32, and Q2/06 normalized EPS of $0.32. Higher-than-expected earnings from the regulated Canadian utilities (primarily FortisAlberta and FortisBC), were offset by lower-than-expected results from non-regulated Generation due to below average hydrology and higher-than-forecast Corporate costs.
- **Reducing 2007 EPS Primarily for Greater Terasen Seasonality and Poor Hydrology.** As a result of lower hydrology in Q2/07 coupled with greater seasonality than previously modeled into our 2007 forecast for Terasen, we have reduced our 2007 EPS estimate to $1.38 (previously $1.47).
- **Rolling Out 2009 EPS Estimate.** Our 2009 EPS estimate is $1.66. The drag on earnings from the loss of the Rankine facility is forecast to be more than offset by continued strong earnings growth at the western Canadian electric utilities as a result of rate base growth.
- **Valuation.** Our target price of $30.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $0.99 and a required dividend yield of 3.30%. We estimate that a 10 bp change in our required yield would impact our target price by approximately $1.00 per share.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 6.

Q2/07 Results In Line With Expectations

Fortis' normalized second quarter 2007 EPS was $0.31 compared to our estimate of $0.32, and second quarter 2006 normalized EPS of $0.32. Higher-than-expected earnings from the regulated Canadian utilities (primarily FortisAlberta and FortisBC), were offset by lower-than-expected results from non-regulated Generation due to lower hydrology and higher-than-forecast Corporate costs.

Exhibit 1: Normalized Q2/07 Results (In C$ millions except per share figures)

	Q2 2007	RBC CM Q2/07 Est.	Q2 2006	Comments
Newfoundland Power	$ 8.0	$ 7.8	$ 8.0	
FortisOntario & Maritime Electric	4.0	3.0	2.2	
Terasen	1.6	4.0		Acquisition closed May 17/07
FortisAlberta	15.5	11.6	12.0	Customer growth, increased rates and timing of expenses
FortisBC	6.5	3.7	3.4	Higher rates, lower energy supply costs
Regulated Utilities - Canadian	35.6	30.2	25.7	
Belize Electricity	2.9	2.8	2.3	
Caribbean Utilities	2.3	2.4	2.1	
Turks & Caicos	2.4	2.7		
Regulated Utilities - Caribbean	7.6	8.0	4.4	
Non-regulated - Fortis Generation	4.9	8.4	6.0	Below average hydrology
Non-regulated - Fortis Properties	6.0	5.3	4.9	
Corporate	(12.6)	(9.4)	(8.3)	Higher Terasen financing costs
Normalized Earnings	**$ 41.5**	**$ 42.6**	**$ 32.6**	
Normalized EPS	**$ 0.31**	**$ 0.32**	**$ 0.32**	
Average shares outstanding (MM)	131.1	131.6	103.4	
Normalization adjustments:				
Redist. Negotiated Rate Settlement			(0.7)	
F/X gain (loss)			1.6	
Gain on sale of Days Inn Sydney hotel			1.6	
Impact on future taxes from rate reduction			2.1	
Insurance gain from Dolgeville flood			0.7	
	-		5.3	
Reported Earnings	$ 41.5		$ 37.9	

Source: Company reports, RBC Capital Markets estimates

Highlights of the Quarter

Canadian Regulated Utilities

- **Terasen:** Fortis acquired Terasen on May 17, 2007, and the incremental earnings contribution during the second quarter 2007 from this acquisition was $1.6 million, which was less than the $4.0 million we had expected for the quarter. As further described below, we have adjusted our 2007 EPS estimate to account for greater than previously forecast seasonality in the Terasen results.
- **FortisAlberta:** Normalized earnings increased $3.5 million due to higher revenues associated with customer growth, a 0.7% increase in distribution rates, and increased tax recoveries. Management commented that the H1/07 results, and Q2 in particular, were very strong, and the expectation is for a moderating of the growth in the second half.
- **FortisBC:** Normalized earnings increased to $6.5 million in the second quarter 2007 from $3.4 million in the second quarter 2006 primarily due to a 2.1% increase in electricity rates (effective April 1, 2007), higher electricity sales and lower energy supply costs, partially offset by higher operating expenses, amortization costs and finance charges.
- **Other Canadian Regulated Utilities:** The combined normalized earnings of FortisOntario and Maritime Electric increased $1.8 million year over year primarily due to the 3.35% increase in Maritime Electric's electricity rates, higher electricity sales and a lower effective corporate tax rate.

Caribbean Regulated Electric Utilities

- **Turks & Caicos:** The increase in normalized earnings during the quarter in Caribbean Regulated Electric Utilities was primarily driven by the incremental $2.4 million contribution by Turks and Caicos, which was acquired on August 28, 2006.

Non-Regulated

- **Fortis Generation:** Lower hydrology in Belize, central Newfoundland and upper New York state decreased hydroelectric production, which resulted in lower normalized earnings in the second quarter 2007 compared to the same quarter last year.
- **Fortis Properties:** Higher year-over-year quarterly normalized earnings were primarily due to the four hotels acquired in western Canada in November 2006.
- **Corporate:** Normalized expenses increased to $12.6 million from $8.3 million last year primarily due to the allocation of finance charges related to the acquisition of Terasen.

Outlook for Earnings (2007 – 2009)

We have made the following changes to our 2007 and 2008 EPS estimates in addition to rolling out our financial model to 2009:

- **2007:** Reduced EPS estimate to $1.38 (previously $1.47).
- **2008:** EPS estimate unchanged at $1.62
- **2009:** Roll-out of our financial model with an EPS estimate of $1.66.

Additional detail regarding our estimates from 2007 through 2009 is provided below.

2007: Results Negatively Impacted by Timing of Terasen Acquisition and Poor Q2/07 Hydrology

As a result of lower hydrology in Q2/07 coupled with greater seasonality than previously modeled into our 2007 forecast for Terasen, we have reduced our 2007 EPS estimate to $1.38 (previously $1.47). As the Terasen acquisition closed in mid-Q2/07, we expect 2007 annual results will be negatively impacted as Q1 is typically the strongest quarter for the gas distribution business with over half of the expected annual earnings occurring in that quarter.

2008: Forecast for Strong Growth from Terasen and Regulated Utilities

In 2008, we expect strong earnings growth (EPS of $1.62) due to the first full-year of results from the Terasen acquisition, earnings growth from significant rate base expansion primarily at the western Canadian electric utilities, continued growth in the Caribbean electric utilities, and a return to normal hydrology for the unregulated hydro operations. To maintain a target debt to capital of 60%, we expect Fortis to issue $100 million of preferred equity and $50 million of common equity in 2008.

2009: Continued Strong Utility Growth Dragged Down by Expiration of Hydro License for the Rankine Facility

We are looking for 2009 EPS growth to moderate due to the expiration of the license for the 75 MW Rankine hydro facility in Ontario at the end of April, which we estimate will negatively impact 2009 earnings by about $10 million ($0.06 per share). However, the drag on earnings from the loss of the Rankine facility is forecast to be more than offset by continued earnings growth from most of the other segments and, in particular, the western Canadian electric utilities as a result of rate base growth. From 2007 through 2011, management expects to invest $2.8 billion in electric utility rate base with the majority being spent at FortisAlberta and FortisBC.

Exhibit 2: Segmented Earnings Forecast (In C$ millions except per share figures)

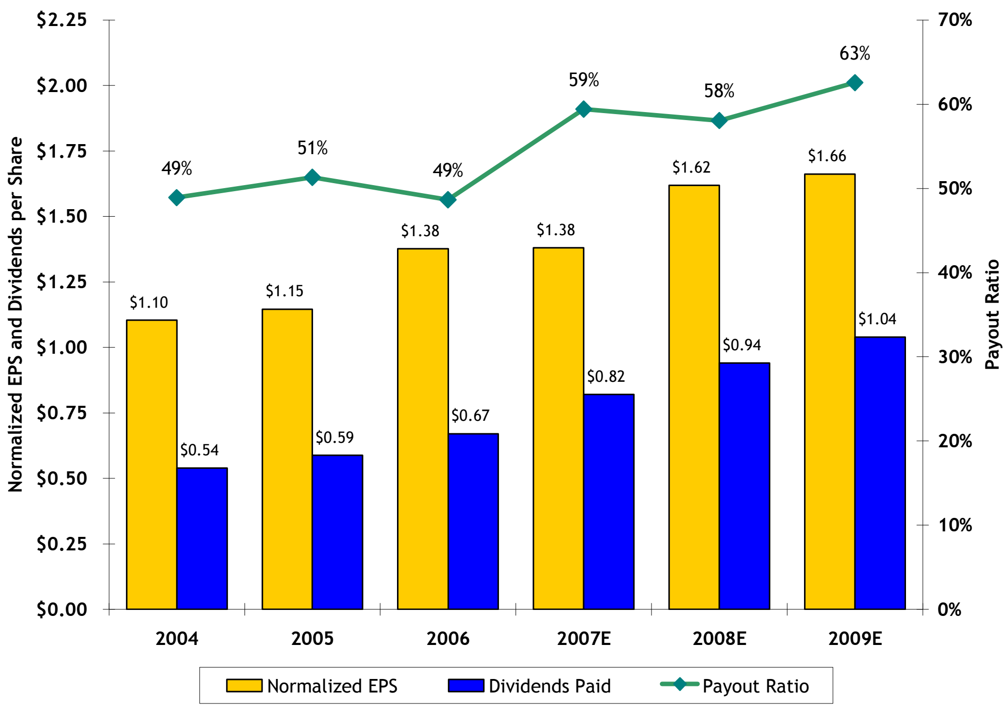
	2006	2007E	2008E	2009E	06-09E CAGR
Newfoundland Power	$30	$29	$30	$32	2%
FortisAlberta	43	45	48	53	8%
FortisBC	27	31	35	38	12%
Maritime Electric/FortisOntario	13	16	17	17	9%
Total Regulated Electric - Canada	$114	$121	$130	$141	7%
Terasen	0	44	101	104	n/a
Regulated Electric - Caribbean	24	36	39	42	22%
Fortis Generation	26	24	30	20	-8%
Fortis Properties	16	18	20	20	9%
Corporate and Other	(36)	(55)	(68)	(68)	23%
Net Earnings	$143	$189	$251	$260	22%
Average Shares	104	137	155	157	
EPS	**$1.38**	**$1.38**	**$1.62**	**$1.66**	**6%**
Dividends per Share	$0.67	$0.82	$0.94	$1.04	16%
Payout Ratio	49%	59%	58%	63%	

Source: RBC Capital Markets estimates

Despite 2009 Earnings Slowdown, Low Payout Ratio Supports Ability to Deliver Continued Strong Dividend Increases

Despite a temporary moderating of earnings growth in 2009 as a result of the expiration of the license at the 75 MW Rankine hydro facility in Ontario, we believe that the company has the ability to continue increasing its annual dividend by roughly 10% (about $0.10/share) each year through 2009. As a result of the earnings drag from the loss of the Rankine facility, we estimate that Fortis' payout ratio would increase to 63% in 2009. A payout ratio at 63% would still be below both the current and projected 2009E payout ratios for Emera, Enbridge, and TransCanada.

Exhibit 3: EPS, Dividends and Payout Ratios (In C$ per share)



Source: Company reports, RBC Capital Markets estimates

Companies Mentioned:

Emera Incorporated (EMA.TO; Sector Perform; Average Risk; 20.56 CAD)

Enbridge Inc. (ENB.TO; Sector Perform; Average Risk; 11.20 CAD)

TransCanada Corporation (TRP.TO; Outperform; Average Risk; 37.25 CAD)

Valuation

Our target price for Fortis of $30.00 is based on a 12-month dividend distribution one year forward of $0.99 and a required dividend yield of 3.30%. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $1.00 per share.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

Required Disclosures

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

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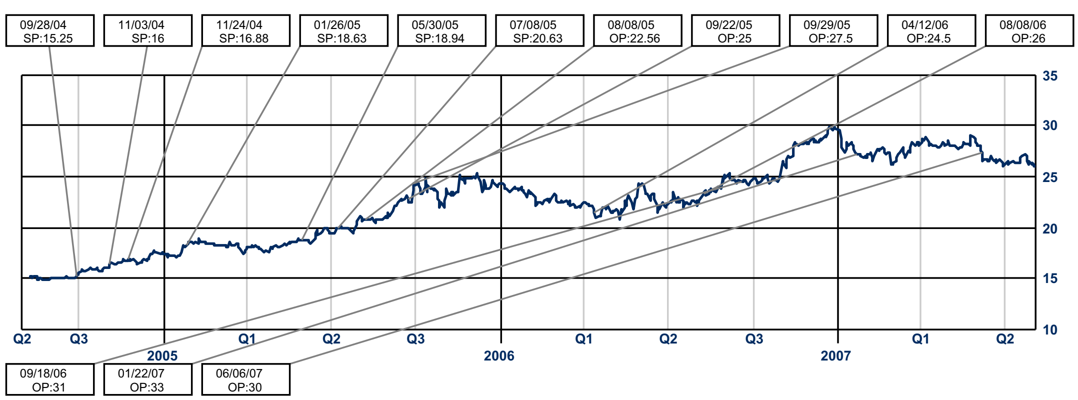
			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	440	42.97	182	41.36
HOLD[SP]	492	48.05	149	30.28
SELL[U]	92	8.98	23	25.00

Rating and Price Target History for: Fortis Inc. as of 08-03-2007 (in CAD)



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

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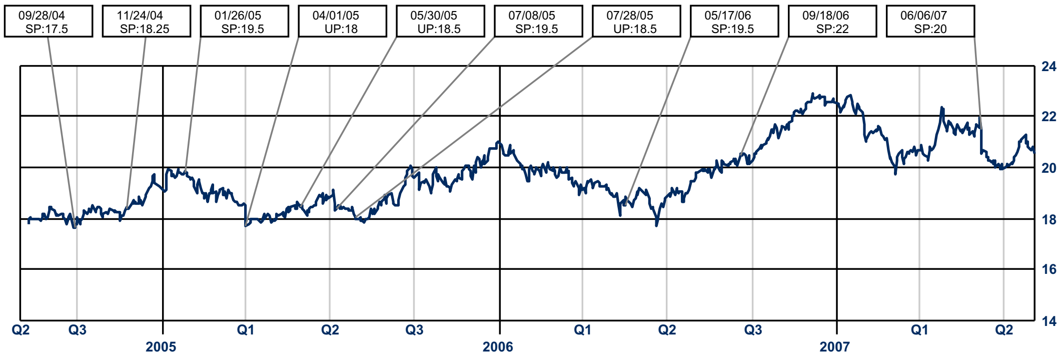
Rating and Price Target History for: Emera Incorporated as of 08-03-2007 (in CAD)



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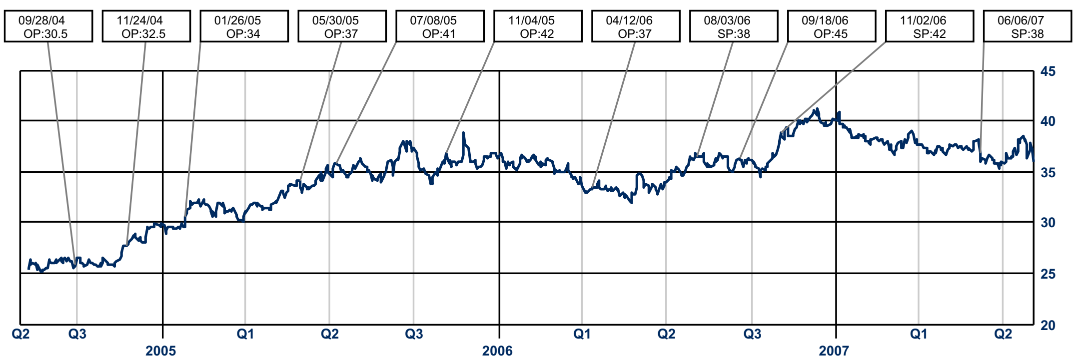
Rating and Price Target History for: Enbridge Inc. as of 08-03-2007 (in CAD)



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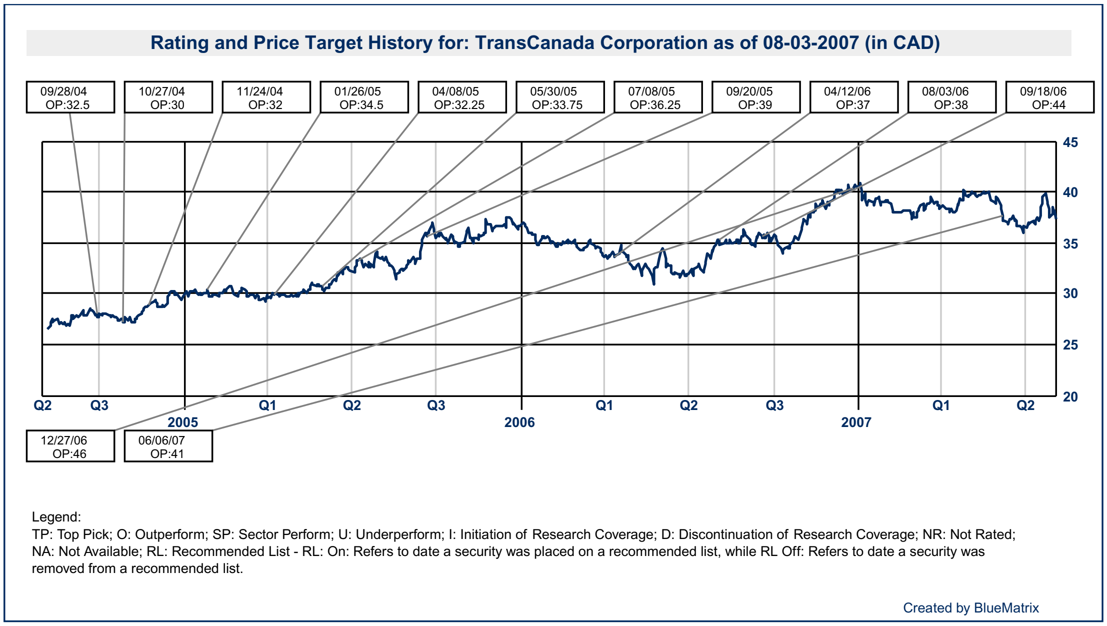

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Dain Rauscher Inc. Recommended Lists include a former list called the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), the Prime Income List (6), the Guided Portfolio: Large Cap (7), and the Guided Portfolio: Dividend Growth (8). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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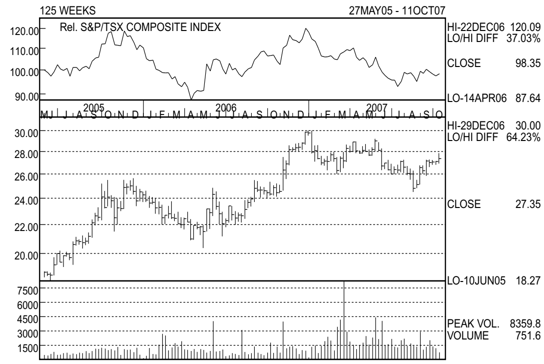

COMPANY UPDATE | COMMENT

OCTOBER 12, 2007

Fortis Inc. (TSX: FTS)

Newfoundland Power Files Revised 2008 Rate Application

RBC Dominion Securities Inc.

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(604) 257-7611; robert.kwan@rbccm.com

Peter Heusel, CFA (Associate)
(604) 257-7617; peter.heusel@rbccm.com

FY Dec	2006A	2007E	2008E	2009E
EPS (Op) - Basic	1.38	1.38	1.62	1.66
P/E	19.8x	19.8x	16.9x	16.5x
EPS (Op) - FD	1.35	1.35	1.59	1.63
P/E	20.3x	20.3x	17.2x	16.8x

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2006	0.36A	0.32A	0.37A	0.33A
2007	0.40A	0.31A	0.19E	0.48E
2008	0.63E	0.29E	0.21E	0.49E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Outperform
Average Risk

Price:	27.35	**Price Target:**	30.00
		Implied All-In Return:	12.8%
Shares O/S (MM):	154.2	**Market Cap (MM):**	4,217
Dividend:	0.84	**Yield:**	3.1%
Float (MM):	154.2		
Debt to Cap:	63.0%		

Event

Newfoundland Power filed a revised 2008 rate application with its regulator.

Investment Opinion

- **Files Partial Negotiated Settlement.** The revised application that Newfoundland Power submitted to the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) is the result of negotiations between Newfoundland Power and the Consumer Advocate, with the assistance of a PUB-appointed facilitator. Most major issues have been settled, but it was agreed that a few remaining issues should be discussed in a public hearing.
- **Overall Rate Increase Lowered.** The revised application requests an average increase to electricity rates of 2.8% in 2008 instead of the 5.3% previously requested. This is largely due to a lower requested ROE in addition to agreeing to continue to recognize post-employment benefits on a cash basis (instead of changing to an accrual basis).
- **Smaller Increase to ROE Sought.** Under the revised application, Newfoundland Power has reduced the size of the increase it was seeking for its allowed ROE. Its current allowed ROE is 8.60%, and it is now seeking an allowed ROE of 8.95% instead of the 10.25% it requested in its original application. In our *Morning Comment* published May 11, 2007, we commented that we did not expect the company to be successful in its application for an ROE of 10.25%. Based on changes in interest rates over the past year, coupled with the agreement with the Consumer Advocate, we believe that an allowed ROE of 8.95% is likely to be approved.
- **Modest Financial Impact - Outlook Unchanged.** We do not expect the PUB to make any major changes to the revised application since the parties involved have reached agreement on most issues. Furthermore, if the PUB approves the increase in the allowed ROE to 8.95% (from 8.60%), we do not expect it to have a material impact on our earnings estimates. As such, we have left our estimates unchanged.
- **Valuation.** Our target price of $30.00 (unchanged) reflects a forecast 12-month dividend distribution one-year forward of $1.01 and a required dividend yield of 3.30%. We estimate that a 10 bp change in our required yield would impact our target price by approximately $1.00 per share.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 4.

Files Revised 2008 Rate Application With Partial Negotiated Settlement

The revised application that Newfoundland Power submitted to the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) is the result of negotiations between Newfoundland Power and the Consumer Advocate, with the assistance of a PUB-appointed facilitator. Most major issues have been settled, but it was agreed that a few remaining issues should be discussed in a public hearing.

Overall Increase to Electricity Rates Lowered

The revised application requests an average increase to electricity rates of 2.8% in 2008 instead of the 5.3% previously requested. This is largely due to a lower requested ROE in addition to agreeing to continue to recognize post-employment benefits on a cash basis (instead of changing to an accrual basis).

Seeking 8.95% Allowed ROE Instead of 10.25%

Under the revised application, Newfoundland Power has reduced the size of the increase that it is seeking to its allowed ROE. Its current allowed ROE is 8.60% and it is now seeking an allowed ROE of 8.95% instead of the 10.25% it requested in its original application. In our *Morning Comment* published May 11, 2007, we commented that we did not expect the company to be successful in its application for an ROE of 10.25%. Based on changes in interest rates over the past year, coupled with the agreement with the Consumer Advocate, we believe that an allowed ROE of 8.95% is likely to be approved.

The 8.95% reflects the ROE that would be expected based on the current formula approach. Furthermore, due to the close proximity to the time period when the ROE would be set this fall, it has been agreed that if the application is approved by the PUB, 8.95% will be the allowed ROE for 2008 regardless of changes in interest rates between now and the date the allowed ROE would normally be set.

Application Still Expected to Benefit Cash Flow

The revised application includes an agreement for higher depreciation to recover previously incurred costs in rates. Higher depreciation to recover these costs was part of the original application and pertains to Newfoundland Power's deferral of the amortization of certain costs per a previous PUB order, which also stated the intention to deal with these costs at a later date.

Shorter Public Hearings Expected

With agreement on most major issues, the public hearings scheduled to commence on October 22, 2007 are expected to conclude much faster than usual. Instead of the typical several weeks of hearings, Newfoundland Power expects that the hearings with the PUB will last approximately seven days.

Outlook Unchanged

We do not expect the PUB to make any major changes to the revised application since the parties involved have reached agreement on most issues. Furthermore, if the PUB approves the increase in the allowed ROE to 8.95% (from 8.60%), we do not expect it to have a material impact on our earnings estimates. As such, we have left our estimates unchanged.

Valuation

Our target price for Fortis of $30.00 is based on a 12-month dividend distribution one year forward of $1.01 and a required dividend yield of 3.30%. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $1.00 per share.

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Ratings

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Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Percent
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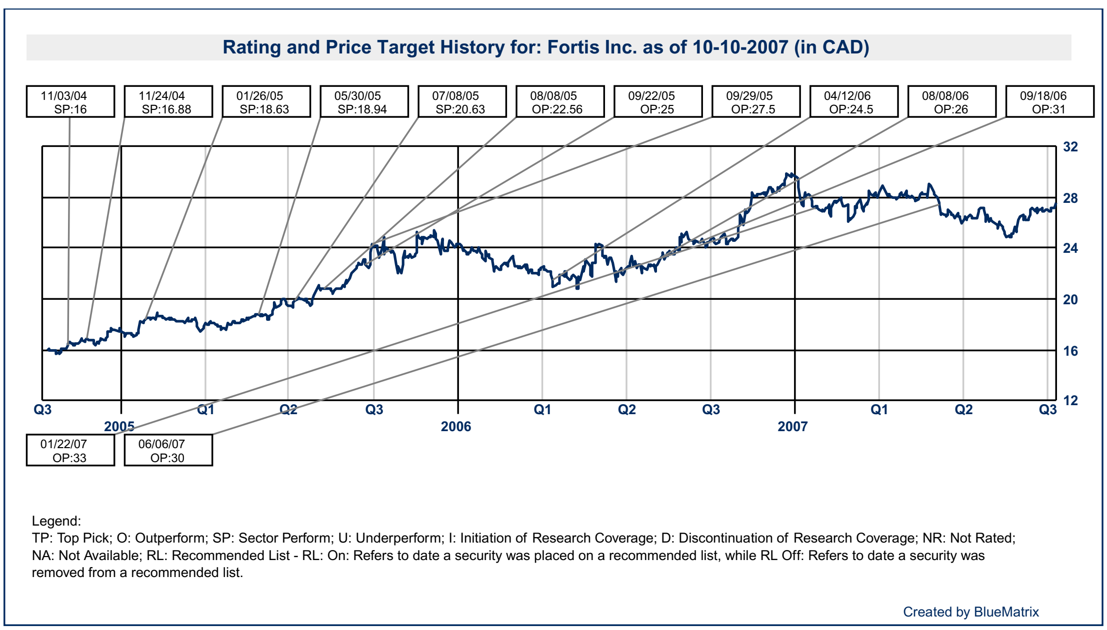
HOLD[SP]	500	47.66	157	31.40
SELL[U]	84	8.01	20	23.81



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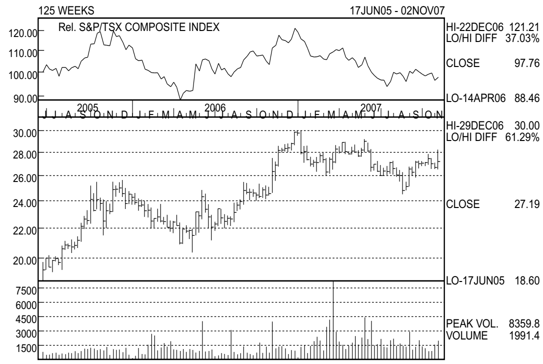
COMPANY UPDATE | COMMENT

NOVEMBER 5, 2007

Fortis Inc. (TSX: FTS)

Q3/07 In Line; Low Payout Ratio Continues to Support Strong Dividend Growth



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FY Dec	2006A	2007E	2008E	2009E
EPS (Op) - Basic	1.38	1.38	1.60	1.64
Prev.			1.62	1.66
P/E	19.7x	19.7x	17.0x	16.6x
EPS (Op) - FD	1.35	1.35	1.57	1.60
Prev.			1.59	1.63
P/E	20.1x	20.1x	17.3x	17.0x
Annual Div.	0.67	0.82	0.94	1.04
Payout Ratio - Basic	49%	59%	59%	63%
Payout Ratio - FD	50%	61%	60%	65%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2006	0.36A	0.32A	0.37A	0.33A
2007	0.40A	0.31A	0.19A	0.48E
2008	0.62E	0.29E	0.21E	0.48E
Prev.	0.63E			0.49E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Outperform
Average Risk

Price:	27.19	**Price Target:**	30.00
		Implied All-In Return:	13.4%
Shares O/S (MM):	155.3	**Market Cap (MM):**	4,223
Dividend:	0.84	**Yield:**	3.1%
Float (MM):	155.3		
Debt to Cap:	64.0%		

Event

Fortis reported its Q3/07 results.

Investment Opinion

- **In Line Results for Q3/07.** Fortis' normalized Q3/07 EPS of $0.19 matched our estimate of $0.19. The Thomson One consensus estimate for the quarter was $0.22 and Q3/06 normalized EPS was $0.37. Slightly better-than-expected earnings from Canadian regulated utilities and Fortis Properties were offset by lower earnings from Belize Electricity and Fortis Generation.
- **Segment Results Largely In Line.** Canadian regulated utilities benefited from slightly better-than-expected earnings from Terasen and FortisAlberta. Fortis Properties also came in ahead of expectations, partly due to better-than-expected performance from the recently acquired Delta Regina hotel. However, these benefits were offset by higher expenses realized at Belize Electricity as well as lower hydrology in Fortis Generation.
- **Dividend Growth Supported by Low Payout Ratio.** We believe that the company has the ability to continue increasing its annual dividend by roughly 10% each year through 2009. As a result of the earnings drag from the loss of the Rankine hydro facility in Ontario, we estimate that Fortis' payout ratio would increase to 63% in 2009, which would still be below both the current and projected 2009E payout ratios for Emera, Enbridge, and TransCanada.
- **2008 and 2009 EPS Estimates Lowered Slightly.** We have lowered our 2008 and 2009 EPS estimates to $1.60 and $1.64, respectively, from $1.62 and $1.66 to primarily reflect a change in our CAD/USD foreign exchange assumption from 1.05 to 0.95 coupled with some other minor changes to our model. Our 2007 EPS estimate remains unchanged.
- **Valuation.** Our target price of $30.00 (unchanged) reflects a forecast 12-month dividend distribution one year forward of $1.01 and a required dividend yield of 3.35%. We estimate that a 10 bp change in our required yield would impact our target price by approximately $1.00 per share.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 5.

Q3/07 Results In Line With Expectations

Fortis' normalized Q3/07 EPS of $0.19 matched our estimate of $0.19. The Thomson One consensus estimate for the quarter was $0.22, and Q3/06 normalized EPS was $0.37. Slightly better-than-expected earnings from Canadian regulated utilities and Fortis Properties were offset by lower earnings from Belize Electricity and Fortis Generation. Of note, the significant year-over-year decline in EPS was due to the natural seasonality of Terasen's earnings as Q3 is a historically weak quarter typically resulting in losses.

Exhibit 1: Normalized Q3/07 Results (In C$ millions except per share figures)

	Q3 2007	RBC CM Q3/07 Est.	Q3 2006	Comments
Newfoundland Power	$ 2.7	$ 3.1	$ 2.6	
FortisOntario & Maritime Electric	4.4	4.9	4.8	
Terasen	(3.7)	(4.9)		Acquisition closed May 17/07
FortisAlberta	12.7	11.1	12.6	Customer growth; timing of O&M spending
FortisBC	6.2	6.5	5.7	
Regulated Utilities - Canadian	22.3	20.7	25.7	
Belize Electricity	3.0	3.8	3.8	Higher-than-expected expenses
Caribbean Utilities	4.1	4.2	3.2	
Turks & Caicos	2.7	2.6	0.7	
Regulated Utilities - Caribbean	9.8	10.6	7.7	
Non-regulated - Fortis Generation	5.0	6.1	7.8	Lower rainfall in Belize and NY State
Non-regulated - Fortis Properties	8.0	7.2	6.3	Strong Delta Regina performance
Corporate	(16.3)	(16.2)	(8.3)	
Normalized Earnings	**$ 28.8**	**$ 28.5**	**$ 39.1**	
Normalized EPS	**$ 0.19**	**$ 0.19**	**$ 0.38**	
Average shares outstanding (MM)	154.5	153.4	103.6	
Normalization adjustments:				
Future income tax recovery	2.0		(0.3)	FortisAlberta: Related to the sale of AESO deferral account (amounts re-allocated to prior periods)
	2.0		(0.3)	
Reported Earnings	$ 30.8		$ 38.8	

Source: Company reports, RBC Capital Markets estimates

Highlights of the Quarter

Canadian Regulated Utilities

- **Terasen:** Terasen's earnings of ($3.7) million were better than our forecast of ($4.9) million. The modest loss in the quarter was expected as the third quarter is seasonally the weakest quarter in the gas distribution business. Fortis acquired Terasen on May 17, 2007.
- **FortisAlberta:** Normalized earnings were slightly higher-than-expected due to higher-than-forecast customer growth in addition to the timing of O&M spending. During the quarter, FortisAlberta booked an approximate $2.0 million future tax benefit related to the sale of an AESO deferral account. We normalized this amount in Q3/07 and re-allocated the amount to prior periods. In a separate news release from Fortis' Q3/07 results, FortisAlberta announced that it had filed a Negotiated Settlement Agreement with the Alberta Energy and Utilities Board regarding its 2008 and 2009 revenue requirement. Its revised revenue requirements for each year are broadly in line with our expectations.

Caribbean Regulated Electric Utilities

- **Belize Electricity:** The lower-than-expected Caribbean Regulated Electric Utilities' normalized earnings during the quarter were primarily driven by Belize Electricity, which had higher-than-forecast operating expenses, amortization costs and finance charges.

Non-Regulated

- **Fortis Generation:** Lower hydrology in Belize and upper New York state decreased hydroelectric production, which resulted in lower normalized earnings in Q3/07 compared to our estimate and the same quarter last year.
- **Fortis Properties:** Higher year-over-year quarterly normalized earnings were primarily due to the four hotels acquired in western Canada in November 2006 as well as the Delta Regina, which was acquired in August 2007. The higher-than-forecast earnings were partly due to strong performance from the Delta Regina (hosted events related to the Canadian Country Music Awards in September).

- **Corporate:** Normalized expenses increased to $16.3 million from $8.3 million last year primarily due to the allocation of finance charges related to the acquisition of Terasen. The Corporate charges were in line with our expectations.

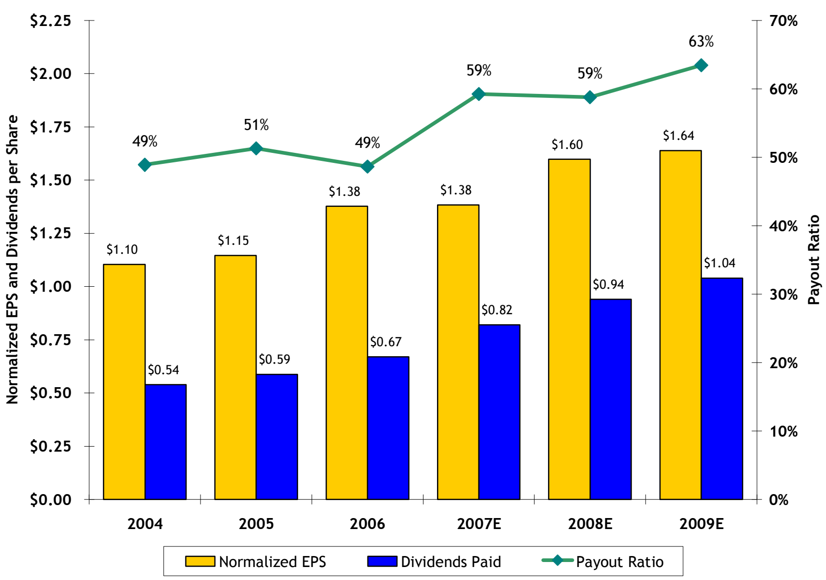
2008 and 2009 EPS Estimates Lowered Slightly

We have lowered our 2008 and 2009 EPS estimates to $1.60 and $1.64, respectively, from $1.62 and $1.66 to primarily reflect a change in our CAD/USD foreign exchange assumption from 1.05 to 0.95 coupled with some other minor changes to our model. Our 2007 EPS estimate remains unchanged.

Low Payout Ratio Supports Ability to Deliver Continued Strong Dividend Increases

Despite a temporary moderating of earnings growth in 2009 as a result of the expiration of the license at the 75 MW Rankine hydro facility in Ontario, we believe that the company has the ability to continue increasing its annual dividend by roughly 10% each year through 2009. As a result of the earnings drag from the loss of the Rankine hydro facility in Ontario, we estimate that Fortis' payout ratio would increase to 63% in 2009, which would still be below both the current and projected 2009E payout ratios for Emera, Enbridge, and TransCanada.

Exhibit 2: EPS, Dividends and Payout Ratios (In C$ per share)



Source: Company reports, RBC Capital Markets estimates

Exhibit 3: Summary Financial Model

($ MM except per share amounts)	2006	2007E	2008E	2009E	06-09E CAGR	Comments
Newfoundland Power	$30	$30	$32	$33	3%	
FortisAlberta	43	47	48	54	8%	Continued rate base growth
FortisBC	27	31	34	37	11%	Continued rate base growth
Maritime Electric/FortisOntario	13	16	17	18	11%	
Total Regulated Electric - Canada	114	124	130	142	8%	
Terasen	0	44	101	104	n/a	Acquired in Q2/07
Regulated Electric - Caribbean	24	33	34	37	17%	
Fortis Generation	26	24	29	19	-10%	Expiration of Rankine license in 2009
Fortis Properties	16	19	21	21	11%	
Corporate and Other	(36)	(55)	(65)	(64)	21%	
Net Earnings	**$143**	**$190**	**$250**	**$260**	**22%**	
Average Shares	104	137	157	158		
EPS	**$1.38**	**$1.38**	**$1.60**	**$1.64**	**6%**	
Dividends per Share	$0.67	$0.82	$0.94	$1.04	16%	
Payout Ratio	49%	59%	59%	63%		

Source: Company reports, RBC Capital Markets estimates

RBC Capital Markets

Valuation

Our target price for Fortis of $30.00 is based on a 12-month dividend distribution one year forward of $1.01 and a required dividend yield of 3.35%. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $1.00 per share.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

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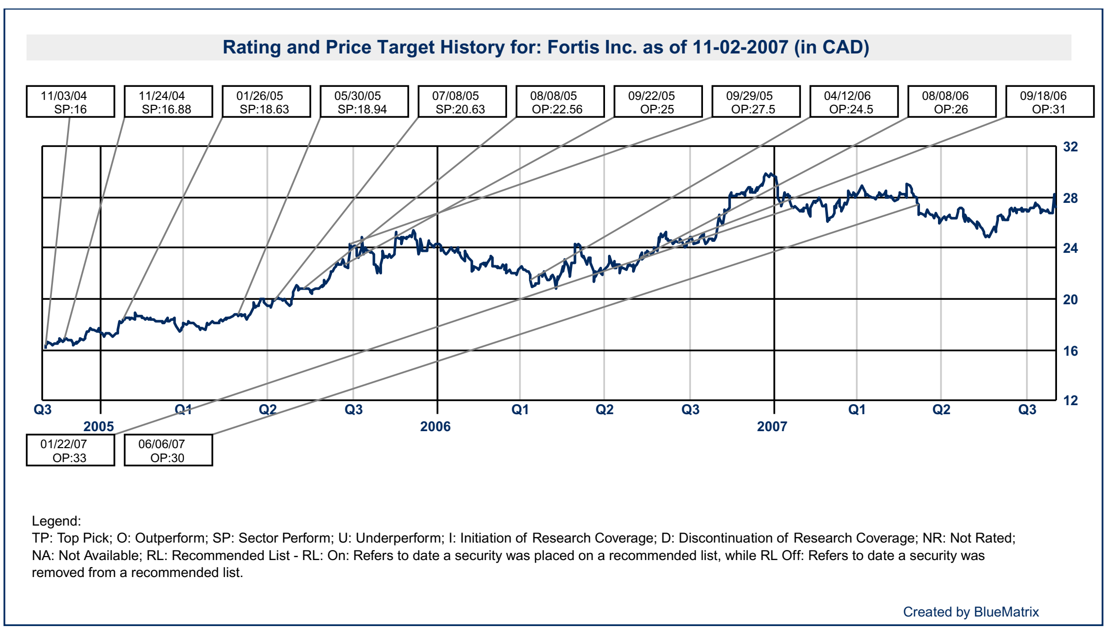

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COMPANY UPDATE | COMMENT

DECEMBER 12, 2007

Fortis Inc. (TSX: FTS)

Dividend Increased By 19%

Outperform
Average Risk

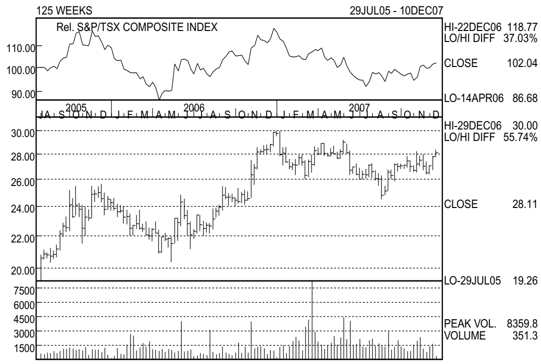
Price:	28.19	**Price Target:**	30.00
		Implied All-In Return:	10.0%
Shares O/S (MM):	155.3	**Market Cap (MM):**	4,378
Dividend:	1.00	**Yield:**	3.5%
Float (MM):	155.3		
Debt to Cap:	64.0%		

Event

Fortis announced a 19% ($0.16/share) increase to its dividend.

Investment Opinion

- **Higher-than-Expected Dividend Increase.** Fortis' Board of Directors increased the annual dividend by $0.16, or 19%, to a new annual rate of $1.00. We had forecast a $0.10 increase. The new dividend is payable on March 1, 2008, to the common shareholders of record at the close of business on February 8, 2008.
- **Payout Ratio Still Relatively Low.** Despite the higher-than-expected dividend increase, Fortis' 2008E payout ratio (62%) is still lower than the projected 2008E payout ratios (range of 64%-75%) for Emera, Enbridge, TransAlta and TransCanada. Given its low payout ratio, we continue to believe that the company has the ability to increase its annual dividend by about 10% in 2009.
- **Valuation.** Our target price of $30.00 (unchanged) reflects a forecast 12-month dividend distribution one year forward of $1.10 and a required dividend yield of 3.65%. We estimate that a 10 bp change in our required yield would impact our target price by approximately $1.00 per share.



RBC Dominion Securities Inc.

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(604) 257-7617; peter.heusel@rbccm.com

FY Dec	2006A	2007E	2008E	2009E
EPS (Op) - Basic	1.39	1.38	1.60	1.64
P/E	20.3x	20.4x	17.6x	17.2x
EPS (Op) - FD	1.36	1.35	1.57	1.60
P/E	20.7x	20.9x	18.0x	17.6x
Annual Div.	0.67	0.82	1.00	1.10
Prev.			0.94	1.04
Payout Ratio - Basic	48%	59%	62%	67%
Payout Ratio - FD	49%	61%	64%	69%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2006	0.37A	0.32A	0.38A	0.33A
2007	0.40A	0.32A	0.19A	0.48E
2008	0.62E	0.29E	0.21E	0.48E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 3.

Valuation

Our target price for Fortis of $30.00 is based on a 12-month dividend distribution one year forward of $1.10 and a required dividend yield of 3.65%. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $1.00 per share.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

Required Disclosures

Explanation of RBC Capital Markets Rating System

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Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

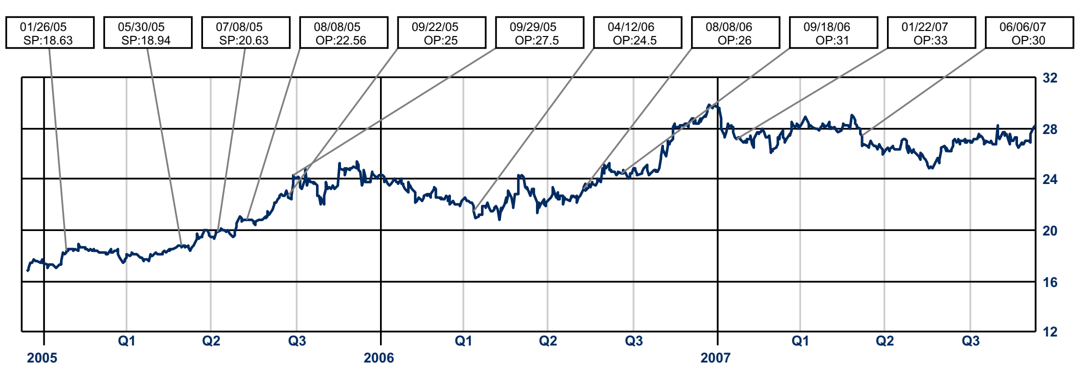
Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories--Buy, Hold/Neutral, or Sell--regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings/IB Services
RBC Capital Markets

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	464	42.92	193	41.59
HOLD[SP]	535	49.49	163	30.47
SELL[U]	82	7.59	16	19.51

Rating and Price Target History for: Fortis Inc. as of 12-11-2007 (in CAD)



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Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

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http://www.rbccm.com/cm/file/0,,63022,00.pdf
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Additional Disclosures

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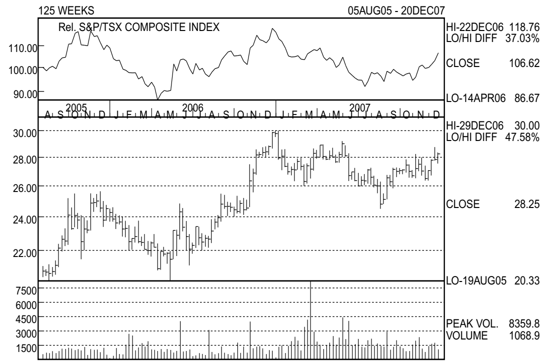
COMPANY UPDATE | COMMENT

DECEMBER 21, 2007

Fortis Inc. (TSX: FTS)

CUC Reaches Agreement for 20-Year License Extensions



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2008	0.62E	0.28E	0.20E	0.48E
Prev.		0.29E	0.21E	

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All values in CAD unless otherwise noted.

Outperform
Average Risk

Price:	28.25	**Price Target:**	30.00
		Implied All-In Return:	9.7%
Shares O/S (MM):	155.3	**Market Cap (MM):**	4,387
Dividend:	1.00	**Yield:**	3.5%
Float (MM):	155.3		
Debt to Cap:	64.0%		

Event

Caribbean Utilities (54%-owned by Fortis) reached an Agreement in Principle on the terms of new 20-year licenses.

Investment Opinion

- **Earnings Trade-off: Long-term Positive, Near-term Weakness.** With Caribbean Utilities Company's (CUC) exclusive license set to expire in 2011, the removal of uncertainty with the 20-year license extension agreement in principle (AIP) is a positive long-term development. However, as part of the license extension, we estimate that CUC's concessions will negatively impact Fortis' EPS by roughly $0.02/share in 2008 and $0.01/share in 2009.
- **Agreement in Principle Expected to be Formalized by February 2008.** The AIP is not legally binding. However, CUC expects that the new licensing documents will be signed by February 2008.
- **Exclusive 20-Year Licenses for T&D and Existing Generation.** CUC will receive an exclusive 20-year license for Transmission and Distribution, and a 20-year license for its existing Generation assets. For future generation capacity, the Cayman Islands Government has asked CUC to commission a 16 MW generator by mid-2009, with future generation requirements to be procured through a competitive bidding process, which will commence for 16 MW for operation by May 2011 and another 16 MW by May 2012.
- **Concessions Include Lower Returns, Foregone Recovery of Remaining Hurricane Ivan Surcharge.** As part of the agreement, CUC's current permitted return-on-rate-base (RORB) of 15% will change to a rate cap and adjustment mechanism with a targeted RORB in the range of 9% to 11%. Further, CUC has agreed to forgo the remaining Hurricane Ivan cost recovery surcharge (about US$2.5 million), which was supposed to be fully recovered by the end of 2008.
- **EPS Estimates Modestly Decreased.** As a result of the Agreement in Principle, we have modestly decreased our 2008 and 2009 EPS estimates to reflect the expected impact of the license extension terms. As such, our 2008 and 2009 EPS estimates decrease to $1.58 and $1.63, respectively (from $1.60 and $1.64, respectively).
- **Valuation.** Our target price for Fortis of $30.00 (unchanged) is based on a 12-month dividend distribution one year forward of $1.10 and a required dividend yield of 3.65%. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $0.75 per share.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 3.

Valuation

Our target price for Fortis of $30.00 is based on a 12-month dividend distribution one year forward of $1.10 and a required dividend yield of 3.65%. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $0.75 per share.

Price Target Impediment

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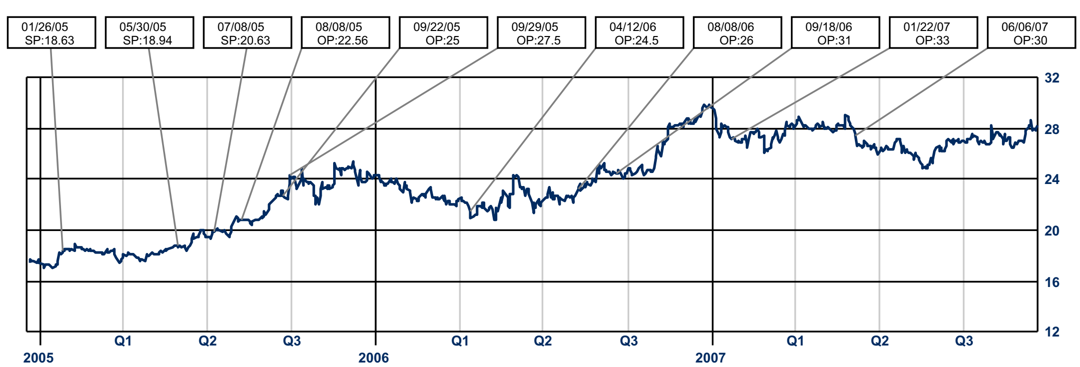
Distribution of Ratings/IB Services
RBC Capital Markets

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	468	43.01	199	42.52
HOLD[SP]	539	49.54	168	31.17
SELL[U]	81	7.44	16	19.75

Rating and Price Target History for: Fortis Inc. as of 12-20-2007 (in CAD)



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Analyst Certification

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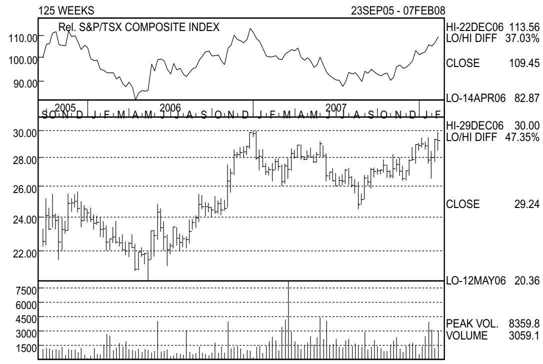

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FY Dec	2006A	2007A	2008E	2009E
EPS (Op) - Basic	1.39	1.33	1.58	1.63
Prev.		1.38		
P/E	21.0x	22.0x	18.5x	17.9x
EPS (Op) - FD	1.36	1.30	1.55	1.59
Prev.		1.35		
P/E	21.5x	22.5x	18.9x	18.4x
Annual Div.	0.67	0.82	1.00	1.08
Prev.				1.10
Payout Ratio - Basic	48%	62%	63%	66%
Payout Ratio - FD	49%	63%	65%	68%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2006	0.37A	0.32A	0.38A	0.33A
2007	0.40A	0.32A	0.17A	0.45A
Prev.			0.19A	0.48E
2008	0.62E	0.28E	0.20E	0.48E

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All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

FEBRUARY 8, 2008

Fortis Inc. (TSX: FTS)

Q4 Earnings Modestly Below Our Estimates, In Line With Consensus

Outperform
Average Risk

Price:	29.24	**Price Target:**	35.00
		Implied All-In Return:	23.1%
Shares O/S (MM):	156.6	**Market Cap (MM):**	4,579
Dividend:	1.00	**Yield:**	3.4%
Float (MM):	156.6		
Debt to Cap:	64.0%		

Event

Fortis reported Q4 results.

Investment Opinion

- **Q4 Earnings Modestly Below Our Estimates, but In Line With Consensus.** Fortis' normalized EPS in the fourth quarter of 2007 was $0.45 compared to our estimate of 0.48, consensus of $0.45 and fourth quarter 2006 normalized EPS of $0.33.
- **Small Decline in 2009 Dividend Forecast.** As a result of the 19% increase in the dividend in December 2007, our forecast payout ratio for 2008 is 63%. For 2009, we have modestly decreased our dividend estimate to $1.08/share (from $1.10/share) to bring the payout ratio closer to 65%, which is a level where we believe the board may be more comfortable, particularly in a year where EPS growth slows due to the expiration of the hydro license at the Rankine facility in Ontario.
- **A Good Choice for Investors Seeking a Defensive Position, Particularly in This Market Environment.** With almost 75% of Fortis' 2008E earnings expected to come from Canadian regulated utilities, we believe that Fortis represents an attractive choice for investors looking for a strong defensive position against both volatile markets and a potential recession.
- **We Think Equity is Required by Year-End.** Currently, Fortis' capital structure is approximately 64% debt and 36% equity (including preferred shares), and the company's target equity component is 40% (including preferreds). As such, we believe that Fortis will need to raise roughly $400 million of equity through a combination of common and preferred shares by the end of 2008.
- **An Acquisition by the End of 2008 is Possible.** Historically, Fortis has been an active acquiror of utility businesses (FortisAlberta and FortisBC in 2004, Terasen in 2007) and we believe that it is possible that Fortis will make another acquisition towards the end of 2008. An acquisition has the potential to both increase earnings in addition to possibly shoring up the company's equity by issuing shares to finance the acquisition.
- **Valuation.** Our target price for Fortis of $35.00 (unchanged) is based on a 12-month dividend distribution one year forward of $1.09 and a required dividend yield of 3.1%. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $1.25 per share.

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For Required Disclosures, please see Page 5.

Fourth Quarter Results Generally In Line With Forecast

Fortis' normalized EPS in the fourth quarter of 2007 was $0.45 compared to our estimate of 0.48, consensus of $0.45 and fourth quarter 2006 normalized EPS of $0.33. Earnings from each unit were in line with our forecasts except for slightly lower-than-expected performance at FortisOntario & Maritime Electric and Corporate.

Exhibit 1: Normalized Earnings (In C$ millions except per share figures)

	Q4 2007	RBC CM Q4/07 Est.	Q4 2006	2007	2006	
Newfoundland Power	$9.0	$8.5	$8.8	$30.2	$30.1	
FortisOntario & Maritime Electric	0.5	3.6	3.4	12.8	13.3	
Terasen	45.0	46.4	-	42.9	-	
FortisAlberta	6.0	6.0	8.6	46.8	44.1	
FortisBC	7.0	6.8	6.4	31.3	27.4	
Regulated Utilities - Canadian	67.5	71.4	27.2	164.1	114.9	
Belize Electricity	2.0	2.0	2.8	10.6	10.4	
Caribbean Utilities	3.0	3.4	2.8	11.4	9.7	
Turks & Caicos	4.0	3.4	2.8	10.9	3.5	
Regulated Utilities - Caribbean	9.0	8.7	8.4	32.9	23.6	
Non-regulated - Fortis Generation	7.0	6.7	6.7	24.2	26.0	
Non-regulated - Fortis Properties	4.0	3.5	2.8	19.8	15.5	
Corporate	(18.0)	(16.2)	(11.0)	(58.6)	(36.0)	
Normalized Earnings	**$69.5**	**$74.1**	**$34.2**	**$182.4**	**$144.0**	
Normalized EPS	**$0.45**	**$0.48**	**$0.33**	**$1.33**	**$1.39**	
Average shares outstanding (MM)	155.4	155.3	104.0	137.6	103.6	
Normalization adjustments:						
Redist. Negotiated Rate Settlement					(1.3)	FortisAlberta
Gain on sale of Days Inn Sydney hotel					1.6	Properties
Impact on future taxes from rate reduction	4.5			4.5	2.1	Properties, Maritime Electric, FortisOntario
Impact on future taxes from rate reduction	(2.0)			(2.0)		Corporate
Insurance gain from Dolgeville flood					0.7	Fortis Generation
F/X gain (loss)					1.5	Corporate
Future income tax recovery			(0.3)	1.3	(1.3)	FortisAlberta
Disposal of steam system				(2.4)		Caribbean Utilities
Gain on sale of surplus land	7.0			7.0		Terasen
Regulator-ordered refund	2.0			2.0		FortisOntario
Prior period tax adj. related to Terasen acq.	(2.0)					Corporate
	9.5		(0.3)	10.4	3.2	
Reported Earnings	$79.0	$74.1	$33.9	$192.8	$147.2	

Source: Company reports, RBC Capital Markets estimates

Highlights of the Quarter

Canadian Regulated Utilities

All of the segments except FortisOntario & Maritime Electric were in line with our expectations. For FortisOntario & Maritime Electric, earnings were $3.1 million lower than expected. The shortfall appears to be due to a number of small items during the quarter, and the full-year 2007 earnings from the segment were generally in line with 2006.

Caribbean Regulated Electric Utilities

Earnings from each of the three utilities within the Caribbean Regulated Electric Utilities segment were in line with our expectations.

Non-Regulated

Earnings from Fortis Generation and Fortis Properties were in line with our forecasts, however normalized Corporate and Other expenses were $1.8 million higher than expected due to several small items including a $0.7-million charge to unwind an interest rate swap on a loan for a hydro plant in Belize.

Organic Earnings Growth Driven by $4-Billion Capital Spending Program

Expected organic earnings growth at Fortis continues to be driven by the company's significant capital spending program. With the acquisition of Terasen, Fortis' capital spending program is expected to exceed $4 billion over the next 5 years. About $3 billion of this capital spending will be driven by electric utilities FortisAlberta, FortisBC and electric utility operations in the Caribbean, while approximately $1 billion will be spent on Terasen's gas utility operations during this period.

Financing Requirements

Currently, Fortis' capital structure is approximately 64% debt and 36% equity (including preferred shares). The company's target equity component is 40% (including preferreds). As such, we believe that Fortis will need to raise roughly $400 million of equity through a combination of common and preferred shares by the end of 2008. It is possible that all or a portion of the equity requirements could be funded in conjunction with an acquisition (see below). In our financial forecast, we have not modeled in any acquisitions and, as such, we have assumed that Fortis issues a combination of preferred shares and common stock at the end of 2008.

Acquisition Strategy

Fortis continues to monitor regulated electric utilities and gas utilities in Canada, the Caribbean and the U.S. for potential acquisitions. Opportunities in Canada appear somewhat limited due to the small pool of potential targets and our view that most owners of utilities in Canada are not likely sellers in the near-term. The U.S. has a greater number of potential acquisition candidates, and although the more volatile U.S. state regulatory environment poses a number of risks, Fortis has a reputation of maintaining constructive relationships with regulators. Other acquisition targets include utilities in the Caribbean, with a going-private acquisition of the 46% of Caribbean Utilities that it does not already own as a possibility.

Reducing 2009 Dividend Forecast Due to High Expected Payout Ratio

As a result of the 19% increase in the dividend in December 2007, our forecast payout ratio for 2008 is 63%. For 2009, we have modestly decreased our dividend estimate to $1.08/share (from $1.10/share) to bring the payout ratio closer to 65%, which is a level where we believe the board may be more comfortable, particularly in a year where EPS growth slows due to the expiration of the hydro license at the Rankine facility in Ontario.

Our updated segmented financial forecast and dividend estimate is set out in Exhibit 2.

Exhibit 2: Segment Earnings Forecast (In C$ millions except per share figures)

	2006	2007	2008E	2009E	06-09E CAGR	Comments
Newfoundland Power	$30	$30	$32	$33	3%	
FortisAlberta	44	47	47	53	7%	Continued rate base growth
FortisBC	27	31	35	38	12%	Continued rate base growth
Maritime Electric/FortisOntario	13	13	15	16	6%	
Total Regulated Electric - Canada	115	121	128	141	7%	
Terasen	0	43	102	105	n/a	Acquired in Q2/07
Regulated Electric - Caribbean	24	33	32	36	15%	
Fortis Generation	26	24	29	19	-9%	Expiration of Rankine license in 2009
Fortis Properties	16	20	21	22	13%	
Corporate and Other	(36)	(59)	(67)	(59)	18%	Common share issuance at the beginning of 2009 partially used to repay debt
Net Earnings	**$144**	**$182**	**$245**	**$265**	**23%**	
Average Shares	104	138	156	163	16%	$200mm common share issuance assumed at the beginning of 2009
EPS	**$1.39**	**$1.33**	**$1.58**	**$1.63**	**5%**	
Dividends per Share	$0.67	$0.82	$1.00	$1.08	17%	
Payout Ratio	48%	62%	63%	66%		

Source: Company reports, RBC Capital Markets estimates

Valuation

Our target price for Fortis of $35.00 is based on a 12-month dividend distribution one year forward of $1.09 and a required dividend yield of 3.1%. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $1.25 per share.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

Required Disclosures

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Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

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Underperform (U): Returns expected to be materially below sector average over 12 months.

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Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

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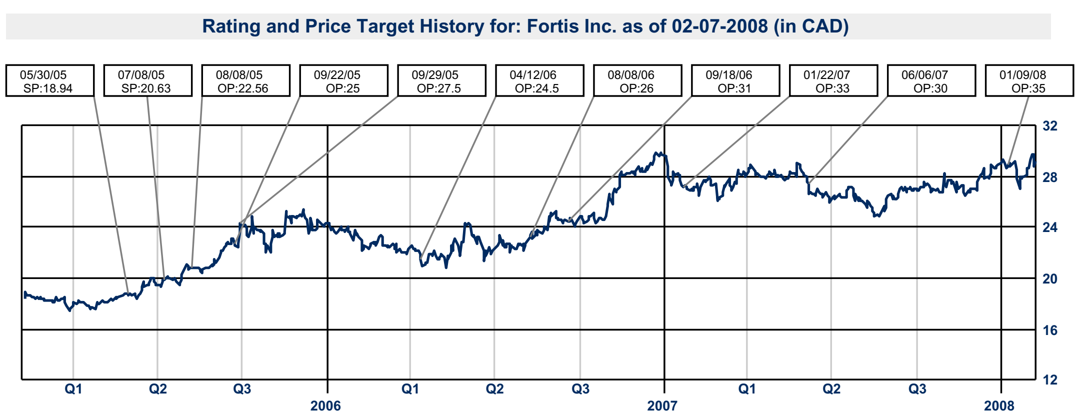
Distribution of Ratings/IB Services
RBC Capital Markets

Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Investment Banking Serv./Past 12 Mos. Percent
BUY[TP/O]	494	44.46	204	41.30
HOLD[SP]	532	47.88	148	27.82
SELL[U]	85	7.65	14	16.47



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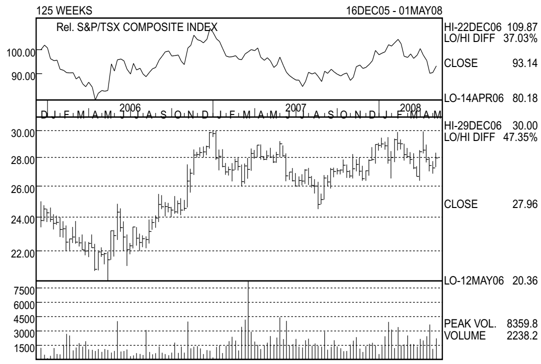

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FY Dec	2006A	2007A	2008E	2009E
EPS (Op) - Basic	1.39	1.33	1.58	1.63
P/E	20.1x	21.0x	17.7x	17.2x
EPS (Op) - FD	1.36	1.30	1.55	1.59
P/E	20.6x	21.5x	18.0x	17.6x
Annual Div.	0.67	0.82	1.00	1.08
Payout Ratio - Basic	48%	62%	63%	66%
Payout Ratio - FD	49%	63%	65%	68%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2006	0.37A	0.32A	0.38A	0.33A
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.29E	0.23E	0.48E
Prev.	0.62E	0.28E	0.20E	

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

RATINGS REVISION | COMMENT

MAY 2, 2008

Fortis Inc. (TSX: FTS)

Reducing to Sector Perform on Belize Concerns and Other Headwinds

Sector Perform (prev: Outperform)
Average Risk

Price:	27.96
Shares O/S (MM):	156.9
Dividend:	1.00
Float (MM):	156.9
Debt to Cap:	63.0%
Price Target:	31.00 ↓ 35.00
Implied All-In Return:	14.4%
Market Cap (MM):	4,387
Yield:	3.6%

Event

Reported Q1/08 results; reducing ranking to Sector Perform (from Outperform); reducing price target to $31.00 (from $35.00).

Investment Opinion

- **Reducing Ranking to Sector Perform (from Outperform) on Belize Concerns and Other Headwinds.** In addition to the loss of earnings beginning in May 2009 due to the expiration of the hydro license at the 75-MW Rankine facility in Ontario, we are increasingly concerned about the risk to earnings from assets in Belize due to a change in government, in addition to the current equity financing environment reducing the growth potential from acquisitions.
- **New Government in Belize Does Not Appear Friendly to the Utility Sector.** In February 2008, a new party came into power in Belize. Although there is likely some measure of political posturing, statements from the government cause us concern over the ability to maintain earnings from Belize Electricity (regulated utility) and, to a lesser extent, from BECOL (non-regulated power). We estimate that about $17 million of earnings (about $0.11/share) is from Belize, with about 70% coming from Belize Electricity.
- **Upcoming Earnings Decline from the Rankine License Expiration.** Although widely anticipated, the expiration of the license for the Rankine facility is now only one year away. Last year, the facility contributed about $15 million ($0.10/share) to earnings.
- **Acquisition Growth Increasingly Challenged in the Current Environment.** With $1+ billion of new TransCanada equity set to hit the market, we are concerned that the market may have trouble digesting a U.S. acquisition by Fortis with a similar sized equity issuance.
- **Q1/08 Results Generally In Line.** Fortis' normalized EPS in Q1/08 was $0.58 compared to our estimate of $0.62. The Thomson One consensus EPS estimate for the quarter was $0.56 (range of $0.43 to $0.62). Almost the entire variance between actual results and our estimate related to a change in regulatory accounting at Newfoundland Power that has no impact on annual earnings.
- **Valuation - Target Price Reduced to $31.00 (from $35.00).** We have reduced our price target to $31.00 (from $35.00) to reflect the lower growth potential over the next couple of years. Our target implies a 2009E P/E of 19x, which is a 1x discount to implied P/Es for higher growth companies (TransCanada and TransAlta), but still a 1x premium to Emera as a result of Fortis' stronger long-term growth potential.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 7.

Ranking Reduced to Sector Perform Based on Belize Concerns and Other Headwinds

We have reduced our ranking on the shares of Fortis to Sector Perform (from Outperform), while maintaining our Average risk qualifier. We are increasingly concerned with the risk to earnings in Belize due to a change in government. Further, the company faces the loss of earnings beginning in May 2009 due to the expiration of the hydro license at the 75-MW Rankine facility in Ontario and we believe that the current equity financing environment may reduce the company's growth potential from acquisitions.

New Government in Belize Does Not Appear Friendly to the Utility Sector

In February 2008, the United Democratic Party (UDP) came into power in Belize, defeating the People's United Party (PUP), which had ruled for about the last 10 years. Although there is likely some measure of political posturing, statements from the new government cause us concern over the ability to maintain earnings from 70%-owned Belize Electricity (regulated utility) and, to a lesser extent, from BECOL (non-regulated power).

Pending the annual review by the Belize Public Utilities Commission (PUC), electricity rates have been frozen at a level at which increased power purchase costs are not being recovered in rates. A PUC decision in March 2008 denied Belize Electricity's request for higher rates to recover increased power purchase costs. The PUC's annual review is expected to be completed very shortly, and we would be somewhat more optimistic should the decision allow for higher rates to recover increased power costs. However, the new government has broadly articulated that it is looking at ways to reduce the cost of living for citizens of Belize and various statements have been made, including an excerpt from the Throne Speech that stated, "My Government recognizes that the high cost of electricity, water, and telephone services is a major obstacle to economic development. The Public Utilities Commission will be empowered to better carry out its obligation to regulate the utilities in support of the consumer and our national interests." We are concerned by the omission of a statement balancing those interests with the ability for providers of capital to earn a fair and reasonable return, which is typical of the approach by most regulators.

Increased oil prices resulting in higher power costs are expected to result in Belize Electricity incurring roughly $13 million of extra power costs that will not be collected in rates. Further, the balance in the rate stabilization account (i.e. cash paid to power suppliers, but not yet collected in rates) sits at roughly $12 million. We estimate that about $17 million of earnings (about $0.11/share) is generated in Belize, with roughly 70% coming from Belize Electricity.

Expiration of Rankine Hydro License at the End of April 2009

At the end of April 2009, the license for the 75-MW Rankine hydro facility in Ontario will expire. In 2007, the facility contributed about $15 million of earnings (about $0.10/share). As such, we expect the loss of the facility to result in an approximate $0.06/share drag on EPS in 2009 and an additional $0.04/share drag on earnings in 2010.

Acquisition Growth May be Challenged; Ability to Finance May Limit Acquisition Size and Potential EPS Accretion

With EPS growth slowing from the existing asset base, we have looked to accretive acquisitions to improve EPS growth over the next couple of years. Fortis' management has done a very good job in identifying large, strategic acquisitions of Canadian regulated utilities that have contributed to EPS growth (e.g. Terasen and the Aquila Canada assets). However, we are concerned that the current financing environment may limit possible growth from acquisitions. For some time, the company has stated that it is looking at potential utility acquisitions of size in Canada and the U.S. At this time, we do not forsee any of the sizable Canadian utility businesses for sale, although we do believe that there is the potential down the road that Enbridge Gas Distribution and/or Union Gas in Ontario could be for sale.

When looking at potential U.S. acquisitions, a key consideration is the transaction financing as we believe Fortis may have difficulty effecting a large cross-border share exchange offer. Management has stated that it would look at an acquisition that is accretive in the first year, and one that could be financed separately in Canada (i.e. not a share exchange offer). With a general negative sentiment regarding TransCanada's recent U.S. acquisition and associated $1+ billion equity issue, we are more cautious about the potential for EPS growth for Fortis from a U.S. acquisition. Although an acquisition of a U.S. utility would likely be viewed as strategic, we would expect some concerns and uncertainty to arise regarding state regulation of the utility that Fortis might acquire, particularly in light of TransCanada's recent experience where there has been concern and uncertainty regarding the Federal Energy Regulatory Commission (FERC) as a regulator of the Ravenswood power plant. Of the North American regulators, we would consider FERC to be one of the most progressive, if not the most progressive, utility regulator. Although it must be looked at on a case-by-case basis, we have much more concern regarding U.S. state regulation, which governs electric and gas utilities, as it can be more political. With respect to the Terasen and Aquila Canada acquisitions, we think that investor receptivity to the transactions (and associated equity issues) was enhanced as a result of familiarity with the regulators' history and form of regulation.

Given the upcoming new supply of common stock to be sold to Energy Infrastructure investors (i.e. TransCanada shares) and concerns regarding receptivity by Canadian investors of a potential acquisition, we believe that Fortis may be limited to an equity purchase price of no more than $1 billion, and likely less. As shown in Exhibit 1, even an acquisition of $1 billion of equity value at an attractive 15x P/E (similar to the Terasen acquisition) would result in expected EPS accretion of only $0.04/share (just under a 3% improvement in EPS) assuming no meaningful synergies. Since we think that Fortis requires roughly $200 million of new common equity over the next 24 months, we do not see an opportunity to apply extra leverage to an acquisition to improve EPS accretion.

Exhibit 1: Generic Acquisition Analysis (In $MM except per share figures)

Acquisition Assumptions	
Acquisition Size (Equity)	$1,000
Transaction P/E	15.0x
Implied Earnings	$67
Equity Issue Price	$28.00
Fortis P/E (2009E)	17.2x

Indicative Accretion/Dilution Analysis	**2009E**
Fortis Stand Alone Net Income	$258
Acquisition Target Net Income	67
Pro Forma Net Income	$324
Stand Alone Shares (MM)	158
Shares Issued (MM)	36
Pro Forma Shares (MM)	194
Stand Alone EPS	$1.63
Pro Forma EPS	1.67
Accretion (Dilution)	$0.04
Incremental EPS Growth	2.7%

Sensitivity Analysis - Fortis Share Issue Price vs. Acquisition P/E

Acquisition P/E Multiple	Fortis Share Issue Price $26.00	$27.00	$28.00	$29.00	$30.00
12x	$0.11	$0.12	$0.13	$0.14	$0.15
13x	$0.07	$0.09	$0.10	$0.11	$0.12
14x	$0.04	$0.06	$0.07	$0.08	$0.09
15x	$0.02	$0.03	$0.04	$0.05	$0.06
16x	($0.00)	$0.01	$0.02	$0.03	$0.04
17x	($0.02)	($0.01)	$0.00	$0.01	$0.02
18x	($0.04)	($0.02)	($0.01)	($0.00)	$0.01

Sensitivity Analysis - Acquisition Size (Equity) vs. Acquisition P/E

Acquisition P/E Multiple	Acquisition Size (Equity) in $MM $500	$750	$1,000	$1,250	$1,500
12x	$0.07	$0.10	$0.13	$0.16	$0.18
13x	$0.05	$0.08	$0.10	$0.12	$0.13
14x	$0.04	$0.05	$0.07	$0.08	$0.09
15x	$0.02	$0.03	$0.04	$0.05	$0.06
16x	$0.01	$0.02	$0.02	$0.03	$0.03
17x	$0.00	$0.00	$0.00	$0.00	$0.01
18x	($0.01)	($0.01)	($0.01)	($0.02)	($0.02)

Source: Company reports, RBC Capital Markets estimates

Price Target Reduced to $31.00 (from $35.00)

We have reduced our price target to $31.00 (from $35.00) to reflect the lower growth potential over the next couple of years. Our target implies a 2009E P/E of 19x, which is a 1x discount to implied P/Es for higher growth companies (TransCanada and TransAlta), but still a 1x premium to Emera as a result of Fortis' stronger long-term growth potential.

Our new price target implies a forward yield of 3.6%, which is a 40 basis point spread to the 10-year GOC yield that we use in valuing the sector of 4.0%. A 40 basis point spread is roughly the midpoint between the current spread of -15 basis points and the 3-year average spread of about 100 basis points.

First Quarter Results Generally In Line With Forecast

Fortis' normalized EPS in Q1/08 was $0.58 compared to our estimate of $0.62 and Q1/07 normalized EPS of $0.40. The Thomson One consensus EPS estimate for the quarter was $0.56 (range of $0.43 to $0.62). During the quarter, Newfoundland Power shifted its method for accounting for purchased power costs, and management estimated that quarterly earnings were reduced by approximately $6 million (about $0.04/share). However, the accounting change will not impact annual earnings booked at Newfoundland Power. As expected, the year-over-year improvement in EPS is largely due to the Terasen acquisition, which closed in the second quarter of 2007. As a result of natural seasonality in the gas distribution business, we forecast that over 50% of annual earnings at Terasen is generated in Q1.

A table showing the Q1/08 results compared to our forecasts is set out in Exhibit 2.

Exhibit 2: Normalized Earnings (In $MM except per share figures)

	Q1 2008	RBC CM Q1/08 Est.	Q1 2007	Comments
Newfoundland Power	$6.0	$10.5	$10.5	$6mm neg. impact from shift in quarterly energy supply expenses
FortisOntario & Maritime Electric	4.0	4.0	3.9	
Terasen	58.0	54.5	-	Acquired in Q2/07
FortisAlberta	11.0	13.0	12.2	
FortisBC	12.0	13.0	11.6	
Regulated Utilities - Canadian	91.0	95.0	38.3	
Regulated Utilities - Caribbean	7.0	8.5	6.5	
Non-regulated - Fortis Generation	6.0	7.5	7.3	Below-average hydrology in Belize
Non-regulated - Fortis Properties	3.0	1.9	1.8	
Corporate	(16.0)	(16.3)	(9.7)	
Normalized Earnings	**$91.0**	**$96.5**	**$44.3**	
Normalized EPS	$0.58	$0.62	$0.40	
Average shares outstanding (MM)	156.6	155.5	109.4	
Normalization adjustments:				
Disposal of steam system			(2.4)	Caribbean Utilities
Future income tax recoveries			(0.3)	FortisAlberta
	-		(2.7)	
Reported Earnings	$91.0		$41.5	

Source: Company reports, RBC Capital Markets estimates

Companies Mentioned

Emera [TSX: EMA; $21.87; Sector Perform, Average Risk]

Enbridge [TSX/NYSE: ENB; $41.45; Outperform, Average Risk]

TransAlta [TSX/NYSE: TA/TAC; $34.05; Sector Perform, Above Average Risk]

TransCanada [TSX/NYSE: TRP; $37.25; Outperform, Average Risk]

Valuation

Our target price for Fortis of $31.00 is based on a 12-month dividend distribution one year forward of $1.11 and a required dividend yield of 3.6%. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $0.75 per share.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

(C$MM except per unit values or otherwise noted)

Summary Model

	2006	2007	Q1/08	Q2/08E	Q3/08E	Q4/08E	2008E	2009E
Newfoundland Power	$30.1	$30.2	$6.0	$9.0	$6.3	$10.4	$31.8	$33.2
Other Cdn (ME + FTS Ont)	13.3	12.8	4.0	4.2	5.1	1.6	14.9	15.6
Terasen		42.9	58.0	5.0	(5.0)	43.5	101.5	105.0
FortisAlberta	44.1	46.8	11.0	14.0	13.0	8.6	46.6	49.3
FortisBC	27.4	31.3	12.0	6.5	7.5	8.6	34.6	37.2
Reg. Utilities - Caribbean	23.6	32.9	7.0	7.4	9.2	8.7	32.3	35.8
Fortis Generation	26.0	24.2	6.0	9.2	7.5	6.6	29.4	19.3
Fortis Properties	15.5	19.8	3.0	6.6	8.8	3.4	21.7	21.6
Corporate and other	(36.0)	(58.6)	(16.0)	(16.3)	(16.3)	(16.3)	(65.0)	(59.4)
Normalized earnings	**$144.0**	**$182.4**	**$91.0**	**$45.6**	**$36.1**	**$75.1**	**$247.8**	**$257.6**
W.A. Shares (MM)	103.6	137.6	156.6	157.0	157.3	157.7	157.1	158.3
Normalized EPS (Basic)	**$1.39**	**$1.33**	**$0.58**	**$0.29**	**$0.23**	**$0.48**	**$1.58**	**$1.63**
Dividends Paid	$0.67	$0.82	$0.25	$0.25	$0.25	$0.25	$1.00	$1.08

Source: Company reports; RBC Capital Markets estimates

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings/IB Services
RBC Capital Markets

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	509	46.40	197	38.70
HOLD[SP]	494	45.03	120	24.29
SELL[U]	94	8.57	19	20.21

Rating and Price Target History for: Fortis Inc. as of 05-01-2008 (in CAD)

Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

Created by BlueMatrix

Rating and Price Target History for: Emera Incorporated as of 05-01-2008 (in CAD)

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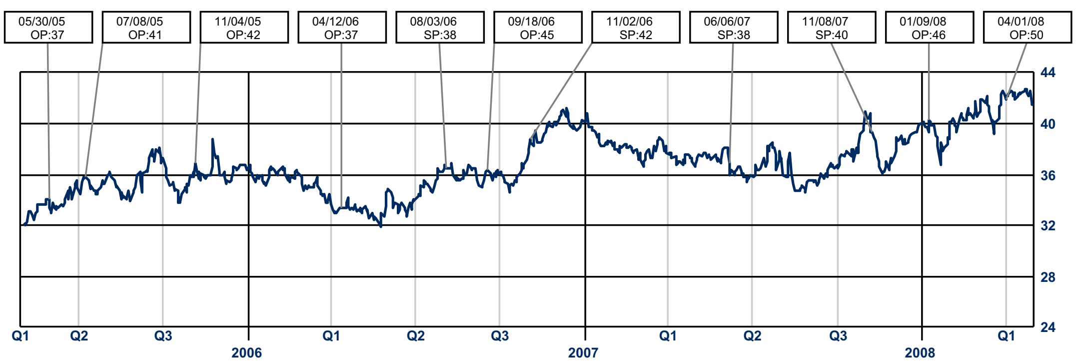
Rating and Price Target History for: Enbridge Inc. as of 05-01-2008 (in CAD)



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

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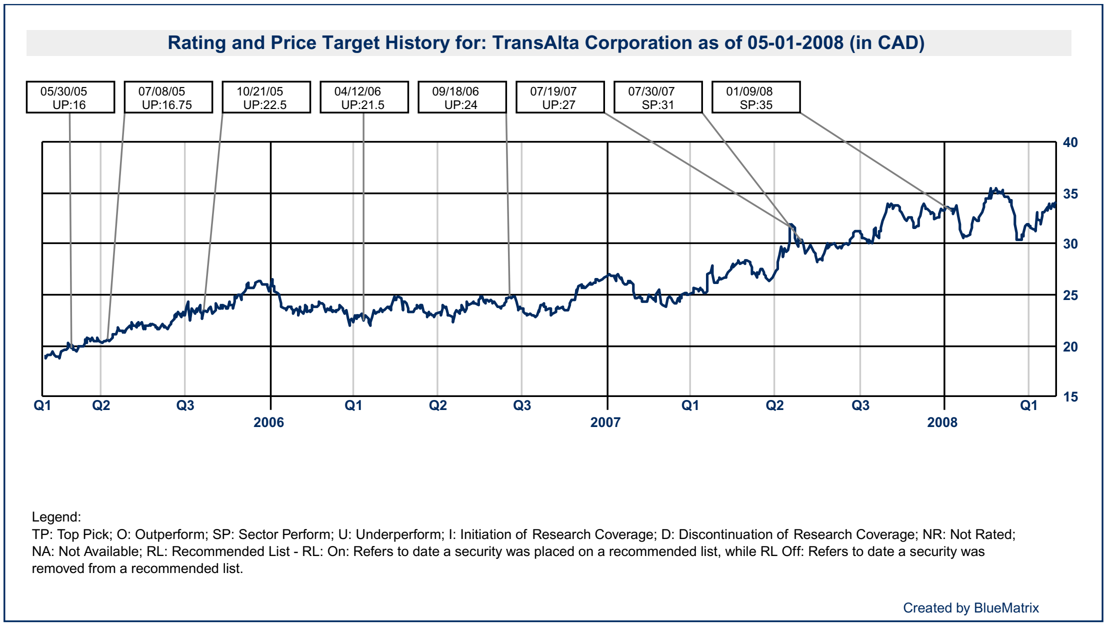

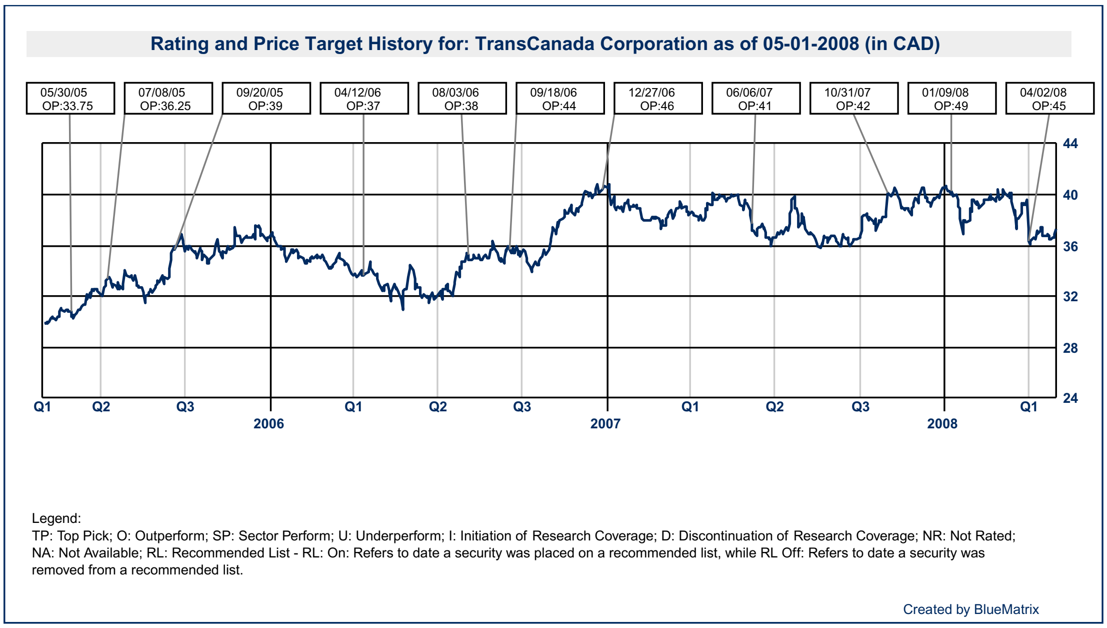

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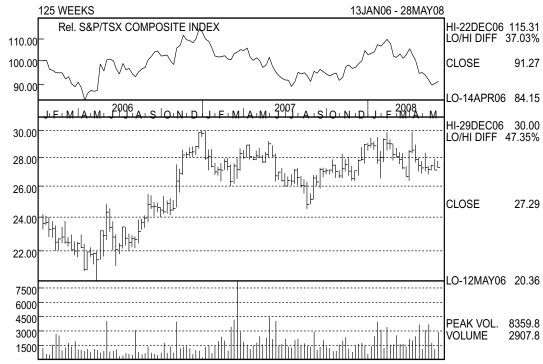
RBC Capital Markets has provided Fortis Inc. with investment banking services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

Additional Disclosures



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FY Dec	2006A	2007A	2008E	2009E
EPS (Op) - Basic	1.39	1.33	1.56	1.59
Prev.			1.58	1.63
P/E	19.6x	20.5x	17.5x	17.2x
EPS (Op) - FD	1.36	1.30	1.52	1.55
Prev.			1.55	1.59
P/E	20.1x	21.0x	18.0x	17.6x
Annual Div.	0.67	0.82	1.00	1.08
Payout Ratio - Basic	48%	62%	64%	68%
Payout Ratio - FD	49%	63%	66%	70%
EPS (Op) - Basic	**Q1**	**Q2**	**Q3**	**Q4**
2006	0.37A	0.32A	0.38A	0.33A
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.29E	0.22E	0.47E
Prev.			0.23E	0.48E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

MAY 29, 2008

Fortis Inc. (TSX: FTS)

Sum-of-the-Parts Drives Lower Target of $29.00; Update on Belize Situation

Sector Perform
Average Risk

Price:	27.29	**Price Target:**	29.00 ↓ 31.00
		Implied All-In Return:	10%
Shares O/S (MM):	156.9	**Market Cap (MM):**	4,282
Dividend:	1.00	**Yield:**	3.7%
Float (MM):	156.9		
Debt to Cap:	63%		

Event

Lower price target based on sum-of-the-parts analysis; lower EPS estimates due to negative decision for Belize Electricity.

Investment Opinion

- **Revised $29.00 Price Target (Previously $31.00) Based on Sum-of-the-Parts Analysis.** We have performed a sum-of-the-parts analysis for the various businesses using different multiples to reflect each segment's growth and risk characteristics. The P/E multiples in our analysis range from 15x for the Caribbean operations to a high of 20x for the Western Canadian regulated utilities. We have also used a 12x AFFO multiple for the Properties division reflecting a blend between lodging and commercial multiples.
- **Situation in Belize Getting Worse.** We continue to remain concerned regarding the change in government in Belize (please see our *Research Comment* dated May 2, 2008 for further details). Shortly after our previous comment, the Belize Public Utilities Commission (PUC) denied Belize Electricity's (BEL) proposed rate increase to recover higher fuel costs. Last week, Stan Marshall (Fortis' CEO) delivered a speech at BEL's annual general meeting warning of blackouts if new rates are not approved rather than Fortis injecting new capital to cover purchased power costs.
- **EPS Estimates Reduced for Negative Belize Regulatory Decision.** We estimate that the negative regulatory decision by the Belize PUC could impact annual EPS by about $0.04/share. As such, we have reduced our 2008 and 2009 EPS estimates to $1.56 and $1.59, respectively (from $1.58 and $1.63, respectively). After the reduction in our EPS estimates, we forecast that Fortis will annually earn roughly $0.07/share from operations in Belize (down from $0.11/share).
- **Valuation.** Our target price of $29.00 is based on a 12-month dividend distribution one year forward of $1.12 and a required dividend yield of 3.9%, and is supported by our sum-of-the-parts analysis. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $0.75 per share.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 6.

Reducing Price Target for Sum-of-the-Parts Analysis, Reduction in Belize Earnings

We have reduced our price target for Fortis' shares to $29.00 (from $31.00) to reflect our sum-of-the-parts analysis, in which we have assigned different multiples for each of the company's major segments based on expected growth and associated risk profile. Further, our new price target reflects lower expected earnings from the Belize Electricity investment due to a recent negative regulatory decision.

Sum-of-the-Parts Analysis

Our sum-of-the-parts analysis (shown in Exhibit 1) sets out our estimated value for each of the company's major segments. Assumptions in deriving the value for the various segments are as follows:

- **Eastern Canadian Regulated Utilities.** This segment primarily consists of Newfoundland Power, and to a lesser extent FortisOntario and Maritime Electric. These utilities have a low risk profile, but are generally expected to have lower growth rates, particularly when compared to the western utilities. We have used a P/E of 18x, which is similar to the multiple that we use for Emera, which owns Nova Scotia Power.
- **Western Canadian Regulated Utilities.** The Western Canadian utilities consist of Terasen, FortisAlberta and FortisBC. These utilities are expected to have higher growth rates than the Eastern Canadian utilities (although Terasen is expected to be more modest than the two electric utilities). The risk profile is low, and due to higher forecast rate base growth than the Eastern Canadian utilities, we use a higher P/E multiple of 20x, which is more consistent with the valuation that we use for the higher growth names in our coverage (namely TransCanada and TransAlta). Although the Western Canadian utilities are expected to experience modestly lower expected growth than TransCanada and TransAlta, these utilities have lower risk profiles.
- **Caribbean Regulated Utilities.** The multiple that we have used for the investments in Belize Electric (BEL), the Turks & Caicos, and Caribbean Utilities Company (CUC), is similar to the forward trading multiple for CUC of roughly 15x. We believe that a lower multiple than the Canadian regulated utilities is warranted given the heightened regulatory and political risk as evidenced by recent issues/rate decreases in Belize and Grand Cayman, which would be partially offset by the potential for stronger rate base growth.
- **Fortis Generation.** We have used a 17.5x multiple, which is a blend between the lower multiple that we use for the Caribbean assets and higher multiples that we use for the Canadian utility investments. For our analysis, we have adjusted our segment earnings to remove the Rankine facility (license expires in April 2009) and add the Vaca hydro facility in Belize, which is expected to be commissioned in late 2009. After the Rankine expiry and the Vaca commissioning, almost half of this segment's earnings is expected to come from Belize (BECOL).
- **Properties.** For the property division, we have used an Adjusted Funds from Operations (AFFO) multiple of 12x, which is a blend between multiples for lodging REITs (about 10x) and commercial REITs (about 14x).
- **Corporate.** We have subtracted corporate costs at the proportionate multiple for each of the operating segments.

Exhibit 1: Sum-of-the-Parts Valuation (In $MM except per share figures)

	2009E Earnings	P/E	Value Total	Value Per Share	Comments/Comparison Group
Eastern Canadian Regulated Utilities	$49	18x	$879	$5.55	Slower growth more similar to Emera with comparable low risk profile
Western Canadian Regulated Utilities	191	20x	3,829	24.20	Better growth somewhat lags TRP, TA, but offset by lower risk profile
Caribbean Regulated Utilities	30	15x	448	2.85	Caribbean Utilities (CUC) estimated P/E
Fortis Generation	16 (1)	18x	272	1.70	P/E is mix between Caribbean reg. utilities and power generation (TransAlta)
Fortis Properties	25 (2)	12x (2)	300	1.90	Blend of AFFO multiples for lodging (10x) and commercial (14x)
Corporate	(59)	18x	(1,096)	(6.95)	Selected P/E is the proportionate multiples from the segments
Total		**18x**	**$4,631**	**$29.00**	(rounded to nearest dollar)
Shares Outstanding (MM)				158	

Notes:
(1) "Continuing" earnings (adjusted for Rankine license expiration and the commissioning of Vaca).
(2) Represents AFFO and P/AFFO instead of earnings and P/E.

Source: Company reports, RBC Capital Markets estimates

Target Price Reduced to $29.00 (from $31.00) to Reflect Sum-of-the-Parts Valuation

On a dividend-yield valuation basis, our new price target implies a forward dividend yield of 3.9% that remains below that of Emera (at 4.2%), which has a modestly higher payout ratio (about 75% versus 65%-70% for Fortis) and modestly lower expected EPS growth. On a P/E basis, our new price target is approximately 18.5x "sustainable" 2009 earnings (i.e. excluding Rankine, but including Vaca). The implied P/E is a modest discount to higher growth companies such as TransAlta and TransCanada that we value at 20x, and a slight premium to Emera at 18x.

Earnings Estimates Reduced: Negative Regulatory Decision in Belize; Murky Outlook Based on Fortis CEO's Comments at BEL AGM

In our *Research Comment* dated May 2, 2008, we initially expressed concern with the new government in Belize and the potential impact on earnings due to a negative regulatory decision. The Belize Public Utilities Commission (PUC) provided its Initial Decision, which did not approve new rates that would allow BEL to fully recover rising fuel costs. We estimate that the negative decision will have an approximate $6 million (about $0.04/share) annual negative impact on earnings. We have assumed that Fortis will begin booking earnings based on the new rates as of July 1, 2008 (the effective date of the new rates) resulting in our new 2008 and 2009 EPS estimates of $1.56 and $1.59, respectively (from $1.58 and $1.63, respectively).

Last week, Belize Electricity held its Annual General Meeting and Stan Marshall (CEO of Fortis) delivered a speech warning that rising power costs (primarily due to the increase in oil prices) threaten to exceed the rates being charged to customers resulting in the deferred fuel account expected to be BZ$33 million at the end of May 2008 (about $17 million). In his speech, Mr. Marshall made it clear that Fortis will not inject further capital into BEL until it receives regulatory assurances that all costs will be collected including an acceptable return on capital. Instead, rotating blackouts will occur should BEL not be able to cover purchased power costs. Whether it be capital injections (potentially throwing good money after bad) or rotating blackouts (stepping up the political battle), we are concerned about the ongoing earnings being generated in Belize.

Although Fortis intends to appeal the PUC's decision, we would also note that there is additional downside risk to earnings from the investments in Belize. We estimate that there is an additional $11 million (about $0.07/share) currently being generated from investments in the country (combination of BEL and BECOL) after taking into account the $6 million reduction in our earnings estimates.

Investment Summary

Although relatively modest from a financial point of view, we remain concerned about negative sentiment regarding the troubles in Belize. Further, EPS growth over the next couple of years is expected to slow due to the expiration of the Rankine hydro license (estimated annual impact of about $0.10/share). Our current EPS estimates continue to support an annual $0.08/share dividend increase that we expect to be announced later this year, although the expected payout ratio would move to the high-end of the 60% to 70% range for most Canadian Energy Infrastructure companies.

Based on our new $29.00/share price target, and the expected 10% total return, we continue to rank the shares Sector Perform, Average Risk.

Companies Mentioned

Caribbean Utilities [TSX: CUP.U; $12.10; Not Rated]

Emera [TSX: EMA; $22.65; Sector Perform, Average Risk]

TransAlta [TSX/NYSE: TA/TAC; $35.35; Sector Perform, Above Average Risk]

TransCanada [TSX/NYSE: TRP; $39.28; Outperform, Average Risk]

Valuation

Our target price of $29.00 is based on a 12-month dividend distribution one year forward of $1.12 and a required dividend yield of 3.9%, and is supported by our sum-of-the-parts analysis. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $0.75 per share.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

(C$MM except per unit values or otherwise noted)

	2006	2007	Q1/08	Q2/08E	Q3/08E	Q4/08E	2008E	2009E
Newfoundland Power	$30.1	$30.2	$6.0	$9.0	$6.3	$10.4	$31.8	$33.2
Other Cdn (ME + FTS Ont)	13.3	12.8	4.0	4.2	5.1	1.6	14.9	15.6
Terasen		42.9	58.0	5.0	(5.0)	43.5	101.5	105.0
FortisAlberta	44.1	46.8	11.0	14.0	13.0	8.6	46.6	49.3
FortisBC	27.4	31.3	12.0	6.5	7.5	8.6	34.6	37.2
Regulated Utilities - Caribbean	23.6	32.9	7.0	7.5	8.1	6.8	29.4	29.9
Fortis Generation	26.0	24.2	6.0	9.2	7.2	6.9	29.3	19.5
Fortis Properties	15.5	19.8	3.0	6.6	8.8	3.4	21.7	21.6
Corporate and other	(36.0)	(58.6)	(16.0)	(16.3)	(16.3)	(16.3)	(65.0)	(59.3)
Normalized earnings	**$144.0**	**$182.4**	**$91.0**	**$45.7**	**$34.7**	**$73.5**	**$244.8**	**$252.0**
Wtd. Avg. shares outstanding (MM)	103.6	137.6	156.6	157.0	157.3	157.7	157.1	158.3
Normalized EPS (Basic)	**$1.39**	**$1.33**	**$0.58**	**$0.29**	**$0.22**	**$0.47**	**$1.56**	**$1.59**
Dividends Paid	$0.67	$0.82	$0.25	$0.25	$0.25	$0.25	$1.00	$1.08

Source: Company reports; RBC Capital Markets estimates

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

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Underperform (U): Returns expected to be materially below sector average over 12 months.

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Distribution of Ratings/IB Services
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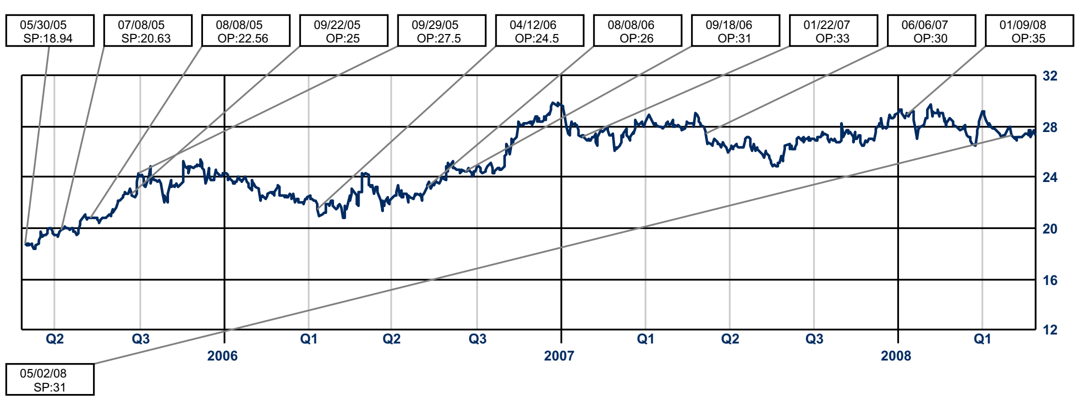
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Investment Banking Serv./Past 12 Mos. Percent
BUY[TP/O]	517	46.66	198	38.30
HOLD[SP]	500	45.13	126	25.20
SELL[U]	91	8.21	20	21.98

Rating and Price Target History for: Fortis Inc. as of 05-28-2008 (in CAD)



Legend:
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Rating and Price Target History for: Emera Incorporated as of 05-28-2008 (in CAD)

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Rating and Price Target History for: TransAlta Corporation as of 05-28-2008 (in CAD)

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Rating and Price Target History for: TransCanada Corporation as of 05-28-2008 (in CAD)

Legend:
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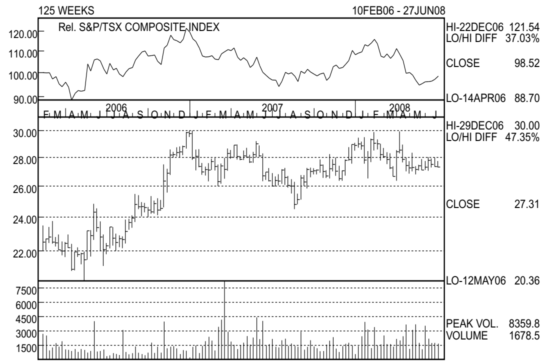
EQUITY | RESEARCH

COMPANY UPDATE | COMMENT

JUNE 30, 2008

Fortis Inc. (TSX: FTS)

Fight With Belize Regulator Heading to Court



RBC Dominion Securities Inc.

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Peter Heusel, CFA (Associate)
(604) 257-7617; peter.heusel@rbccm.com

FY Dec	2006A	2007A	2008E	2009E
EPS (Op) - Basic	1.39	1.33	1.56	1.59
P/E	19.6x	20.5x	17.5x	17.2x
EPS (Op) - FD	1.36	1.30	1.52	1.55
P/E	20.1x	21.0x	18.0x	17.6x
Annual Div.	0.67	0.82	1.00	1.08
Payout Ratio - Basic	48%	62%	64%	68%
Payout Ratio - FD	49%	63%	66%	70%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2006	0.37A	0.32A	0.38A	0.33A
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.29E	0.22E	0.47E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Sector Perform
Average Risk

Price:	27.31
Shares O/S (MM):	156.9
Dividend:	1.00
Float (MM):	156.9
Debt to Cap:	63%
Price Target:	29.00
Implied All-In Return:	10%
Market Cap (MM):	4,285
Yield:	3.7%

Event

The Belize Public Utilities Commission (PUC) issued its "Final Decision" for 70%-owned Belize Electricity Limited.

Investment Opinion

- **Financial Impact Relatively Modest, but Continued Uncertainty in Belize Likely to Overhang the Shares.** Fortis announced that its 70%-owned Belize Electricity Limited (BEL) will legally contest the PUC's "Final Decision" for its electricity rates. Although the financial impact of the decision is relatively modest for Fortis, we believe that the uncertainty regarding the situation is likely to cap the share price. As such, we remain comfortable with our Sector Perform ranking.
- **The Ongoing Financial Impact Appears to be Roughly In Line With Our Previous Estimates.** The PUC maintained electricity rates at 2007 levels despite a significant rise in fuel and purchased power costs. In justifying the maintenance of 2007 rates, the PUC is allowing a greater fuel cost/purchased power "recovery", but has offset it by a lower return on assets (now 10% vs. 12% previously) combined with BZ$36 million (C$18 million) of retroactive disallowances. On the whole, the impact of the "Final Decision" appears to be roughly in line with our previously estimated annual earnings impact of $6 million (about $0.04/share).
- **Background and Additional Information.** The "Final Decision" and other regulatory documents can be found on the PUC website http://www.puc.bz/publications. Also, please refer to our *Research Comments* dated May 2, 2008 and May 29, 2008 for additional details.
- **Valuation.** Our target price of $29.00 (unchanged) is based on a 12-month dividend distribution one year forward of $1.12 and a required dividend yield of 3.9%, and is supported by our sum-of-the-parts analysis. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $0.75 per share.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 3.

Valuation

Our target price of $29.00 is based on a 12-month dividend distribution one year forward of $1.12 and a required dividend yield of 3.9%, and is supported by our sum-of-the-parts analysis. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $0.75 per share.

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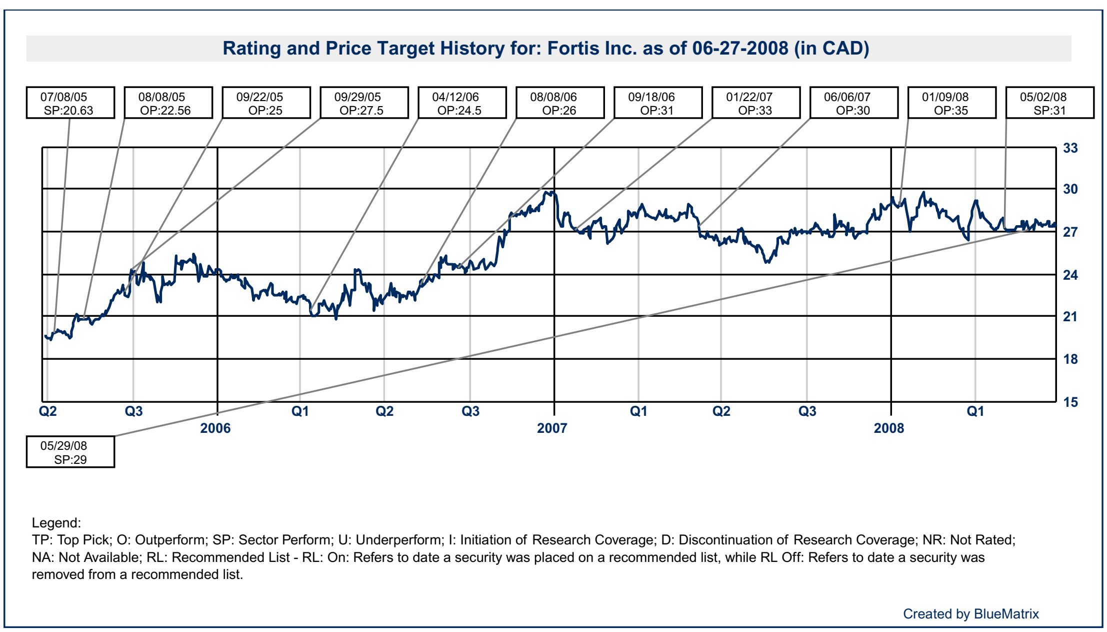
Distribution of Ratings/IB Services
RBC Capital Markets

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	532	47.17	207	38.91
HOLD[SP]	511	45.30	124	24.27
SELL[U]	85	7.54	22	25.88



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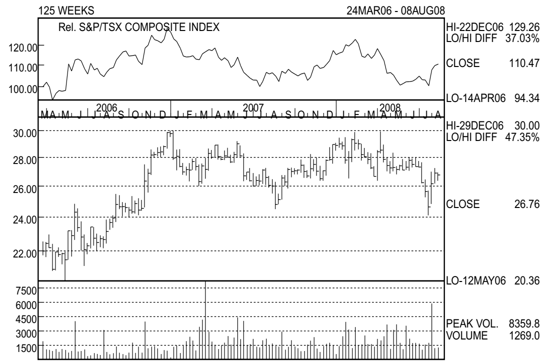
COMPANY UPDATE | COMMENT

AUGUST 11, 2008

Fortis Inc. (TSX: FTS)

Q2/08 Results Generally in Line



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FY Dec	2006A	2007A	2008E	2009E
EPS (Op) - Basic	1.39	1.33	1.53	1.57
Prev.			1.56	1.59
P/E	19.3x	20.1x	17.5x	17.0x
EPS (Op) - FD	1.36	1.30	1.50	1.53
Prev.			1.52	1.55
P/E	19.7x	20.6x	17.8x	17.5x
Annual Div.	0.67	0.82	1.00	1.08
Payout Ratio - Basic	48%	62%	65%	69%
Payout Ratio - FD	49%	63%	67%	71%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2006	0.37A	0.32A	0.38A	0.33A
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.28A	0.21E	0.45E
Prev.		0.29E	0.22E	0.47E

Amounts are normalized and may not be consistent with GAAP.
All values in CAD unless otherwise noted.

Sector Perform
Average Risk

Price:	26.76	**Price Target:**	29.00
		Implied All-In Return:	12%
Shares O/S (MM):	157.1	**Market Cap (MM):**	4,204
Dividend:	1.00	**Yield:**	3.7%
Float (MM):	156.9		
Debt to Cap:	61%		

Event

Fortis reported Q2/08 results.

Investment Opinion

- **Q2/08 Results Generally in Line.** Fortis' normalized EPS in Q2/08 was $0.28 compared to our estimate of $0.29 and Q2/07 normalized EPS of $0.32. The Thomson One consensus EPS estimate for the quarter was $0.27 (range of $0.20 to $0.30). Most segments were in line with expectations; however, higher-than-expected earnings from Terasen were offset by lower-than-forecast earnings from FortisAlberta due to a future tax expense related to AESO charges, which will reverse in the future, but possibly not until 2010.
- **5-Year Capex Plan Increased.** Citing both inflation and higher than previously forecast growth in its utility business, Fortis increased its 5-year capex forecast to $4.5 billion (previously $4.0 billion). Primarily, spending in the Western Canadian utilities was a key driver of the increase in forecast capex. We expect the Western Canadian utilities to be the driver of organic growth in the company over the foreseeable future.
- **Estimates Modestly Reduced for 2008 and 2009.** We have reduced our 2008 and 2009 EPS estimates to $1.53 and $1.57 (from $1.56 and $1.59), respectively, primarily due to higher corporate costs, partially offset by a modest increase in earnings at Terasen. Our 2008 estimate is also impacted by the unexpected $4 million future tax expense related to FortisAlberta that may not reverse until 2010.
- **Valuation.** Our target price of $29.00 (unchanged) is based on a 12-month dividend distribution one year forward of $1.13 and a required dividend yield of 3.9%, and is supported by our sum-of-the-parts analysis. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $0.75 per share.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 5.

Q2/08 Results Largely In Line

Fortis' normalized EPS in Q2/08 was $0.28 compared to our estimate of $0.29 and Q2/07 normalized EPS of $0.32. The Thomson One consensus EPS estimate for the quarter was $0.27 (range of $0.20 to $0.30). Most segments were in line with expectations; however, higher-than-expected earnings from Terasen were offset by lower-than-forecast earnings from FortisAlberta.

A table showing the Q2/08 results compared to our forecasts is set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q2 2008	RBC CM Q2/08 Est.	Q2 2007	Comments
Newfoundland Power	$10.0	$9.0	$8.0	
FortisOntario & Maritime Electric	4.0	4.2	4.0	
Terasen	12.0	5.0	1.6	Strong quarterly earnings; outlook for 2008 generally unchanged
FortisAlberta	7.0	14.0	15.5	Future tax related to AESO charges; will reverse in the future
FortisBC	7.0	6.5	6.5	
Regulated Utilities - Canadian	40.0	38.7	35.6	
Regulated Utilities - Caribbean	8.0	7.5	7.6	
Non-regulated - Fortis Generation	7.0	9.2	4.9	
Non-regulated - Fortis Properties	7.0	6.6	6.0	
Corporate	(18.0)	(16.5)	(12.6)	
Normalized Earnings	**$44.0**	**$45.5**	**$41.5**	
Normalized EPS	$0.28	$0.29	$0.32	
Average shares outstanding (MM)	157.0	157.0	131.1	
Normalization adjustments:				
Charge for disallowed previously incurred fuel and purchased power costs	(13.0)			Belize Electricity
Charge associated with repayment of interconnection amounts received in Q4/07	(2.0)			FortisOntario
	(15.0)		-	
Reported Earnings	$29.0		$41.5	

Source: Company reports, RBC Capital Markets estimates

Highlights of the Quarter

- **Canadian Regulated Utilities.** Overall earnings were in line with expectations, but a higher-than-expected contribution from Terasen was offset by FortisAlberta due to $4 million of future taxes that is largely a timing issue related to deferred AESO charges. A reversal of the charge may not happen until 2010 when new rates are set. However, FortisAlberta is working on a strategy to present to its regulator to eliminate this timing issue. Although the future tax negatively impacted the quarter and likely 2008 earnings as well, we note that the $4 million expense is non-cash and will reverse over time.

- **Caribbean Regulated Utilities.** Earnings from the segment were in line with expectations after we normalized the $13 million ($0.08 per share) charge Fortis took related to a negative regulatory decision in Belize that we highlighted in *Research Comments* published May 29, 2008, and June 30, 2008. Belize Electricity Limited (BEL), which is 70% owned by Fortis, filed an application for a judicial review and appeal of the negative regulatory decision with the Supreme Court of Belize. If BEL is unsuccessful in its appeal attempts, the company could ultimately appeal the decision to the Privy Council in the U.K., which is the highest court in Belize. Should the Privy Council agree to hear an appeal, we would expect BEL to be granted at least partial relief.

- **Non-Regulated.** Earnings were impacted by higher-than-expected Corporate expense as well as lower-than-expected realized power pricing at Fortis Generation. Earnings contribution from Fortis Properties was in line with expectations.

- **5-Year Capex Plan Increased to $4.5 Billion (from $4.0 Billion).** Citing both inflation and higher than previously forecast growth in its utility business, Fortis increased its 5-year capex forecast to $4.5 billion (previously $4.0 billion). Primarily, spending in the Western Canadian utilities was a key driver of the increase in forecast capex. We expect the Western Canadian utilities to be the driver of organic growth in the company over the foreseeable future.

Estimates Modestly Reduced for 2008 and 2009

We have reduced our 2008 and 2009 EPS estimates to $1.53 and $1.57 (from $1.56 and $1.59), respectively, primarily due to higher corporate costs partially offset by a modest increase in earnings at Terasen. Our 2008 estimate is also impacted by the unexpected $4 million future tax expense related to at FortisAlberta that may not reverse until 2010. A summary of our segmented earnings forecast is set out in Exhibit 2.

Exhibit 2: Segment Earnings Forecast (In $MM except per share figures)

	2006	2007	Q1/08	Q2/08	Q3/08E	Q4/08E	2008E	2009E
Newfoundland Power	$30.1	$30.2	$6.0	$10.0	$6.3	$9.4	$31.8	$33.2
Other Cdn (ME + FTS Ont)	13.3	12.8	4.0	4.0	5.1	1.8	14.9	15.6
Terasen		42.9	58.0	12.0	(5.0)	40.4	105.4	108.7
FortisAlberta	44.1	46.8	11.0	7.0	13.0	11.5	42.5	49.9
FortisBC	27.4	31.3	12.0	7.0	7.5	8.1	34.6	38.2
Regulated Utilities - Caribbean	23.6	32.9	7.0	8.0	8.1	7.6	30.8	32.4
Fortis Generation	26.0	24.2	6.0	7.0	7.2	6.9	27.1	19.5
Fortis Properties	15.5	19.8	3.0	7.0	8.8	3.0	21.7	21.7
Corporate and other	(36.0)	(58.6)	(16.0)	(18.0)	(17.6)	(17.6)	(69.1)	(70.0)
Normalized earnings	**$144.0**	**$182.4**	**$91.0**	**$44.0**	**$33.4**	**$71.3**	**$239.7**	**$249.2**
Wtd. Avg. shares outstanding (MM)	103.6	137.6	156.6	157.0	157.4	157.7	157.1	158.3
Normalized EPS (Basic)	**$1.39**	**$1.33**	**$0.58**	**$0.28**	**$0.21**	**$0.45**	**$1.53**	**$1.57**
Dividends Paid	$0.67	$0.82	$0.25	$0.25	$0.25	$0.25	$1.00	$1.08

Source: Company reports, RBC Capital Markets estimates

Valuation

Our target price of $29.00 is based on a 12-month dividend distribution one year forward of $1.13 and a required dividend yield of 3.9%, and is supported by our sum-of-the-parts analysis. We estimate that a 10 bp change in the required dividend yield would impact our price target by approximately $0.75 per share.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 54% interest in Caribbean Utilities.

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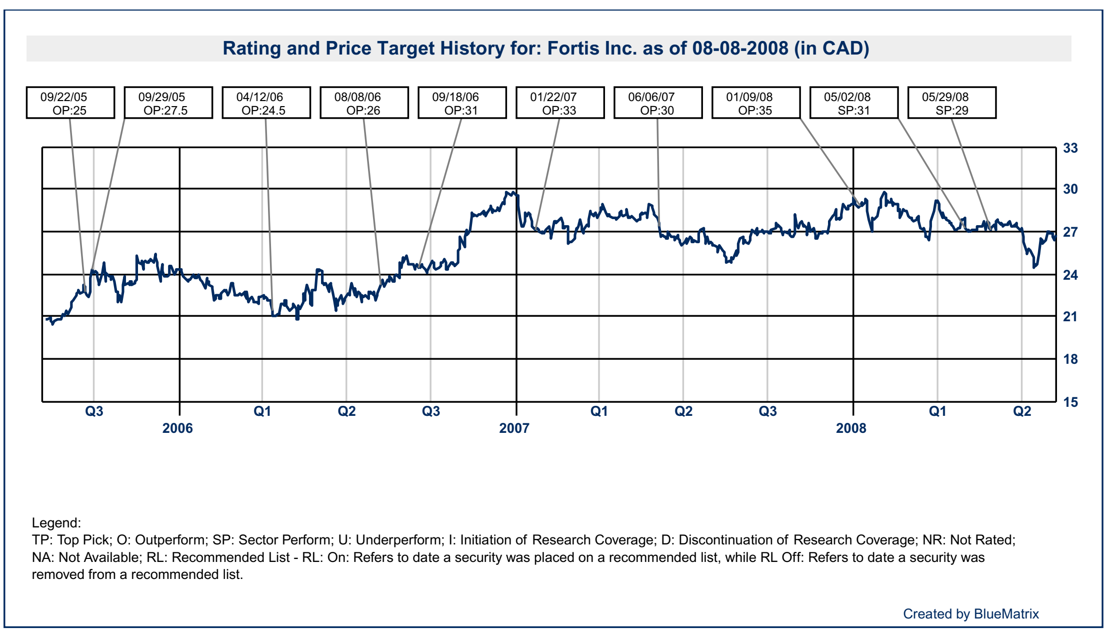

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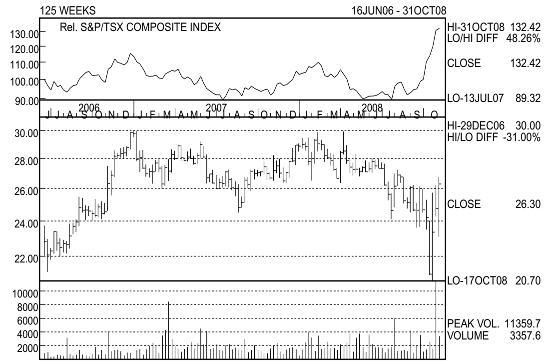
EQUITY | RESEARCH



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FY Dec	2007A	2008E	2009E	2010E
EPS (Op) - Basic	1.33	1.56	1.57	1.63
Prev.		1.53		
P/E	19.8x	16.9x	16.8x	16.1x
EPS (Op) - FD	1.31	1.54	1.55	1.61
Prev.	1.30	1.50	1.53	
P/E	20.1x	17.1x	17.0x	16.3x
Annual Div.	0.82	1.00	1.04	1.12
Prev.			1.08	1.16
Payout Ratio - Basic	62%	64%	66%	69%
Payout Ratio - FD	63%	65%	67%	70%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.31A	0.24A	0.43E
Prev.		0.28A	0.21E	0.45E

Amounts are normalized and may not be consistent with GAAP.
All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

NOVEMBER 3, 2008

Fortis Inc. (TSX: FTS)

Q3/08 Results Modestly Ahead of Expectations

Sector Perform
Average Risk

Price:	26.30	**Price Target:**	24.00
		Implied All-In Return:	(5%)
Shares O/S (MM):	157.3	**Market Cap (MM):**	4,137
Dividend:	1.00	**Yield:**	3.8%
Float (MM):	157.3		
Debt to Cap:	62%		

Event

Fortis reported Q3/08 results.

Investment Opinion

- **Q3/08 Results Modestly Ahead of Expectations.** Fortis' normalized EPS in Q3/08 was $0.24 compared to our estimate of $0.21, consensus of $0.21, and Q3/07 normalized EPS of $0.17.
- **2008 EPS Estimate Increased.** We have increased our 2008 EPS estimate to $1.56 (from $1.53) to primarily reflect the unexpected $4.5 million (about $0.03/share) future tax reversal related to AESO charges at FortisAlberta in Q3/08 (that had negatively impacted Q2/08 earnings). Our 2009 and 2010 EPS estimates remain unchanged at $1.57 and $1.63, respectively.
- **Dividend Forecast Moderated.** Due to the weak equity and credit market environment, we expect the board to take a conservative approach and moderate the growth of its dividend to conserve cash, but also to enhance equity on the balance sheet. Previously, we had expected Fortis to increase its dividend by $0.08/share in 2009 and 2010, resulting in a payout ratio at the top end of its 60-70% range. However, we believe that the board will err on the side of prudence and only increase the dividend by $0.04/share in 2009, resulting in an annual dividend of $1.04 (66% payout ratio). In 2010, assuming equity and credit markets stabilize, we expect an $0.08/share increase in the dividend.
- **Acquisition and Equity Financing Outlook.** Given the state of the equity and credit markets, management does not envision making any major acquisitions until markets stabilize. Should the company not be able to find a suitable acquisition in the next 12-18 months, we believe that the company will need to issue roughly $300 million of equity to enhance its capital ratios to bring them up to its target 40% equity (including preferred equity). Currently, the capital structure consists of 37.8% equity (including preferred equity).
- **Valuation.** Our target price of $24.00 (unchanged) implies a forward P/E of 14.7x, and a required dividend yield of 4.75% based on a 12-month dividend distribution one year forward of $1.11. The forward P/E multiple is in line with the average current forward P/E multiple for the group, reflecting Fortis' slowing EPS growth profile that should approximate the average growth rate of the group over the next couple of years.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 5.

Q3/08 Results Modestly Ahead of Expectations

Fortis' normalized EPS in Q3/08 was $0.24 compared to our estimate of $0.21 and Q3/07 normalized EPS of $0.17. The Thomson One consensus EPS estimate for the quarter was $0.21 (range of $0.18 to $0.22). The better-than-expected results were primarily due to strong hydrology in New York State and Belize, and better-than-forecast quarterly results for Newfoundland Power.

A table showing the Q3/08 results compared to our forecasts is set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q3 2008	RBC CM Q3/08 Est.	Q3 2007	Comments
Newfoundland Power	$8.0	$6.4	$2.7	
FortisOntario & Maritime Electric	5.0	5.0	4.4	
Terasen	(4.5)	(5.0)	(3.7)	
FortisAlberta	12.5	13.0	12.7	
FortisBC	8.0	7.5	6.2	
Regulated Utilities - Canadian	29.0	26.9	22.3	
Regulated Utilities - Caribbean	7.0	8.1	9.8	Impact of Hurricane Ike at Fortis Turks and Caicos ($1mm)
Non-regulated - Fortis Generation	9.0	7.1	5.0	Strong hydrology in Belize and upper NY State
Non-regulated - Fortis Properties	9.0	8.8	8.0	
Corporate	(17.0)	(17.7)	(18.3)	
Normalized Earnings	**$37.0**	**$33.3**	**$26.8**	
Normalized EPS	**$0.24**	**$0.21**	**$0.17**	
Average shares outstanding (MM)	157.2	157.4	154.5	
Normalization adjustments:				
Future income tax recovery	4.5		2.0	FortisAlberta: Related to the AESO deferral account (amounts re-allocated to prior periods)
Tax adjustment related to Terasen acquisition			2.0	Corporate
Terasen tax adjustment	7.5			$5.5mm at Terasen; $2.0mm at Corporate
	12.0		4.0	
Reported Earnings	$49.0		$30.8	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter

Canadian Regulated Utilities

- **FortisAlberta Future Income Tax Recovery.** FortisAlberta's reported earnings included a recovery of $4.5 million (about $0.03/share) of future income taxes that were previously expensed during the first half of 2008. The future taxes are associated with an Alberta Electric System Operator (AESO) charges deferral account that are generally not recovered in rates for about two years. However, by making tax planning adjustments (which allowed Fortis to record the $4.5 million recovery) during the quarter, FortisAlberta expects to eliminate the regulatory lag in future quarters.

Caribbean Regulated Utilities

- **Moderate Hit to Turks and Caicos from Hurricane Ike.** Earnings from the Caribbean Regulated Utilities segment were slightly lower than expected primarily due to the impact of Hurricane Ike at Fortis Turks and Caicos. Hurricane damage reduced earnings by approximately $1 million during the quarter and the utility is in the preliminary stage of determining its business interruption insurance claim.

- **Increased Ownership in Caribbean Utilities.** Fortis' ownership in Caribbean Utilities increased to about 57% (from 54%) through the purchase of 2.4 million shares of Caribbean Utilities at a total cost of approximately $28 million. In August 2008, Fortis acquired 2.1 million shares under a Rights Offering for about $25 million, and in October 2008, Fortis acquired an additional 267,669 shares for approximately $3 million.

- **Belize Electricity Leave to Appeal.** On July 25, 2008, Belize Electricity, which is 70% owned by Fortis, filed an application for a judicial review and appeal with the Supreme Court of Belize related to a negative regulatory decision we highlighted in *Research Comments* published May 29, 2008, and June 30, 2008. Leave was granted on October 3, 2008, and the judicial review is expected to be heard in late 2008.

Non-Regulated

- **Strong Hydrology at Fortis Generation.** Strong hydrology in Belize and upper New York State was the driver behind the better-than-expected earnings contribution from Fortis Generation. Fortis noted that year-to-date hydro production in Belize is 22% higher than the same period last year and that the Chalillo reservoir in Belize is currently full.

Acquisition and Equity Financing Outlook

Given the state of the equity and credit markets, management does not envision making any major acquisitions until markets stabilize. With respect to an acquisition, management continues to expect to finance the equity portion of an acquisition in the Canadian markets (i.e. unlikely to offer a share exchange to the target's shareholders if publicly-traded). We continue to believe that this strategy introduces a measure of financing risk as there is a possibility that investors may have hesitation supporting a transaction due to unfamiliarity with the regulatory history/outlook in the jurisdiction that the acquired utility operates. In the past, Fortis has acquired utility assets that investors were familiar with (e.g. Terasen) and/or were in jurisdictions that investors were familiar with the regulatory framework (in the case of both Terasen and Aquila Canada).

Should the company not be able to find a suitable acquisition in the next 12-18 months, we believe that the company will need to issue roughly $300 million of equity to enhance its capital ratios to bring them up to its target 40% equity (including preferred equity). Currently, the capital structure consists of 37.8% equity (including preferred equity).

2008 Estimate Increased; Dividend Forecasts Moderated

We have increased our 2008 EPS estimate to $1.56 (from $1.53) to primarily reflect the unexpected $4.5 million (about $0.03/share) future tax reversal related to AESO charges at FortisAlberta in Q3/08 (that had negatively impacted Q2/08 earnings). Our 2009 and 2010 EPS estimates remain unchanged at $1.57 and $1.63, respectively. Our segment earnings forecast is set out in Exhibit 2 below.

Due to the weak equity and credit market environment, we expect the board to take a conservative approach and moderate the growth of its dividend to conserve cash, but also to enhance equity on the balance sheet. Previously, we had expected Fortis to increase its dividend by $0.08/share in 2009 and 2010 resulting in a payout ratio at the top end of its 60-70% range. However, we believe that the board will err on the side of prudence and only increase the dividend by $0.04/share in 2009 resulting in an annual dividend of $1.04 (66% payout ratio). In 2010, assuming equity and credit markets stabilize, we expect an $0.08/share increase in the dividend. In the current market environment, we believe that more modest dividend growth for companies to reduce payout ratios towards the mid-60% range will not impact valuation.

Exhibit 2: Segment Earnings Forecast (In $MM except per share figures)

	2007	Q1/08	Q2/08	Q3/08	Q4/08E	2008E	2009E	2010E
Newfoundland Power	$30.2	$6.0	$10.0	$8.0	$8.1	$32.1	$33.4	$35.3
Other Cdn (ME + FTS Ont)	12.8	4.0	4.0	5.0	1.7	14.7	15.7	16.4
Terasen	42.9	58.0	12.0	(4.5)	39.9	105.4	108.7	112.3
FortisAlberta	46.8	11.0	11.5	12.5	10.5	45.5	49.9	53.1
FortisBC	31.3	12.0	7.0	8.0	7.6	34.6	38.2	44.4
Regulated Utilities - Caribbean	32.9	7.0	8.0	7.0	8.4	30.4	33.2	35.9
Fortis Generation	24.2	6.0	7.0	9.0	7.1	29.1	19.7	16.8
Fortis Properties	19.8	3.0	7.0	9.0	2.7	21.7	21.7	22.6
Corporate and other	(58.6)	(16.0)	(18.0)	(17.0)	(17.8)	(68.8)	(71.3)	(59.9)
Normalized earnings	**$182.4**	**$91.0**	**$48.5**	**$37.0**	**$68.1**	**$244.6**	**$249.2**	**$276.9**
Wtd. Avg. shares outstanding (MM)	137.6	156.6	157.0	157.2	157.7	157.1	158.3	169.5
Normalized EPS (Basic)	**$1.33**	**$0.58**	**$0.31**	**$0.24**	**$0.43**	**$1.56**	**$1.57**	**$1.63**
Dividends Paid	$0.82	$0.25	$0.25	$0.25	$0.25	$1.00	$1.04	$1.12
Payout Ratio	62%					64%	66%	69%

Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $24.00 implies a forward P/E of 14.7x, and a required dividend yield of 4.75% based on a 12-month dividend distribution one year forward of $1.11. A 10 bp change in the required dividend yield would affect our price target by approximately $0.50 per share. The forward P/E multiple is in line with the average current multiple for the group, reflecting Fortis' slowing EPS growth profile that should approximate the average growth rate of the group over the next couple of years. In addition, the forward P/E used in our valuation is at the low end of the stock's 5-year historical P/E range (roughly 14x-20x), reflecting the weak equity markets and the slowing EPS growth profile.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 57% interest in Caribbean Utilities.

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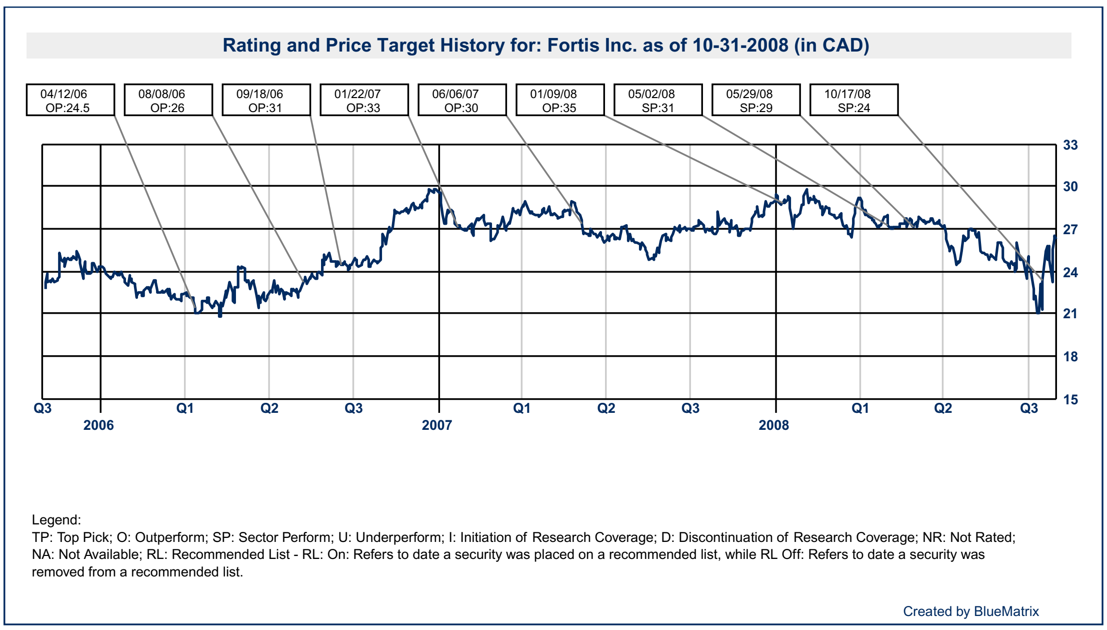
			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	537	45.98	135	25.14
HOLD[SP]	537	45.98	106	19.74
SELL[U]	94	8.05	11	11.70



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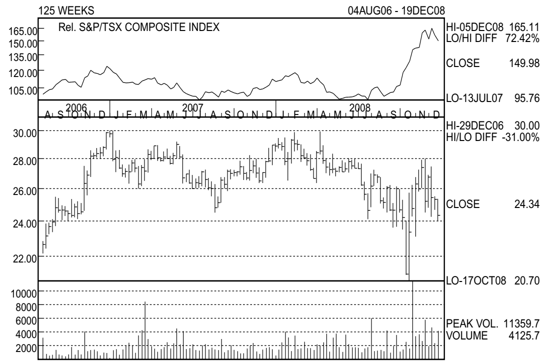

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FY Dec	2007A	2008E	2009E	2010E
EPS (Op) - Basic	1.33	1.56	1.54	1.63
Prev.			1.57	
P/E	18.3x	15.6x	15.8x	14.9x
EPS (Op) - FD	1.31	1.54	1.52	1.61
Prev.			1.55	
P/E	18.6x	15.8x	16.0x	15.1x
Annual Div.	0.82	1.00	1.04	1.12
Payout Ratio - Basic	62%	64%	68%	69%
Payout Ratio - FD	63%	65%	68%	70%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.31A	0.24A	0.43E
2009	0.59E	0.32E	0.21E	0.43E

Amounts are normalized and may not be consistent with GAAP.
All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

DECEMBER 22, 2008

Fortis Inc. (TSX: FTS)

Resuming Coverage: Estimates Updated to Reflect Equity Issue

Sector Perform
Average Risk

Price:	24.34
Shares O/S (MM):	169.2
Dividend:	1.04
Float (MM):	169.2
Debt to Cap:	59%

Price Target:	24.00
Implied All-In Return:	3%
Market Cap (MM):	4,118
Yield:	4.3%

Event

Resuming coverage following a publishing restriction; updating estimates to reflect $300 million equity issue.

Investment Opinion

- **Equity Issue Earlier-than-Forecast.** Although the size of the equity issue ($300 million) was in line with our expectations, we had forecast the equity issue to occur in early 2010.
- **A Prudent Move on Timing to Shore Up the Balance Sheet.** Given the state of the equity and credit markets, the company took advantage of a window to issue common stock to restore total equity (common and preferreds) as a proportion of its capital structure to slightly over its 40% target.
- **Dividend Increase In Line with Expectations.** The $0.04/share increase in the annual dividend to $1.04/share matched our expectations.
- **2009 EPS Estimate Reduced to Reflect Dilution from Earlier than Expected Equity Issuance.** We reduced our 2009 EPS estimate to $1.54 (from $1.57) to reflect Fortis' share issuance and subsequent dilution, which is partially offset by other changes to our financial model (primarily a weaker Canadian dollar and lower interest expense from earlier share issuance). We have left our 2010 EPS estimate unchanged as the incremental dilution (due to a lower issue price than forecast) is expected to be roughly offset by the benefit of a weaker Canadian dollar.
- **A Good Defensive Choice in Uncertain Times.** For investors looking for maximum defensive positioning within the Energy Infrastructure sector, Fortis offers strong defensive characteristics as roughly 75% of its segment earnings are forecast to come from Canadian cost-of-service regulated utilities. Canadian cost-of-service regulation provides for reduced business risk (adjustments for changes in customer usage, pass through of actual interest costs, etc.).
- **Valuation.** Our target price of $24.00 implies a forward P/E of 14.7x, and a required dividend yield of 4.75% based on a 12-month dividend distribution one year forward of $1.12.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 4.

Financial Forecast Updated to Reflect Equity Issue

We reduced our 2009 EPS estimate to $1.54 (from $1.57) to reflect Fortis' share issuance and subsequent dilution, which is partially offset by other changes to our financial model (primarily a weaker Canadian dollar and lower interest expense from earlier share issuance). We had previously expected the company to issue roughly $300 million of equity at the beginning of 2010. We have left our 2010 EPS estimate unchanged as the incremental dilution (due to a lower issue price than forecast) is expected to be roughly offset by the benefit of a weaker Canadian dollar.

Our segment earnings forecast is set out in Exhibit 1.

Exhibit 1: Segment Earnings Forecast (In $MM except per share figures)

	2007	Q1/08	Q2/08	Q3/08	Q4/08E	2008E	2009E	2010E	CAGR 2008E-2010E
Newfoundland Power	$30	$6	$10	$8	$8	$32	$33	$35	3%
Other Cdn (ME + FTS Ont)	13	4	4	5	2	15	16	16	4%
Terasen	43	58	12	(5)	40	105	109	112	2%
FortisAlberta	47	11	12	13	10	45	50	53	5%
FortisBC	31	12	7	8	8	35	38	44	9%
Regulated Utilities - Caribbean	33	7	8	7	9	31	35	38	8%
Fortis Generation	24	6	7	9	7	29	21	19	-13%
Fortis Properties	20	3	7	9	3	22	22	23	1%
Corporate and other	(59)	(16)	(18)	(17)	(18)	(69)	(63)	(63)	-3%
Normalized earnings	**$182**	**$91**	**$49**	**$37**	**$69**	**$245**	**$261**	**$278**	**4%**
Wtd. Avg. shares outstanding (MM	138	157	157	157	159	157	170	171	
Normalized EPS (Basic)	**$1.33**	**$0.58**	**$0.31**	**$0.24**	**$0.43**	**$1.56**	**$1.54**	**$1.63**	
Dividends Paid	$0.82	$0.25	$0.25	$0.25	$0.25	$1.00	$1.04	$1.12	
Payout Ratio	62%					64%	68%	69%	

Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $24.00 implies a forward P/E of 14.7x, and a required dividend yield of 4.75% based on a 12-month dividend distribution one year forward of $1.12. A 10 bp change in the required dividend yield would affect our price target by approximately $0.50 per share. The forward P/E multiple is in line with the average current multiple for the group, reflecting Fortis' slowing EPS growth profile that should approximate the average growth rate of the group over the next couple of years. In addition, the forward P/E used in our valuation is at the low end of the stock's 5-year historical P/E range (roughly 14x-20x), reflecting the weak equity markets and the slowing EPS growth profile.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 57% interest in Caribbean Utilities.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

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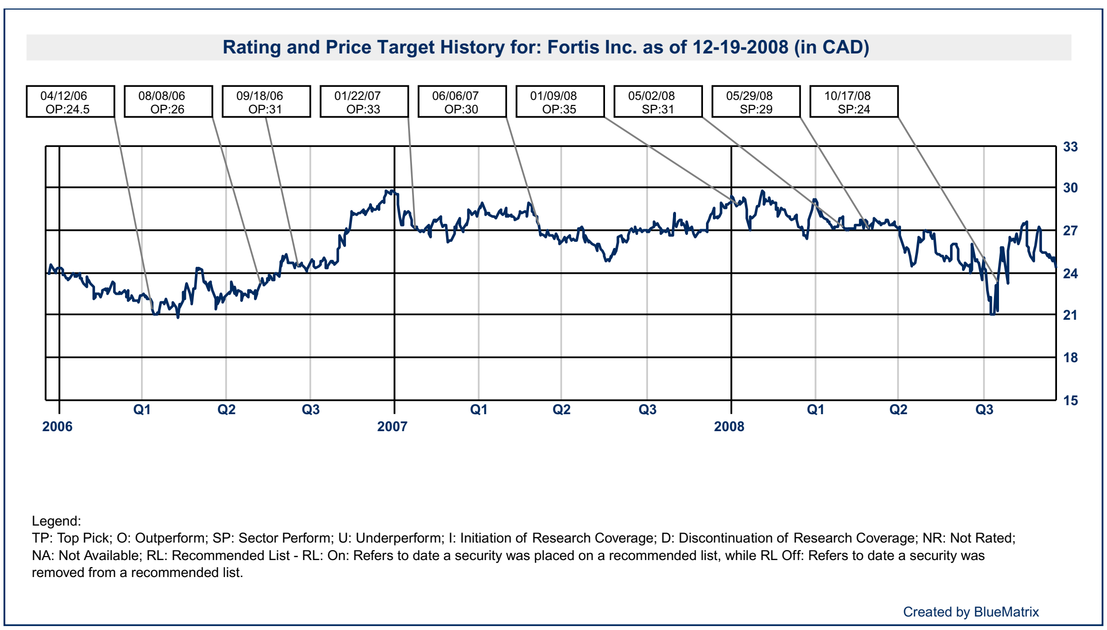
Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings
RBC Capital Markets, Equity Research

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	497	45.06	131	26.36
HOLD[SP]	506	45.87	99	19.57
SELL[U]	100	9.07	17	17.00



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets Corporation. These Recommended Lists include the Prime Opportunity List (RL 3), the Private Client Prime Portfolio (RL 4), the Prime Income List (RL

6), the Guided Portfolio: Large Cap (RL 7), and the Guided Portfolio: Dividend Growth (RL 8). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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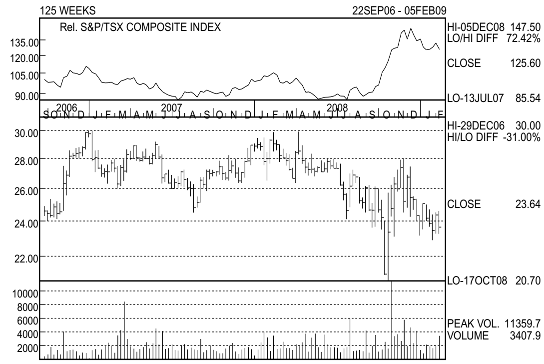

RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)
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FY Dec	2007A	2008A	2009E	2010E
EPS (Op) - Basic	1.33	1.60	1.54	1.63
Prev.		1.56		
P/E	17.8x	14.8x	15.4x	14.5x
EPS (Op) - FD	1.31	1.58	1.52	1.61
Prev.		1.54		
P/E	18.0x	15.0x	15.6x	14.7x
Annual Div.	0.82	1.00	1.04	1.12
Payout Ratio - Basic	62%	62%	68%	69%
Payout Ratio - FD	63%	63%	68%	70%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.31A	0.24A	0.48A
Prev.				0.43E
2009	0.57E	0.31E	0.21E	0.46E
Prev.	0.59E	0.32E		0.43E

Amounts are normalized and may not be consistent with GAAP.
All values in CAD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

FEBRUARY 6, 2009

Fortis Inc. (TSX: FTS)

Good Q4 Results; Target Nudged Up to $25.00

Sector Perform
Average Risk

Price:	23.64	**Price Target:**	25.00 ↑ 24.00
		Implied All-In Return:	10%
Shares O/S (MM):	169.2	**Market Cap (MM):**	4,000
Dividend:	1.04	**Yield:**	4.4%
Float (MM):	169.2		
Debt to Cap:	59%		

Event

Fortis reported Q4 results; target increased to $25.00 (from $24.00).

Investment Opinion

- **Q4/08 Results Ahead of Expectations.** Q4/08 normalized EPS was $0.48 compared to our estimate of $0.43 and $0.45 a year ago. The higher-than-forecast earnings were almost entirely due to a strong performance from Terasen. The increased earnings were partially offset by higher Corporate costs (mostly business development costs).
- **Terasen Fired on All Cylinders in 2008.** Q4 results capped off a very strong year for Terasen. We believe that a good result in 2009 will be very modest growth off of the 2008 results, particularly given a 15 basis point reduction in the allowed ROE.
- **EPS Estimates Unchanged.** We remain comfortable with our 2009 and 2010 EPS estimates of $1.54 and $1.63, respectively. The forecast decline in 2009 EPS is due to the expiration of the water rights for the Rankine Hydro facility in Ontario at the end of April.
- **Outlook Unchanged - Still a Good Defensive Pick.** With roughly 75% of segment earnings coming from Canadian cost of service regulation, we consider Fortis a good defensive choice against weakness in the equity and credit markets along with the economy. However, at current prices and with earnings expected to decline in 2009, we remain comfortable with our Sector Perform ranking at this time.
- **Valuation: Price Target Nudged Up to $25.00 (from $24.00).** We have increased our price target to $25.00 to reflect a similar valuation (i.e., roughly 15.5x 2010E earnings) to Emera, which we view as a stock possessing comparable defensive characteristics to Fortis.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 5.

Q4/08 Results Modestly Ahead of Expectations Due to Strong Year at Terasen

Fortis' normalized EPS in Q4/08 was $0.48 compared to our estimate of $0.43 and $0.45 a year ago. The higher-than-forecast earnings were almost entirely due to a strong performance from Terasen, partially offset by higher Corporate costs (mostly business development costs). Q4 results capped off a very strong year for Terasen, and we believe that a good result in 2009 will be very modest growth off of the 2008 results, particularly given a 15 basis point reduction in the allowed ROE.

A table showing the Q4/08 results compared to our forecasts is set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q4/08	RBC CM Q4/08 Est.	Q4/07	2008	2007	
Newfoundland Power	$8.0	$8.1	$9.0	$32.0	$30.2	
FortisOntario & Maritime Electric	3.0	1.7	0.5	16.0	12.8	
Terasen	47.0	39.9	45.0	112.5	42.9	Very strong year for Terasen
FortisAlberta	11.0	10.5	6.0	46.0	46.8	
FortisBC	7.0	7.6	7.0	34.0	31.3	
Regulated Utilities - Canadian	76.0	67.8	67.5	240.5	164.1	
Regulated Utilities - Caribbean	8.0	8.8	9.0	30.0	32.9	
Non-regulated - Fortis Generation	8.0	7.1	7.0	30.0	24.2	
Non-regulated - Fortis Properties	4.0	2.7	4.0	23.0	19.8	
Corporate	(20.0)	(17.8)	(18.0)	(71.0)	(58.6)	Higher-than-normal business development costs
Normalized Earnings	**$76.0**	**$68.6**	**$69.5**	**$252.5**	**$182.4**	
Normalized EPS	**$0.48**	**$0.43**	**$0.45**	**$1.60**	**$1.33**	
Average shares outstanding (MM)	158.9	159.4	155.4	157.4	137.6	
Normalization adjustments:						
Impact on future taxes from rate reduction			2.5		2.5	
Future income tax recovery					1.3	FortisAlberta: Related to the AESO deferral account
Disposal of steam system					(2.4)	Caribbean Utilities
Gain on sale of surplus land			7.0		7.0	Terasen
Regulator-ordered refund			2.0		2.0	FortisOntario
Disallowance of prev. incurred fuel and purch. power costs				(13.0)		Belize Electricity
Charge for interconnection amounts received in Q4/07				(2.0)		FortisOntario
Terasen tax adjustment			(2.0)	7.5		$5.5mm at Terasen; $2.0mm at Corporate
Reported Earnings	$76.0	$68.6	$79.0	$245.0	$192.8	

Source: Company reports; RBC Capital Markets estimates

Outlook Unchanged: Fortis Is Still a Good Defensive Pick

With roughly 75% of segment earnings coming from Canadian cost of service regulation, we consider Fortis a good defensive choice against weakness in the equity and credit markets along with the economy. However, at current prices and with earnings expected to decline in 2009, we remain comfortable with our Sector Perform ranking at this time.

Target Price Nudged Up to $25.00 (from $24.00)

We have increased our price target to $25.00 to reflect a similar valuation (i.e., roughly 15.5x 2010E earnings) to Emera, which we view as a stock possessing comparable defensive characteristics to Fortis.

Financial Forecast Unchanged

We remain comfortable with our 2009 and 2010 EPS estimates of $1.54 and $1.63, respectively. We have set out our segment earnings forecast in Exhibit 2. Despite growth in the core Canadian utility operations, we expect EPS in 2009 to decline due to the expiration of the water rights for the Rankine Hydro facility in Ontario at the end of April.

Exhibit 2: Segment Earnings Forecast (In $MM except per share figures)

	2007	2008	Q1/09E	Q2/09E	Q3/09E	Q4/09E	2009E	2010E	CAGR 2008-2010
Newfoundland Power	$30.2	$32.0	$6.3	$10.4	$8.3	$8.3	$33.4	$35.3	3%
Other Cdn (ME + FTS Ont)	12.8	16.0	4.2	4.2	5.2	3.1	16.8	17.3	3%
Terasen	42.9	112.5	58.4	12.1	(4.5)	47.3	113.2	114.1	0%
FortisAlberta	46.8	46.0	12.8	13.4	14.6	12.8	53.7	61.1	10%
FortisBC	31.3	34.0	13.5	7.9	9.0	7.9	38.2	44.4	9%
Regulated Utilities - Caribbean	32.9	30.0	7.5	8.6	7.5	8.6	32.3	34.8	5%
Fortis Generation	24.2	30.0	8.2	5.7	3.1	4.4	21.5	19.6	-13%
Fortis Properties	19.8	23.0	3.0	7.1	9.1	4.1	23.4	23.7	1%
Corporate and other	(58.6)	(71.0)	(17.2)	(17.4)	(17.5)	(17.7)	(69.8)	(71.3)	0%
Normalized earnings	**$182.4**	**$252.5**	**$96.7**	**$52.1**	**$34.9**	**$78.9**	**$262.6**	**$279.1**	**3%**
Wtd. Avg. shares outstanding (MM)	137.6	157.4	169.4	169.8	170.2	170.7	170.0	171.3	
Normalized EPS (Basic)	**$1.33**	**$1.60**	**$0.57**	**$0.31**	**$0.21**	**$0.46**	**$1.54**	**$1.63**	
Dividends Paid	$0.82	$1.00					$1.04	$1.12	
Payout Ratio	62%	62%					67%	69%	

Source: Company reports; RBC Capital Markets estimates

Companies Mentioned

Emera Inc. [TSX: EMA; $21.24; Sector Perform, Average Risk]

Valuation

Our target price of $25.00 implies a forward P/E of 15.5x, and a required dividend yield of 4.5% based on a 12-month dividend distribution one year forward of $1.13. A 10 bp change in the required dividend yield would affect our price target by approximately $0.50 per share. The forward P/E multiple is in line with the multiple that we use for Emera, which we view as a stock possessing comparable defensive characteristics to Fortis.

Price Target Impediment

The political environment in Belize, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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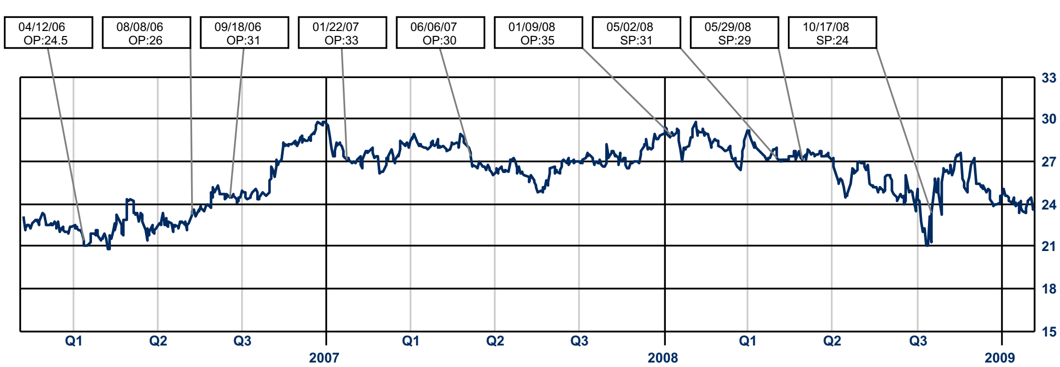
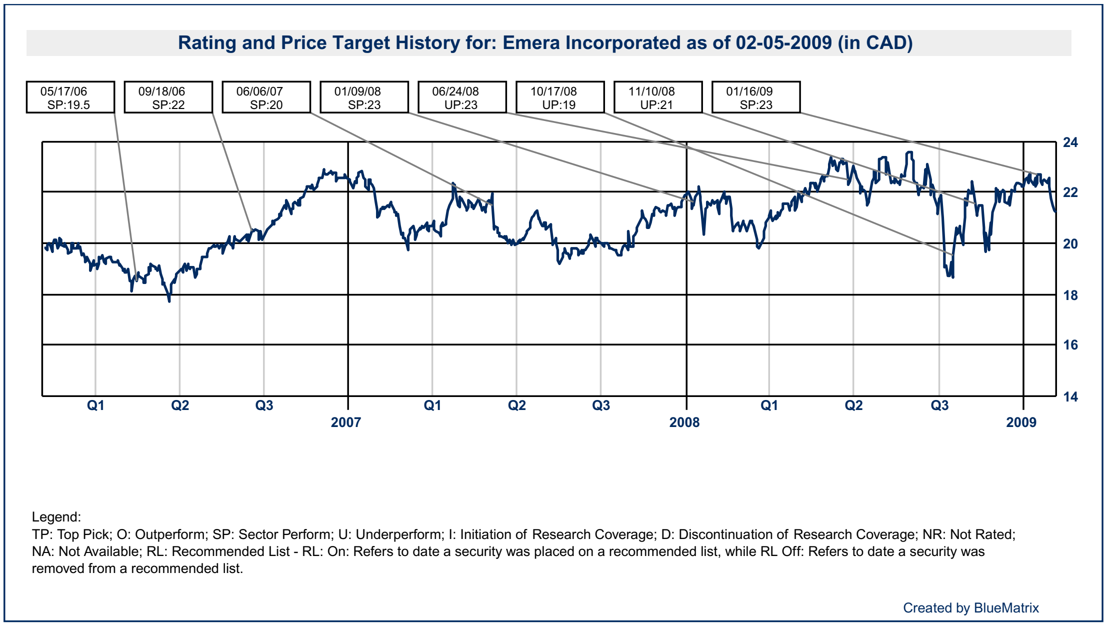
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Investment Banking Serv./Past 12 Mos. Percent
BUY[TP/O]	503	44.90	114	22.66
HOLD[SP]	509	45.50	86	16.90
SELL[U]	107	9.60	13	12.15

Rating and Price Target History for: Fortis Inc. as of 02-05-2009 (in CAD)



Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

Created by BlueMatrix



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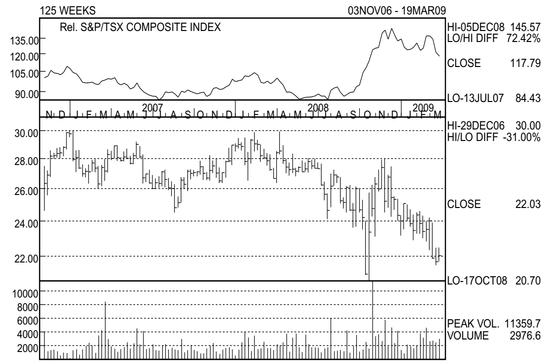
RATINGS REVISION | COMMENT

MARCH 20, 2009

Fortis Inc. (TSX: FTS)

Potential for Significant Upside from NEB Decision; Upgrading to Outperform



RBC Dominion Securities Inc.

Robert Kwan, CFA (Analyst)
(604) 257-7611; robert.kwan@rbccm.com

FY Dec	2007A	2008A	2009E	2010E
EPS (Op) - Basic	1.33	1.60	1.54	1.63
P/E	16.6x	13.8x	14.3x	13.5x
EPS (Op) - FD	1.31	1.58	1.52	1.61
P/E	16.8x	13.9x	14.5x	13.7x
Annual Div.	0.82	1.00	1.04	1.12
Payout Ratio - Basic	62%	62%	68%	69%
Payout Ratio - FD	63%	63%	68%	70%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.31A	0.24A	0.48A
2009	0.57E	0.31E	0.21E	0.46E

Amounts are normalized and may not be consistent with GAAP.
All values in CAD unless otherwise noted.

Outperform (prev: Sector Perform)
Average Risk

Price:	22.03	**Price Target:**	27.00 ↑ 25.00
		Implied All-In Return:	27%
Shares O/S (MM):	169.2	**Market Cap (MM):**	3,727
Dividend:	1.04	**Yield:**	4.7%
Float (MM):	169.2		
Debt to Cap:	59%		

Event

Upgrading the shares to Outperform (from Sector Perform).

Investment Opinion

- **Increasing Ranking to Outperform (from Sector Perform).** As a result of the potential upside in earnings due to changes in the ROE and the estimated impact on value, we have upgraded the shares of Fortis to Outperform.
- **Fortis Could be an Indirect Beneficiary from NEB Decision.** The National Energy Board (NEB) released its cost of capital decision for the TQM pipeline, which had the effect of significantly increasing the allowed ROE by roughly 300 basis points. For details on the NEB decision, please see today's *Research Comment* on the Energy Infrastructure sector titled "Goodbye Formula, Hello Higher Returns".
- **Potentially Significant Earnings Upside.** Using the framework of the NEB's decision, we estimate that Fortis could realize about $0.22/share of increased earnings.
- **Key Risk: Provincial Regulators May Not Follow Suit.** The NEB decision does not have any direct impact on Fortis, and it is possible that the provincial regulators may not follow the NEB's lead and increase ROEs. Even if they do, it is uncertain as to how much they will increase returns. However, given the magnitude of the increase in ROEs implied by the NEB's decision, we believe it will be very difficult for the provincial regulators to not improve returns. If there is no ROE relief, it may become difficult for provincially-regulated utility businesses to attract capital given what would be a significant difference in ROEs relative to NEB-regulated pipelines without a meaningfully different risk profile.
- **Valuation: Target Price Increased to $27.00 (from $25.00).** Our new price target includes roughly half of the estimated upside from higher ROEs. We have used 50% of the potential upside to account for uncertainty as to whether provincial regulators will follow the NEB's lead and increase allowed returns and if they do, how much the increased ROEs will be.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 3.

Valuation

Our target price of $27.00 implies a forward P/E of 15.3x 2010E EPS plus roughly half of the estimated upside from higher ROEs (about $2/share). We have used 50% of the potential upside to account for uncertainty as to whether provincial regulators will follow the National Energy Board's lead and increase allowed returns and if they do, how much the increased ROEs will be. The forward P/E multiple is in line with the multiple that we use for Emera, which we view as a stock possessing comparable defensive characteristics to Fortis.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 57% interest in Caribbean Utilities.

Required Disclosures

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

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Distribution of Ratings
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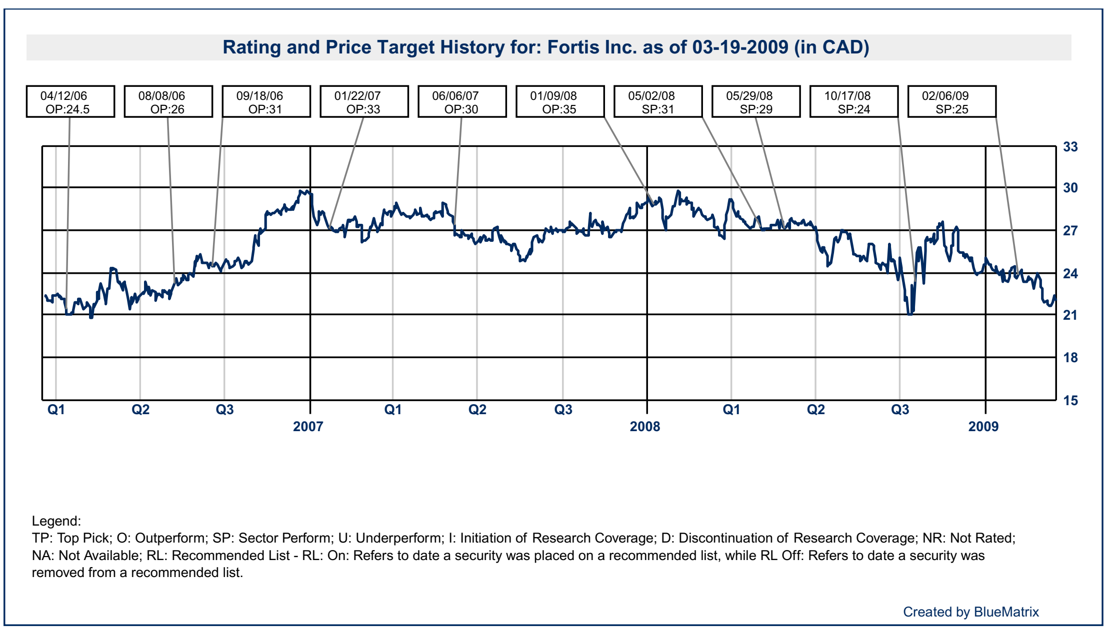
			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	472	43.60	107	22.67
HOLD[SP]	501	46.30	78	15.57
SELL[U]	109	10.10	13	11.93



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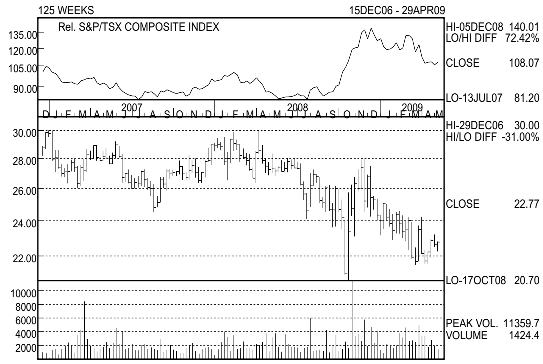

RBC Dominion Securities Inc.

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Nelson Ng, CFA (Associate)
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FY Dec	2007A	2008A	2009E	2010E
EPS (Op) - Basic	1.33	1.60	1.48	1.60
Prev.			1.54	1.63
P/E	16.7x	13.8x	15.0x	13.8x
EPS (Op) - FD	1.31	1.58	1.45	1.58
Prev.			1.52	1.61
P/E	16.9x	14.0x	15.3x	14.0x
Annual Div. - Basic	0.82	1.00	1.04	1.12
Payout Ratio - Basic	62%	62%	70%	70%
Payout Ratio - FD	63%	63%	72%	71%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.31A	0.24A	0.48A
2009	0.53A	0.29E	0.20E	0.46E
Prev.	0.57E	0.31E	0.21E	

Amounts are normalized and may not be consistent with GAAP.
All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

MAY 1, 2009

Fortis Inc. (TSX: FTS)

Q1 Results A Little Light; Outlook Unchanged

Outperform
Average Risk

Price:	22.15	**Price Target:**	27.00
		Implied All-In Return:	27%
Shares O/S (MM):	169.8	**Market Cap (MM):**	3,761
Dividend:	1.04	**Yield:**	4.7%
Float (MM):	169.8		
Debt to Cap:	59%		

Event

Fortis reported Q1 results.

Investment Opinion

- **Q1/09 Results Modestly Short of Expectations.** Q1/09 normalized EPS was $0.53 compared to our estimate of $0.57 and $0.58 a year ago. The core Canadian regulated assets performed in line, while earnings were short from the utilities in the Caribbean (cooler weather and lower tourism).
- **Estimates Reduced to Primarily Reflect Softer Forecast for the Caribbean.** We have reduced our 2009 and 2010 EPS estimates to $1.48 and $1.60, respectively (from $1.54 and $1.63), to reflect the Q1/09 results and expected continued softness from utilities in the Caribbean due to the economic slowdown and its impact on tourism.
- **Potential for ROE Upside.** Processes to review returns are ongoing in Alberta (would impact FortisAlberta) and Ontario (would impact FortisOntario). Further, Fortis expects to ask the B.C. Utilities Commission for a higher ROE when it files its rate case for Terasen (expected this summer) along with asking the Public Utilities Board to look at Newfoundland Power's ROE as part of its rate filing later this year.
- **Strong Growth in Core Business Plus ROE Optionality.** With $1 billion of investment primarily in the core utilities forecast for 2009 and roughly $4.5 billion of expected investment over the next five years, there is visibility into attractive future growth with below average risk. Further, based on the NEB's recent cost of capital decision, we see up to $0.22/share of potential earnings upside depending on the outcome of various reviews of provincially regulated ROEs.
- **Modest-Sized Acquisitions Possible.** Although management continues to caution against a large U.S. utility acquisition, more modest-sized acquisitions (under $1 billion in total) are possible. Specifically, up to $50 million could be deployed into Class A or B office space. Also, Fortis would be a logical buyer of the Waneta hydro plant near Trail, B.C. should it come up for sale, as it already operates the plant and may be best positioned to handle the regulatory approval.
- **Valuation:** Our target price of $27.00 (unchanged) implies a forward P/E of 15.5x 2010E EPS plus roughly half of the estimated upside from higher ROEs (about $2/share).

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 5.

Q1/09 Results Modestly Short of Expectations Primarily Due to Weakness in the Caribbean

Fortis' Q1/09 normalized EPS was $0.53 compared to our estimate of $0.57 and Q1/08 normalized EPS of $0.58. As shown in Exhibit 1, almost all of the segments performed in line with expectations, with the shortfall coming from the regulated utilities in the Caribbean. Specifically, lower demand due to cooler weather (11% below average) and lower tourism activity due to the economic slowdown were the key drivers behind the lower-than-expected results.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q1/09	RBC CM Q1/09E	Q1/08	Comments
Newfoundland Power	$6.0	$6.3	$6.0	
FortisOntario & Maritime Electric	5.0	4.2	4.0	
Terasen	58.0	59.6	58.0	
FortisAlberta	12.0	12.8	11.0	
FortisBC	14.0	13.5	12.0	
Regulated Utilities - Canadian	95.0	96.4	91.0	
Regulated Utilities - Caribbean	4.0	7.5	7.0	Lower demand (11% cooler weather, lower tourism)
Non-regulated - Fortis Generation	6.0	6.1	6.0	
Non-regulated - Fortis Properties	2.5	3.0	3.0	
Corporate	(17.0)	(17.2)	(16.0)	
Normalized Earnings	**$90.5**	**$95.8**	**$91.0**	
Normalized EPS	**$0.53**	**$0.57**	**$0.58**	
Average shares outstanding (MM)	169.4	169.4	156.6	
Normalization adjustments:				
Caribbean: Favourable Appeal Judgement	1.0			
Caribbean: One-Time Energy Supply Cost Adj.	1.0			
Properties: One-Time Transition Costs	(0.5)			
	1.5		-	
Reported Earnings	$92.0		$91.0	
Reported EPS	$0.54		$0.58	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter

- **Canadian Regulated Utilities: Performing as Expected.** In aggregate, the Canadian Regulated Utilities contributed $95 million to earnings compared to our estimate of $96.4 million and $91 million in Q1/08. The year-over-year increase is primarily due to rate base growth.
- **Caribbean Regulated Utilities: Impacted by Cooler Weather and the Economic Downturn.** In Q1/09, earnings from the regulated utilities in the Caribbean were $4 million compared to our estimate of $7.5 million and $7 million a year ago. During the quarter, about half of the shortfall was due to 11% cooler-than-normal weather, with the other half coming from lower demand due to reduced tourism-related activity resulting from the economic downturn.
- **Non-Regulated Generation: In Line with Expectations.** The non-regulated generation segment contributed $6 million to earnings in Q1/09, in line with our estimate and results in Q1/08. Management disclosed that the Chalillo reservoir in Belize was at normal levels for this time of year.
- **Non-Regulated Properties: Results as Expected Although Potential Weakness Ahead; Small Acquisition Announced.** Normalized earnings in Q1/09 from the properties division were basically flat at $2.5 million compared to Q1/08 and our estimate of $3 million. During the quarter, we normalized for $0.5 million of one-time severance charges. Due to lower hotel occupancy, REVPAR was down 5% during the quarter to $64.40 compared to $67.82 a year ago. In April 2009, the company acquired the 214-room Holiday Inn Select in Windsor for $7 million.

Acquisition Outlook: Large U.S. Utility Acquisitions Still on Hold, but More Modest-Sized Acquisitions a Possibility

- **Major U.S. Utility Acquisitions Still on Hold.** Given the economic and capital markets uncertainty, management continues to caution against the possibility of a major U.S. utility acquisition.
- **More Modest-Sized Acquisitions a Possibility.** Given the common share issuance in December 2008, management believes it has the ability to complete an acquisition (or acquisitions) of a little under $1 billion through available credit and the

issuance of preferred shares. Due to the decline in the real estate market, management sees up to $50 million of acquisition potential, particularly for Class A or Class B office space. In terms of a potentially larger acquisition, Fortis would be a logical buyer of the 450 MW Waneta hydro facility near Trail, B.C. should it become available for sale, as Fortis operates and maintains the plant, which is owned by Teck.

Potential for ROE Upside: Fortis Expected to Be Active in 2009

As initially highlighted in our *Research Comment* dated March 20, 2009, we see the potential for significant upside in earnings as a result of possible changes in regulated ROEs following a key decision from the National Energy Board (NEB) that increased returns for the TQM pipeline.

- **Processes Under Way in Alberta and Ontario.** The Alberta Utilities Commission (AUC) has already commenced a process to review its Generic ROE in addition to evaluating the potential to standardize capital structures. The Ontario Energy Board (OEB) has initiated a consultative process to determine whether an adjustment to the cost of capital is necessary. The result of these processes could impact FortisAlberta and FortisOntario.
- **Terasen to Seek Higher ROE as Part of Its Upcoming Rate Filing.** Terasen is expected to file a rate case this summer that we expect to include a request for a higher ROE citing the NEB's cost of capital decision as supporting evidence. If the B.C. Utilities Commission (BCUC) grants a higher ROE for Terasen, we expect FortisBC to also benefit.
- **Newfoundland Power to File a Rate Case Later This Year.** With respect to potential upside in allowed ROE, we believe that there is limited upside based on the parameters of the NEB's decision for TQM due to the higher equity thickness in place for Newfoundland Power.

As shown in Exhibit 3, we see up to $0.22/share of upside if the parameters from the NEB's cost of capital decision for TQM are applied to Fortis' operations.

Exhibit 2: Potential Upside from a Higher ROE Based on the NEB's Cost of Capital Decision for TQM

	Potential EPS Impact	Comments
FortisAlberta (Alberta Utilities Commission)	$0.05	
Terasen, FortisBC (B.C. Utilities Commission)	0.17	
FortisOntario (Ontario Energy Board)	0.00	Return parameters appear to be consistent with NEB decision
Newfoundland Power (Newfoundland PUB)	0.00	Return parameters appear to be consistent with NEB decision
Total	$0.22	

Source: Company reports; RBC Capital Markets estimates

Earnings Estimates Reduced to Reflect Q1 Results and the Impact of a Weak Economy

Primarily reflecting lower forecast earnings from the utilities in the Caribbean (lower Q1 results and softness in tourism), we have reduced our 2009 and 2010 EPS estimates to $1.48 and $1.60, respectively (from $1.54 and $1.63, respectively).

Exhibit 3: Segment Earnings Forecast (In $MM except per share figures)

	2007	2008	Q1/09	Q2/09E	Q3/09E	Q4/09E	2009E	2010E	Old *2009E*	Old *2010E*
Newfoundland Power	$30.2	$32.0	$6.0	$10.4	$8.3	$8.6	$33.4	$35.3	*$33.4*	*$35.3*
Other Cdn (ME + FTS Ont)	12.8	16.0	5.0	4.2	5.2	2.3	16.8	17.3	*16.8*	*17.3*
Terasen	42.9	112.5	58.0	12.1	(4.5)	47.6	113.2	114.1	*113.2*	*114.1*
FortisAlberta	46.8	46.0	12.0	13.4	14.6	13.7	53.7	61.1	*53.7*	*61.1*
FortisBC	31.3	34.0	14.0	7.9	9.0	7.3	38.2	44.4	*38.2*	*44.4*
Regulated Utilities - Caribbean	32.9	30.0	4.0	6.4	7.4	7.9	25.7	31.5	*32.3*	*34.8*
Fortis Generation	24.2	30.0	6.0	5.0	3.0	4.4	18.4	19.6	*21.5*	*19.6*
Fortis Properties	19.8	23.0	2.5	6.9	8.9	4.4	22.8	23.7	*23.4*	*23.7*
Corporate and other	(58.6)	(71.0)	(17.0)	(17.4)	(17.6)	(17.8)	(69.9)	(72.3)	*(69.8)*	*(71.3)*
Normalized earnings	**$182.4**	**$252.5**	**$90.5**	**$48.9**	**$34.3**	**$78.6**	**$252.2**	**$274.8**	***$262.6***	***$279.1***
Wtd. Avg. shares outstanding (MM)	137.6	157.4	169.4	169.8	170.2	170.7	170.0	171.3	*170.0*	*171.3*
Normalized EPS (Basic)	**$1.33**	**$1.60**	**$0.53**	**$0.29**	**$0.20**	**$0.46**	**$1.48**	**$1.60**	***$1.54***	***$1.63***
Dividends Paid	$0.82	$1.00					$1.04	$1.12	*$1.04*	*$1.12*
Payout Ratio	62%	62%					70%	70%	*67%*	*69%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $27.00 implies a forward P/E of 15.5x 2010E EPS plus roughly half of the estimated upside from higher ROEs (about $2/share). We have used 50% of the potential upside to account for uncertainty as to whether provincial regulators will follow the National Energy Board's lead and increase allowed returns and if they do, how much the increased ROEs will be. The forward P/E multiple is in line with the multiple that we use for Emera, which we view as a stock possessing comparable defensive characteristics to Fortis.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 57% interest in Caribbean Utilities.

Required Disclosures

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			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY[TP/O]	487	43.90	104	21.36
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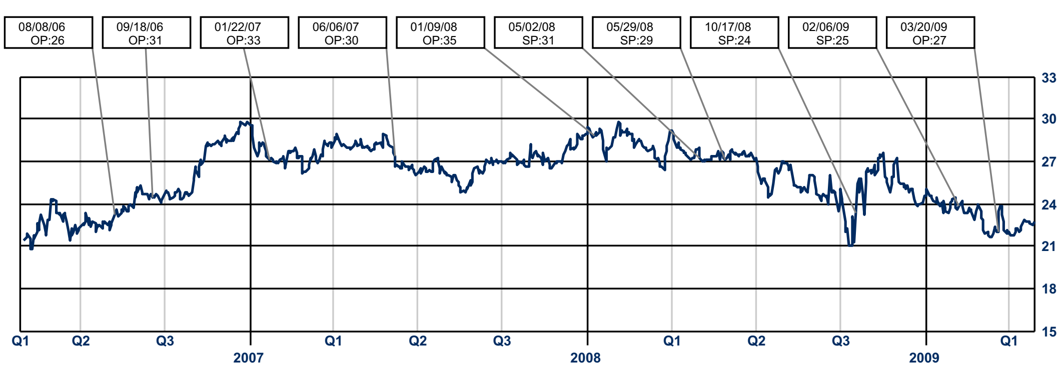
SELL[U]	95	8.60	11	11.58

Rating and Price Target History for: Fortis Inc. as of 04-29-2009 (in CAD)



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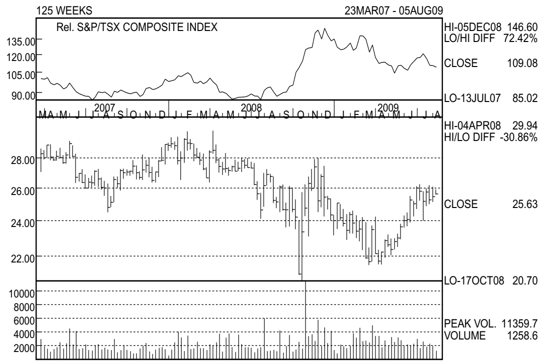
RATINGS REVISION | COMMENT

AUGUST 6, 2009

Fortis Inc. (TSX: FTS)

Shares Fairly Reflecting Potential ROE Upside; Reducing to Sector Perform



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FY Dec	2007A	2008A	2009E	2010E
EPS (Op) - Basic	1.33	1.60	1.48	1.60
P/E	19.3x	16.0x	17.3x	16.0x
EPS (Op) - FD	1.31	1.58	1.45	1.58
P/E	19.6x	16.2x	17.7x	16.2x
Annual Div. - Basic	0.82	1.00	1.04	1.12
Payout Ratio - Basic	62%	62%	70%	70%
Payout Ratio - FD	63%	63%	72%	71%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2007	0.40A	0.32A	0.17A	0.45A
2008	0.58A	0.31A	0.24A	0.48A
2009	0.53A	0.29A	0.20E	0.46E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Sector Perform (prev: Outperform)
Average Risk

Price:	25.63	**Price Target:**	27.00
		Implied All-In Return:	9%
Shares O/S (MM):	170.0	**Market Cap (MM):**	4,357
Dividend:	1.04	**Yield:**	4.1%
Float (MM):	170.0		
Debt to Cap:	59%		

Event

Fortis reported Q2/09 results; reducing to Sector Perform (from Outperform).

Investment Opinion

- **Shares Fairly Reflecting Potential ROE Upside; Reducing to Sector Perform (from Outperform).** We are reducing our ranking for the shares to Sector Perform due to price appreciation, with the current share price resulting in an implied all-in return of 9%. At the current price, we believe that the shares are reflecting a roughly 50% probability that provincial regulators (namely the BCUC and to a lesser extent the AUC) will increase regulated ROEs to a level consistent with the National Energy Board's decision for the TQM pipeline.
- **Q2 Results In Line with Expectations.** Q2/09 normalized EPS was in line with our estimate of $0.29, and a modest decrease from $0.31 in Q2/08. After normalizing for $3 million of tax benefits at FortisAlberta, there were no major variances in Fortis' segment results compared to our estimates.
- **Stay Tuned for Key Decisions on Allowed ROEs.** Fortis has filed rate cases seeking an increase in the allowed ROE in B.C. and Newfoundland, and is taking part in the general cost of capital review processes in Alberta and Ontario. Positive decisions from the various provincial regulators to levels in line with the NEB's decision for TQM could increase annual earnings by $0.22/share.
- **Investment in Canadian Regulated Utilities Expected to Drive Low-Risk EPS Growth.** Fortis continues to make significant investments in its regulated utility assets. Capex is expected to exceed $1 billion for 2009, and total approximately $5 billion through 2013.
- **Valuation.** Our target price of $27.00 (unchanged) implies a forward P/E of 15.5x 2010E EPS plus roughly half of the estimated upside from higher regulated ROEs (about $2/share).

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

Reducing Ranking to Sector Perform; Shares Fairly Reflect Potential ROE Upside

We are reducing our ranking for the shares to Sector Perform due to price appreciation, which we partially attribute to the market pricing in potential upside from an increase in regulated ROEs. We believe that the share price is reflecting a roughly 50% probability (i.e. about $2/share) that provincial regulators (namely the BCUC and to a lesser extent the AUC) will increase regulated ROEs to a level consistent with the National Energy Board's decision for the TQM pipeline. Backing out the $2/share of potential upside from the current share price results in a valuation of 15x 12-month forward earnings, which is a slight premium to the group average.

Given the uncertainty as to whether the provincial regulators will approve a fair return in line with the NEB's decision, we recommend taking profits at this time. We believe Fortis remains a good choice for defensive-oriented investors with a cautious view on the equity markets, the credit markets and the economy. For investors with high conviction that ROEs will increase, Fortis has the greatest earnings leverage to higher regulated returns in our coverage universe.

Q2/09 Results In Line With Expectations

Fortis' Q2/09 normalized EPS was in line with our estimate of $0.29, a modest decrease from $0.31 in Q2/08. The normalized earnings were generally flat, but modestly lower on a per share basis due to the dilutive impact of the share issuance in Q4/08. Terasen performed better-than-expected due to a lower effective corporate tax rate and lower financing costs, offset by lower-than-expected contributions from Fortis Generation due to weak power prices.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q2 2009	RBC CM Q2 2009E	Q2 2008	Comments
Newfoundland Power	$11.0	$10.4	$10.0	
FortisOntario & Maritime Electric	4.0	4.2	4.0	
Terasen	14.0	12.1	12.0	Lower income taxes and finance charges
FortisAlberta	14.0	13.4	11.5	Higher-than-expected capex investment
FortisBC	7.0	7.9	7.0	
Regulated Utilities - Canadian	50.0	48.0	44.5	
Regulated Utilities - Caribbean	7.0	6.4	8.0	
Non-regulated - Fortis Generation	3.0	5.0	7.0	Weaker-than-expected wholesale power prices
Non-regulated - Fortis Properties	8.0	6.9	7.0	Reduced operating expenses and strong real estate division
Corporate	(18.0)	(17.4)	(18.0)	
Normalized Earnings	**$50.0**	**$48.9**	**$48.5**	
Normalized EPS	**$0.29**	**$0.29**	**$0.31**	
Average shares outstanding (MM)	170.0	169.8	157.0	
Normalization adjustments:				
Charge for disallowed costs incurred			(13.0)	
Repayment of refund received in Q4/07			(2.0)	
AESO tax deferral benefit and tax recovery	3.0		(4.5)	
	3.0		(19.5)	
Reported Earnings	$53.0		$29.0	
Reported EPS	$0.31		$0.19	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter

- **Canadian Regulated Utilities: Performing Well.** The Canadian Regulated Utilities contributed $50 million to earnings compared to our estimate of $48 million and $45 million in Q2/08. The earnings growth is primarily due to rate base growth as Fortis continues to invest in the regulated businesses. Management indicated that Fortis' 2009 capital expenditures will exceed $1 billion and the total expenditures for the 2009 to 2013 period would total approximately $5 billion.

- **Caribbean Regulated Utilities: Generally In Line With Expectations.** The Q2/09 earnings from the regulated utilities in the Caribbean were $7 million compared to our estimate of $6 million and $8 million in Q2/08. Year-over-year, a stronger U.S. dollar offset some of the decline from lower tourism activity and the reduction in the allowed return for Belize Electricity.

- **Non-Regulated Generation: Below Expectations Due to Weak Power Prices.** The non-regulated generation segment contributed $3 million to earnings in Q2/09 compared to our estimate of $5 million and Q2/08 earnings of $7 million. The variance compared to our forecast was primarily due to weak power prices, particularly in New York.
- **Non-Regulated Properties: Slightly Ahead of Expectations.** Normalized earnings in Q2/09 from the properties division improved slightly to $8 million from $7 million in Q2/08, beating our estimate of $7 million. The results include the acquisition of the Sheraton Hotel Newfoundland (November 2008) and the Holiday Inn Select (April 2009) in Windsor, Ontario. REVPAR was down 5% during the quarter to $83.15 compared to $87.54 a year ago.

Potential for ROE Upside

As initially highlighted in our *Research Comment* dated March 20, 2009, we see the potential for significant upside in earnings as a result of possible changes in regulated ROEs following a key decision from the National Energy Board that increased returns for the TQM pipeline.

- **Processes Underway in Alberta and Ontario.** The Alberta Utilities Commission has already commenced a process to review its Generic ROE in addition to evaluating the potential to standardize capital structures. The Ontario Energy Board has initiated a consultative process to determine whether an adjustment to the cost of capital is necessary. The result of these processes could impact FortisAlberta and FortisOntario.
- **Terasen Seeks Higher ROE as Part of its Rate Filing.** Terasen filed a rate case in May which includes a request for an increase in the allowed ROE to 11% (from the current 8.47%) and an increase in the equity thickness to 40% (from 35%). If the B.C. Utilities Commission grants a higher ROE for Terasen, we expect FortisBC to also benefit.
- **Newfoundland Power Files Rate Case Seeking Higher ROE.** With respect to the potential upside in allowed ROE, we believe that there is limited upside based on the parameters of the NEB's decision for TQM due to the higher equity thickness already in place for Newfoundland Power.

As shown in Exhibit 3, we see up to $0.22/share of upside if the parameters from the NEB's cost of capital decision for TQM are applied to Fortis' operations.

Exhibit 2: Potential Upside From a Higher ROE Based on the NEB's Cost of Capital Decision for TQM

	Potential EPS Impact	Comments
FortisAlberta (Alberta Utilities Commission)	$0.05	
Terasen, FortisBC (B.C. Utilities Commission)	0.17	
FortisOntario (Ontario Energy Board)	0.00	Return parameters appear to be consistent with NEB decision
Newfoundland Power (Newfoundland PUB)	0.00	Return parameters appear to be consistent with NEB decision
Total	$0.22	

Source: Company reports; RBC Capital Markets estimates

Exhibit 3: Segment Earnings Forecast (In $MM except per share figures)

	2007	2008	Q1/09	Q2/09	Q3/09E	Q4/09E	2009E	2010E	*Old 2009E*	*Old 2010E*
Newfoundland Power	$30.2	$32.0	$6.0	$11.0	$8.3	$8.0	$33.4	$35.3	*$33.4*	*$35.3*
Other Cdn (ME + FTS Ont)	12.8	16.0	5.0	4.0	5.2	2.5	16.8	17.3	*16.8*	*17.3*
Terasen	42.9	112.5	58.0	14.0	(4.6)	47.6	115.0	116.0	*113.2*	*114.1*
FortisAlberta	46.8	46.0	12.0	14.0	14.6	13.1	53.7	61.2	*53.7*	*61.1*
FortisBC	31.3	34.0	14.0	7.0	9.0	8.2	38.2	45.5	*38.2*	*44.4*
Regulated Utilities - Caribbean	32.9	30.0	4.0	7.0	7.4	7.3	25.7	31.5	*25.7*	*31.5*
Fortis Generation	24.2	30.0	6.0	3.0	3.0	4.4	16.4	18.6	*18.4*	*19.6*
Fortis Properties	19.8	23.0	2.5	8.0	9.2	3.8	23.5	24.4	*22.8*	*23.7*
Corporate and other	(58.6)	(71.0)	(17.0)	(18.0)	(17.6)	(17.8)	(70.4)	(75.2)	*(69.9)*	*(72.3)*
Normalized earnings	**$182.4**	**$252.5**	**$90.5**	**$50.0**	**$34.5**	**$77.2**	**$252.3**	**$274.6**	***$252.2***	***$274.8***
Wtd. Avg. shares outstanding (MM)	137.6	157.4	169.4	170.0	170.4	170.7	170.0	171.3	*170.0*	*171.3*
Normalized EPS (Basic)	**$1.33**	**$1.60**	**$0.53**	**$0.29**	**$0.20**	**$0.45**	**$1.48**	**$1.60**	***$1.48***	***$1.60***
Dividends Paid	$0.82	$1.00					$1.04	$1.12	*$1.04*	*$1.12*
Payout Ratio	62%	62%					70%	70%	*70%*	*70%*

Source: Company reports; RBC Capital Markets estimates

Exhibit 4: Upcoming Events/Catalysts

Expected Date	Event
Sept. 2009	OEB holding stakeholder conference to review cost of capital policy for future years
Nov. 5, 2009	Expected Q3 earnings release date
Late 2009	AUC decision with respect to the 2009 Generic Cost of Capital Proceeding
Late 2009 / Early 2010	PUB (Newfoundland) decision on the allowed ROE (with respect to Newfoundland Power)
Late 2009 / Early 2010	BCUC decision on generic allowed ROE adjustment mechanism with respect to Terasen

Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $27.00 implies a forward P/E of 15.5x 2010E EPS plus roughly half of the estimated upside from higher regulated ROEs (about $2/share). We have used 50% of the potential upside to account for uncertainty as to whether provincial regulators will follow the National Energy Board's lead and increase allowed returns and if they do, how much the increased ROEs will be. The forward P/E multiple is in line with the multiple that we use for peers.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 57% interest in Caribbean Utilities.

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Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

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RBC Capital Markets, Equity Research

Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Percent
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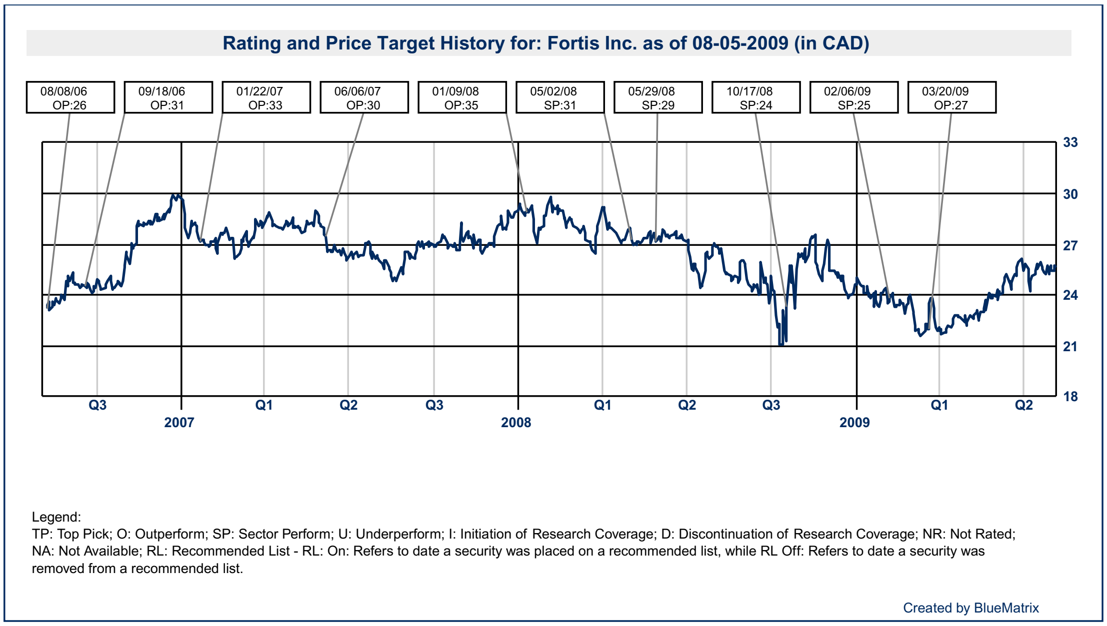
HOLD[SP]	528	46.80	87	16.48
SELL[U]	79	7.00	5	6.33



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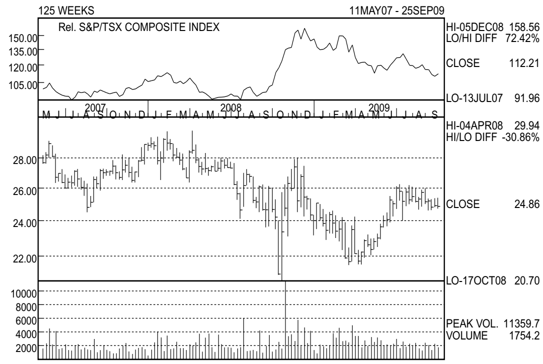

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FY Dec	2008A	2009E	2010E	2011E
EPS (Op) - Basic	1.60	1.48	1.60	1.70
P/E	15.6x	16.9x	15.6x	14.7x
EPS (Op) - FD	1.58	1.45	1.58	1.68
P/E	15.8x	17.2x	15.8x	14.9x
Annual Div. - Basic	1.00	1.04	1.12	1.20
Payout Ratio - Basic	62%	70%	70%	71%
Payout Ratio - FD	63%	72%	71%	71%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2008	0.58A	0.31A	0.24A	0.48A
2009	0.53A	0.29A	0.20E	0.45E
Prev.				0.46E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

SEPTEMBER 28, 2009

Fortis Inc. (TSX: FTS)

Investor Meetings Highlight the Focus on Long-Term Utility Growth

Sector Perform
Average Risk

Price:	24.98	**Price Target:**	27.00
		Implied All-In Return:	12%
Shares O/S (MM):	170.0	**Market Cap (MM):**	4,247
Dividend:	1.04	**Yield:**	4.2%
Float (MM):	170.0		
Debt to Cap:	59%		

Event

We recently hosted investor meetings with the management of Fortis (Barry Perry, CFO).

Investment Opinion

- **Rate Base Expected to Grow at 7% CAGR Through 2013.** Based on current capex projects, Fortis expects its average annual rate base to grow from roughly $7.1 billion in 2009 to $9.4 billion in 2013, representing roughly 7% compound annual growth. We view investment in Canadian regulated utility assets as a low-risk way to grow EPS.
- **A Utility Acquisition in the U.S. Is Likely, but Doesn't Appear Imminent.** Management continues to look to acquire U.S. utility assets with a size of $1 billion to $5 billion (enterprise value), although we are under the impression that there is nothing imminent. Fortis is open to both electric and/or gas utilities, and would be open to an integrated utility (i.e., with power generation) as long as the power plants are included in utility rate base. Management stressed that it will be disciplined and that any acquisition needs to be EPS accretive within the first year.
- **Potential Kicker from Higher Allowed ROEs.** Fortis expects cost of capital processes in Alberta, B.C. and Newfoundland to wrap up by year-end. Management stated that a 100 basis point increase in allowed ROE would improve earnings by roughly $25 million (about $0.15/share). We note that similar return parameters from the National Energy Board's decision in March 2009 for TQM would result in an estimated $39 million increase in earnings (about $0.23/share) for Fortis.
- **Common Equity Unlikely Over the Next Few Years to Fund Utility Capex.** Based on its capex forecast for the existing business, Fortis might look to the preferred share market in late 2010 or in 2011, but management does not expect to issue common equity in the foreseeable future absent of an acquisition.
- **Rolling Out 2011 Estimates.** Our new 2011 EPS estimate is $1.70. The forecast growth from 2010 is primarily due to continued investment in the Canadian regulated utility businesses (mostly FortisAlberta and FortisBC).
- **Valuation.** Our target price of $27.00 (unchanged) implies a forward P/E of 15x 2011E EPS plus roughly half of the estimated upside from higher regulated ROEs (about $2/share).

Priced as of prior trading day's market close, EST (unless otherwise noted).

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Rate Base Expected to Grow at a 7% CAGR Through 2013

Management expects to grow its utility rate base at a 7% compound annual growth rate over the next five years, primarily through investment in its Canadian regulated utilities (please see Exhibit 1). The company noted five major capital projects that it expects to drive EPS growth:

(1) **Terasen Gas: $122 Million for a New Customer Care Information System.** This expenditure has not yet been approved by the B.C. Utilities Commission (BCUC). However, Fortis is optimistic that it will be approved by the BCUC as it involves bringing back in-house the customer care function for the utility, which would result in the repatriation of 300 jobs back to the province that are currently outsourced with workers in New Brunswick. Management noted that the overall cost is expected to be roughly neutral to ratepayers with a modest benefit in a few years (lower operating costs mostly offset by higher capital costs).

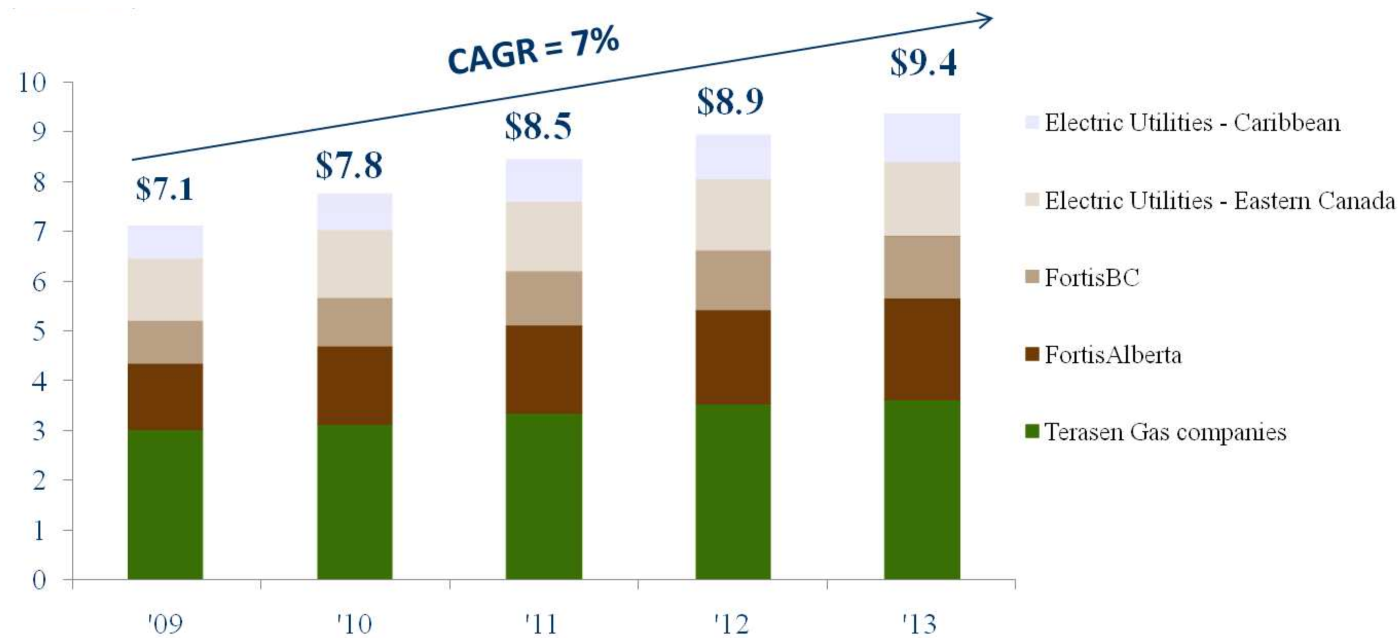
(2) **Terasen Gas Vancouver Island (TGVI): $200 Million for a Liquefied Natural Gas Storage Facility.** This project was previously approved by the BCUC and construction is about 50% completed. The facility will store natural gas during off-peak periods and provide supply during higher demand periods to serve Vancouver Island customers.

(3) **FortisAlberta: $168 Million for Automated Meters.** This project has been approved by the Alberta Utilities Commission (AUC) and involves plans to roll out automated meters to the company's roughly 450,000 customers. The new meters eliminate the need to manually read each meter to determine customer usage.

(4) **FortisBC: $110 Million for Transmission Reinforcement.** In October 2008, the BCUC approved the Okanagan Transmission Reinforcement Project, which will enhance reliability in FortisBC's service territory. Since the time of approval, the company has been able to procure materials at a lower cost, resulting in the project's expected cost declining to roughly $110 million (from about $140 million).

(5) **BECOL: US$53 Million Vaca Hydro Project.** The commissioning of the unregulated 19 MW Vaca hydro project in Belize is expected to occur in early 2010.

Exhibit 1: Estimated Rate Base Growth (In $ billions)

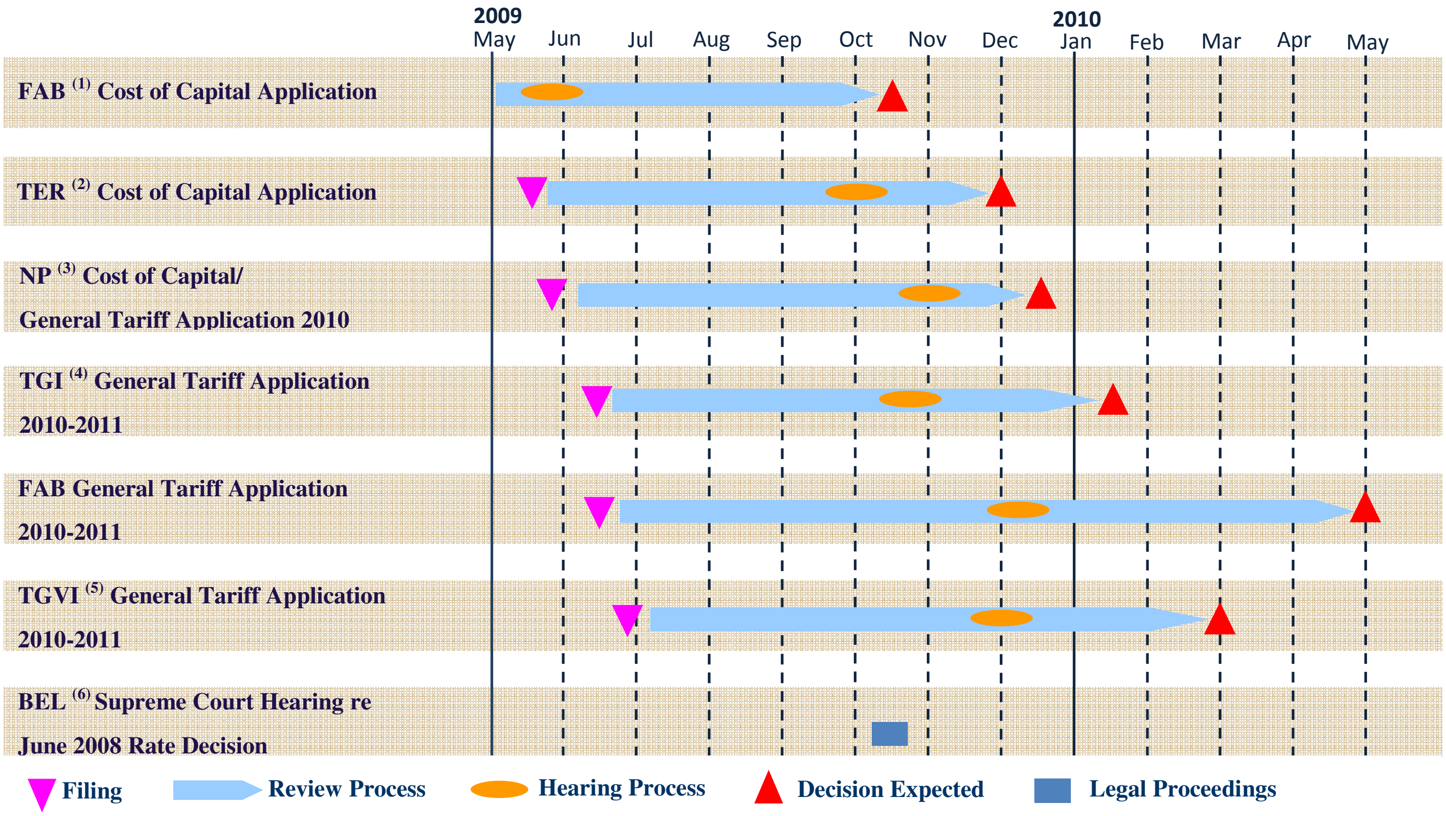


Source: Company reports

Busy Regulatory Calendar: Allowed ROE Proceedings a Front Burner Topic

The company's utility subsidiaries have a busy regulatory calendar through the end of 2009 with cost of capital proceedings/applications in Alberta, B.C. and Newfoundland, rate applications in Alberta and B.C. and a court hearing for Belize Electricity Limited. Exhibit 2 shows the company's expectations for the timing with regards to each of the regulatory processes.

Exhibit 2: Regulatory Calendar



(1) FortisAlberta (2) Terasen Gas companies (3) Newfoundland Power (4) Terasen Gas Inc. (5) Terasen Gas (Vancouver Island) (6) Belize

Source: Company reports

Potential for Higher Allowed ROEs

The first three items in the regulatory calendar set out in Exhibit 2 relate to cost of capital processes/applications that could impact Fortis' largest utility assets. Following the National Energy Board's (NEB) cost of capital decision in March 2009 for the TQM pipeline, other provinces in Canada have either commenced broad processes to examine allowed ROEs, or received applications from utilities in the province to examine the issue (for further details on the NEB's decision, please see our *Energy Infrastructure Research Comment* dated March 19, 2009).

Of the companies in our coverage universe, Fortis has the greatest exposure to formula-based allowed ROEs in Canada. Management noted that a 100 basis point increase in allowed ROEs would improve earnings by roughly $25 million (about $0.15/share). As set out in Exhibit 3, we estimate that the positive EPS impact of higher allowed ROEs using the return parameters from the NEB's decision for the TQM pipeline is about $0.23/share. Since the NEB decision used an after-tax weighted average cost of capital methodology with different implied ROEs based on capital structure, the assumed increase in allowed ROE for each of the utilities is not a consistent number.

In our valuation for Fortis, we estimate that higher allowed ROEs could add roughly $4/share of incremental value. However, due to the more political nature of the provincial processes and a view that the NEB is a more progressive regulator, we continue to remain comfortable including 50% of the estimated upside in our $27 price target.

Exhibit 3: Estimated Impact of Higher Allowed ROEs Based on the NEB's Decision in March 2009

	2009 ROE	Potential ROE	Estimated Rate Base	Equity Component	Estimated Earnings Impact
Newfoundland Power	8.95%	9.10%	$849	45%	$1
Maritime Electric	9.75%	9.75%	291	40%	0
Terasen Gas	8.47%	10.50%	2,503	35%	18
Terasen Gas Vancouver Island (TGVI)	9.17%	11.20%	506	40%	4
FortisOntario	8.01%	9.31%	100	43%	1
FortisAlberta	8.51%	10.20%	1,349	37%	8
FortisBC	8.87%	10.90%	921	40%	7
				Total	$39
				Shares O/S (MM)	170
				EPS Impact	$0.23

Source: Company reports; various regulatory reports; RBC Capital Markets estimates

Rolling Out 2011 Financial Forecast

Growth Expected to Be Primarily Driven by Investment in Canadian Regulated Utilities

Exhibit 4 sets out our segment financial forecast, which includes our new 2011 estimates. We expect continued growth in earnings to be primarily driven by investment in the Canadian regulated utility businesses, with most of the growth from the western Canadian electric utilities (FortisAlberta and FortisBC).

Our financial forecast does not assume any increase in allowed ROEs as part of the ongoing regulatory processes (the potential EPS impact is shown in Exhibit 3). However, we have included the potential uplift in value from higher allowed ROEs in our price target. We continue to see up to $4/share of incremental value should the ongoing regulatory processes result in allowed ROEs that are consistent with the TQM decision. However, due to uncertainty regarding the outcome of those processes and the amount of uplift if regulators decide to increase returns, we have included only 50% of the potential upside (i.e., $2/share) in our valuation.

Exhibit 4: Financial Forecast

	2007	2008	Q1/09	Q2/09	Q3/09E	Q4/09E	2009E	2010E	2011E
Newfoundland Power	$30.2	$32.0	$6.0	$11.0	$8.3	$8.0	$33.4	$35.3	$36.3
Other Cdn (ME + FTS Ont)	12.8	16.0	5.0	4.0	5.2	2.5	16.8	17.3	18.0
Terasen	42.9	112.5	58.0	14.0	(4.6)	47.6	115.0	117.4	121.1
FortisAlberta	46.8	46.0	12.0	14.0	14.6	13.1	53.7	61.2	69.6
FortisBC	31.3	34.0	14.0	7.0	9.0	8.2	38.2	45.5	51.3
Regulated Utilities - Caribbean	32.9	30.0	4.0	7.0	7.4	6.7	25.1	27.5	27.9
Fortis Generation	24.2	30.0	6.0	3.0	2.9	4.2	16.1	17.7	19.9
Fortis Properties	19.8	23.0	2.5	8.0	9.2	3.8	23.5	24.4	25.4
Corporate and other	(58.6)	(71.0)	(17.0)	(18.0)	(17.6)	(17.8)	(70.5)	(72.8)	(75.4)
Normalized earnings	**$182.4**	**$252.5**	**$90.5**	**$50.0**	**$34.4**	**$76.4**	**$251.3**	**$273.3**	**$294.1**
Shares O/S (MM)	137.6	157.4	169.4	170.0	170.4	170.7	170.0	171.3	172.5
Normalized EPS (Basic)	**$1.33**	**$1.60**	**$0.53**	**$0.29**	**$0.20**	**$0.45**	**$1.48**	**$1.60**	**$1.70**
Dividends Paid	$0.82	$1.00					$1.04	$1.12	$1.20
Payout Ratio	62%	62%					70%	70%	70%

Source: Company reports; RBC Capital Markets estimates

Exhibit 5: Upcoming Events/Potential Catalysts

Expected Date	Event
Nov. 5, 2009	Expected Q3 earnings release date
Q4/09	AUC decision with respect to the 2009 Generic Cost of Capital Proceeding
Late 2009 / Early 2010	PUB (Newfoundland) decision on the allowed ROE (with respect to Newfoundland Power)
Late 2009 / Early 2010	BCUC decision on generic allowed ROE adjustment mechanism with respect to Terasen

Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $27.00 implies a forward P/E of 15x 2011E EPS plus roughly half of the estimated upside from higher regulated ROEs (about $2/share). We have used 50% of the potential upside to account for uncertainty as to whether provincial regulators will follow the National Energy Board's lead and increase allowed returns and if they do, how much the increased ROEs will be. The forward P/E multiple is in line with the multiple that we use for peers.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
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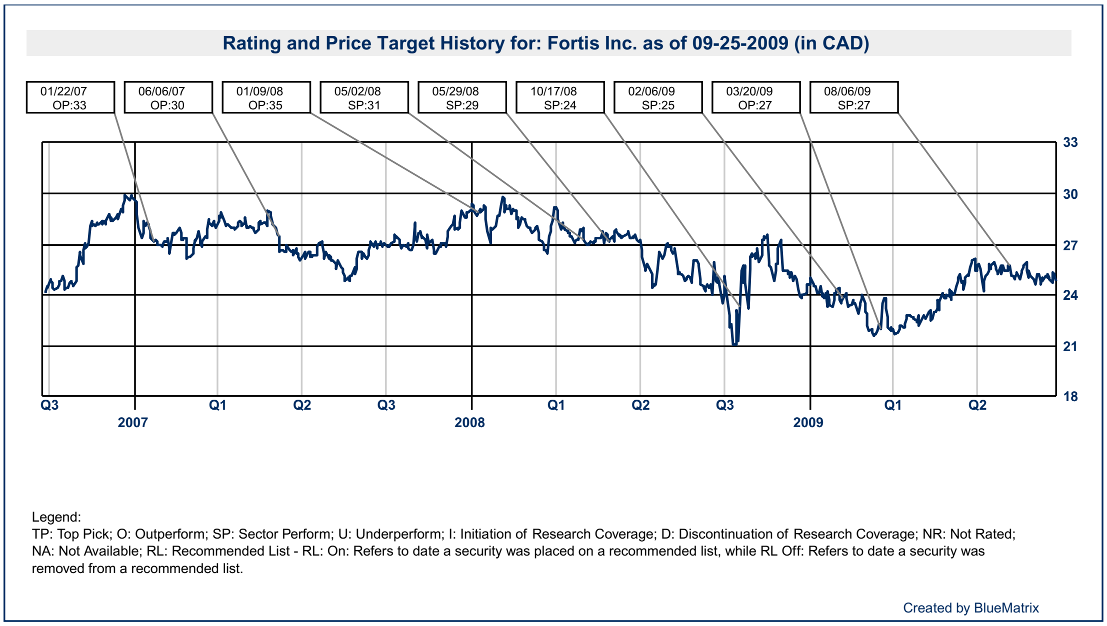
HOLD[SP]	519	45.60	104	20.04
SELL[U]	78	6.90	5	6.41



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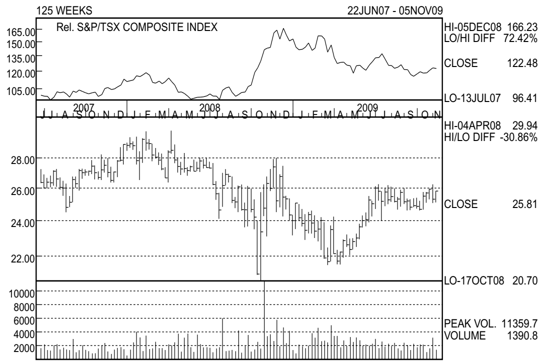
NOVEMBER 6, 2009

Fortis Inc. (TSX: FTS)

Q3/09 Results In Line; Rolling Target Forward to $28.00



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FY Dec	2008A	2009E	2010E	2011E
EPS (Op) - Basic	1.60	1.48	1.60	1.70
P/E	16.1x	17.4x	16.1x	15.2x
EPS (Op) - FD	1.58	1.45	1.58	1.68
P/E	16.3x	17.8x	16.3x	15.4x
Annual Div. - Basic	1.00	1.04	1.12	1.20
Payout Ratio - Basic	62%	70%	70%	71%
Payout Ratio - FD	63%	72%	71%	71%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2008	0.58A	0.31A	0.24A	0.48A
2009	0.53A	0.29A	0.21A	0.44E
Prev.			0.20E	0.45E

Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Sector Perform
Average Risk

Price:	25.81	**Price Target:**	28.00 ↑ 27.00
		Implied All-In Return:	13%
Shares O/S (MM):	170.7	**Market Cap (MM):**	4,406
Dividend:	1.04	**Yield:**	4.0%
Float (MM):	170.7		
Debt to Cap:	60%		

Event

Fortis reported Q3/09 results; rolling forward price target to $28.00 (from $27.00).

Investment Opinion

- **Q3/09 Results In Line With Expectations.** Fortis' Q3/09 normalized EPS was $0.21 compared to our estimate of $0.20 and $0.24 in Q3/08. All of the segments reported earnings that were generally in line with expectations.
- **2009 Capex Up Modestly Due to Spending at FortisAlberta.** Capital expenditures for 2009 are expected to exceed $1 billion, which is approximately $50 million higher than the guidance in Q2/09. The higher spending is primarily at FortisAlberta as a result of higher customer-driven growth.
- **Gearing Up for the AUC's Cost of Capital Decision.** The decision from the Alberta Utilities Commission (AUC) on utility cost of capital is expected in the next couple of weeks. We believe that there is a good case to be made for higher regulated ROEs in Canada. We estimate that a 100 basis point increase in allowed ROE for all of Fortis' utilities would increase EPS by roughly $0.15/share. Due to a prior decision from the AUC, the current ROE used for placeholder rates for FortisAlberta is 8.51% pending the outcome of the cost of capital proceeding (note: this is lower than the 8.75% placeholder ROE being used by most other utilities in Alberta).
- **We Believe the Market Has Already Priced in Roughly 100 Basis Points of ROE Upside.** We believe that the market has priced in a roughly 100 basis point increase in allowed ROEs, which would translate into about $2/share at a 15x P/E multiple. This is a similar value to what we have included in our price target.
- **Valuation: Rolling Forward Target to $28.00 (from $27.00).** Our target price of $28.00 implies a forward P/E of 15x 2011E EPS plus an assumed 100 basis point increase in allowed ROEs (about $2/share). The forward P/E multiple is in line with the multiple that we use for peers.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

Q3/09 Results In Line With Expectations

Fortis' Q3/09 normalized EPS was $0.21 compared to our estimate of $0.20 and a modest decrease from $0.24 in Q3/08. The normalized earnings were generally flat year-over-year, but modestly lower on a per share basis due to the dilutive impact of the share issuance in Q4/08. All of the segments were broadly in line with our forecast.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q3/09	RBC CM Q3/09E	Q3/08	Comments
Newfoundland Power	$7.0	$8.3	$8.0	Higher operating expenses and amortization costs
FortisOntario & Maritime Electric	5.0	5.2	5.0	
Terasen	(3.0)	(4.6)	(4.5)	
FortisAlberta	16.0	14.6	12.5	Yr/Yr increase mostly due to rate base growth
FortisBC	8.0	9.0	8.0	
Regulated Utilities - Canadian	33.0	32.6	29.0	
Regulated Utilities - Caribbean	7.0	7.4	7.0	
Non-regulated - Fortis Generation	4.0	2.9	9.0	Yr/Yr decline mainly due to expiration of agreement at Rankine in Q2/09
Non-regulated - Fortis Properties	9.0	9.2	9.0	
Corporate	(18.0)	(17.6)	(17.0)	
Normalized Earnings	**$35.0**	**$34.4**	**$37.0**	
Normalized EPS	**$0.21**	**$0.20**	**$0.24**	
Average shares outstanding (MM)	170.4	170.4	157.0	Yr/Yr increase due to shares issued in Q4/08
Normalization adjustments:				
Corporate tax adjustment	1.0			
Future income tax recovery			4.5	
Terasen tax adjustment			7.5	
	1.0		12.0	
Reported Earnings	$36.0		$49.0	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter

- **Canadian Regulated Utilities Performing Well.** The Canadian Regulated Utilities contributed $33 million to earnings compared to our estimate of $32.6 million and $29 million in Q3/08. The earnings growth over Q3/08 was mainly due to rate base growth at FortisAlberta.
- **Caribbean Regulated Utilities: Generally In Line With Expectations.** The Q3/09 earnings from the regulated utilities in the Caribbean were $7 million compared to our estimate of $7.4 million and $7 million in Q3/08. Year-over-year, the impact of modestly higher electricity sales, a 2.4% rate increase at Caribbean Utilities and favourable energy supply pricing was offset by both higher amortization and higher operating costs.
- **Non-Regulated Generation: Year-over-Year Decline Due to Expiration of Rankine Agreement and Lower Power Prices.** The non-regulated generation segment contributed $4 million to earnings in Q3/09 compared to our estimate of $2.9 million and Q3/08 earnings of $9 million.
- **Non-Regulated Properties: In Line With Expectations.** Normalized earnings of $9 million in Q3/09 from the properties division were generally in line with our estimate of $9.2 million and $9 million in Q3/08. Increased contribution from the Real Estate division as well as incremental contribution from the Sheraton Hotel Newfoundland and the Holiday Inn Select in Windsor, which were acquired in mid-Q3/08 and Q2/09, respectively, was offset by generally lower occupancy rates and lower REVPAR.

Alberta Utilities Commission Expected to Release its Decision on Cost of Capital in the Near Future

The Alberta Utilities Commission (AUC) is expected to release its decision on regulated utility cost of capital in the next couple of weeks.

- **Processes Underway in Ontario.** The Ontario Energy Board has received final comments as part of its process to determine whether an adjustment to the cost of capital is necessary. The result of this process could impact FortisOntario.
- **Terasen Seeks Higher ROE as Part of its Rate Filing.** Terasen filed a rate case in May which includes a request for an increase in the allowed ROE to 11% (from the current 8.47%) and an increase in the equity thickness to 40% (from 35%). If the B.C. Utilities Commission grants a higher ROE for Terasen, we expect the decision to also impact FortisBC. We expect a decision in early 2010.
- **Newfoundland Power Rate Case Seeking Higher ROE.** Newfoundland Power filed a rate case in September, which sought an increase in allowed ROE to 11% (from 9.75%) on the current 45% equity thickness. A public hearing occurred in October and a decision is expected to be received by early 2010.

As shown in Exhibit 2, we estimate that a 100 basis point increase in allowed ROE for all of Fortis' regulated utilities subject to ROE formulas could result in an approximate $0.15/share increase in annual earnings. As shown in the exhibit, most of Fortis' exposure to allowed ROEs is from potential changes to the formula used by the B.C. Utilities Commission for Terasen and FortisBC. However, we believe that the AUC's decision could provide insight into a potential move from the BCUC.

Exhibit 2: Potential Upside From a 100 Basis Point Increase in Allowed ROE

	Regulator	Est. 2010 Ratebase Impacted by Change	Deemed Equity	Deemed Equity	Chng. In ROE (bps)	Earnings Impact	EPS Impact
Newfoundland Power	PUB	$869	45.0%	$391	100	$4	$0.023
Terasen Gas (TGI)	BCUC	2,536	35.0%	888	100	9	0.052
Terasen Gas Vancouver Island (TGVI)	BCUC	555	40.0%	222	100	2	0.013
FortisOntario	OEB	175	43.3%	76	100	1	0.004
FortisAlberta	AUC	1,538	37.0%	569	100	6	0.033
FortisBC	BCUC	976	40.0%	390	100	4	0.023
Total		$6,649		$2,536		$25	$0.148

Source: Company reports; RBC Capital Markets estimates

Exhibit 3: Segment Earnings Forecast (In $MM except per share figures)

	2007	2008	Q1/09	Q2/09	Q3/09	Q4/09E	2009E	2010E	2011E
Newfoundland Power	$30.2	$32.0	$6.0	$11.0	$7.0	$8.3	$32.3	$34.2	$35.3
Other Cdn (ME + FTS Ont)	12.8	16.0	5.0	4.0	5.0	3.6	17.6	18.6	19.1
Terasen	42.9	112.5	58.0	14.0	(3.0)	44.6	113.6	116.9	123.4
FortisAlberta	46.8	46.0	12.0	14.0	16.0	12.2	54.2	59.1	66.0
FortisBC	31.3	34.0	14.0	7.0	8.0	9.2	38.2	45.5	51.3
Regulated Utilities - Caribbean	32.9	30.0	4.0	7.0	7.0	7.1	25.1	27.5	27.9
Fortis Generation	24.2	30.0	6.0	3.0	4.0	4.2	17.2	17.7	19.9
Fortis Properties	19.8	23.0	2.5	8.0	9.0	4.0	23.5	24.2	25.1
Corporate and other	(58.6)	(71.0)	(17.0)	(18.0)	(18.0)	(17.9)	(70.9)	(69.8)	(73.8)
Normalized earnings	**$182.4**	**$252.5**	**$90.5**	**$50.0**	**$35.0**	**$75.3**	**$250.8**	**$273.9**	**$294.1**
Shares O/S (MM)	137.6	157.4	169.4	170.0	170.4	170.7	170.0	171.3	172.5
Normalized EPS (Basic)	**$1.33**	**$1.60**	**$0.53**	**$0.29**	**$0.21**	**$0.44**	**$1.48**	**$1.60**	**$1.70**
Dividends Paid	$0.82	$1.00					$1.04	$1.12	$1.20
Payout Ratio	62%	62%					70%	70%	70%

Source: Company reports; RBC Capital Markets estimates

Exhibit 4: Upcoming Potential Events/Catalysts

Expected Date	Event
Mid-November 2009	AUC decision with respect to the 2009 Generic Cost of Capital Proceeding
Late 2009 / Early 2010	PUB (Newfoundland) decision on the allowed ROE (with respect to Newfoundland Power)
Late 2009 / Early 2010	BCUC decision on generic allowed ROE adjustment mechanism with respect to Terasen
Dec. 2010	Expected increase in the dividend to $1.12 (from $1.04)
Feb. 4, 2010	Expected Q4 earnings release date

Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $28.00 implies a forward P/E of 15x 2011E EPS plus an assumed 100 basis point increase in allowed ROEs (about $2/share). The forward P/E multiple is in line with the multiple that we use for peers.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

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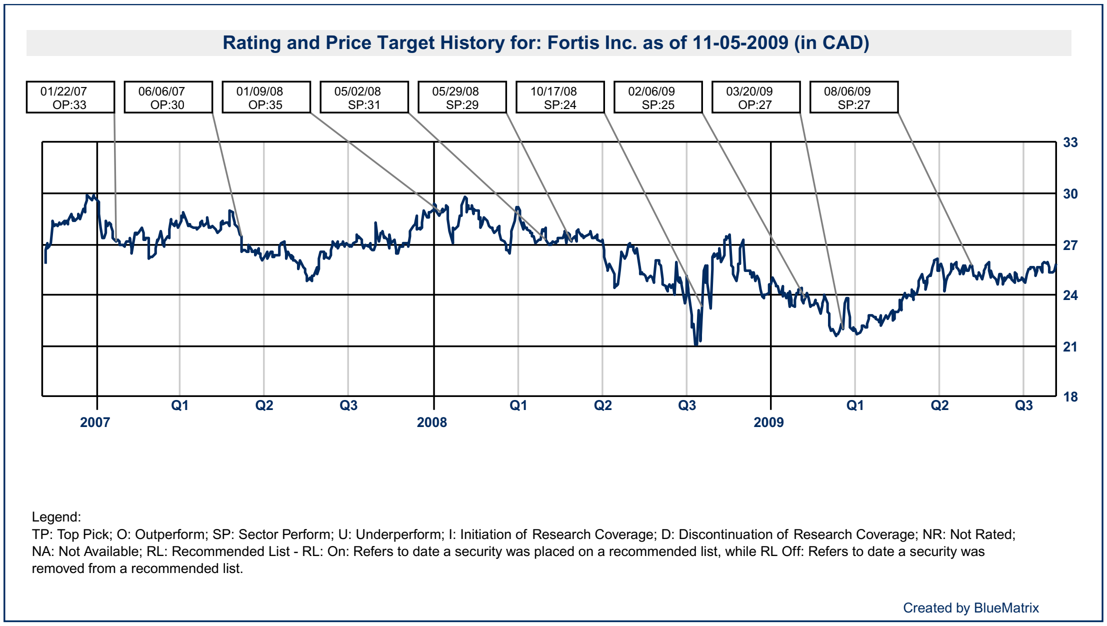
HOLD[SP]	525	44.50	108	20.57
SELL[U]	77	6.50	6	7.79



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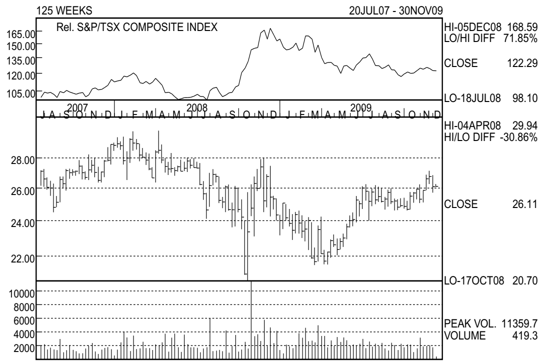
FIRST GLANCE | COMMENT

DECEMBER 1, 2009



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All values in CAD unless otherwise noted.

Fortis Inc. (TSX: FTS; 26.11)

No PBR for Terasen Could Offset Upside from Higher ROE

Sector Perform
Average Risk

Impact

Negative

First Impression

- **Lack of PBR Puts Pressure on Earnings.** We estimate that Terasen Gas and Terasen Gas Vancouver Island (collectively, "Terasen") have earned about $10 million per year over and above what would have been earned on a pure cost-of-service basis. With no Performance Based Rate-Setting (PBR) as part of the negotiated settlement, we estimate a negative impact of roughly $10 million of earnings (about $0.06/share) compared to our estimates.
- **Could Wipe Out Upside from Upcoming Cost of Capital Decision.** Terasen is still waiting for a decision from the B.C. Utilities Commission (BCUC) on its allowed ROE and capital structure. The decision is expected either later this month or in early 2010. Assuming a similar decision as the Alberta Utilities Commission's (AUC) a couple of weeks ago, we previously estimated that Terasen's earnings could increase by about $0.06/share.
- **Leaving Estimates Unchanged.** Previously, we estimated the positive earnings impact from the AUC's cost of capital decision at roughly $0.05/share (please see our sector *Research Comment* dated November 16, 2009), although we did not increase our EPS estimates at the time. As such, the lower forecast earnings from there being no PBR for Terasen is roughly offset by the impact of the positive decision from the AUC.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 3.

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Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Investment Banking Serv./Past 12 Mos. Percent
BUY[TP/O]	585	49.70	169	28.89
HOLD[SP]	518	44.00	117	22.59
SELL[U]	74	6.30	5	6.76

Rating and Price Target History for: Fortis Inc. as of 11-30-2009 (in CAD)

Legend:
TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

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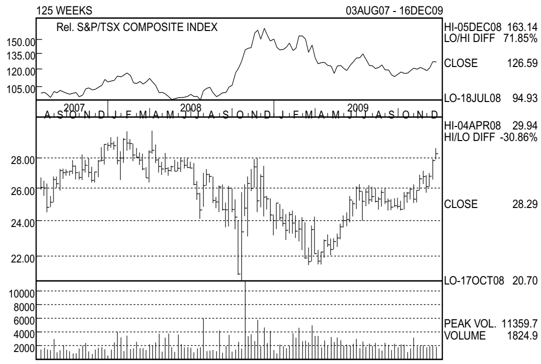
DECEMBER 17, 2009

Fortis Inc. (TSX: FTS)

BCUC ROE Decision Better Than Expected; Increasing Target To $29.00



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EPS (Op) - Basic	1.60	1.52	1.76	1.86
Prev.		1.48	1.60	1.70
P/E	17.7x	18.6x	16.1x	15.2x
EPS (Op) - FD	1.58	1.49	1.74	1.84
Prev.		1.45	1.58	1.68
P/E	17.9x	19.0x	16.3x	15.4x
Annual Div. - Basic	1.00	1.04	1.12	1.20
Payout Ratio - Basic	62%	68%	64%	65%
Payout Ratio - FD	63%	70%	64%	65%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2008	0.58A	0.31A	0.24A	0.48A
2009	0.53A	0.29A	0.23A	0.46E
Prev.			0.21A	0.44E

Amounts are normalized and may not be consistent with GAAP. Q3/09 EPS have been adjusted to reflect the BCUC ROE decision, which is effective July 1 2009.

All values in CAD unless otherwise noted.

Sector Perform
Average Risk

Price:	28.29	**Price Target:**	29.00 ↑ 28.00
		Implied All-In Return:	6%
Shares O/S (MM):	170.7	**Market Cap (MM):**	4,829
Dividend:	1.04	**Yield:**	3.7%
Float (MM):	170.7		
Debt to Cap:	60%		

Event

The British Columbia Utilities Commission (BCUC) issued its cost of capital decision for Terasen.

Investment Opinion

- **ROE Generally In Line With Expectations, But Equity Thickness Is Higher-Than-Expected.** The BCUC determined that an ROE of 9.50% (up from 8.47%) is fair for Terasen Gas Inc. (TGI), while Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGW) would earn a 50 basis point premium (TGVI previously earned a 70 basis point premium; no change for TGW). The BCUC determined that a 40% equity thickness (up from 35%) is appropriate for TGI, while evidence as to what is an appropriate equity component for TVGI and TGW must be filed with Terasen's next revenue requirement application.
- **TGI's ROE Continues To Serve As The Benchmark ROE.** The BCUC indicated that TGI's ROE (9.50%) should continue to serve as the Benchmark ROE for FortisBC and any other utility in B.C. that uses the Benchmark ROE to set rates.
- **Automatic Adjustment Mechanism Eliminated; Terasen To Present Potential Alternatives By End Of 2010.** It was determined that the automatic adjustment mechanism (AAM) in its current form does not provide an ROE for 2010 that meets the fair return standard. As a result, the AAM will be eliminated and TGI is directed to complete its study of alternative formulae and report to the BCUC by December 31, 2010.
- **Increasing Estimates To Reflect BCUC Decision.** We are increasing our 2010 and 2011 EPS estimates to $1.76 and $1.86, respectively (from $1.60 and $1.70, respectively), to reflect the BCUC decision. For 2009, the ROE component of the decision is effective July 1, 2009. As such, we have increased our 2009 EPS estimate to $1.52 (from $1.48).
- **Valuation: Increasing Price Target To $29.00 (From $28.00).** Due to the better-than-expected cost of capital decision, we have increased our target price to $29.00. Our target is based on a forward P/E of 15.5x 2011E EPS, which is roughly in line with the multiple that we use for peers.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.

Impact of the Decision

Exhibit 1 below sets out the total EPS impact on Fortis' shares from the BCUC decision. We estimate the total impact to be roughly $0.16/share for 2010 and 2011. Note that the equity thicknesses for TGVI and FortisBC are left unchanged at 40% pending a submission by Terasen (with their next revenue requirement application to the BCUC) to propose an appropriate level of equity thickness.

The decision can be found at: http://www.bcuc.com/Documents/Decisions/2009/DOC_23952_TUS_ROE-Decision-Web.pdf

Exhibit 1: Impact of Decision on Fortis

	Est. Rate Base	ROE		Equity Thickness		Total Impact per Share	% of 2010E EPS
		Old	New	Old	New		
Terasen Gas	$2,536	8.47%	9.50%	35%	40%	$0.12	
Terasen Gas Vancouver Island	555	9.17%	10.00%	40%	40%	0.01	
FortisBC	976	8.87%	9.90%	40%	40%	0.02	
Total Direct Impact						**$0.16**	**10%**

Source: BCUC and Company reports; RBC Capital Markets estimates

Valuation

Our target price of $29.00 is based on a forward P/E of 15.5x 2011E EPS. The forward P/E multiple is roughly in line with the multiple that we use for peers.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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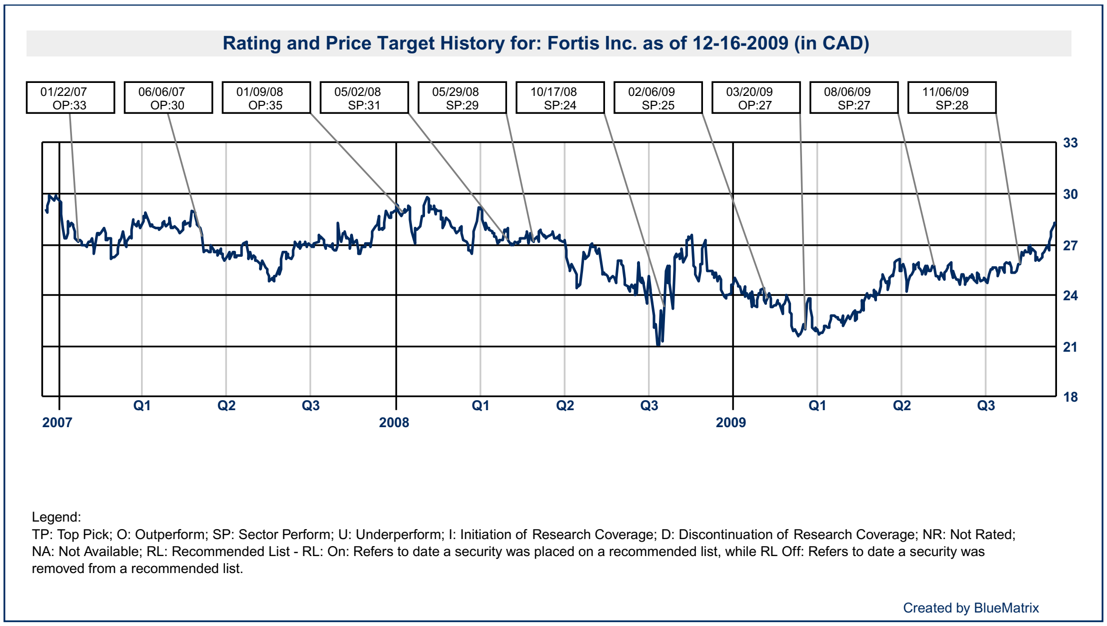
SELL[U]	75	6.40	4	5.33



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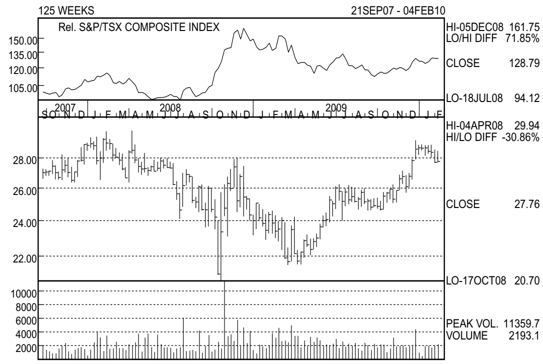

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FY Dec	2008A	2009A	2010E	2011E
EPS (Op) - Basic	1.60	1.51	1.67	1.81
Prev.		1.52	1.76	1.86
P/E	17.3x	18.4x	16.6x	15.3x
EPS (Op) - FD	1.58	1.48	1.65	1.78
Prev.		1.49	1.74	1.84
P/E	17.6x	18.8x	16.8x	15.6x
Annual Div. - Basic	1.00	1.04	1.12	1.20
Payout Ratio - Basic	62%	69%	67%	66%
Payout Ratio - FD	63%	70%	68%	67%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2008	0.58A	0.31A	0.24A	0.48A
2009	0.54A	0.30A	0.22A	0.46A
Prev.	0.53A	0.29A	0.23A	
2010	0.57E	0.34E	0.25E	0.51E

Amounts are normalized and may not be consistent with GAAP. Q3/09 EPS have been adjusted to reflect the BCUC ROE decision, which is effective July 1 2009.

All values in CAD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

FEBRUARY 5, 2010

Fortis Inc. (TSX: FTS)

Updated Forecast Results in More Modest Growth; Target Trimmed to $30.00

Sector Perform
Average Risk

Price:	27.76	**Price Target:**	30.00 ↓ 31.00
		Implied All-In Return:	12%
Shares O/S (MM):	171.0	**Market Cap (MM):**	4,747
Dividend:	1.04	**Yield:**	3.7%
Float (MM):	171.0		
Debt to Cap:	60%		

Event

Fortis reported Q4 results; price target trimmed to $30.00 (from $31.00).

Investment Opinion

- **Q4/09 Results In Line With Forecast.** Q4/09 normalized EPS was $0.46 compared to our estimate of $0.46 and $0.48 in Q4/08. Slightly better-than-expected results at Terasen were offset by higher Corporate costs.
- **Recent Preferred Share Issue Cleans Up 2010 "Equity" Requirements.** Although the issuance occurred earlier than expected, Fortis took advantage of attractive rates and recently issued $250 million of 4.25% preferred shares, which should satisfy the company's "equity" requirements for 2010.
- **Previous Forecast A Little Too Optimistic.** Following a review of our financial forecast, we have reduced our 2010 and 2011 EPS estimates to primarily reflect an earlier than expected preferred share issuance, and lower contributions from FortisAlberta (lower assumed achieved ROE) and FortisBC (lower forecast rate base). Our new 2010 and 2011 EPS estimates are $1.67 and $1.81, respectively (down from $1.76 and $1.86, respectively). Please see Exhibit 3 for additional details.
- **Capex Plan To Drive Earnings Growth.** Management continues to expect $5 billion of capex over the next five years, with $1.1 billion slated to be spent in 2010. The majority of spending is forecast for the Canadian regulated utilities, which should continue to drive low-risk earnings growth.
- **On The Lookout For A Possible U.S. Acquisition.** Fortis continues to look for utility acquisition opportunities in the U.S. with a target size of $1 billion to $5 billion of enterprise value. The company also continues to seek out acquisitions in Canada and the Caribbean.
- **Valuation: Target Price Trimmed To $30.00 (From $31.00).** Our new price target is based on our new 2011E EPS estimate of $1.81, leaving our previous 16.5x forward P/E valuation unchanged. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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Q4/09 Results In Line With Expectations

Fortis' normalized EPS in Q4/09 was $0.46 compared to our estimate of $0.46 and $0.48 in Q4/08. The year-over-year increase in earnings from the Canadian regulated utilities was driven by both rate base growth and favourable ROE decisions issued by regulatory commissions in Q4/09. Lower contribution in Q4/09 from Fortis Generation due to the expiration of the license for the Rankine hydro facility in Ontario was partially offset by the incremental earnings from hotel acquisitions during 2009 in Fortis Properties. The Q4/09 and full-year results are set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q4/09	RBC CM Est. Q4/09	Q4/08	2009	2008	Comments
Newfoundland Power	$8.0	$8.3	$8.0	$32.0	$32.0	
FortisOntario & Maritime Electric	3.0	3.6	3.0	17.0	16.0	
Terasen	51.5	47.9	47.0	122.0	112.5	Annual increase due to ROE decision
FortisAlberta	12.0	12.2	11.0	57.0	46.0	Annual increase due to ROE dec., rate base growth
FortisBC	8.0	9.2	7.0	37.0	34.0	Annual increase due to rate base growth
Regulated Utilities - Canadian	82.5	81.1	76.0	265.0	240.5	
Regulated Utilities - Caribbean	7.0	7.1	8.0	25.0	30.0	Lower Belize ROE; lower tourism
Non-regulated - Fortis Generation	3.0	4.2	8.0	16.0	30.0	Rankine license expiry in Q2/09
Non-regulated - Fortis Properties	5.0	4.0	4.0	24.5	23.0	Contribution from acquired hotels
Corporate	(19.0)	(17.7)	(20.0)	(72.0)	(71.0)	
Normalized Earnings	**$78.5**	**$78.7**	**$76.0**	**$258.5**	**$252.5**	
Normalized EPS	**$0.46**	**$0.46**	**$0.48**	**$1.51**	**$1.60**	
Average shares outstanding (MM)	170.9	170.7	157.2	170.9	157.4	
Normalization adjustments:						
Disallowance of prev. incurred fuel and purch. power costs					(13.0)	
Charge for interconnection amounts received in Q4/07					(2.0)	
Terasen tax adjustment					7.5	
Caribbean: Favourable Appeal Judgement				1.0		
Caribbean: One-Time Energy Supply Cost Adj.				1.0		
Properties: One-Time Transition Costs				(0.5)		
AESO tax deferral benefit				3.0		
Corporate tax adjustment	3.0			4.0		
Provision for costs related to propane to gas conversions	(5.0)			(5.0)		
BCUC ROE decision booked in Q4/09 related to Q3/09	1.5					
AUC ROE decision booked in Q4/09 related to Q1, Q2,	3.0					
Reported Earnings	$81.0		$76.0	$262.0	$245.0	

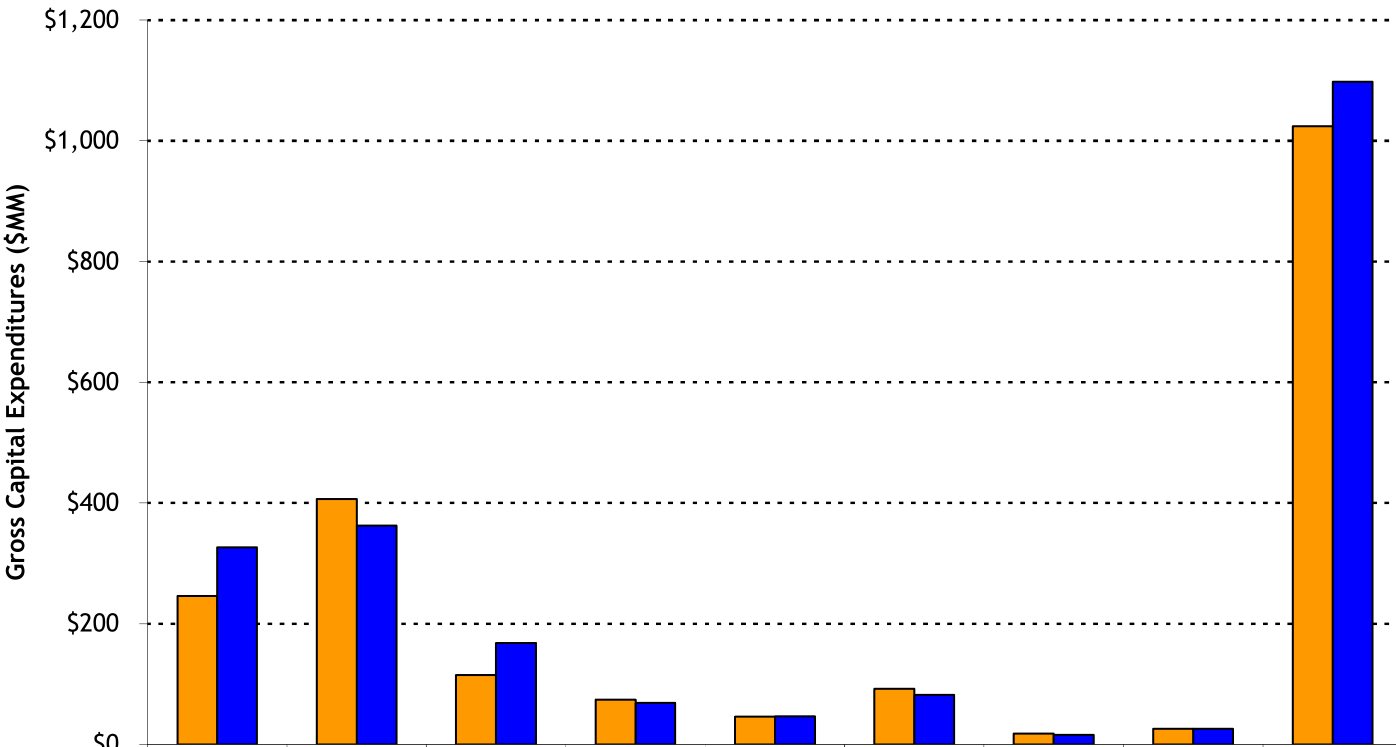
Source: Company reports; RBC Capital Markets estimates

Highlights

- **ROE Decisions Issued by the AUC and BCUC.** In November 2009, the Alberta Utilities Commission (AUC) released its cost of capital decision, in which it increased the allowed ROE to 9.0% (retroactive for 2009) from the 8.51% return that FortisAlberta was using per a previous AUC decision. Subsequently, the British Columbia Utilities Commission (BCUC) released its decision for Terasen, in which equity thickness was increased to 40% (from 35%) effective July 1, 2009, and the ROE was increased to 9.5% (from 8.47%) for 2010. For additional details, please refer to our *Research Comments* regarding the AUC and BCUC decisions dated November 16, 2009 and December 17, 2009, respectively.
- **$250 Million Preferred Share Issuance.** In January 2010, Fortis completed a $250 million five-year fixed rate reset preference share offering with the net proceeds of roughly $242 million being used for repayment of existing debt.
- **Long-Term Utility Growth.** With roughly $1 billion of gross capex in 2009, planned capex over the next five years is expected to approach $5 billion. As the majority of Fortis' planned capital investment is in Canadian regulated utilities, rate base is expected to grow at a roughly 7% compound annual growth rate, which should translate into similar earnings growth. Below are updates and revised costs for significant capital projects.
    - **Caribbean: Vaca Hydro Project.** Fortis' US$53 million Vaca project, a 19 MW hydro facility in Belize, is expected to be commissioned shortly. No further investment in Belize is planned by management.
    - **FortisBC: Okanagan Transmission Reinforcement.** The Okanagan Transmission project will enhance reliability in the company's service territory and has already been approved by the BCUC. The capital cost is approximately $110 million with an expected in-service date of 2011.

- **TVGI: Liquefied Natural Gas Facility.** Construction work continues on the $200 million liquefied natural gas storage facility.
- **FortisAlberta: Automated Meters.** With a revised cost of approximately $155 million (subject to regulatory approval), the project plans to replace conventional customer meters with new automated meters that eliminate the need for manual readings to determine customer usage.
- **Terasen Gas: New Customer Care System.** Management has filed an application for approval with the BCUC to bring the customer care function back in-house by investing in two new call centers and a customer information system with expected costs of roughly $113 million and a target in-service date of January 2012 (pending required approvals).

Exhibit 2: Capital Expenditures (2009 vs. 2010E)



	Terasen	FortisAlberta	FortisBC	Newfoundland Power	Other Cdn Reg	Caribbean Reg Util	Non-Reg Utility	Properties	Total
2009	$246	$407	$115	$74	$46	$92	$18	$26	$1,024
2010E	$327	$363	$168	$69	$47	$82	$16	$26	$1,098

Source: Company reports; RBC Capital Markets

Growth Outlook Moderated

Following a review of our financial forecast, we have reduced our 2010 and 2011 EPS estimates to $1.67 and $1.81, respectively (down from $1.76 and $1.86, respectively). A summary of our revised segment earnings is set out in Exhibit 3.

For 2010, the major drivers behind our changes include:

- higher corporate costs due to an earlier than expected issuance of preferred shares (i.e., the $250 million of preferred shares issued in January 2010);
- lower earnings from FortisAlberta primarily due to an assumed lower achieved ROE; and
- a lower contribution from FortisBC primarily due to a lower-than-forecast mid-year rate base.

For 2011, the major drivers behind our changes include:

- lower earnings from FortisAlberta primarily due to an assumed lower achieved ROE; and

- a lower contribution from FortisBC due to the lower rate base in 2010, which in turn reduces our 2011 rate base forecast as we have left our 2011 capex assumption unchanged.

Exhibit 3: Revised Financial Forecast (In $MM except per share figures)

	2008	2009	Q1/10E	Q2/10E	Q3/10E	Q4/10E	2010E	2011E	*Old 2010E*	*Old 2011E*
Newfoundland Power	$32	$32	$6	$12	$7	$9	$34	$35	*$34*	*$35*
Other Cdn (ME + FTS Ont)	16	17	6	5	6	3	19	20	*19*	*20*
Terasen	113	122	60	14	(2)	53	126	133	*126*	*132*
FortisAlberta	46	57	15	17	19	14	65	73	*70*	*79*
FortisBC	34	37	17	9	10	10	46	51	*50*	*56*
Regulated Utilities - Caribbean	30	25	5	8	8	8	30	31	*27*	*28*
Fortis Generation	30	16	5	5	4	4	18	20	*18*	*20*
Fortis Properties	23	25	2	8	9	5	23	24	*24*	*25*
Corporate and other	(71)	(72)	(18)	(20)	(19)	(18)	(75)	(76)	*(68)*	*(74)*
Normalized earnings	**$253**	**$259**	**$98**	**$58**	**$42**	**$87**	**$286**	**$312**	*$301*	*$321*
Shares O/S (MM)	157	171	171	171	172	172	171	173	*171*	*173*
Normalized EPS (Basic)	**$1.60**	**$1.51**	**$0.57**	**$0.34**	**$0.25**	**$0.51**	**$1.67**	**$1.81**	*$1.76*	*$1.86*
Dividends Paid	$1.00	$1.04					$1.12	$1.20	*$1.12*	*$1.20*
Payout Ratio	62%	69%					67%	66%	*64%*	*64%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $30.00 is based on a forward P/E of 16.5x 2011E EPS. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.
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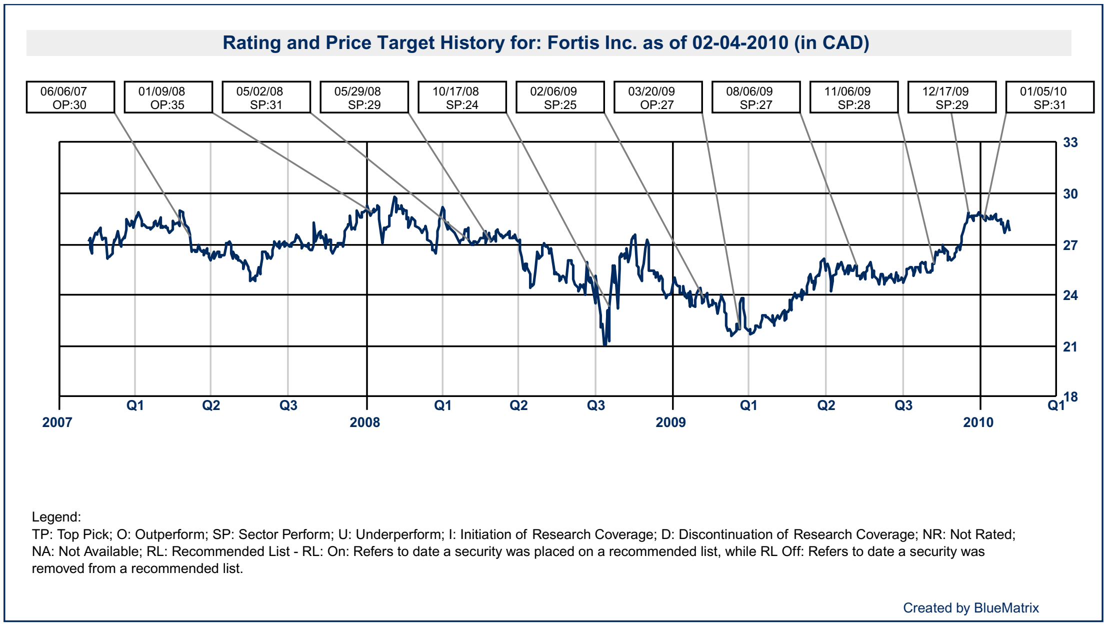
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Percent
BUY[TP/O]	586	49.50	183	31.23
HOLD[SP]	527	44.50	121	22.96
SELL[U]	70	5.90	7	10.00



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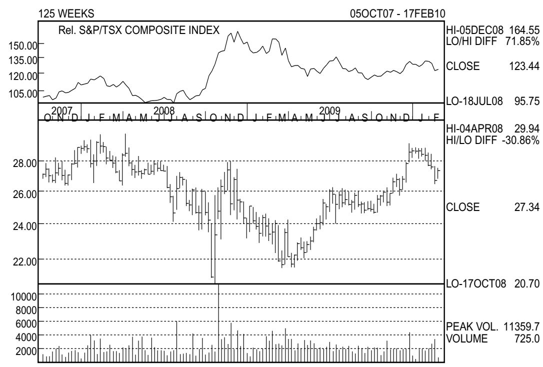

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FY Dec	2008A	2009A	2010E	2011E
EPS (Op) - Basic	1.60	1.51	1.67	1.81
P/E	17.1x	18.1x	16.4x	15.1x
EPS (Op) - FD	1.58	1.48	1.65	1.78
P/E	17.3x	18.5x	16.6x	15.4x
Annual Div. - Basic	1.00	1.04	1.12	1.20
Payout Ratio - Basic	62%	69%	67%	66%
Payout Ratio - FD	63%	70%	68%	67%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2008	0.58A	0.31A	0.24A	0.48A
2009	0.54A	0.30A	0.22A	0.46A
2010	0.57E	0.34E	0.25E	0.51E

Amounts are normalized and may not be consistent with GAAP. Q3/09 EPS have been adjusted to reflect the BCUC ROE decision, which is effective July 1 2009.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

FEBRUARY 18, 2010

Fortis Inc. (TSX: FTS)

BCUC Sets Conditions for Approval of Customer Care Project

Sector Perform
Average Risk

Price:	27.34	**Price Target:**	30.00
		Implied All-In Return:	14%
Shares O/S (MM):	171.0	**Market Cap (MM):**	4,675
Dividend:	1.04	**Yield:**	3.8%
Float (MM):	171.0		
Debt to Cap:	60%		

Event

The British Columbia Utilities Commission (BCUC) issued a decision on Terasen's customer care enhancement project.

Investment Opinion

- **BCUC Sets Conditions for Approval for Terasen's Customer Care Project.** The BCUC denied Terasen's proposed customer care insourcing project as applied. However, the BCUC is willing to approve the project under the condition that final project costs outside of a +/- 10% band around Terasen's estimated $115.5 million project cost be shared 50/50 between rate payers and Fortis' shareholders. Terasen has 10 days (until February 26, 2010) to confirm its acceptance of the BCUC's conditional approval.
- **Management Reviewing the Decision.** Management is currently reviewing the decision to see whether it is able to work within the conditions set out by the BCUC.
- **Not Material One Way or the Other.** Although approval of the project would have been a modest positive to earnings, we estimate that the project would only add about $0.02/share to EPS based on a $115.5 million addition to rate base and Terasen's regulated return metrics (i.e. 40% equity component at 9.5% allowed ROE) net of costs to finance the equity component of the project.
- **Overview of the Customer Care Enhancement Project.** Currently, Terasen's customer care function is outsourced, and the company would like to bring customer care back "in house" at an estimated capital cost of $115.5 million. Fortis sees the benefits of improved customer service quality, lower overall cost, and the creation of jobs within its own service territory as the outsourced call centre is currently located in New Brunswick.
- **Valuation.** Our target price of $30.00 (unchanged) is based on a forward P/E of 16.5x 2011E EPS. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 3.

Valuation

Our target price of $30.00 is based on a forward P/E of 16.5x 2011E EPS. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Price Target Impediment

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Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
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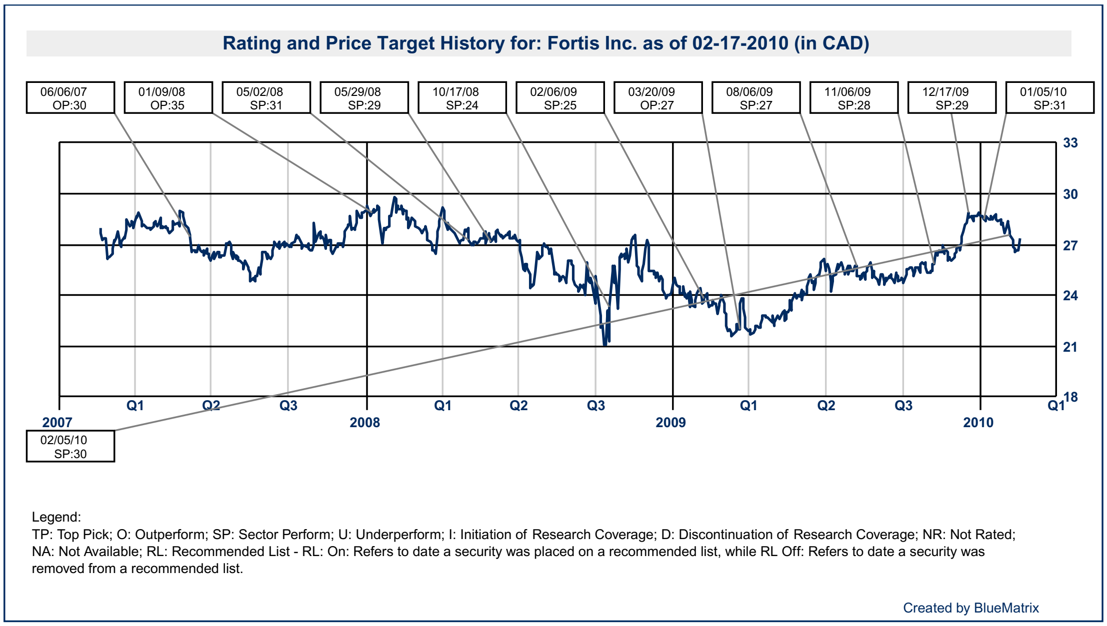
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Percent
BUY[TP/O]	593	49.80	181	30.52
HOLD[SP]	531	44.60	122	22.98
SELL[U]	67	5.60	9	13.43



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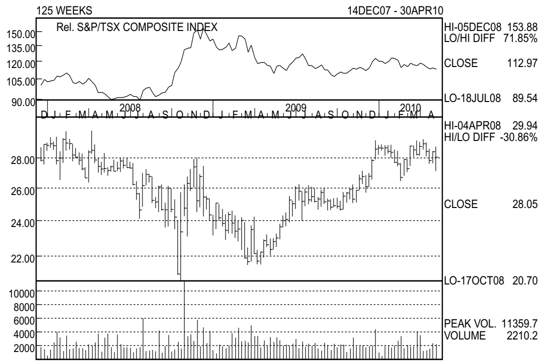

RBC Dominion Securities Inc.

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FY Dec	2008A	2009A	2010E	2011E
EPS (Op) - Basic	1.60	1.51	1.63	1.78
Prev.			1.67	1.81
P/E	17.5x	18.6x	17.2x	15.8x
EPS (Op) - FD	1.58	1.48	1.60	1.75
Prev.			1.65	1.78
P/E	17.8x	19.0x	17.5x	16.0x
Annual Div. - Basic	1.00	1.04	1.12	1.20
Payout Ratio - Basic	62%	69%	69%	67%
Payout Ratio - FD	63%	70%	70%	69%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2008	0.58A	0.31A	0.24A	0.48A
2009	0.54A	0.30A	0.22A	0.46A
2010	0.58A	0.32E	0.24E	0.49E
Prev.	0.57E	0.34E	0.25E	0.51E

Amounts are normalized and may not be consistent with GAAP. Q3/09 EPS have been adjusted to reflect the BCUC ROE decision, which is effective July 1 2009.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

MAY 3, 2010

Fortis Inc. (TSX: FTS)

Q1/10 Results in Line

Sector Perform
Average Risk

Price:	28.05	**Price Target:**	30.00
		Implied All-In Return:	11%
Shares O/S (MM):	182.2	**Market Cap (MM):**	5,111
Dividend:	1.12	**Yield:**	4.0%
Float (MM):	172.2		
Debt to Cap:	58%		

Event

Fortis reported Q1/10 results.

Investment Opinion

- **Q1/10 Results in Line.** Fortis' normalized EPS in Q1/10 was $0.58 compared to our estimate of $0.57 and $0.54 in Q1/09. Higher-than-expected earnings in the Canadian regulated utilities appear to be due to quarterly timing differences. This was mostly offset by lower-than-forecast earnings from non-regulated Fortis Generation as a result of low water flows in Belize and higher-than-forecast corporate costs.
- **Long-Term Capital Plan Intact; Attractive Low-Risk Investment in Utility Rate Base.** With a focus on investments in regulated utilities located in western Canada, management reiterated its 2010 capex plan of over $1 billion. Gross consolidated capital expenditures in Q1/10 were roughly $188 million, the majority of which was invested in Canadian regulated utilities.
- **The Search for a Strategic Acquisition Continues.** Fortis continues to pursue strategic opportunities to acquire regulated electric and gas utilities in Canada, the U.S. and the Caribbean. Although going solo is preferred, management commented that it would be open to a partnership with one other entity (e.g., a pension fund) for a larger transaction that would be difficult to finance.
- **Shares Appear Fairly Valued; Sector Perform Ranking Unchanged.** While we like the existing asset base, and in particular the growth in the western Canadian utilities, the shares appear to be fairly valued trading at almost 16x our 2011E EPS, which is about 1x higher than the group average. However, we see the premium as justified given the low-risk nature of the regulated utility business coupled with an above average earnings growth profile.
- **Valuation.** Our target price of $30.00 (unchanged) is based on a forward P/E of 17x 2011E EPS. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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Q1/10 Results In Line With Expectations, But Variances In Some Segments

Fortis' normalized EPS in Q1/10 was $0.58 compared to our estimate of $0.57 and $0.54 in Q1/09. Higher-than-expected earnings in the Canadian regulated utilities were primarily driven by a higher contribution from Terasen, which appears to be due to quarterly timing differences. This was mostly offset by lower-than-forecast earnings from non-regulated Fortis Generation as a result of low water flows in Belize, and higher-than-forecast corporate costs, some of which were isolated to the quarter. The results are set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q1/10	RBC CM Q1/10E	Q1/09	Comments
Newfoundland Power	$7.0	$6.4	$6.0	
FortisOntario & Maritime Electric	5.0	5.6	5.0	
Terasen	73.0	59.7	58.0	Appears to be quarterly timing differences
FortisAlberta	14.0	14.8	13.0	
FortisBC	14.0	17.4	14.0	Appears to be quarterly timing differences
Regulated Utilities - Canadian	113.0	104.0	96.0	
Regulated Utilities - Caribbean	4.0	4.8	4.0	
Non-regulated - Fortis Generation	2.0	4.9	6.0	Low water flows in Belize
Non-regulated - Fortis Properties	2.0	2.4	2.5	
Corporate	(21.0)	(17.9)	(17.0)	Some of the higher costs are isolated to the quarter
Normalized Earnings	**$100.0**	**$98.1**	**$91.5**	
Normalized EPS	**$0.58**	**$0.57**	**$0.54**	
Average shares outstanding (MM)	171.6	171.3	169.4	
Normalization adjustments:				
Caribbean: Favourable Appeal Judgement			1.0	
Caribbean: One-Time Energy Supply Cost Adj.			1.0	
Properties: One-Time Transition Costs			(0.5)	
Carryback of AUC ROE decision to Q1/09 (booked in Q4/09)			(1.0)	
	0.0		0.5	
Reported Earnings	$100.0		$92.0	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter

- **Canadian Regulated Utilities Higher on Timing Differences.** Earnings from Canadian regulated utilities in Q1/10 were higher-than-expected mainly due to higher-than-forecast earnings from Terasen, partially offset by a lower-than expected contribution from FortisBC. Both variances appear to be due to quarterly timing differences and we have largely left our annual estimates for each segment unchanged.

- **Non-Regulated Fortis Generation Negatively Impacted by Hydrology.** Lower-than-expected earnings from non-regulated Fortis Generation were mainly attributable to lower-than-forecast rainfall in Belize in Q1/10.

- **19 MW Vaca Hydro Project in Belize Commissioned in Q1/10.** Fortis' US$53 million Vaca project, a 19 MW hydro facility in Belize, was commissioned in March 2010 and delivered 4 GWh during the quarter.

- **Long-Term Utility Growth Capex Plan Continues as Planned.** With a focus on investments in regulated utilities located in western Canada, management reiterated its 2010 capex plan of over $1 billion. Gross consolidated capital expenditures in Q1/10 were roughly $188 million, the majority of which was invested in Canadian regulated utilities.

- **Search for the Right Strategic Acquisition Continues.** Fortis continues to pursue strategic opportunities to acquire regulated electric and gas utilities in Canada, the U.S. and the Caribbean. Although there was no confirmation that it was a bidder for the E.ON utilities that were sold in Kentucky, management provided general colour with respect to its acquisition plans:

  - **Going Solo Is Preferred.** Similar to comments made throughout the years, management continues to prefer to acquire 100% of assets without any partners. The company believes this reduces the complexity of a transaction and allows it to proceed with an acquisition more expeditiously.

- **Will Partner if Necessary, but NOT a Consortium.** To the extent an acquisition target is too large for Fortis to complete on its own, the company would consider taking on one partner (e.g., a pension fund) where the company would have at least a 50% interest.
- **The Acquisition Parameters Remain Unchanged.** In the U.S., the company continues to seek out regulated electric and/or gas utilities with a preference for businesses in a single state (i.e., one regulator). Fortis is comfortable with an integrated electric utility as long as the generation assets are in regulated rate base.

Estimates Slightly Revised For Higher Forecast Corporate Costs and Shares Outstanding

Following a review of our financial model, we have modestly reduced our 2010 and 2011 EPS estimates to $1.63 and $1.78, respectively (from $1.67 and $1.81, respectively). For 2010, our revised estimate reflects lower power generation in Q1/10, higher forecast corporate costs and higher estimated shares outstanding. For 2011, our revised estimate reflects both higher forecast corporate costs and shares outstanding. Our revised estimates are set out in Exhibit 2.

Exhibit 2: Revised Financial Forecast (In $MM except per share figures)

	2008	2009	Q1/10	Q2/10E	Q3/10E	Q4/10E	2010E	2011E	*Old 2010E*	*Old 2011E*
Newfoundland Power	$32	$32	$7	$12	$7	$8	$34	$35	*$34*	*$35*
Other Cdn (ME + FTS Ont)	16	17	5	5	6	4	19	20	*19*	*20*
Terasen	113	122	73	11	(4)	47	127	135	*126*	*133*
FortisAlberta	46	57	14	17	19	14	65	73	*65*	*73*
FortisBC	34	37	14	10	11	11	46	51	*46*	*51*
Regulated Utilities - Caribbean	30	25	4	8	8	9	30	31	*30*	*31*
Fortis Generation	30	16	2	5	4	5	16	20	*18*	*20*
Fortis Properties	23	25	2	8	9	5	23	24	*23*	*24*
Corporate and other	(71)	(72)	(21)	(20)	(19)	(18)	(78)	(77)	*(75)*	*(76)*
Normalized earnings	**$253**	**$259**	**$100**	**$56**	**$41**	**$85**	**$281**	**$313**	*$286*	*$312*
Shares O/S (MM)	157	171	172	173	174	175	173	176	*171*	*173*
Normalized EPS (Basic)	**$1.60**	**$1.51**	**$0.58**	**$0.32**	**$0.24**	**$0.49**	**$1.63**	**$1.78**	*$1.67*	*$1.81*
Dividends Paid	$1.00	$1.04					$1.12	$1.20	*$1.12*	*$1.20*
Payout Ratio	62%	69%					69%	68%	*67%*	*66%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $30.00 is based on a forward P/E of 17x 2011E EPS. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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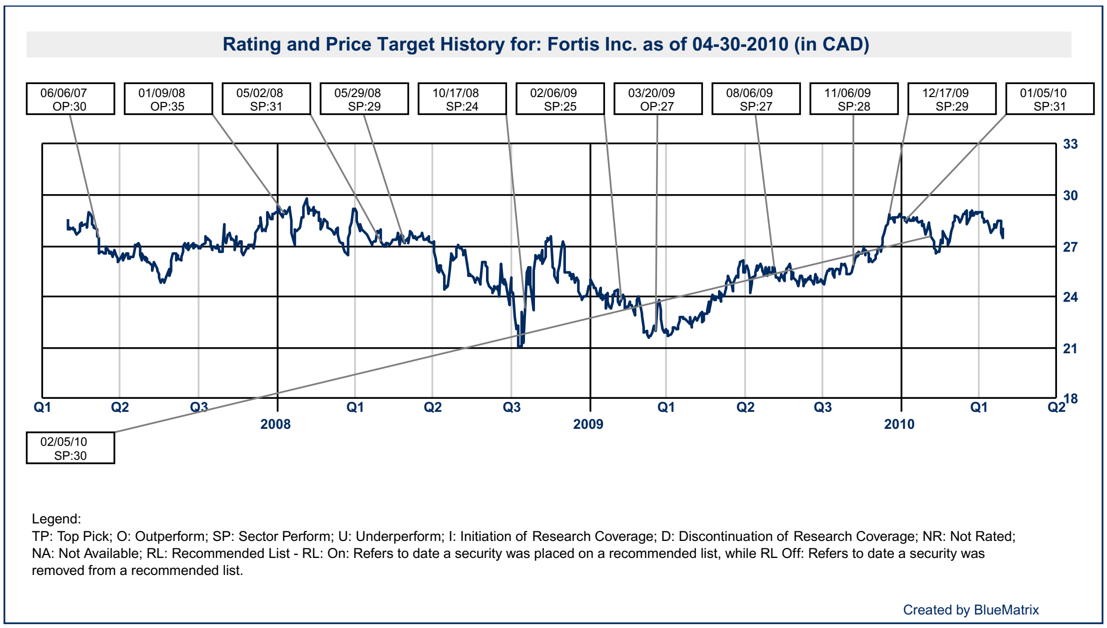
HOLD[SP]	559	45.30	134	23.97
SELL[U]	67	5.40	9	13.43



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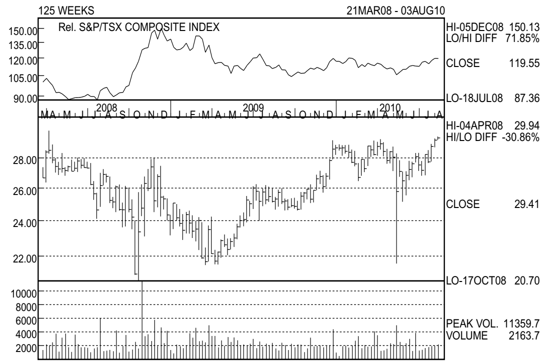
PRICE TARGET REVISION | COMMENT

AUGUST 5, 2010

Fortis Inc. (TSX: FTS)

Q2/10 Results In Line; Core Utility Business Humming Along



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FY Dec	2008A	2009A	2010E	2011E
EPS (Op) - Basic	1.60	1.51	1.63	1.78
P/E	18.0x	19.1x	17.7x	16.2x
EPS (Op) - FD	1.58	1.48	1.60	1.75
P/E	18.3x	19.5x	18.0x	16.5x
Annual Div. - Basic	1.00	1.04	1.12	1.20
Payout Ratio - Basic	62%	69%	69%	67%
Payout Ratio - FD	63%	70%	70%	69%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2008	0.58A	0.31A	0.24A	0.48A
2009	0.54A	0.30A	0.22A	0.46A
2010	0.58A	0.32A	0.24E	0.49E

Amounts are normalized and may not be consistent with GAAP. Q3/09 EPS have been adjusted to reflect the BCUC ROE decision, which is effective July 1 2009.

All values in CAD unless otherwise noted.

Sector Perform
Average Risk

Price:	28.84	**Price Target:**	32.00 ↑ 30.00
		Implied All-In Return:	15%
Shares O/S (MM):	172.9	**Market Cap (MM):**	4,986
Dividend:	1.12	**Yield:**	3.9%
Float (MM):	172.9		
Debt to Cap:	58%		

Event

Fortis reported Q2/10 results; increasing price target to $32.00 (from $30.00).

Investment Opinion

- **Q2/10 Results in Line with Expectations.** Fortis' Q2/10 EPS was $0.32 compared to our estimate of $0.32 and $0.30 in Q2/09. Higher-than-expected earnings from Terasen, partly due to quarterly timing factors, were offset by slightly lower-than-forecast earnings from FortisBC, Newfoundland Power, Generation and the utilities in the Caribbean.
- **Core Utilities Performing Well.** On the whole, the utility businesses in Canada are performing in line with our expectations. With continued significant rate base investment planned (roughly $1 billion per year), we see these businesses as the organic growth engine for the next several years.
- **We Remain Comfortable with Our Estimates.** Other than minor changes within the segments (Terasen slightly higher with FortisBC and Generation slightly lower), we have not made changes to our overall EPS estimates for 2010 and 2011.
- **Maintaining Sector Perform Ranking; We Remain Neutral Until the Valuation Becomes More Attractive and/or a U.S. Acquisition Unfolds.** We view the stock as fairly valued with Fortis having the highest P/E among the regulated utilities in our coverage, which we see as supported by the Canadian regulated utilities' outlook for growth. At this time, we maintain our Sector Perform rating pending either: (1) a better relative valuation; or (2) more insight into what could potentially be a scale-changing U.S. utility acquisition.
- **Valuation: Increasing Price Target to $32.00 (from $30.00).** We believe that companies in the sector will benefit from a shift toward stocks that have attractive total return profiles resulting in multiple expansion. Our new price target is based on a P/E of roughly 17x, which we believe is reasonable based on historical valuations for the stock.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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Q2/10 Results in Line with Expectations

Fortis' normalized EPS in Q2/10 was $0.32 compared to our estimate of $0.32 and $0.30 in Q2/09. Higher-than-expected earnings from Terasen were partially offset by slightly lower-than-forecast earnings from Newfoundland Power, FortisBC, Generation and the utilities in the Caribbean. The results are set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q2/10	RBC CM Q2/10E	Q2/09	Comments
Newfoundland Power	$11.0	$11.8	$11.0	
FortisOntario & Maritime Electric	4.0	4.5	4.0	
Terasen	17.0	11.0	14.0	Partially due to quarterly timing factors
FortisAlberta	17.0	17.0	15.0	
FortisBC	8.0	10.0	7.0	Higher O&M that is expected to reverse in H2/10
Regulated Utilities - Canadian	57.0	54.3	51.0	
Regulated Utilities - Caribbean	7.0	8.3	7.0	Higher corporate taxes in Belize, weaker US$
Non-regulated - Fortis Generation	3.0	5.4	3.0	Poor hydrology in NY, weaker US$
Non-regulated - Fortis Properties	8.0	7.6	8.0	
Corporate	(20.0)	(19.9)	(18.0)	
Normalized Earnings	**$55.0**	**$55.7**	**$51.0**	
Normalized EPS	**$0.32**	**$0.32**	**$0.30**	
Average shares outstanding (MM)	172.4	172.6	170.0	
Normalization adjustments:				
AESO tax deferral benefit and tax recovery			3.0	
Carryback of AUC ROE decision			(1.0)	
	0.0		2.0	
Reported Earnings	$55.0		$53.0	
Reported EPS	$0.32		$0.31	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter

- **Canadian Regulated Utilities Impacted by Quarterly Timing Factors.** Earnings from Terasen were well ahead of expectations, while earnings from FortisBC were short of expectations. Discussions with the company indicate that quarterly timing factors (e.g., timing of O&M costs) impacted results. We have made minor changes to our forecast for Terasen (about $2 million higher in 2010) and FortisBC (about $2 million lower in 2010), but our overall outlook for the segment remains unchanged.
- **Caribbean Regulated Utilities Results Lower-Than-Forecast Due to Higher Taxes.** Lower-than-forecast earnings from Caribbean regulated utilities were due to higher corporate taxes in Belize and a weaker U.S. dollar.
- **Non-Regulated Fortis Generation Negatively Impacted by Hydrology.** Lower-than-expected earnings from non-regulated Fortis Generation were primarily attributable to poor hydrology in New York in addition to a weaker U.S. dollar.
- **Long-Term Utility Growth Capex Plan on Track.** The capital program of roughly $5 billion over the five-year period from 2010 through 2014 remains on track. With $1.1 billion slated to be spent in 2010, gross consolidated capital expenditures in H1/10 were roughly $432 million, the majority of which was invested in Canadian regulated utilities.
- **Decision to Opt for Two-Year IFRS Deferral.** The Canadian Accounting Standards Board recently announced that subject to the finalization of an exposure draft, it will offer a two-year deferral for the adoption of IFRS for qualifying entities with rate regulated activities. If the exposure draft is approved, Fortis will elect to defer the adoption of IFRS until 2013, as the company is a qualifying entity.

The Hunt for a U.S. Utility Acquisition Continues, but Nothing New to Report

Fortis continues to pursue strategic opportunities to acquire regulated electric and gas utilities in Canada, the U.S. and the Caribbean.

In particular, Fortis remains interested in acquiring a U.S. utility. We believe that the company will remain disciplined with respect to acquisition parameters, evidenced by the fact that although management has been talking about a U.S. utility acquisition for many years, it has yet to pull the trigger. The following is a recap of the parameters that management has discussed with respect to a U.S. utility acquisition.

- **Potential for a Scale-Changing Acquisition.** The company continues to seek out regulated electric and/or gas utilities with a preference for businesses in a single state (i.e., one regulator). Fortis is comfortable with an integrated electric utility as long as the generation assets are in regulated rate base. The target size is US$1 billion to US$5 billion of enterprise value with a utility in the US$3 billion enterprise value range being optimal.
- **Going Solo Is Preferred.** Similar to comments made throughout the years, management continues to prefer to acquire 100% of assets without any partners. The company believes this would reduce the complexity of a transaction and allow it to proceed with an acquisition more expeditiously.
  - **Will Partner if Necessary, but Not a Consortium.** To the extent that an acquisition target is too large for Fortis to complete on its own, the company would consider taking on one partner (e.g., a Canadian pension fund) where the company would have at least a 50% interest.

Minor Changes Within the Segments but Overall Estimates Remain Unchanged

We have made minor changes to our forecast for Terasen (about $2 million and $3 million higher in 2010 and 2011, respectively) and FortisBC (about $2 million lower in 2010), but our 2010 and 2011 EPS estimates remain unchanged. Our revised estimates are set out in Exhibit 2.

Exhibit 2: Revised Financial Forecast (In $MM except per share figures)

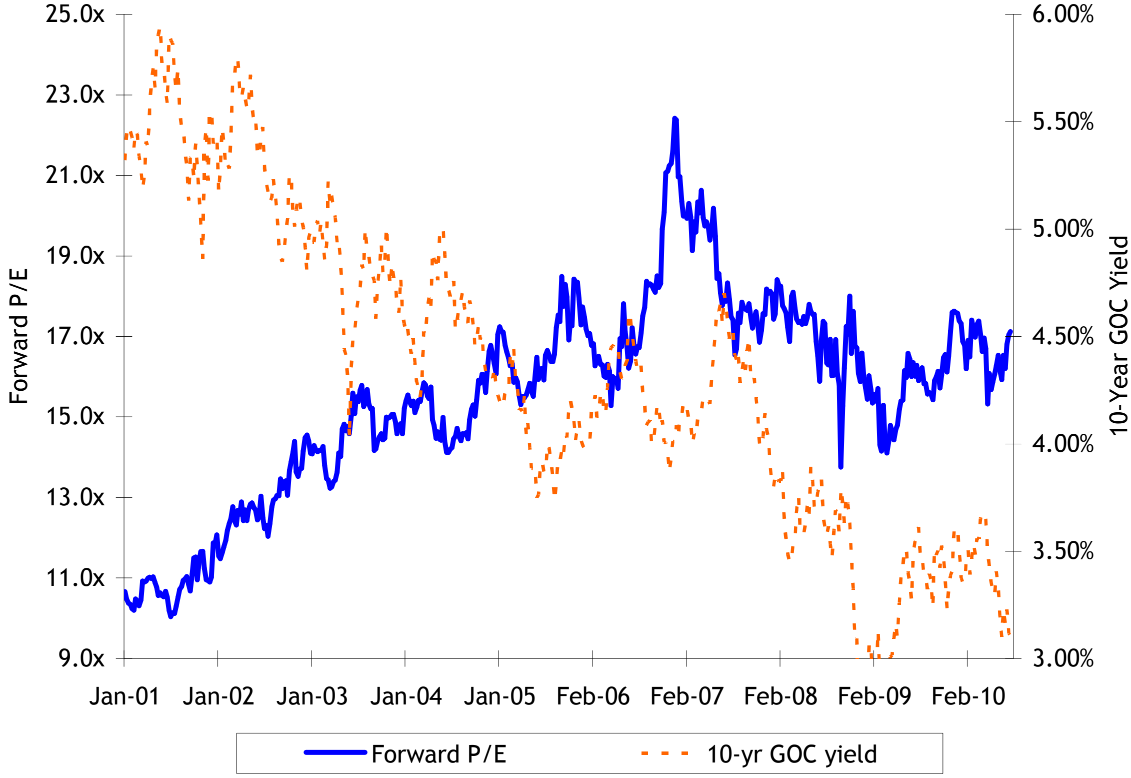
	2008	2009	Q1/10	Q2/10	Q3/10E	Q4/10E	2010E	2011E	*Old 2010E*	*Old 2011E*
Newfoundland Power	$32	$32	$7	$11	$7	$9	$34	$35	*$34*	*$35*
Other Cdn (ME + FTS Ont)	16	17	5	4	6	5	19	20	*19*	*20*
Terasen	113	122	73	17	(4)	43	129	138	*127*	*135*
FortisAlberta	46	57	14	17	19	15	65	73	*65*	*73*
FortisBC	34	37	14	8	11	11	44	49	*46*	*51*
Regulated Utilities - Caribbean	30	25	4	7	8	10	30	31	*30*	*31*
Fortis Generation	30	16	2	3	4	5	13	20	*16*	*20*
Fortis Properties	23	25	2	8	9	5	23	24	*23*	*24*
Corporate and other	(71)	(72)	(21)	(20)	(19)	(18)	(78)	(77)	*(78)*	*(77)*
Normalized earnings	**$253**	**$259**	**$100**	**$55**	**$41**	**$85**	**$281**	**$313**	*$281*	*$313*
Shares O/S (MM)	157	171	172	172	173	175	173	176	*173*	*176*
Normalized EPS (Basic)	**$1.60**	**$1.51**	**$0.58**	**$0.32**	**$0.24**	**$0.49**	**$1.63**	**$1.78**	*$1.63*	*$1.78*
Dividends Paid	$1.00	$1.04					$1.12	$1.20	*$1.12*	*$1.20*
Payout Ratio	62%	69%					69%	67%	*69%*	*68%*

Source: Company reports; RBC Capital Markets estimates

Increasing Price Target to $32.00 (from $30.00)

We have increased our price target to $32.00 (from $30.00) to reflect a forward P/E of 17x 2011E EPS, which we believe is reasonable based on historical valuations for the stock and what we use for its peers. As shown in Exhibit 3, Fortis' forward P/E over the past five years mostly ranged from about 15x to 19x. We believe that companies in the sector will benefit from a shift toward stocks that have attractive total return profiles resulting in multiple expansion.

Exhibit 3: Forward P/E



Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $32.00 is based on a forward P/E of 17x 2011E EPS. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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Rating	**Count**	**Percent**	**Count**	**Percent**
BUY[TP/O]	635	50.20	181	28.50
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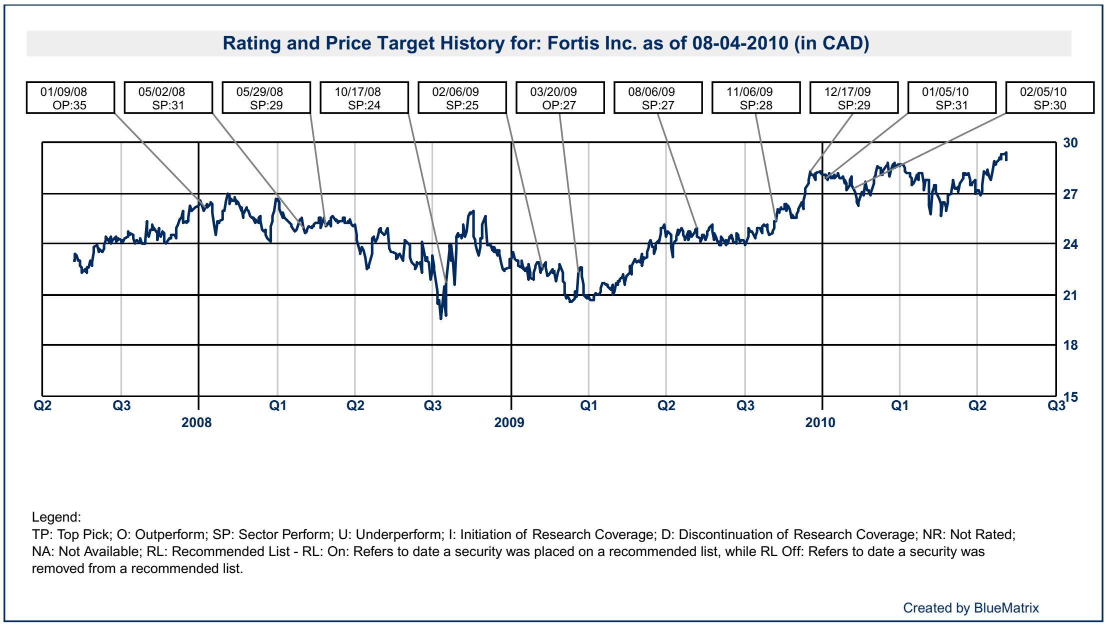
SELL[U]	55	4.30	9	16.36



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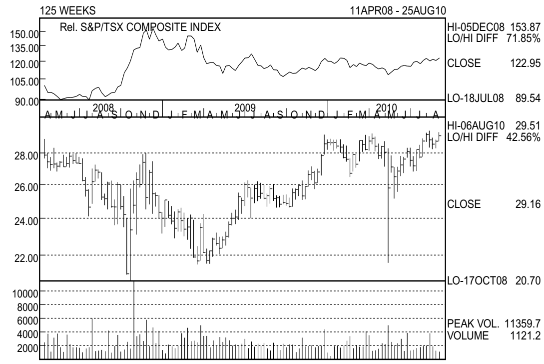

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FY Dec	2008A	2009A	2010E	2011E
EPS (Op) - Basic	1.60	1.51	1.63	1.78
P/E	18.2x	19.2x	17.8x	16.3x
EPS (Op) - FD	1.58	1.48	1.60	1.75
P/E	18.4x	19.6x	18.2x	16.6x
Annual Div.	1.00	1.04	1.12	1.20
Payout Ratio- Basic	63%	69%	69%	67%
Payout Ratio - FD	63%	70%	70%	69%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2008	0.58A	0.31A	0.24A	0.48A
2009	0.54A	0.30A	0.22A	0.46A
2010	0.58A	0.32A	0.24E	0.49E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.
EPS (Op): Q3/09 EPS have been adjusted to reflect the BCUC ROE decision, which is effective July 1 2009.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

AUGUST 27, 2010

Fortis Inc. (TSX: FTS)

New Hydro Project in B.C.

Sector Perform
Average Risk

Price:	29.05	**Price Target:**	32.00
		Implied All-In Return:	14%
Shares O/S (MM):	172.9	**Market Cap (MM):**	5,023
Dividend:	1.12	**Yield:**	3.9%
Float (MM):	172.9		
Debt to Cap:	58%		

Event

Fortis has agreed to invest in a 335 MW hydro project in B.C.

Investment Opinion

- **New Hydro Investment.** Fortis has entered into a partnership with Columbia Power Corporation and Columbia Basin Trust (CPC/CBT) to construct the $900 million Waneta Expansion, a 335 MW hydro project in B.C. Fortis will own 51% of the plant and will operate and maintain the facility. The Waneta Expansion is expected to be in service in the spring of 2015.
- **Relatively Low Risk Project.** The hydro plant will sell energy and capacity to BC Hydro and FortisBC (the company's regulated electric utility) under long-term contracts. Further, hydrology risk is reduced due to the project receiving fixed payments based on long-term average water flows as stipulated under the Canal Plant Agreement. Capital cost risk has been reduced through a fixed price design build contract that has been negotiated with SNC-Lavalin.
- **Expected to Be Modestly Accretive to EPS.** Our preliminary analysis indicates that the project could add roughly $0.03 to $0.05 per share to earnings. We have left our 2010 and 2011 EPS estimates unchanged due to the in-service date being 2015.
- **Flexibility on Funding.** Fortis will initially fund the capex using available credit facilities with the aim of putting in place permanent financing at a later date at a target capital structure of 65% debt and 35% equity. From an equity perspective, we do not expect the project to trigger any near-term requirements for common equity. It is likely that future equity needs for the project will be funded in conjunction with other equity requirements in the business (e.g., utility capex funding, acquisitions).
- **Valuation.** Our target price of $32.00 is based on a forward P/E of 17x 2011E EPS. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Priced as of prior trading day's market close, EST (unless otherwise noted).

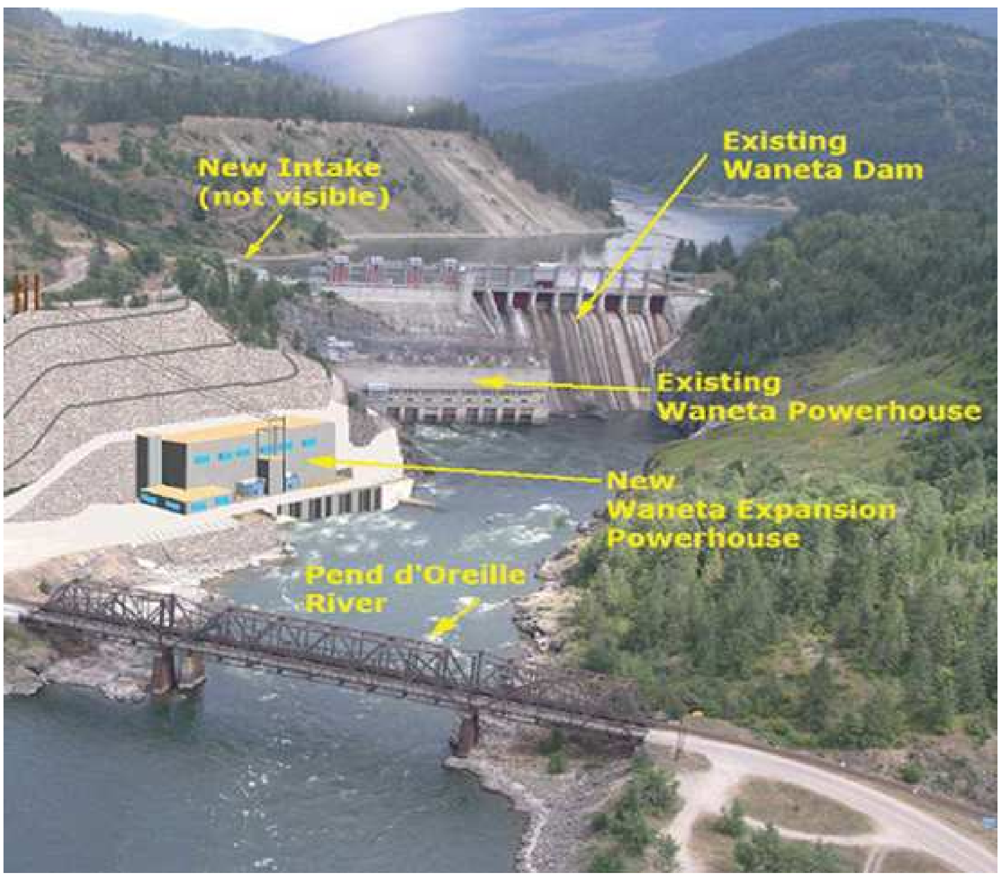
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

Fortis to Invest in 335 MW Hydro Facility in B.C.

Fortis announced a partnership with CPC/CBT to construct a 335 MW hydro project for $900 million near the Waneta Dam, which is on the Pend d'Oreille River south of Trail, B.C. (please refer to Exhibit 1). Subject to negotiation and completion of definitive agreements, Fortis will own 51% of the Waneta Expansion, and operate and maintain the facility when it is expected to be in service in the spring of 2015.

- **Financing:** Fortis intends to initially finance its share of the costs through existing credit facilities with the goal of putting in place permanent financing at a later date at a target capital structure of 65% debt and 35% equity.
- **Long-Term Contracts:** Approximately 630 GWh (and associated capacity required to deliver such energy) of the Waneta Expansion will be sold to BC Hydro under a long-term EPA, while the surplus capacity of 234 MW on an average annual basis will be sold under a long-term capacity purchase agreement to FortisBC, pending the approval of the British Columbia Utilities Commission.
- **Relatively Low Risk:** The project's hydrology risk is reduced as the Waneta Expansion will become part of the Canal Plant Agreement, under which it will receive fixed energy and capacity payments based on long-term average water flows. Further, capital cost risk has been reduced through a fixed-price design build contract that has been negotiated with SNC-Lavalin.
- **Project Returns:** In the press release, Fortis stated that it "expects to generate slightly better financial returns than regulated investments, commensurate with the higher risk associated with a non-regulated project." In comparison, Fortis' regulated gas utility in B.C. (Terasen) earns a regulated ROE of 9.5%.

Exhibit 1: Waneta Expansion



Source: Columbia Power Corporation

Waneta Expansion Appears to Be Roughly $0.03 to $0.05 Accretive to EPS

Based on our analysis of the project set out in Exhibit 2, it appears that the Waneta Expansion could add roughly $0.03 to $0.05 to EPS in 2015, and the sensitivity to the return on equity coupled with the equity issuance price is shown in Exhibit 3.

Exhibit 2: Estimated EPS Impact (In $MM except per share figures)

		2015E	
Expected Capital Cost		$900	
Fortis' Ownership Interest (%)		51%	
Equity Component (%)		35%	
Equity Component ($)		$161	
Return on Equity		11%	
Net Income Impact		$18	
Net income (before expansion)		313	Uses 2011E NI as a proxy
Net income (after expansion)		$331	
Shares Outstanding (MM)		176	2011E used as a proxy
Equity Required	161		
Closing Share Price on Aug 26/10	$29.05		Used as a proxy for equity issue price
		6	
Pro Forma Shares Outstanding (MM)		182	
EPS (before expansion)		$1.78	
EPS (after expansion)		$1.82	
EPS Accretion (Dilution)		**$0.04**	

Source: Company reports; RBC Capital Markets estimates

Exhibit 3: Sensitivity Analysis (In $ per share)

		Return on Equity				
		10.0%	10.5%	11.0%	11.5%	12.0%
	$28.00	$0.03	$0.04	$0.04	$0.05	$0.05
Equity	$29.00	$0.03	$0.04	$0.04	$0.05	$0.05
Issuance	$30.00	$0.04	$0.04	$0.04	$0.05	$0.05
Price	$31.00	$0.04	$0.04	$0.05	$0.05	$0.06
	$32.00	$0.04	$0.04	$0.05	$0.05	$0.06

Source: Company reports; RBC Capital Markets estimates

Valuation

Our target price of $32.00 is based on a forward P/E of 17x 2011E EPS. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Price Target Impediment

The political environment in Belize, whether provincial regulators increase ROEs for the company's businesses, risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses or power prices in Ontario may have implications for our target price as well as our earnings and dividend estimates.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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Ratings
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.
Risk Qualifiers (any of the following criteria may be present):
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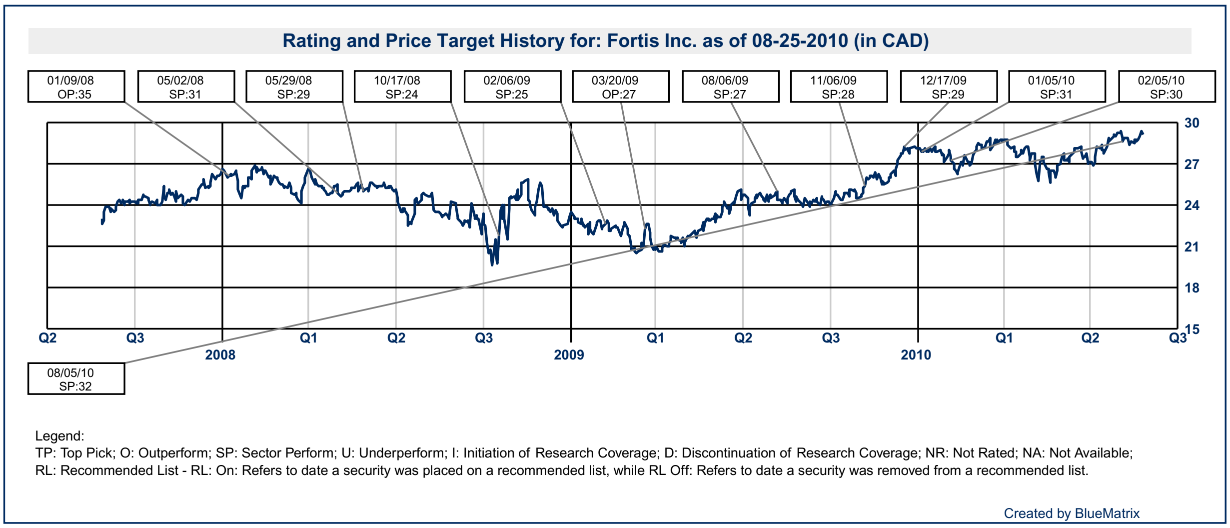
Distribution of Ratings
RBC Capital Markets, Equity Research

Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Investment Banking Serv./Past 12 Mos. Percent
BUY[TP/O]	621	49.40	187	30.11
HOLD[SP]	577	45.90	122	21.14
SELL[U]	60	4.80	10	16.67



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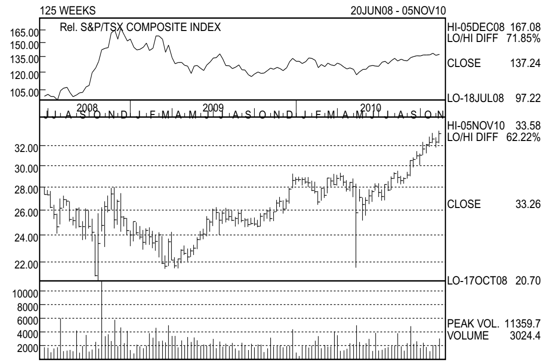

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FY Dec	2009A	2010E	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.89
Prev.	1.51			
P/E	21.6x	20.4x	18.7x	17.6x
EPS (Op) - FD	1.48	1.60	1.75	1.87
P/E	22.5x	20.8x	19.0x	17.8x
Annual Div.	1.04	1.12	1.24	1.32
Prev.			1.20	1.28
Payout Ratio- Basic	68%	69%	70%	70%
Payout Ratio - FD	70%	70%	71%	71%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
Prev.				0.46A
2010	0.58A	0.32A	0.24A	0.49E
2011	0.63E	0.36E	0.25E	0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

NOVEMBER 8, 2010

Fortis Inc. (TSX: FTS)

Q3/10 Results In-Line; Raising Price Target to $33 on Higher Dividend Forecast

Sector Perform
Average Risk

Price:	33.26	**Price Target:**	33.00 ↑ 32.00
		Implied All-In Return:	3%
Shares O/S (MM):	173.6	**Market Cap (MM):**	5,774
Dividend:	1.12	**Yield:**	3.4%
Float (MM):	173.6		
Debt to Cap:	58%		

Event

Fortis reported Q3/10 results; increasing price target increased to $33.00 (from $32.00) based on higher dividend forecast.

Investment Opinion

- **Normalized Results in Line with Expectations.** Fortis' Q3/10 normalized EPS was $0.24 compared with our estimate of $0.24 and $0.22 in Q3/09. Reported EPS was $0.26 and we normalized for $4 million gain ($0.02/share) from a reversal of a loss at Terasen originally booked in Q4/09.
- **Ready to Ride the Dividend Wave?** Previously, we had forecast an $0.08/share increase in the dividend for 2011, which implied a 67% payout ratio. With a yield-driven market and other companies we cover receiving a favourable response from higher-than-forecast dividend increases, we see the potential for a larger increase from Fortis (likely to be announced in December or January). We have modestly increased our dividend forecast for 2011 to $1.24/share (from $1.20/share), with the new forecast implying a 70% payout ratio. Given the ongoing "equity" needs in the business resulting from the strong capex profile, we do not expect the company to push past the 70% payout mark.
- **A U.S. Acquisition Seems to Be Getting Closer.** Over the past several quarters, management has been incrementally optimistic regarding the potential to make a utility acquisition in the U.S. This quarter was no different.
- **A Stock Worth Owning, Just Not an Overweight Position Right Now.** In our view, Fortis has premium regulated utility assets and management has demonstrated its ability to acquire assets at good prices. However, we are more cautious regarding a U.S. utility acquisition as previous acquisitions were well known to investors (either the asset itself and/or the regulatory regime) whereas a U.S. acquisition is unlikely to be a familiar asset or a state regulator that Canadian investors will be familiar with.
- **Valuation: Raising Price Target to $33.00 (from $32.00).** We think that a larger dividend increase would be well received by the market. As such, we see the potential for modest valuation improvement. Our new price target is based on a forward P/E of 17.5x our 2012E EPS (previously 17.0x).

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

Q3/10 Results in Line with Expectations

Fortis' normalized EPS in Q3/10 was $0.24 compared to our estimate of $0.24 and $0.22 in Q3/09. Excluding a $4 million ($0.02/share) benefit related to prior periods, lower-than-expected earnings from Terasen were offset by higher-than-forecast earnings from Generation (strong water flows in Belize). The results are set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q3/10	RBC CM Q3/10E	Q3/09	Comments
Newfoundland Power	$8.0	$7.5	$7.0	
FortisOntario & Maritime Electric	5.0	5.6	5.0	
Terasen	(9.0)	(4.0)	(1.5)	Excludes $4mm of earnings related to prior period
FortisAlberta	19.0	19.5	17.0	
FortisBC	11.0	11.0	8.0	
Regulated Utilities - Canadian	34.0	39.6	35.5	
Regulated Utilities - Caribbean	8.0	8.3	7.0	
Non-regulated - Fortis Generation	9.0	3.8	4.0	Strong hydro generation in Belize
Non-regulated - Fortis Properties	9.0	8.5	9.0	
Corporate	(19.0)	(18.2)	(18.0)	
Normalized Earnings	**$41.0**	**$42.1**	**$37.5**	
Normalized EPS	**$0.24**	**$0.24**	**$0.22**	
Average shares outstanding (MM)	173.2	173.4	170.4	
Normalization adjustments:				
Corporate tax adjustment			1.0	
Carryback of AUC ROE decision			(2.5)	
Reversal (after tax) related to project cost overrun	4.0			
	4.0		(1.5)	
Reported Earnings	$45.0		$36.0	
Reported EPS	$0.26		$0.21	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter

- **Canadian Regulated Utilities Impacted by Earnings from Terasen.** Excluding a $4 million ($0.02/share) benefit related to the B.C. Utilities Commission approving the reversal of a project cost overrun previously expensed in Q4/09, earnings from Terasen were short of expectations in Q3/10.
- **Non-Regulated Fortis Generation Positively Impacted by Hydrology.** Higher-than-expected earnings from non-regulated Fortis Generation were primarily attributable to strong hydrology in Belize, including the recently commissioned Vaca hydro plant.
- **Waneta Expansion: 335 MW Hydro Project in B.C.** In Q3/10, Fortis finalized definitive agreements to enter into a partnership with Columbia Power Corporation and Columbia Basin Trust to construct the $900 million Waneta Expansion, a 335 MW hydro project in B.C. Fortis will own 51% of the plant and will operate and maintain the facility. The Waneta Expansion, which is expected to be in service in the spring of 2015, will sell energy and capacity to BC Hydro and FortisBC (Fortis' regulated electric utility) under long-term contracts. Construction is expected to start in November 2010. Fortis will initially fund the capex using available credit facilities with the aim of putting in place permanent financing at a later date. Our preliminary analysis indicates that the project could add roughly $0.03 to $0.05 per share to earnings. For additional details, please refer to our *Research Comment* dated August 27, 2010.
- **$5.5 Billion Long-Term Utility Growth Capex Plan.** Including the Waneta Expansion, the capital program over the five-year period from 2011 through 2015 is roughly $5.5 billion. Consolidated year-to-date capital expenditures were roughly $703 million, the majority of which was invested in the Canadian regulated utilities.
- **The Hunt Continues for Sizeable U.S. Utility Acquisition.** Fortis continues to pursue strategic opportunities to acquire regulated electric and gas utilities in Canada and the U.S. (of note, management intentionally removed the Caribbean as a

target geography from the "Outlook" section of the MD&A this quarter). Over the past several quarters, management has been incrementally optimistic regarding the potential to make a utility acquisition in the U.S.

Overall EPS Estimates Unchanged; Boosting Dividend Forecast

We have made changes to some of our segment forecasts but have left our overall EPS estimates unchanged through 2012. However, we have increased our forecast for dividends. Previously, we had forecast an $0.08/share increase in the dividend for 2011, which implied a 67% payout ratio. With a yield-driven market and other companies we cover receiving a favourable response from higher-than-forecast dividend increases, we see the potential for a larger increase from Fortis (likely to be announced in December or January). We have modestly increased our dividend estimate for 2011 to $1.24/share (from $1.20/share) with the new forecast implying a 70% payout ratio. Given the ongoing "equity" needs in the business due to the strong capex profile, we do not expect the company to push past the 70% payout mark.

Exhibit 2: Revised Financial Forecast (In $MM except per share figures)

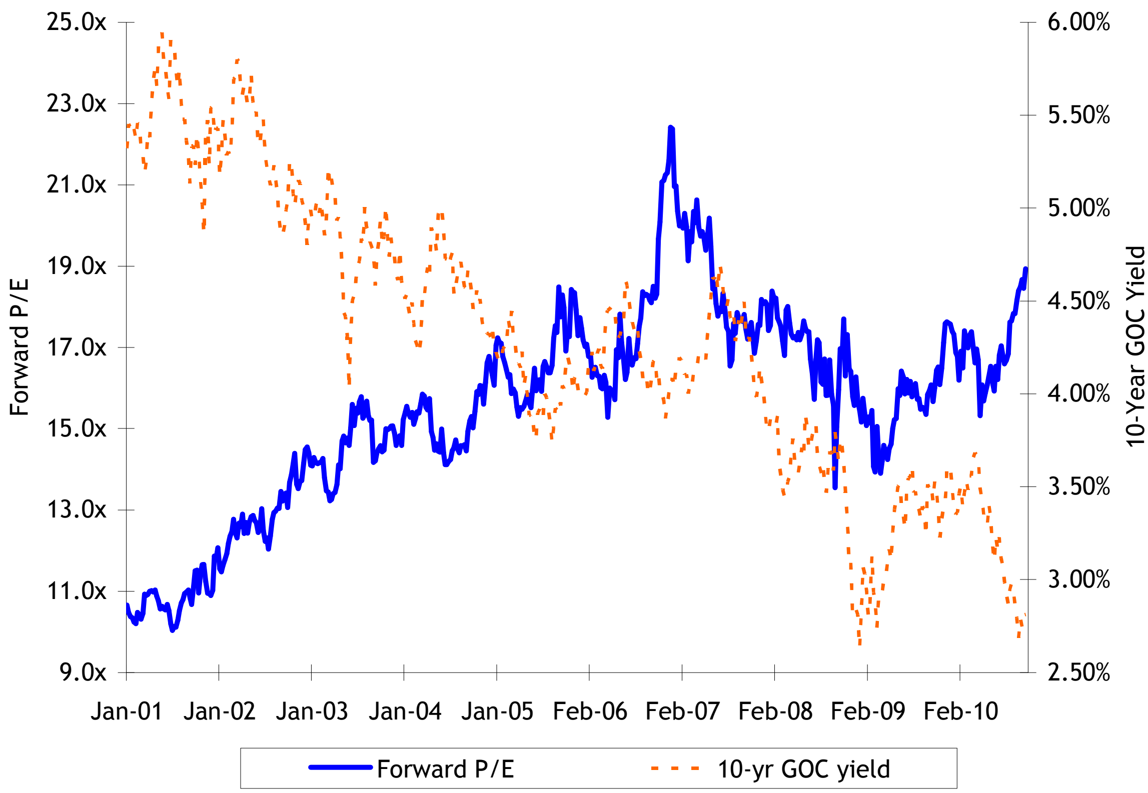
	2008	2009	Q1/10	Q2/10	Q3/10	Q4/10E	2010E	2011E	2012E	*Old 2010E*	*Old 2011E*	*Old 2012E*
Newfoundland Power	$32	$32	$7	$11	$8	$8	$34	$35	$37	*$34*	*$35*	*$37*
Other Cdn (ME + FTS Ont)	16	17	5	4	5	5	19	20	20	*19*	*20*	*20*
Terasen	113	126	73	17	(9)	44	125	138	146	*129*	*138*	*146*
FortisAlberta	46	57	14	17	19	15	65	73	81	*65*	*73*	*81*
FortisBC	34	37	14	8	11	11	44	49	53	*44*	*49*	*53*
Regulated Utilities - Caribbean	30	25	4	7	8	11	30	31	33	*30*	*31*	*33*
Fortis Generation	30	16	2	3	9	5	19	20	20	*13*	*20*	*20*
Fortis Properties	23	25	2	8	9	4	23	24	25	*23*	*24*	*25*
Corporate and other	(71)	(72)	(21)	(20)	(19)	(18)	(78)	(77)	(75)	*(78)*	*(77)*	*(75)*
Normalized earnings	**$253**	**$263**	**$100**	**$55**	**$41**	**$86**	**$282**	**$313**	**$339**	*$281*	*$313*	*$340*
Shares O/S (MM)	157	171	172	172	173	175	173	176	179	*173*	*176*	*179*
Normalized EPS (Basic)	**$1.60**	**$1.54**	**$0.58**	**$0.32**	**$0.24**	**$0.49**	**$1.63**	**$1.78**	**$1.89**	*$1.63*	*$1.78*	*$1.89*
Dividends Paid	$1.00	$1.04					$1.12	$1.24	$1.32	*$1.12*	*$1.20*	*$1.28*
Payout Ratio	62%	68%					69%	70%	70%	*69%*	*67%*	*68%*

Source: Company reports; RBC Capital Markets estimates

Increasing Price Target to $33.00 (from $32.00)

We have increased our price target to $33.00 (from $32.00) to reflect a forward P/E of 17.5x 2011E EPS (previously 17.0x) as we think that a larger dividend increase will be well received by the market. As shown in Exhibit 3, Fortis' forward P/E over the past five years mostly ranged from about 14x to 19x (excluding the peak in 2007 due to EPS dilution from the Terasen transaction as the deal closed in May, which is after Terasen's seasonally strong months). As such, our target multiple is well within the historical range.

Exhibit 3: Forward P/E



Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $33.00 is based on a forward P/E of 17.5x 2012E EPS. The forward P/E multiple is roughly in line with the 5-year average multiple and is similar to what we use for peers.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

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Underperform (U): Returns expected to be materially below sector average over 12 months.

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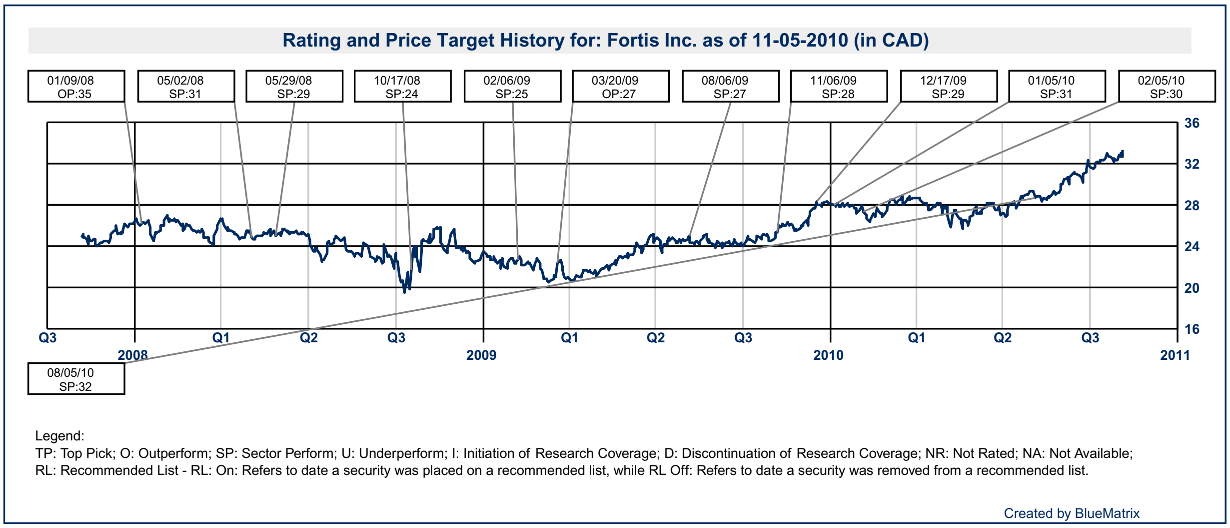
BUY[TP/O]	647	49.80	182	28.13
HOLD[SP]	596	45.80	112	18.79
SELL[U]	57	4.40	11	19.30



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January 6, 2012

COMPANY UPDATE

Commercial Metals Company (CMC)

Not Rated

Equity Research

Revising estimates post FY1Q2012 earnings

What's changed

We are raising our FY12/FY13 EPS estimate for CMC to $0.90/$1.35 from $0.89/$1.20 on some expected recovery in non-res construction beginning in FY4Q 2012. Our FY2Q 2012 estimate is lowered to $0.02 due to assumption of a LIFO charge of $15 mn or $0.09 per share. We are also raising our FY4Q2012 estimate to $0.33 from $0.25 due to expectation of some recovery in non-residential construction activity by then.

The company commented that the construction market in the Central US is showing some strength and is also seeing some recovery in the East Coast, but West Coast is continuing to lag. It is seeing some signs of improvement in commercial construction but also noticing a slowdown in public infrastructure activity. While the company said that 2012 is unlikely to be a breakout year for construction, demand continues to come back and would become a larger part of the company's order book.

The last shipments from the Croatian pipe mill business will be sold in the second quarter of fiscal 2012. Only employees engaged in shutdown and preparation of final shipments are still working at the mill.

Implications

We are Not Rated (NR) on CMC.

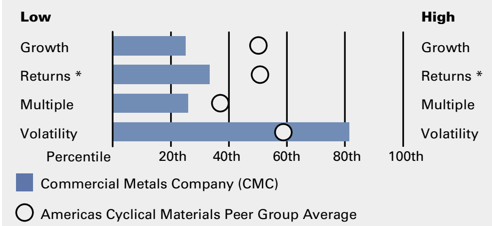
Valuation

CMC is currently trading at 14.8X CY2012E P/E and 6.3X EV/EBITDA. This is a premium to peers at 12.7X CY2012E P/E and 6.2X EV/EBITDA.

Key risks

Upside/downside risks: quick/delayed recovery in non-residential construction end-markets.

Investment Profile



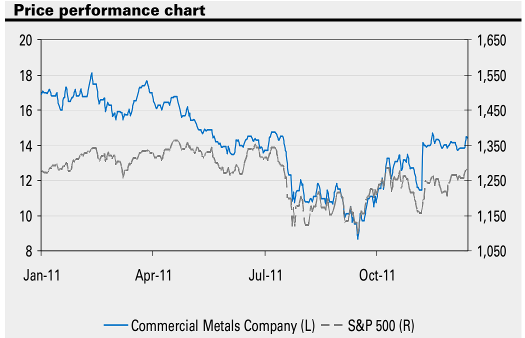
* Returns = Return on Capital   For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price ($)	14.42
Price target	--
Market cap ($ mn)	1,679.2

	8/11	8/12E	8/13E	8/14E
Revenue ($ mn) New	**7,920.1**	**8,659.7**	**9,100.4**	**7,849.3**
Revenue ($ mn) Old	7,916.5	9,083.6	9,264.0	5,742.8
EPS ($) New	**0.09**	**0.90**	**1.35**	**1.65**
EPS ($) Old	0.09	0.89	1.20	1.65
P/E (X)	163.8	16.0	10.7	8.8
EV/EBITDA (X)	10.2	7.1	5.7	4.7
ROE (%)	0.8	8.8	12.4	13.8

	11/11	2/12E	5/12E	8/12E
EPS ($)	0.20	0.02	0.36	0.33

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	42.9	0.9	(14.6)
Rel. to S&P 500	27.6	5.4	(14.9)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/05/2012 close.

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Commercial Metals Company: Summary Financials

Profit model ($ mn)	8/11	8/12E	8/13E	8/14E
Total revenue	7,920.1	8,659.7	9,100.4	7,849.3
Cost of goods sold	(7,113.6)	(7,627.9)	(7,916.9)	(6,715.0)
SG&A	(537.1)	(660.4)	(728.0)	(627.9)
R&D	--	--	--	--
Other operating profit/(expense)	(159.6)	(140.0)	(140.0)	(140.0)
ESO expense	0.0	0.0	0.0	0.0
EBITDA	**269.4**	**371.5**	**455.5**	**506.3**
Depreciation & amortization	(159.6)	(140.0)	(140.0)	(140.0)
EBIT	**109.9**	**231.5**	**315.5**	**366.3**
Net interest income/(expense)	(70.8)	(66.0)	(66.3)	(66.3)
Income/(loss) from associates	0.0	0.0	0.0	0.0
Others	(7.7)	(15.2)	(18.0)	(18.0)
Pretax profits	**31.3**	**150.3**	**231.2**	**282.0**
Provision for taxes	(20.9)	(45.3)	(74.0)	(90.3)
Minority interest	(0.2)	0.0	0.0	0.0
Net income pre-preferred dividends	**10.2**	**105.0**	**157.2**	**191.8**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**10.2**	**105.0**	**157.2**	**191.8**
Post tax exceptionals	0.0	(17.3)	0.0	0.0
Net income (post-exceptionals)	**10.2**	**87.7**	**157.2**	**191.8**
EPS (basic, pre-except) ($)	**0.09**	**0.91**	**1.36**	**1.66**
EPS (diluted, pre-except) ($)	**0.09**	**0.90**	**1.35**	**1.65**
EPS (basic, post-except) ($)	**0.09**	**0.91**	**1.36**	**1.66**
EPS (diluted, post-except) ($)	**0.09**	**0.90**	**1.35**	**1.65**
Common dividends paid	(55.5)	(55.5)	(55.5)	(55.5)
DPS ($)	0.48	0.48	0.48	0.48
Dividend payout ratio (%)	542.9	52.8	35.3	28.9

Growth & margins (%)	8/11	8/12E	8/13E	8/14E
Sales growth	24.7	9.3	5.1	(13.7)
EBITDA growth	582.7	37.9	22.6	11.2
EBIT growth	184.9	110.7	36.3	16.1
Net income (pre-except) growth	106.0	933.3	49.7	22.0
EPS growth	105.9	928.5	49.7	22.0
Gross margin	10.2	11.9	13.0	14.5
EBITDA margin	3.4	4.3	5.0	6.5
EBIT margin	1.4	2.7	3.5	4.7

Cash flow statement ($ mn)	8/11	8/12E	8/13E	8/14E
Net income	10.2	87.7	157.2	191.8
D&A add-back (incl. ESO)	159.6	140.0	140.0	140.0
Minority interest add-back	0.2	0.0	0.0	0.0
Net (inc)/dec working capital	(137.7)	(49.1)	(84.3)	130.0
Other operating cash flow	(0.6)	(6.5)	0.0	0.0
Cash flow from operations	**31.6**	**172.2**	**212.9**	**461.8**
Capital expenditures	(73.2)	(119.9)	(120.0)	(200.0)
Acquisitions	0.0	0.0	0.0	0.0
Divestitures	53.4	7.0	0.0	0.0
Others	(41.7)	(0.9)	0.0	0.0
Cash flow from investing	**(61.5)**	**(113.8)**	**(120.0)**	**(200.0)**
Dividends paid (common & pref)	(55.2)	(55.8)	(55.9)	(55.9)
Inc/(dec) in debt	(99.8)	12.9	0.0	(50.0)
Other financing cash flows	7.9	(0.1)	0.0	0.0
Cash flow from financing	**(147.0)**	**(42.9)**	**(55.9)**	**(105.9)**
Total cash flow	**(176.9)**	**15.5**	**37.0**	**155.9**

Balance sheet ($ mn)	8/11	8/12E	8/13E	8/14E
Cash & equivalents	222.4	237.9	274.8	430.8
Accounts receivable	956.9	990.6	1,078.6	902.7
Inventory	908.3	925.8	937.9	784.9
Other current assets	238.7	351.8	351.8	351.8
Total current assets	**2,326.3**	**2,506.1**	**2,643.1**	**2,470.1**
Net PP&E	1,112.0	990.5	970.5	1,030.5
Net intangibles	77.6	76.8	76.8	76.8
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	167.2	162.0	162.0	162.0
Total assets	**3,683.1**	**3,735.3**	**3,852.3**	**3,739.4**
Accounts payable	756.0	786.9	797.2	667.2
Short-term debt	65.1	52.3	52.3	52.3
Other current liabilities	377.8	416.6	422.1	353.2
Total current liabilities	**1,198.9**	**1,255.9**	**1,271.6**	**1,072.7**
Long-term debt	1,167.5	1,152.9	1,152.9	1,102.9
Other long-term liabilities	156.1	104.3	104.3	104.3
Total long-term liabilities	**1,323.6**	**1,257.2**	**1,257.2**	**1,207.2**
Total liabilities	**2,522.5**	**2,513.1**	**2,528.8**	**2,279.9**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**1,160.4**	**1,222.1**	**1,323.4**	**1,459.3**
Minority interest	**0.2**	**0.2**	**0.2**	**0.2**
Total liabilities & equity	3,683.1	3,735.3	3,852.3	3,739.4

Additional financials	8/11	8/12E	8/13E	8/14E
Net debt/equity (%)	87.0	79.1	70.3	49.6
Interest cover (X)	1.6	3.5	4.8	5.5
Inventory days	40.6	43.9	43.0	46.8
Receivable days	41.0	41.0	41.5	46.1
BVPS ($)	10.04	10.58	11.45	12.63
ROA (%)	0.3	2.8	4.1	5.1
CROCI (%)	6.0	7.8	9.6	10.2
Dupont ROE (%)	**0.9**	**8.6**	**11.9**	**13.1**
Margin (%)	0.1	1.2	1.7	2.4
Turnover (X)	2.2	2.3	2.4	2.1
Leverage (X)	3.2	3.1	2.9	2.6
Free cash flow per share ($)	(0.36)	0.45	0.80	2.27
Free cash flow yield (%)	(2.4)	3.1	5.6	15.7

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Disclosure Appendix

Reg AC

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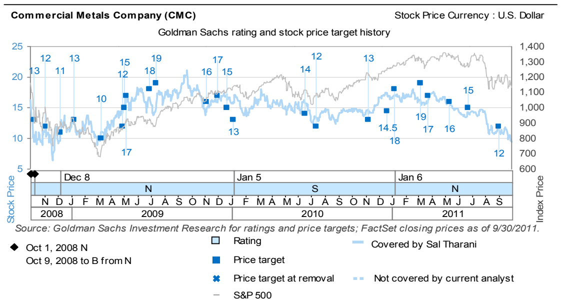
Price target and rating history chart(s)



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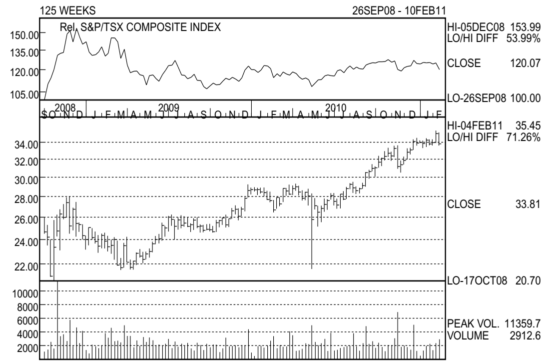

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FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.89
Div. Yield	3.1	3.3	3.4	3.7
P/E	22.0x	20.7x	19.0x	17.9x
EPS (Op) - FD	1.48	1.60	1.75	1.87
P/E	22.8x	21.1x	19.3x	18.1x
Annual Div.	1.04	1.12	1.16	1.24
Payout Ratio- Basic	68%	69%	65%	66%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.63E	0.36E	0.25E	0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

FEBRUARY 11, 2011

Fortis Inc. (TSX: FTS)

Q4/10 Results in Line with Expectations

Sector Perform
Average Risk

Price:	33.81	**Price Target:**	34.00 ↑ 33.00
		Implied All-In Return:	4%
Shares O/S (MM):	174.4	**Market Cap (MM):**	5,896
Dividend:	1.16	**Yield:**	3.4%
Float (MM):	174.4		
Debt to Cap:	58%		

Event

Fortis reported Q4/10 results.

Investment Opinion

- **Q4/10 Results in Line with Expectations.** Normalized Q4/10 EPS was $0.49, matching our estimate of $0.49 and slightly up from $0.48 in Q4/09. During the quarter, the performance of the Canadian regulated utilities was in line with our expectations. Weaker-than-forecast results from the Caribbean regulated utilities were broadly offset by good performance from the Properties division.
- **Growth Expected to Continue in the Core Canadian Utility Franchise.** Fortis expects to spend $1.2 billion on capex in 2011 with $919 million of that amount forecast for the Canadian regulated utilities. The estimated capital for 2011 is a modest increase from the $1.1 billion spent in 2010.
- **Headwinds in the Caribbean.** 2010 was a disappointing year for the segment, primarily driven by the ongoing situation in Belize although issues have popped up in Turks & Caicos along with Grand Cayman. Fortis hopes that it will be able to settle the rate issues in both Belize and Turks & Caicos in 2011, along with improving operational results in Grand Cayman.
- **Still Upbeat on the Potential for a U.S. Acquisition.** Fortis remains upbeat about the potential for a U.S. utility acquisition. We continue to believe that management will take a disciplined approach (Fortis has been looking to acquire a U.S. utility for years), although we continue to be cautious due to the potential size of the transaction (up to $5 billion enterprise value) in addition to investor familiarity with the asset and regulatory regime that will be lower than previous acquisitions (e.g., Terasen, Aquila Canada).
- **Valuation: Nudging Up Price Target to $34.00 (from $33.00).** Our price target of $34.00 is based on a forward P/E of 18x 2012E EPS. Although we remain cautious on the prospects for a large U.S. acquisition, we are incrementally more comfortable with the financing strategy based on our recent discussions with the company. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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Q4/10 Results in Line with Expectations

Fortis' normalized Q4/10 EPS was $0.49, matching our estimate of $0.49 and slightly up from $0.48 in Q4/09. During the quarter, the performance of the Canadian regulated utilities was in line with our expectations. Weaker-than-forecast results from the Caribbean regulated utilities were mostly offset by good performance from the Properties division. The Q4/10 and full-year results are set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q4/10	RBC CM Q4/10E	Q4/09	2010	2009	Comments for Q4 Results
Newfoundland Power	$9.0	$8.2	$8.0	$35.0	$32.0	
FortisOntario & Maritime Electric	5.0	5.2	3.0	19.0	17.0	
Terasen	45.0	44.4	55.5	126.0	126.0	
FortisAlberta	17.0	15.4	12.0	67.0	57.0	
FortisBC	10.0	11.3	8.0	43.0	37.0	
Regulated Utilities - Canadian	86.0	84.5	86.5	290.0	269.0	
Regulated Utilities - Caribbean	5.0	10.8	7.0	24.0	25.0	Higher costs in Belize (i.e., legal fees); weaker demand
Non-regulated - Fortis Generation	5.0	4.6	3.0	19.0	16.0	
Non-regulated - Fortis Properties	7.0	4.2	5.0	26.0	24.5	Lower corporate taxes; higher results from hotels and rental properties
Corporate	(18.0)	(17.6)	(19.0)	(78.0)	(72.0)	
Normalized Earnings	**$85.0**	**$86.3**	**$82.5**	**$281.0**	**$262.5**	
Normalized EPS	**$0.49**	**$0.49**	**$0.48**	**$1.63**	**$1.54**	
Average shares outstanding (MM)	173.9	174.5	170.9	172.9	170.9	
Normalization adjustments:						
Reversal (after tax) related to project cost overrun			(4.0)	4.0	(4.0)	
Caribbean: Favourable Appeal Judgement					1.0	
Caribbean: One-Time Energy Supply Cost Adj.					1.0	
Properties: One-Time Transition Costs					(0.5)	
AESO tax deferral benefit					3.0	
Corporate tax adjustment			3.0		4.0	
Provision for costs related to propane to gas conversions			(5.0)		(5.0)	
BCUC ROE decision booked in Q4/09 related to Q3/09			1.5			
AUC ROE decision booked in Q4/09 related to prior periods			3.0			
	0.0		(1.5)	4.0	(0.5)	
Reported Earnings	$85.0		$81.0	$285.0	$262.0	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter

- **Caribbean Regulated Utilities Impacted by Higher Expenses.** Lower-than-expected earnings from Caribbean Regulated Utilities in Q4/10 were partly attributable to higher operating expenses at Belize Electricity due to legal fees associated with continued regulatory challenges, and weaker customer demand. Management noted that while Belize Electricity contributed only about $1.5 million of earnings in 2010, it expects the utility to earn roughly $10 million annually under normal operations.

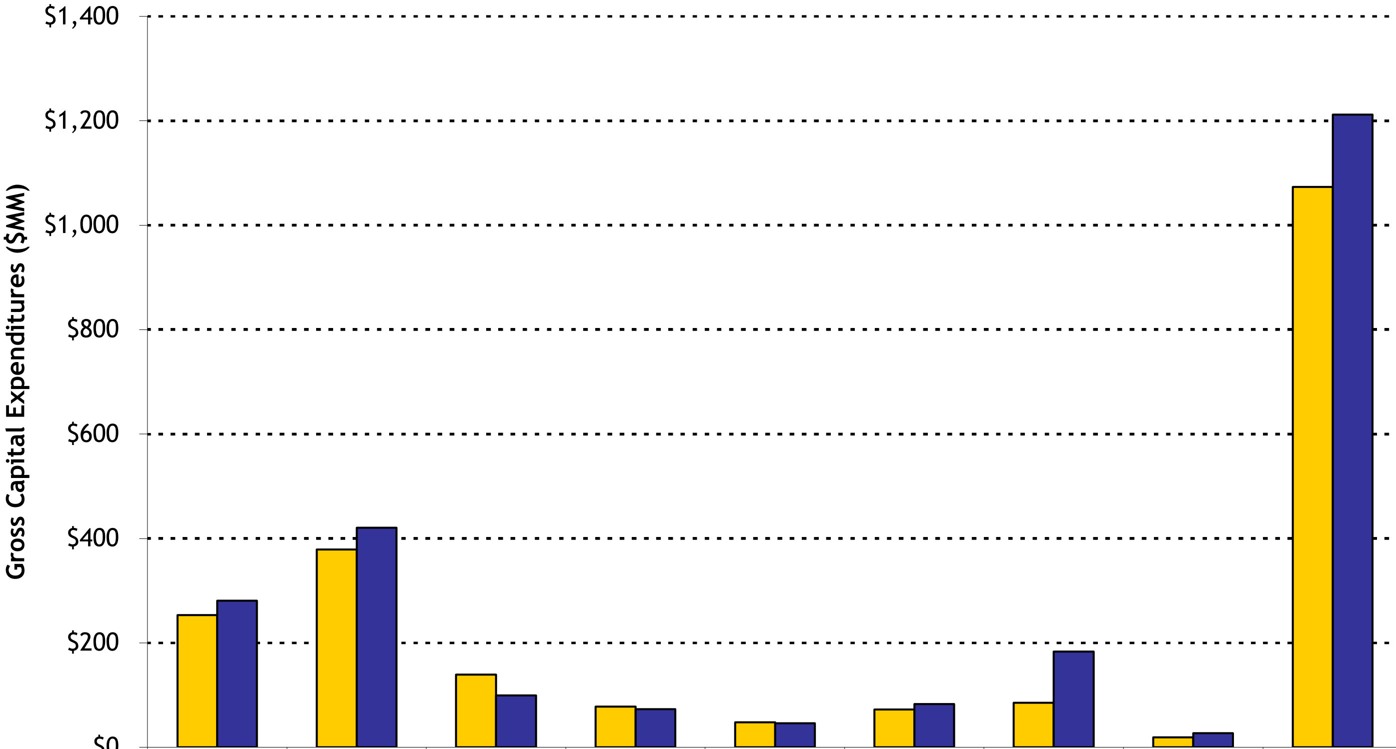
- **Non-Regulated Fortis Properties Positively Impacted by Lower Taxes.** Higher-than-expected earnings from non-regulated Fortis Properties were primarily attributable to lower corporate taxes and an improvement in results from hotel operations (i.e., Atlantic Canada and central Canada) and rental properties.

- **US$200 Million Private Placement Completed.** On December 22, 2010, Fortis closed a private placement of US$200 million in senior unsecured notes, which were issued to institutional investors in the U.S. in two tranches (US$125 million of 10-year at a coupon rate of 3.53% and US$75 million of 30-year notes at a coupon rate of 5.26%).

- **Long-Term Utility Growth Plan Remains Intact.** With roughly $1.1 billion of gross capex in 2010 and $1.2 billion expected in 2011 (please refer to Exhibit 2), planned capex over the next five years is expected to approach $5.5 billion. As the majority of Fortis' planned capital investment is in regulated electric utilities (about 63%), rate base is expected to grow at a roughly 6% compound annual growth rate, which should translate into similar earnings growth. Approximately 20% and 17% of the five-year capex program will be incurred at Terasen and at non-regulated operations, respectively.

- **Construction Under Way for Waneta Expansion.** In October 2010, construction began on the $900 million Waneta Expansion, a 335 MW hydro project in B.C that is expected to be in service in the spring of 2015. With a controlling interest of 51%, Fortis will operate and maintain the facility which will sell energy and capacity to BC Hydro and FortisBC (Fortis' regulated electric utility), under 40-year power sales contracts.

Exhibit 2: Capital Expenditures (2010 vs. 2011E)



	Terasen	FortisAlberta	FortisBC	Newfoundland Power	Other Cdn Reg	Caribbean Reg Util	Non-Reg Utility	Properties	Total
2010	$253	$379	$139	$78	$48	$72	$85	$19	$1,073
2011E	$281	$420	$99	$73	$46	$83	$183	$27	$1,212

Source: Company reports; RBC Capital Markets

Minor Changes within the Segments but Overall Estimates Remain Unchanged

We have made minor changes within some of our segment forecasts, but have left our overall EPS estimates unchanged through 2012. We have lowered our forecast for Terasen (about $3 million and $6 million lower in 2011 and 2012, respectively) which is offset by a higher forecast for Properties (about $3 million in both 2011 and 2012) and other minor changes for other segments. Our revised estimates are set out in Exhibit 3.

Exhibit 3: Revised Financial Forecast (In $MM except per share figures)

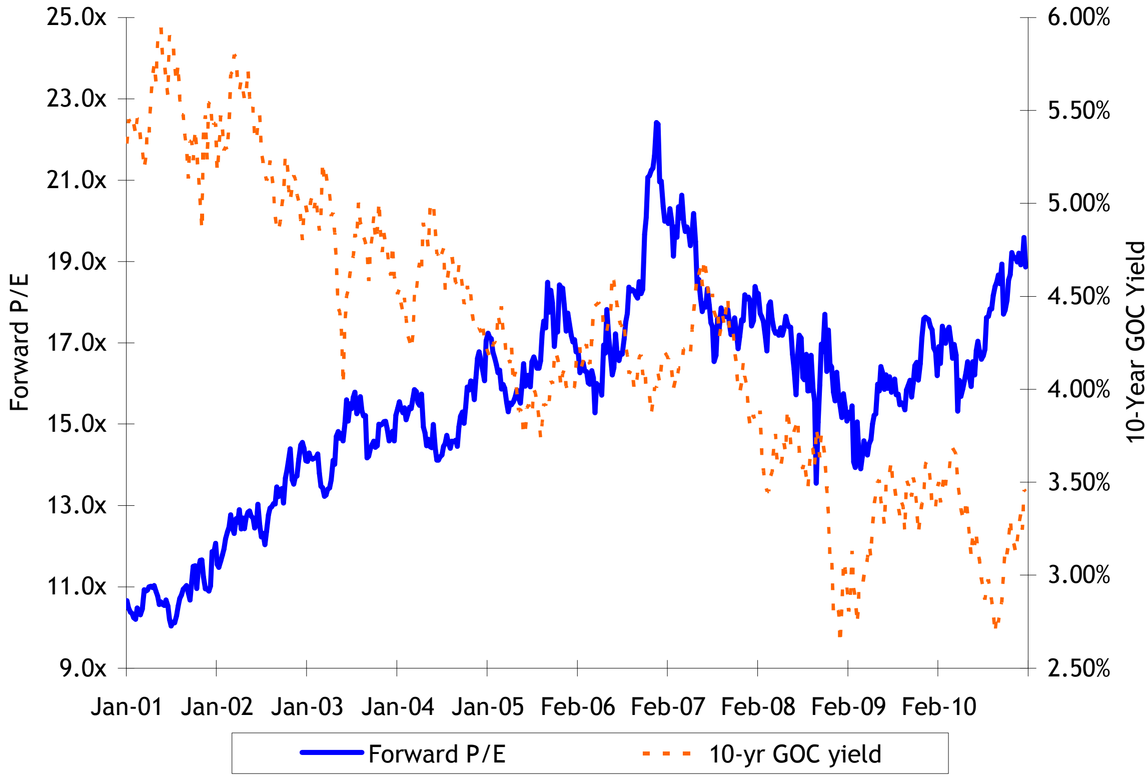
	2009	2010	Q1/11E	Q2/11E	Q3/11E	Q4/11E	2011E	2012E	Old 2011E	Old 2012E
Newfoundland Power	$32	$35	$7	$11	$8	$9	$35	$36	*$35*	*$37*
Other Cdn (ME + FTS Ont)	17	19	5	4	5	5	20	21	*20*	*20*
Terasen	126	126	74	17	(5)	48	134	140	*138*	*146*
FortisAlberta	57	67	16	19	21	19	74	83	*73*	*81*
FortisBC	37	43	15	9	12	11	47	51	*49*	*53*
Regulated Utilities - Caribbean	25	24	5	8	9	9	31	33	*31*	*33*
Fortis Generation	16	19	5	6	4	5	20	20	*20*	*20*
Fortis Properties	25	26	2	8	9	7	27	28	*24*	*25*
Corporate and other	(72)	(78)	(19)	(18)	(20)	(19)	(76)	(73)	*(77)*	*(75)*
Normalized earnings	**$263**	**$281**	**$111**	**$64**	**$44**	**$95**	**$312**	**$338**	*$313*	*$340*
Shares O/S (MM)	171	173	174	175	176	177	176	179	*176*	*179*
Normalized EPS (Basic)	**$1.54**	**$1.63**	**$0.63**	**$0.36**	**$0.25**	**$0.53**	**$1.78**	**$1.89**	*$1.78*	*$1.89*
Dividends Paid	$1.04	$1.12					$1.16	$1.24	*$1.16*	*$1.24*
Payout Ratio	68%	69%					65%	66%	*65%*	*66%*

Source: Company reports; RBC Capital Markets estimates

Increasing Price Target to $34.00 (from $33.00)

We have increased our price target to $34.00 (from $33.00) to reflect a forward P/E of 18.0x 2012E EPS (previously 17.5x). Although we remain cautious on the prospects for a large U.S. acquisition, we are incrementally more comfortable with the financing strategy based on our recent discussions with management. As shown in Exhibit 4, Fortis' forward P/E over the past five years mostly ranged from about 14x to 19x (excluding the peak in 2007 due to EPS dilution from the Terasen transaction as the deal closed in May, which is after Terasen's seasonally strong months). Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment and good growth from the core Canadian regulated utilities.

Exhibit 4: Forward P/E



Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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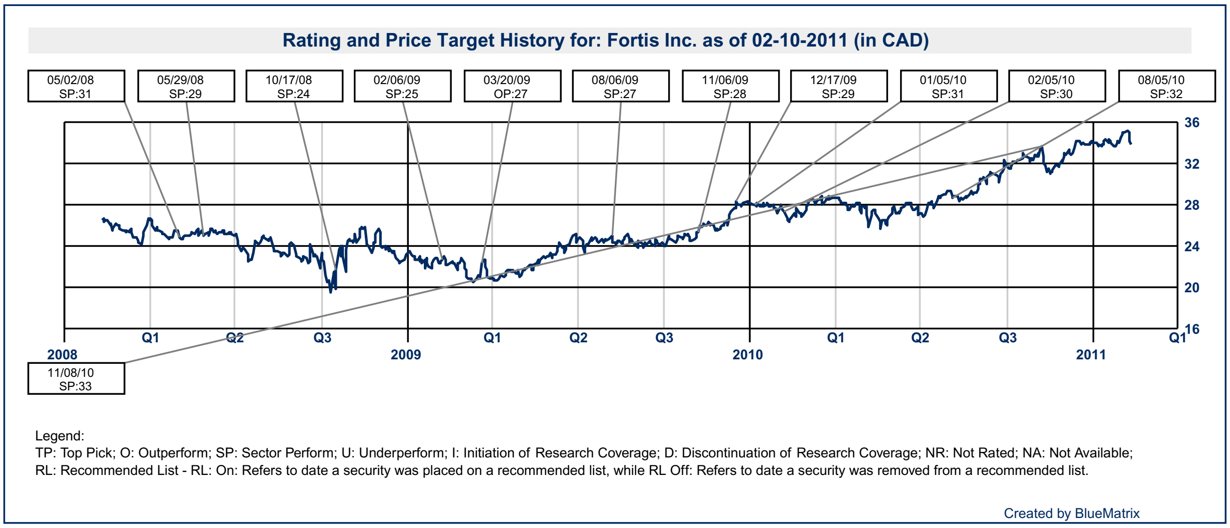

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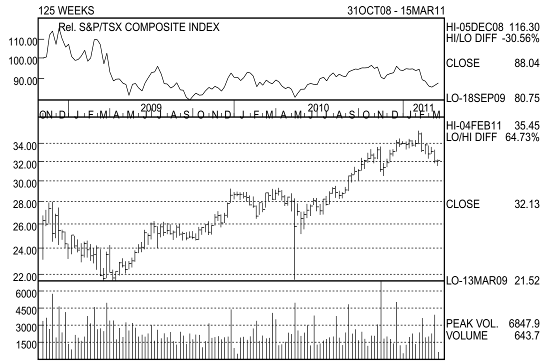

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FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.89
P/E	20.9x	19.7x	18.1x	17.0x
EPS (Op) - FD	1.48	1.60	1.75	1.87
P/E	21.7x	20.1x	18.4x	17.2x
Annual Div.	1.04	1.12	1.16	1.24
Div. Yield	3.2	3.5	3.6	3.9
Payout Ratio- Basic	68%	69%	65%	66%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.63E	0.36E	0.25E	0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

MARCH 16, 2011

Fortis Inc. (TSX: FTS)

Supreme Court of Belize Dismisses Belize Electricity's Appeal

Sector Perform
Average Risk

Price:	32.13	**Price Target:**	34.00
		Implied All-In Return:	9%
Shares O/S (MM):	174.4	**Market Cap (MM):**	5,603
Dividend:	1.16	**Yield:**	3.6%
Float (MM):	174.4		
Debt to Cap:	58%		

Event

The Supreme Court of Belize released its decision on the 2008 Annual Tariff Review Proceeding.

Investment Opinion

- **Belize Electricity's Appeal Dismissed.** The Supreme Court of Belize dismissed Belize Electricity Limited's appeal (BEL is 70% owned by Fortis) of the Public Utilities Commission's Final Decision, following the 2008 Annual Tariff Reviewing Proceeding. The Supreme Court judge found that among other things, "Good Utility Practice as defined by [the Independent Expert appointed by the Court] in his Report is not applicable to Belize."
- **What Comes Next?** Fortis and Belize Electricity will continue to further assess their options and legal remedies, including appeal. It is our understanding that the next highest court is a pan-Caribbean court and although the politics of the dispute may be one step removed, it is possible that BEL will need to appeal to the highest court, which is the Privy Council that sits in the United Kingdom where we believe the appeal has the best chance of succeeding.
- **BEL is Not a Material Contributor to Earnings.** Despite the headlines regarding Fortis' troubles in Belize, BEL contributed only $2 million to earnings in 2010 (less than 1% of total earnings). As such, we do not view the ongoing dispute as material to Fortis' earnings or our outlook.
- **Background on Fight with Belize Regulator.** In its June 2008 Final Decision on Belize Electricity's 2008/2009 rate application, the PUC allowed a greater fuel cost/purchased power "recovery", which was offset by a lower return on assets (10% vs. the previous 12%) combined with BZ$36 million (C$18 million) of retroactive disallowances for Belize Electricity. For further details, please refer to our *Research Comment* on June 30, 2008.
- **Valuation.** Our price target of $34.00 (unchanged) is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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Valuation

Our price target of $34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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			Investment Banking Serv./Past 12 Mos.	
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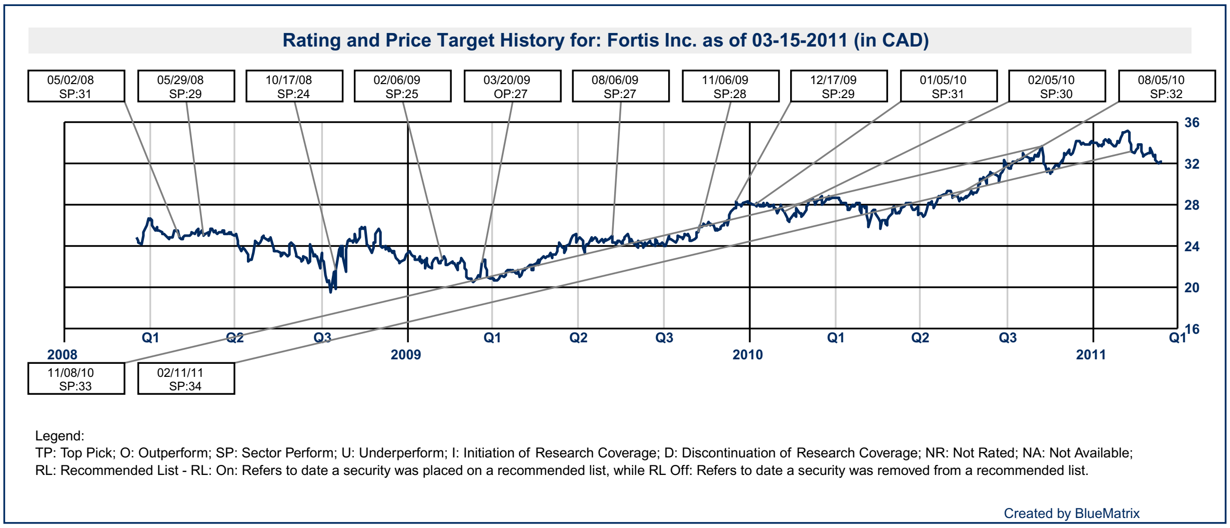
HOLD[SP]	596	44.10	134	22.48
SELL[U]	61	4.50	11	18.03



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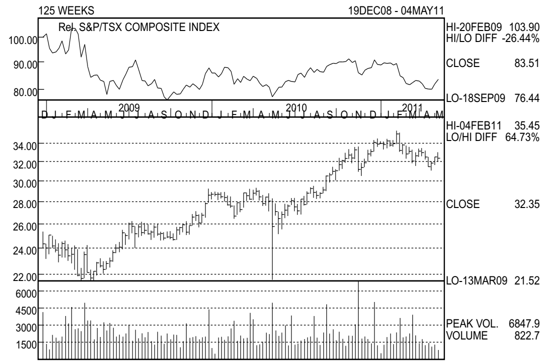

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FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.80	1.89
Prev.			1.78	
P/E	21.0x	19.8x	18.0x	17.1x
EPS (Op) - FD	1.48	1.60	1.77	1.87
Prev.			1.75	
P/E	21.9x	20.2x	18.3x	17.3x
Annual Div.	1.04	1.12	1.16	1.24
Div. Yield	3%	3%	4%	4%
Payout Ratio- Basic	68%	69%	64%	66%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.37E	0.25E	0.51E
Prev.	0.63E	0.36E		0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

MAY 5, 2011

Fortis Inc. (TSX: FTS)

2011 Off to a Good Start

Sector Perform
Average Risk

Price:	32.35	**Price Target:**	34.00
		Implied All-In Return:	9%
Shares O/S (MM):	175.5	**Market Cap (MM):**	5,677
Dividend:	1.16	**Yield:**	3.6%
Float (MM):	175.5		
Debt to Cap:	58%		

Event

Fortis reported Q1/11 results.

Investment Opinion

- **Good Q1/11 Results.** EPS for the quarter was $0.67 compared to our estimate of $0.63 and $0.58 in Q1/10. The Canadian Regulated Utilities turned in solid results, which were due to a combination of good underlying fundamentals in the businesses, quarterly timing differences related to costs and the timing of rate increases, and a small gain on sale in FortisAlberta (less than $0.01/share).
- **Modestly Bumping Up 2011 EPS Estimate.** We have increased our 2011 EPS estimate to $1.80 (from $1.78) to reflect better results from the Canadian Regulated Utilities (in particular FortisBC Electric), partially offset by weaker estimated earnings from the utilities in the Caribbean (Belize and also a stronger C$).
- **U.S. Utility Acquisition: Still Working Away, but We Expect Management to Continue to Show Lots of Discipline.** Fortis continues to evaluate U.S. utility acquisition opportunities and the parameters remain the same (i.e., up to $5 billion EV and single state preferred). One trend that could provide acquisition opportunities is the possible sale of U.S. utilities owned by foreign companies.
- **Funding Plan is Solid.** Despite a heavy capex plan (about $1.2 billion for 2011), the balance sheet is in good shape, which affords the company flexibility. Equity needs are expected to be modest with the potential for a relatively small issuance late in 2011 or in 2012. Optimally, any equity issuance would coincide with acquisition financing.
- **Overall Views Unchanged.** We view the shares as fairly valued despite trading at a premium to other large cap regulated utility stocks in our coverage. We see a premium P/E valuation as warranted due to the attractive group of Canadian regulated utility assets (particularly the western Canadian utilities) and a disciplined management team.
- **Valuation.** Our price target of $34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion that will not contribute to earnings until 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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Q1/11 Results Higher Than Expectations

Fortis' normalized Q1/11 EPS was $0.67, compared to our estimate of $0.63 and $0.58 in Q1/10. The higher-than-expected earnings were mainly due to results from FortisAlberta and FortisBC Electric, which benefited from a combination of low purchased power costs (strong hydrology driving down prices in BC/PacNW) for FortisBC Electric, and quarterly timing differences (costs and rate implementation) along with a gain on sale for FortisAlberta. The quarterly results compared to our estimate are set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q1/11	RBC CM Q1/11E	Q1/10	Comments
Newfoundland Power	$7	$7	$7	
FortisOntario & Maritime Electric	6	5	5	
FortisBC Energy	76	74	73	
FortisAlberta	21	16	14	Quarterly timing difference (incl. rate implementation); $1mm gain on sale
FortisBC Electric	19	15	14	Low purchased power costs (low BC/PacNW hydro prices)
Regulated Utilities - Canadian	129	117	113	
Regulated Utilities - Caribbean	4	5	4	
Non-regulated - Fortis Generation	3	5	2	
Non-regulated - Fortis Properties	1	2	2	
Corporate	(20)	(19)	(21)	
Normalized Earnings	**$117**	**$111**	**$100**	
Normalized EPS	**$0.67**	**$0.63**	**$0.58**	
Average shares outstanding (MM)	175	174	172	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter and Outlook

- **Strong Q1/11 Mainly Due to Canadian Regulated Utilities.** Higher-than-forecast earnings were mainly attributable to strong results from FortisAlberta and FortisBC Electric, and to a lesser extent, FortisBC Energy (formerly Terasen) due to a combination of strong underlying business fundamentals and quarterly timing differences. FortisAlberta also benefited from a roughly $1 million gain (after-tax) on the sale of land in Q1/11.

- **Belize Update: Appeal of Trial Judgment to be Filed.** In March 2011, the Supreme Court of Belize dismissed Belize Electricity Limited's appeal (BEL is 70% owned by Fortis) of the Public Utilities Commission's Final Decision, following the 2008 Annual Tariff Reviewing Proceeding. Fortis is in the process of filing an appeal of the trial judgment, which is required prior to filing an appeal to the Caribbean Court of Justice. As BEL is not a material contributor to Fortis' earnings (it contributed $2 million of earnings in 2010), we do not view the ongoing dispute as material to the share price.

- **Long-Term Utility Growth Plan Remains Intact.** With roughly $1.2 billion of capex expected in 2011 and over the $5.5 billion over the five-year period 2011 through 2015, the majority of Fortis' planned capital investment remains in regulated electric utilities (about 63%) driven by FortisAlberta and FortisBC Electric. Approximately 20% and 17% of the five-year capex program will be incurred at FortisBC Energy and at non-regulated operations, respectively.

- **Construction Work Continues on Waneta Expansion.** Construction work continued on the $900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. With a controlling interest of 51%, Fortis will operate and maintain the facility, which will sell energy and capacity to BC Hydro and FortisBC Electric under 40-year power sales contracts.

- **Potential U.S. Utility Acquisition: Still Active, But Not Much New to Report.** Fortis remains interested in acquiring a U.S. utility. We believe that the company will remain disciplined with respect to acquisition parameters, evidenced by the fact that management has been talking about a U.S. utility acquisition for many years, but has yet to pull the trigger. The following is a recap of the parameters that management has discussed with respect to a U.S. utility acquisition.
    - **Potential for a Scale Changing Acquisition.** The company continues to seek out regulated electric and/or gas utilities with a preference for businesses in a single state (i.e. one regulator). Fortis is comfortable with an integrated

electric utility as long as the generation assets are in regulated rate base. The target size is US$1 billion to US$5 billion of enterprise value with a utility in the US$3 billion enterprise value range as being optimal.

- **Going Solo is Preferred.** Similar to comments made throughout the years, management continues to prefer to acquire 100% of assets without any partners. The company feels this reduces the complexity of a transaction and allows the company to proceed with an acquisition more expeditiously.
- **Will Partner if Necessary, but Not a Consortium.** To the extent an acquisition target is too large for Fortis to complete on its own, the company would consider taking on one partner (e.g. a Canadian pension fund) where the company would have at least a 50% interest.

2011 EPS Estimate Modestly Increased

We have increased our 2011 EPS estimate to $1.80 (from $1.78) to reflect better results from the Canadian Regulated Utilities (in particular FortisBC Electric), partially offset by weaker estimated earnings from the utilities in the Caribbean (Belize in particular, but also a stronger C$). Our revised estimates are set out in Exhibit 2.

Exhibit 2: Revised Financial Forecast (In $MM except per share figures)

	2009	2010	Q1/11	Q2/11E	Q3/11E	Q4/11E	2011E	2012E	OLD *2011E*	OLD *2012E*
Newfoundland Power	$32	$35	$7	$11	$8	$9	$35	$36	*$35*	*$36*
Other Cdn (ME + FTS Ont)	17	19	6	4	5	4	20	21	*20*	*21*
FortisBC Energy	126	126	76	18	(6)	50	138	143	*134*	*140*
FortisAlberta	57	67	21	21	17	18	77	85	*74*	*83*
FortisBC Electric	37	43	19	10	13	10	51	53	*47*	*51*
Regulated Utilities - Caribbean	25	24	4	8	9	5	26	27	*31*	*33*
Fortis Generation	16	19	3	4	7	4	19	19	*20*	*20*
Fortis Properties	25	26	1	8	9	8	27	28	*27*	*28*
Corporate and other	(72)	(78)	(20)	(19)	(19)	(19)	(77)	(74)	*(76)*	*(73)*
Normalized earnings	**$263**	**$281**	**$117**	**$64**	**$45**	**$90**	**$316**	**$338**	***$312***	***$338***
Shares O/S (MM)	171	173	175	176	176	177	176	179	*176*	*179*
Normalized EPS (Basic)	**$1.54**	**$1.63**	**$0.67**	**$0.37**	**$0.25**	**$0.51**	**$1.80**	**$1.89**	***$1.78***	***$1.89***
Dividends Paid	$1.04	$1.12					$1.16	$1.24	*$1.16*	*$1.24*
Payout Ratio	68%	69%					65%	65%	*65%*	*66%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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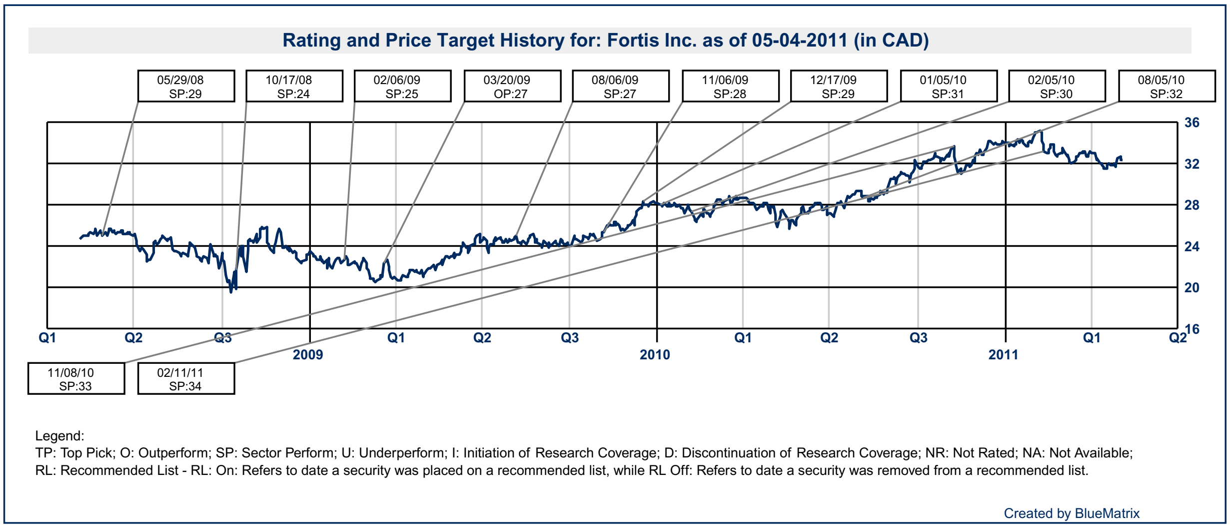
BUY[TP/O]	706	52.30	211	29.89
HOLD[SP]	587	43.40	129	21.98
SELL[U]	58	4.30	12	20.69



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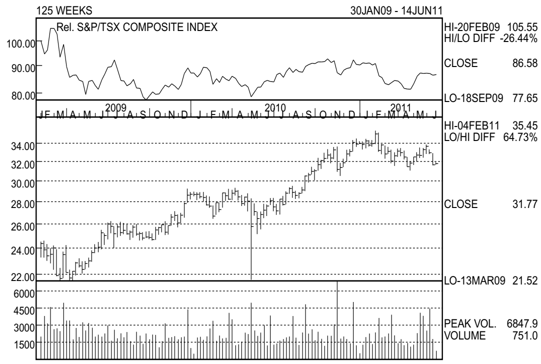
COMPANY UPDATE | COMMENT

JUNE 15, 2011

Fortis Inc. (TSX: FTS)

Cross-Border Shopping



Sector Perform
Average Risk

Price:	31.77	**Price Target:**	34.00
		Implied All-In Return:	11%
Shares O/S (MM):	184.6	**Market Cap (MM):**	5,865
Dividend:	1.16	**Yield:**	3.7%
Float (MM):	184.6		
Debt to Cap:	58%		

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FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.91
Prev.			1.80	1.89
P/E	20.6x	19.5x	17.8x	16.6x
EPS (Op) - FD	1.48	1.60	1.76	1.89
Prev.			1.77	1.87
P/E	21.5x	19.9x	18.1x	16.8x
DPS	1.04	1.12	1.16	1.24
Div. Yield	3.3%	3.5%	3.7%	3.9%
Payout Ratio- Basic	68%	69%	65%	65%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.36E	0.25E	0.50E
Prev.		0.37E		0.51E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Event

Fortis closed its $300 million equity offering; publishing our views on the Central Vermont Public Service (CVPS) acquisition.

Investment Opinion

- **CVPS Acquisition is Incrementally Positive.** We view the pending CVPS acquisition as modestly positive as it: (1) is a smaller transaction at US$700 million enterprise value compared to the previously-stated US$3 billion to US$5 billion target-size (enterprise value) that can help prove-up the U.S. expansion strategy; (2) the utility is fairly close geographically to Fortis' utilities in eastern Canada; (3) CVPS is geographically close to other potential utility targets, particularly those owned by European companies that might eventually be sold; and (4) the transaction is expected to deliver modest EPS accretion in its first full year, which should increase over time as CVPS' annual rate base growth is forecast to be 9% (faster than the roughly 6% average growth for Fortis' other utilities).
- **Fortis Paid a Full Price for CVPS.** The purchase price P/E valuation is 21x the mid-point of CVPS' 2011 EPS guidance. As a multiple to rate base (adjusted for debt at Vermont Transco), Fortis paid approximately 1.4x 2011E mid-year rate base.
- **Modest Expected Accretion Should Increase Over Time.** Based on CVPS' 2011 EPS guidance range, we estimate that the transaction could add between $0.01/share and $0.03/share to EPS in the first full-year. We expect EPS accretion to increase over time as rate base growth at CVPS is forecast to exceed that of Fortis' other utilities.
- **Colour Coding the Dollars: The Recent Equity Issue is Not Earmarked for the CVPS Transaction.** Fortis needed roughly $300 million of common equity in late 2011 or early 2012 to fund the existing capital plan. While it is hard to resist tying the equity deal to the CVPS announcement, the equity deal is an acceleration of the existing need that also reduces financing risk when the CVPS deal closes (Fortis is likely to issue preferred shares at that time).
- **Valuation.** Our price target of $34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

CVPS Transaction: Incrementally Positive

We view the Central Vermont Public Service (CVPS) acquisition as a modest positive for the stock for the following reasons:

(1) **Relatively Small Size Allows Fortis to "Prove" the U.S. Acquisition Strategy to the Market.** Fortis has long discussed a desire to acquire a US$3 billion to US$5 billion enterprise value utility. However, we believe that the market was cautious on a transaction of that size and the CVPS deal at roughly US$700 million enterprise value is a more manageable size that will allow the company to prove to the market that it can navigate U.S. state regulation. Further, it demonstrates that management is taking a methodical approach to U.S. expansion and will not "force" a larger deal if the fit (strategic and financial) is not right.

(2) **Geographically Attractive Footprint to Further Grow the U.S. Business.** The U.S. northeast is a region that is fairly close to Fortis' central and eastern Canadian operations, but is also well situated for potential future acquisitions, which may include utilities that are currently owned by larger European-based companies.

(3) **Modest Expected EPS Accretion That Will Grow Over Time.** As shown in Exhibit 1, we expect the transaction to contribute between $0.01/share and $0.03/share to annual EPS. Despite a significant premium paid for CVPS' shares, we expect accretion to initially be driven by double-leverage (CVPS equity thickness of 57% compared to Fortis' overall structure at 40%) and a "double-dip" cross-border financing that will result in a lower effective tax rate. Over time, CVPS' rate base is expected to grow at roughly 9% annually (please see Exhibit 2), which is faster than the 6% estimated annual growth in rate base for the rest of Fortis' utilities.

(4) **Other Than the Smaller Size, the Acquisition Fits Everything That Management Has Discussed.** In looking at U.S. acquisitions, management has expressed a preference for an electric utility with single state regulation, minimal unregulated assets and good prospects for rate base growth. CVPS meets each of these factors.

(5) **A Larger Acquisition is Likely Not Imminent.** We believe that Fortis executing a US$700 million deal, while preferring to target a utility in the US$3 billion to US$5 billion range, is a sign that there is nothing of that size on the front burner that is likely to be announced in the near future.

Exhibit 1: Estimated EPS Accretion (In US$MM except per share figures)

Assumptions	
Total Deal	$700
Equity Financed	280
Debt Financed	420
Debt Already at Co	(230)
Incremental Debt	190
Assumed Int Rate	5%
New Tax Rate	25%
Equity Deal Price	$33.00

	2012E		Comments
CVPS EPS Guidance	$1.60	$1.75	From Q1/11 investor presentation
Shares O/S	13	13	
Net Income	21	23	
Tax	12	14	36.77% effective rate per CVPS guidance
EBT	34	37	
Additional Interest Expense	(10)	(10)	Based on double-leverage in "Assumptions"
Adjusted EBT	24	28	
Income Tax	(6)	(7)	Assumes 25% effective rate; "Double dip" cross-border structure
Adjusted Net Inc	18	21	
Fortis Earnings	338	338	Assumes C$ parity
Pro Forma Earnings	$356	$358	Assumes C$ parity
Shares O/S	179	179	
New Shares	8	8	Assumed equity financing for EPS accretion calculation (differs from actual financing)
Pro Forma Shares	187	187	
Pre-Acq EPS	$1.89	$1.89	Assumes C$ parity
Pro Forma EPS	$1.90	$1.92	Assumes C$ parity

Source: Company reports; RBC Capital Markets estimates

Our Thoughts on Other Recent Events

Equity Financing: An Acceleration of Future Needs and De-Risking the Pending CVPS Requirement

Previous to the CVPS announcement, we estimated that Fortis had a need for roughly $300 million in equity in late 2011 or early 2012 to finance the growth in its existing utilities (in particular western Canada) and the Waneta hydro expansion. Although it is convenient to link the $300 million equity financing that just closed with the CVPS transaction, the acquisition is expected to close in six to 12 months and will be fully financed closer to that date. As such, we view the recently-closed equity financing as an acceleration of the forecast equity requirement to take advantage of supportive equity markets in addition to reducing the future equity needs (i.e. internal growth plus the CVPS acquisition).

Management expects to finance the equity for the CVPS acquisition with preferred shares although this will be dependent on the state of the preferred share market at the time. As such, it remains a possibility that common shares could be issued in six to 12 months time.

Belize: Government Interested in Acquiring Fortis' 70% Stake in Belize Electricity Limited (BEL)

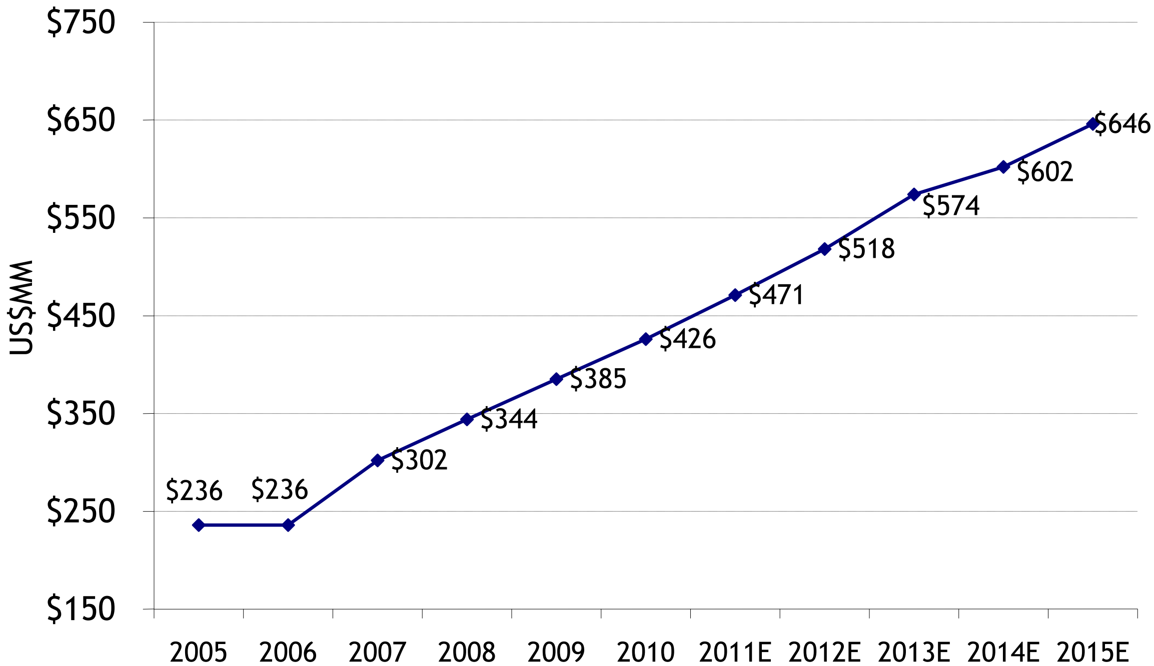
As a result of the ongoing issues at Belize Electricity Limited (BEL), the electric distribution utility in the country that is 70%-owned by Fortis, the government has expressed an interest in acquiring Fortis' stake. Overall, we believe that the ongoing dispute will continue to create negative headlines, although we believe that the financial impact is not particularly material.

- **BEL Does Not Materially Contribute to Earnings.** BEL generated $2 million ($0.01/share) of net income in 2010 and $4 million in 2009 ($0.02/share). From an asset perspective, BEL makes up 2% of Fortis' assets.
- **Appears to be Confined to BEL, but an Expansion to the Unregulated Power Business Could Increase the Exposure.** Fortis owns three unregulated hydro facilities in the country, which are not part of BEL. However, there is the potential that these assets could become swept up as part of the ongoing dispute. We estimate that the assets contribute roughly $12 million to $14 million of annual earnings (about $0.06/share to $0.07/share).
- **Mitigating Factor #1: It Appears that the Government is Willing to Pay (Some Concept of) Fair Value.** As far as we can tell, the government of Belize is not contemplating trying to seize the asset. There are various statements regarding the acquisition based on "fair value". If this were the case, Fortis would receive proceeds that it could either use to repay debt, or redeploy, thereby offsetting any negative impact from lost earnings.
- **Mitigating Factor #2: The Ultimate Court of Appeal is Not in Belize.** BEL lost its case in front of the Belize Supreme Court with respect to its rate dispute with the Belize Public Utilities Commission. The case is being heard by the court of appeal in Belize, which is unlikely to yield results. However, the ultimate court of appeal is a pan-Caribbean court, which should be more independent from Belize with a greater likelihood that BEL's arguments will resonate with respect to "good utility practices".

Overview of Central Vermont Public Service (CVPS)

- **Service Territory and Customers.** CVPS is an electric utility with almost 160,000 customers in a service territory that covers about two-thirds of Vermont. In addition, CVPS owns a 41% interest in Vermont Transco, which owns and operates a high-voltage electric transmission system in the state.
- **Rate Base Expected to Grow at a 9% CAGR.** The historical rate base in addition to CVPS management's forecast is shown in Exhibit 2.
- **Capital Structure and ROE.** CVPS' allowed ROE for 2011 is 9.45%, which is broadly comparable to many of Fortis' existing utilities. However, the 57% equity thickness is quite a bit higher than Fortis' other utilities, although we see that as a compensating factor for a higher level of risk at CVPS compared to Fortis' Canadian regulated businesses (e.g., lower protection against customer usage).
- **Power Supply Expected to Shift.** Currently, about 50% of energy supply is sourced from nuclear (Vermont Yankee; owned by a third-party), about 40% from hydroelectric production (mostly Hydro-Quebec) and 10% from other sources. Going forward, CVPS has locked up additional supply from Hydro-Quebec and other sources to proactively replace the potential for lost power from the Vermont Yankee nuclear facility in 2012.

Exhibit 2: Forecast Rate Base Growth (CVPS Management)



Source: Company reports; RBC Capital Markets

Estimates Revised

We have revised our 2011 and 2012 EPS estimates to reflect the recent equity issuance in addition to the pending CVPS transaction. In 2011, our EPS estimate modestly declines to $1.78 (down from $1.80) to reflect dilution from the equity issued, partially offset by lower interest expense (at the Corporate level) on the repayment of debt. For 2012, our EPS estimate increases to $1.91 (up from $1.89) to reflect earnings from CVPS, partially offset by higher interest expense on debt used to partially finance the CVPS transaction (recorded at the CVPS level) and dilution from the recent equity issuance. Our revised estimates are set out in Exhibit 3.

Exhibit 3: Revised Financial Forecast (In $MM except per share figures)

									OLD	
	2009	2010	Q1/11	Q2/11E	Q3/11E	Q4/11E	2011E	2012E	*2011E*	*2012E*
Newfoundland Power	$32	$35	$7	$11	$8	$9	$35	$36	*$35*	*$36*
Other Cdn (ME + FTS Ont)	17	19	6	4	5	4	20	21	*20*	*21*
FortisBC Energy	126	126	76	18	(6)	50	138	143	*138*	*143*
FortisAlberta	57	67	21	21	17	18	77	85	*77*	*85*
FortisBC Electric	37	43	19	10	13	10	51	53	*51*	*53*
CVPS								21		
Regulated Utilities - Caribbean	25	24	4	8	9	5	26	27	*26*	*27*
Fortis Generation	16	19	3	4	7	4	19	19	*19*	*19*
Fortis Properties	25	26	1	8	9	8	27	28	*27*	*28*
Corporate and other	(72)	(78)	(20)	(19)	(17)	(16)	(72)	(74)	*(77)*	*(74)*
Normalized earnings	**$263**	**$281**	**$117**	**$65**	**$47**	**$93**	**$321**	**$359**	***$316***	***$338***
Shares O/S (MM)	171	173	175	177	185	186	180	188	*176*	*179*
Normalized EPS (Basic)	**$1.54**	**$1.63**	**$0.67**	**$0.36**	**$0.25**	**$0.50**	**$1.78**	**$1.91**	***$1.80***	***$1.89***
Dividends Paid	$1.04	$1.12					$1.16	$1.24	*$1.16*	*$1.24*
Payout Ratio	68%	69%					65%	65%	*65%*	*65%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

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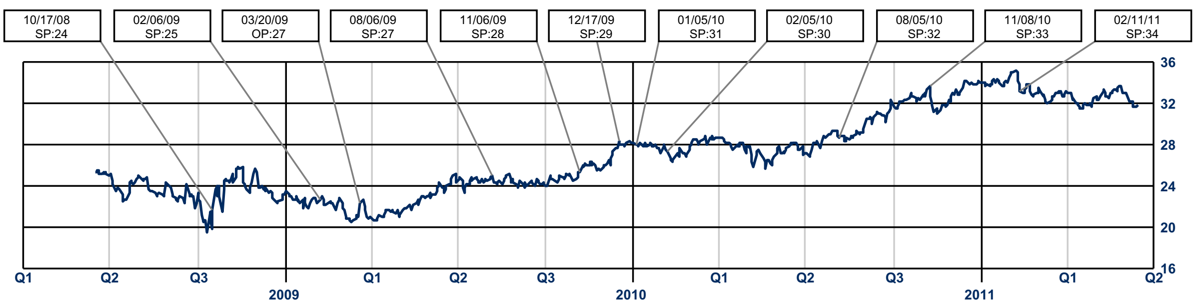
HOLD[SP]	595	42.70	135	22.69
SELL[U]	61	4.40	11	18.03

Rating and Price Target History for: Fortis Inc. as of 06-14-2011 (in CAD)



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CANADIAN RESEARCH AT A GLANCE

June 15, 2011

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Price Target Revisions

The North West Company Inc.	Summary	Q1 Results Slightly Softer Than Expected; Tweaking Target To $22

First Glance Notes

Fortress Paper Ltd.	Summary	Q111 Results Lower than Expected

Company Comments

Fortis Inc.	Summary	Cross-Border Shopping
Glacier Media Inc.	Summary	Value Still To Be Realized This Cycle

In-Depth Reports

Global Mining Trends & Values	Summary	June 15, 2011

Upcoming Events

Marketing schedule and upcoming events

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Price Target Revisions

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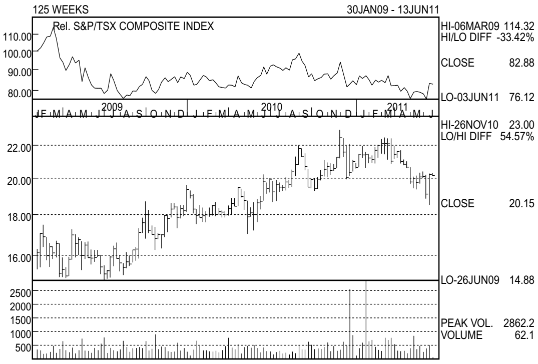

	EPS (Op)
2010A	1.69
2011A	1.58
2012E	1.25
2013E	1.35

All values in CAD unless otherwise noted.

The North West Company Inc. (TSX: NWC; 19.97)

Rating: Sector Perform
Risk Qualifier: Average Risk
Price Target: 22.00 ▼ 23.00

Q1 Results Slightly Softer Than Expected; Tweaking Target To $22

- **Consolidated Q1 results were below our forecast on lower sales and slightly lower margins.** NWC delivered total Q1 revenue of $346.3 million, up +1.8%, below our $355.1 million estimate. Arctic and Alaska results continued to show top-line growth, but this was muted by declines at the discount banners. Consolidated EBITDA of $28.4 million was slightly below our $29.7 million forecast. Slightly lower taxes offset the lower EBITDA, driving EPS of $0.26, versus our and consensus forecast of $0.27.
- **Northern markets are expected to show continued momentum, while southern markets should gradually pick up steam.** Retail activity in the northern markets remains quite healthy and is expected to deliver continued gains. Giant Tiger sales and margins will remain pressured: competition, while moderating, remains intense in food and execution in general merchandise categories, particularly apparel, needs to improve to drive margins.
- **Tweaking target to $22 from $23, maintaining Sector Perform.**

First Glance Notes

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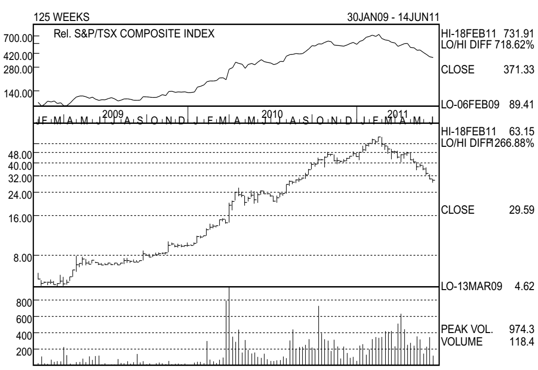

All values in CAD unless otherwise noted.

Fortress Paper Ltd. (TSX: FTP; 29.38)

Rating: Outperform
Risk Qualifier: Above Average Risk

Q111 Results Lower than Expected

- **Q111 results lower than expected – Fortress reported normalized EPS of ($0.42) in Q111 compared to our estimate of $0.08 and consensus of ($0.05). Normalized EBITDA was $1.0MM, compared to our $6.1MM forecast and consensus of $4.1MM. Strong performance in the wallpaper business was offset by a weak quarter for the bank note business and higher costs in specialty cellulose. Paper shipments of 15.5k mt were unchanged q/q but down 5.6% y/y.**
- The dissolving pulp conversion at Thurso will result in the mill shutting down in late Q3 to implement the modifications.

Company Comments

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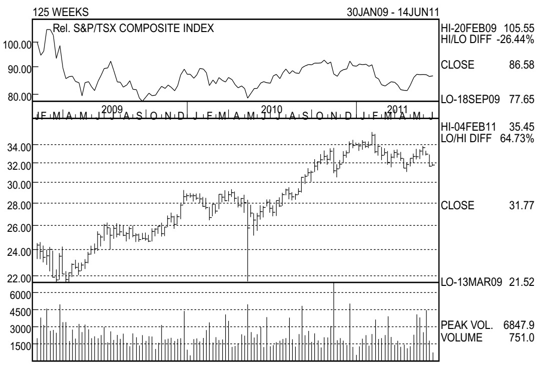

	EPS (Op)		P/E
2009A	1.54		20.6x
2010A	1.63		19.5x
2011E	1.78↓	1.80	17.8x
2012E	1.91↑	1.89	16.6x

All values in CAD unless otherwise noted.

Fortis Inc. (TSX: FTS; 31.77)

Rating: Sector Perform
Risk Qualifier: Average Risk
Price Target: 34.00

Cross-Border Shopping

- **CVPS Acquisition is Incrementally Positive.** Our note highlights four key reasons why we view the pending CVPS acquisition as modestly positive.
- **Modest Expected Accretion Should Increase Over Time.** Based on CVPS' 2011 EPS guidance range, we estimate that the transaction could add between $0.01/share and $0.03/share to EPS in the first full-year. We expect EPS accretion to increase over time as rate base growth at CVPS is forecast to exceed that of Fortis' other utilities.
- **The Recent Equity Issue is Not Earmarked for the CVPS Transaction.** Fortis needed roughly $300 million of common equity in late 2011 or early 2012 to fund the existing capital plan. While it is hard to resist tying the equity deal to the CVPS announcement, the equity deal is an acceleration of the existing need that also reduces financing risk when the CVPS deal close.

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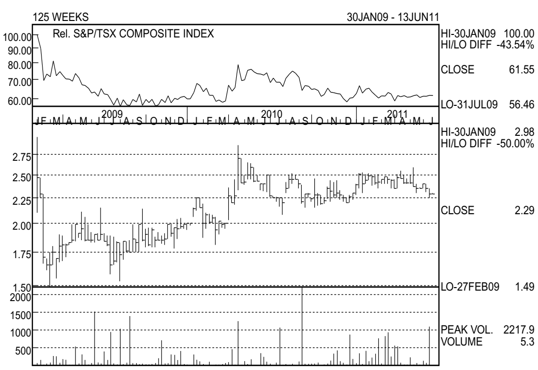

	Revenue (MM)	
2009A	229.1	
2010A	242.6	
2011E	257.1↑	252.4
2012E	268.7↑	258.7

All values in CAD unless otherwise noted.

Glacier Media Inc. (TSX: GVC; 2.30)

Rating: Outperform
Risk Qualifier: Average Risk
Price Target: 3.50

Value Still To Be Realized This Cycle

- **No change to $3.50 target price.** Following in-line Q1/11 results, we have made modest changes to our forecast to reflect: (i) Q2/11 acquisitions including the trade publications from Rogers Publishing ($11MM total cost); (ii) lower revenue growth in Business and professional; and (iii) IFRS.
- **Valuation premium justified but not without re-rating risk.** The TSX Media Index has declined -11% since reaching a cycle-high on February 8th, which we attribute to both cyclical and secular factors. Glacier is one of five media stocks that have outperformed the broader market over this period. Glacier trades at 5.8x FTM EV/EBITDA versus averages of 4.5x and 4.7x for Canadian and U.S. publishers, respectively. While rising secular concerns for media companies among investors is a risk to valuation, we continue to believe this premium is justified given: (i) minimal cash taxes; (ii) exposure to higher-growth Western Canada; and (iii) accretive acquisition opportunities.

In-Depth Reports

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Global Mining Trends & Values

June 15, 2011

Commodity Price Performance:

- Metal prices were up on average 0.7% last week. Lead was the best performer up 6.2%, followed by nickel up 1.5%, zinc up 1.4%, and silver up 0.1%. Uranium was the worst performer down 2.6%, followed by gold down 0.6%, aluminium down 0.2%, and copper down 0.2%.

Mining Share Price Performance:

- Mining shares were down on average 4.3% last week. The best performing group was mineral sands up 6.4%, followed by coal down 2.6%, aluminium down 4.0%, the diversified group down 4.3%, copper down 4.4%, molybdenum down 5.9%, iron ore down 5.9%, uranium down 6.1%, and nickel down 6.8%.

Valuation:

- Mining shares are now trading at a 28.0% discount to NAV at forward curve prices, versus a 27.7% discount one week ago.

Long/Short Metal Positions:

- RBC CM's proprietary data for the LME shows that the net short positions in copper, zinc, and nickel decreased last week, while net long positions in aluminium and lead increased last week.

Exchange Inventories:

- Total exchange inventories of aluminium and nickel decreased last week, while total inventories of copper and zinc increased last week.

UPCOMING EVENTS
Jun 15-Jun 21, 2011

MARKETING / CONFERENCES / EVENTS

	Wednesday June 15	Thursday June 16	Friday June 17	Monday June 20	Tuesday June 21
Toronto					
	■ DiamondRock Hospitality Company ■ New Gold Inc. Mid Year Review ■ ■ Ray Hanson	■ Extendicare Real Estate Investment Trust ■ Maple Leaf Foods Inc ■ New Gold Inc. ■ Haytham Hodaly	■ Haytham Hodaly	■ Northland Power Inc	
Montreal					
		■ Mid Year Review		■ Jonathan Allen	
Western Canada					
	■ Northland Power Inc			■ Ray Hanson	
New York/Mid-Atlantic					
	■ Inmarsat Plc ■ AltaGas Ltd. ■ Jon Atkin & Dave Coleman ■ Chris Drew ■ Gold Resource Corporation ■ Resolution Limited (RSL) ■ Eric Berg ■ Haytham Hodaly ■ Robert Stallard & Rama Bondada	■ Jonathan Guy ■ Glenn Novarro RBC Thought Leadership Series: A Conversation with Alan Greenspan ■ ■ Internet Q ■ Gold Resource Corporation ■ Pan American Silver Corporation ■ David Coleman	■ Glenn Novarro ■ Arcan Resources ■ Internet Q ■ Pan American Silver Corporation Cogent Communictions Group, Inc. (CCOI) Investor Trip ■	■ Internet Q ■ David Bank	
Boston					
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U.S. Mid West/West Coast/South East/South West					
	■ Jacques Rousseau ■ Neil Downey ■ Jarden Corporation ■ Pan American Silver Corporation ■ Howard Tubin ■ Mark Dwelle ■ Church & Dwight	■ Jacques Rousseau ■ Howard Tubin ■ Mark Dwelle	■ Howard Tubin	■ CONSOL Energy Inc (CNX) Equinix Datacenter Tour ■	

Europe

	■ Ametek Inc ■ Geoff Breen ■ International Flavors & Fragrances (IFF) ■ Jason Kantor ■ Gordon Aitken ■ Damian Brewer ■ Walter Spracklin ■ Peter Hutton ■ Wincanton ■ Al Stanton (Project Zanzibar) ■ Anke Reingen / Fiona Swaffield ■ Seth Weber ■ Internet Q	■ Ametek Inc ■ Geoff Breen ■ International Flavors & Fragrances (IFF) ■ Jason Kantor ■ Spectrum Pharmaceuticals ■ Gordon Aitken ■ Damian Brewer ■ Walter Spracklin ■ Peter Hutton ■ Xstrata ■ Capita Group plc ■ Al Stanton (Project Zanzibar) ■ Anke Reingen / Fiona Swaffield ■ Seth Weber	■ Ametek Inc ■ Geoff Breen ■ Walter Spracklin ■ Spectrum Pharmaceuticals ■ Gordon Aitken ■ Damian Brewer ■ International Flavors & Fragrances (IFF) ■ Atkins ■ Al Stanton (Project Zanzibar) ■ Anke Reingen / Fiona Swaffield ■ Seth Weber ■ Ed Aaron	Paris Airshow ■ ■ Jon Arfstrom & Joseph Morford ■ Walter Spracklin ■ Sabina Gold & Silver ■ Groupe Aeroplan ■ Expedia Inc ■ Gordon Aitken ■ Kimco Realty Corporation ■ Spectrum Pharmaceuticals ■ Al Stanton (Project Zanzibar) ■ Anke Reingen / Fiona Swaffield ■ Greg Pardy ■ Nevsun Resources	Paris Airshow ■ ■ Walter Spracklin ■ Spectrum Pharmaceuticals ■ Al Stanton (Project Zanzibar) ■ Anke Reingen / Fiona Swaffield ■ Nevsun Resources

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			Investment Banking Serv./Past 12 Mos.	
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HOLD[SP]	**595**	**42.70**	**135**	**22.69**
SELL[U]	**61**	**4.40**	**11**	**18.03**

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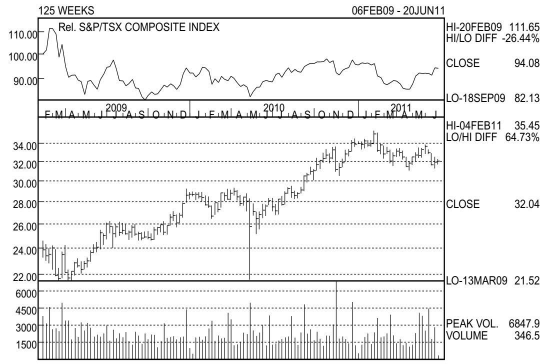

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FIRST GLANCE | COMMENT

JUNE 21, 2011

Fortis Inc. (TSX: FTS; 32.04)
News Reports That Belize Government Seizes BEL

Sector Perform
Average Risk

Impact

Negative (for investor sentiment)

First Impression

- **Belize Government Takes Over BEL.** Channel 7 News in Belize is reporting on its website that the government has signed a law that allows it to take over Belize Electricity Limited, which is 70%-owned by Fortis. A link to the story can be found by clicking here.
- **The Next Steps are Unclear at this Point.** Fortis has not issued a press release as of yet and there is no official statement available on the Belize government's website.
- **Negative to Investor Sentiment, but Limited Financial Impact.** We believe that the negative headlines could put some pressure on Fortis' stock. However, we note that BEL is not material to earnings or assets, having contributed only $2 million to earnings in 2010 (less than 1%) and making up about 2% of total assets. We see the potential for this dispute to end up including Fortis' unregulated hydro assets in Belize and the impact could become a bit more meaningful. We estimate that the unregulated hydro assets generated about $12 million to $14 million of earnings (just under 5% of earnings).
- **What Do You Do?** We believe that any material downward pressure on the share price in the 5% to 10% range would represent an attractive entry point.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

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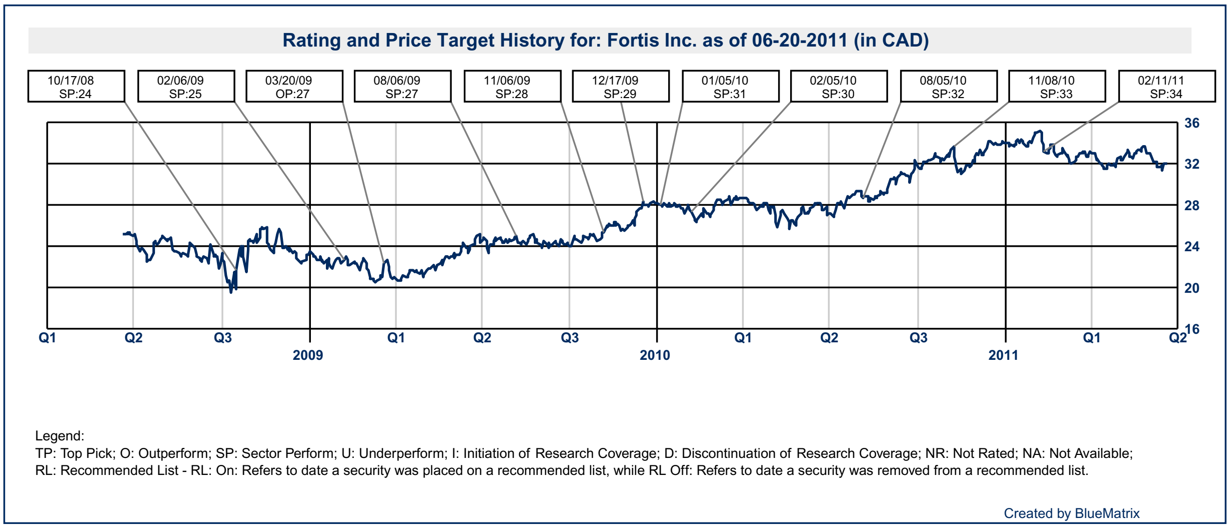
HOLD[SP]	599	42.80	137	22.87
SELL[U]	60	4.30	11	18.33



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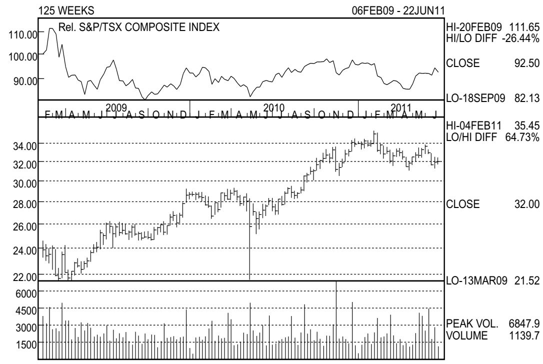

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FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.91
P/E	20.8x	19.6x	18.0x	16.8x
EPS (Op) - FD	1.48	1.60	1.76	1.89
P/E	21.6x	20.0x	18.2x	16.9x
DPS	1.04	1.12	1.16	1.24
Div. Yield	3.3%	3.5%	3.6%	3.9%
Payout Ratio- Basic	68%	69%	65%	65%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.36E	0.25E	0.50E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

JUNE 23, 2011

Fortis Inc. (TSX: FTS)

Examining the Options in Light of a Competing Bid for CVPS

Sector Perform
Average Risk

Price:	32.00	**Price Target:**	34.00
		Implied All-In Return:	10%
Shares O/S (MM):	184.6	**Market Cap (MM):**	5,907
Dividend:	1.16	**Yield:**	3.6%
Float (MM):	184.6		
Debt to Cap:	58%		

Event

Following Fortis' outstanding US$35.10/share bid for CVPS, Gaz Metro launched a US$35.25/share unsolicited offer for CVPS.

Investment Opinion

- **Competing Bid for CVPS.** Gaz Metro made a US$35.25/share bid for Central Vermont Public Service (CVPS), which is slightly higher than Fortis' existing US$35.10/share offer that was supported by CVPS' board. Gaz Metro has agreed to allow the regular US$0.23/share dividend to be paid through closing, while Fortis' offer is for the next two dividends at the current rate and then US$0.01/share until closing.
- **Gaz Metro's Offer Focuses on Benefits to Vermont.** In our opinion, both offers for CVPS are fair from a financial point of view and Gaz Metro's offer seems to be focusing on gaining public and regulatory support for its transaction. Gaz Metro, which owns Green Mountain Power (the other major electric distribution company in Vermont), is offering a combination of cost synergies and rate payer inducements to win support.
- **What Will CVPS Do?** In light of the US$17.5 million break fee and up to $2 million expense reimbursement that could be payable to Fortis (about US$1.50/share), we expect that CVPS' board will announce its continued support for Fortis' offer.
- **We Do Not Expect an Imminent Bidding War.** Regardless of CVPS' response, we do not expect either company to raise their bid in the near-term. It seems clear to us that this transaction has become more about gaining regulatory approval.
- **In Fact, We Think it is Possible That Any Extra Value Could Largely be Conferred to Rate Payers.** Our analysis indicates that both companies could afford to pay roughly US$5/share more (about US$70 million) and eke out EPS accretion (please see Exhibits 1 & 2). However, we believe that it is possible that the majority of any extra value could come in the form of benefits to rate payers (e.g. lower rates, additional VELCO contributions, etc.) with very little in the form of an increased offer for CVPS.
- **Valuation.** In our June 15, 2011 *Research Comment*, we did not increase our price target to reflect this transaction and therefore we remain comfortable with our existing $34.00/share price target, which is based on a forward P/E of 18x 2012E EPS.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

Estimated EPS Accretion

In Exhibit 1, we set out the estimated EPS accretion based on the current US$35.10/share offer. In Exhibit 2, we examine the economics if the offer were increased by $5/share.

Why is the Deal Accretive?

We have received a number of questions as to how a company can pay a roughly 40% premium to regulated rate base and still generate EPS accretion, particularly since premiums to rate base are almost never recoverable in customer rates and cost synergies are usually for the benefit of rate payers. Two factors that help drive the accretion include:

- **Double-Leverage.** CVPS' equity thickness is 57% for rate making purposes, which combined with a relatively low 9.45% allowed ROE results in an overall return framework that seems fair from a risk perspective. However, since CVPS is fairly small in the grand scope of Fortis, the company is able to finance the overall transaction with only 40% equity and the rest with debt.
- **Cross-Border Tax Benefits.** CVPS has guided to a 36.77% effective tax rate for 2011. A structure that we commonly see for Canadian companies with U.S. operations is a financing structure that results in a reduction in the effective tax rate (we have seen similar structures for U.S. companies with Canadian operations). Although the exact details of what will be put in place are not known, we have assumed a 25% effective rate, which is similar to what we have observed for many companies in our coverage universe.

Exhibit 1: No Increase in the Offer (In US$MM except per share figures)

Assumptions	
Total Deal	$700
Equity Financed	280
Debt Financed	420
Debt Already at Co	(230)
Incremental Debt	190
Assumed Int Rate	5%
New Tax Rate	25%
Equity Deal Price	$33.00

Potential for Higher Bid	
Current CVPS Bid per Share	$35.10
Higher Bid	0.00
Potential Revised Bid	$35.10
Equity Financed	100%
Equity Price	$31.50

	2012E		Comments
CVPS EPS Guidance	$1.60	$1.75	2011E guidance from Q1/11 investor presentation
Shares O/S	13	13	
Net Income	21	23	
Tax	12	14	36.77% effective rate per CVPS guidance
EBT	34	37	
Additional Interest Expense	(10)	(10)	Based on double-leverage in "Assumptions"; financing of top-up if required
Adjusted EBT	24	28	
Income Tax	(6)	(6)	Assumes 25% effective rate; Cross-border tax structure
Adjusted Net Income	18	21	
Fortis Earnings	338	338	Assumes C$ parity
Pro Forma Earnings	$356	$359	Assumes C$ parity
Shares O/S	179	179	
New Shares	8	8	Assumed equity financing for EPS accretion calculation (differs from actual financing)
Pro Forma Shares	187	187	
Pre-Acq EPS	$1.89	$1.89	Assumes C$ parity
Pro Forma EPS	$1.90	$1.92	Assumes C$ parity

Sensitivity for Non-Dilutive Purchase Price

	Increase in Current $35.10/share Bid						
	$0.00	$1.00	$2.00	$3.00	$4.00	$5.00	$6.00
Low-End of Guidance	$0.01	$0.01	$0.00	($0.00)	($0.01)	($0.01)	($0.01)
High-End of Guidance	$0.03	$0.02	$0.02	$0.02	$0.01	$0.01	$0.00

Source: Company reports; RBC Capital Markets estimates

Exhibit 2: $5/Share Increase in the Purchase Price (In US$MM except per share figures)

Assumptions	
Total Deal	$700
Equity Financed	280
Debt Financed	420
Debt Already at Co	(230)
Incremental Debt	190
Assumed Int Rate	5%
New Tax Rate	25%
Equity Deal Price	$33.00

Potential for Higher Bid	
Current CVPS Bid per Share	$35.10
Higher Bid	5.00
Potential Revised Bid	$40.10
Equity Financed	100%
Equity Price	$31.50

	2012E		**Comments**
CVPS EPS Guidance	$1.60	$1.75	2011E guidance from Q1/11 investor presentation
Shares O/S	13	13	
Net Income	21	23	
Tax	12	14	36.77% effective rate per CVPS guidance
EBT	34	37	
Additional Interest Expense	(10)	(10)	Based on double-leverage in "Assumptions"; financing of top-up if required
Adjusted EBT	24	28	
Income Tax	(6)	(6)	Assumes 25% effective rate; Cross-border tax structure
Adjusted Net Income	18	21	
Fortis Earnings	338	338	Assumes C$ parity
Pro Forma Earnings	$356	$359	Assumes C$ parity
Shares O/S	179	179	
New Shares	11	11	Assumed equity financing for EPS accretion calculation (differs from actual financing)
Pro Forma Shares	189	189	
Pre-Acq EPS	$1.89	$1.89	Assumes C$ parity
Pro Forma EPS	$1.88	$1.90	Assumes C$ parity

Sensitivity for Non-Dilutive Purchase Price

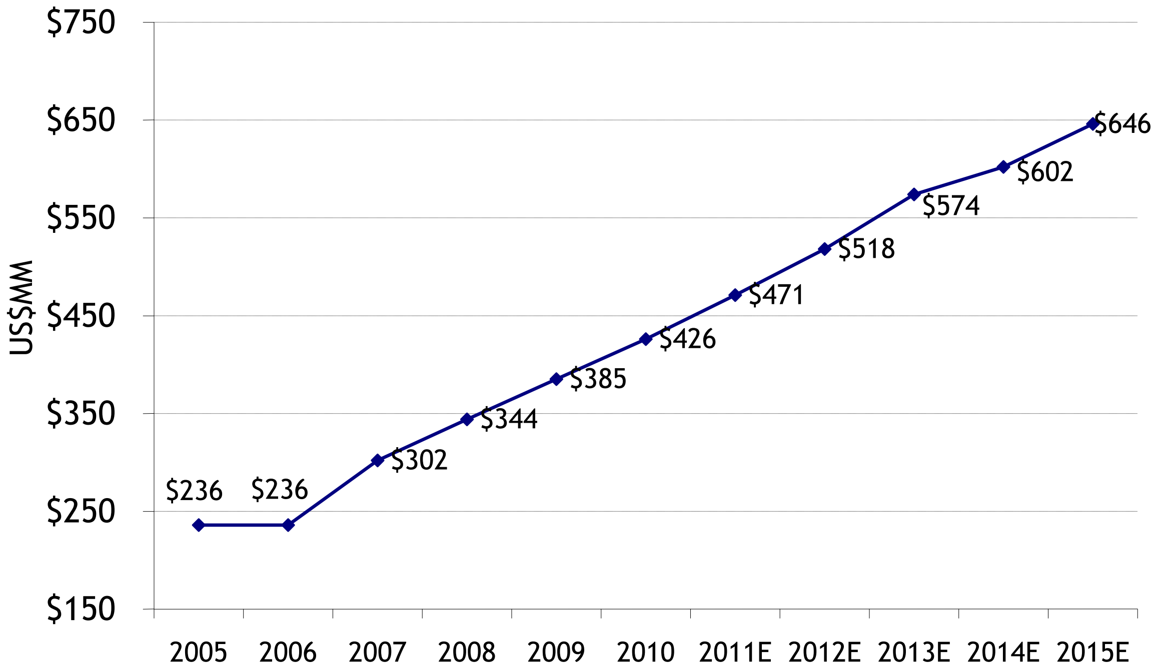
	Increase in Current $35.10/share Bid						
	$0.00	**$1.00**	**$2.00**	**$3.00**	**$4.00**	**$5.00**	**$6.00**
Low-End of Guidance	$0.01	$0.01	$0.00	($0.00)	($0.01)	($0.01)	($0.01)
High-End of Guidance	$0.03	$0.02	$0.02	$0.02	$0.01	$0.01	$0.00

Source: Company reports; RBC Capital Markets estimates

Overview of Central Vermont Public Service (CVPS)

- **Service Territory and Customers.** CVPS is an electric utility with almost 160,000 customers in a service territory that covers about two-thirds of Vermont. In addition, CVPS owns a 41% interest in Vermont Transco, which owns and operates a high-voltage electric transmission system in the state.
- **Rate Base Expected to Grow at a 9% CAGR.** The historical rate base in addition to CVPS management's forecast is shown in Exhibit 2.
- **Capital Structure and ROE.** CVPS' allowed ROE for 2011 is 9.45%, which is broadly comparable to many of Fortis' existing utilities. However, the 57% equity thickness is quite a bit higher than Fortis' other utilities, which we see as a compensating factor for a higher level of risk at CVPS compared to Fortis' Canadian regulated businesses (e.g., lower protection against customer usage).
- **Power Supply Expected to Shift.** Currently, about 50% of energy supply is sourced from nuclear (Vermont Yankee; owned by a third-party), about 40% from hydroelectric production (mostly Hydro-Quebec) and 10% from other sources. Going forward, CVPS has locked up additional supply from Hydro-Quebec and other sources to proactively replace the potential for lost power from the Vermont Yankee nuclear facility in 2012.

Exhibit 3: Forecast Rate Base Growth (CVPS Management)



Source: Company reports; RBC Capital Markets

Valuation

Our price target of $34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

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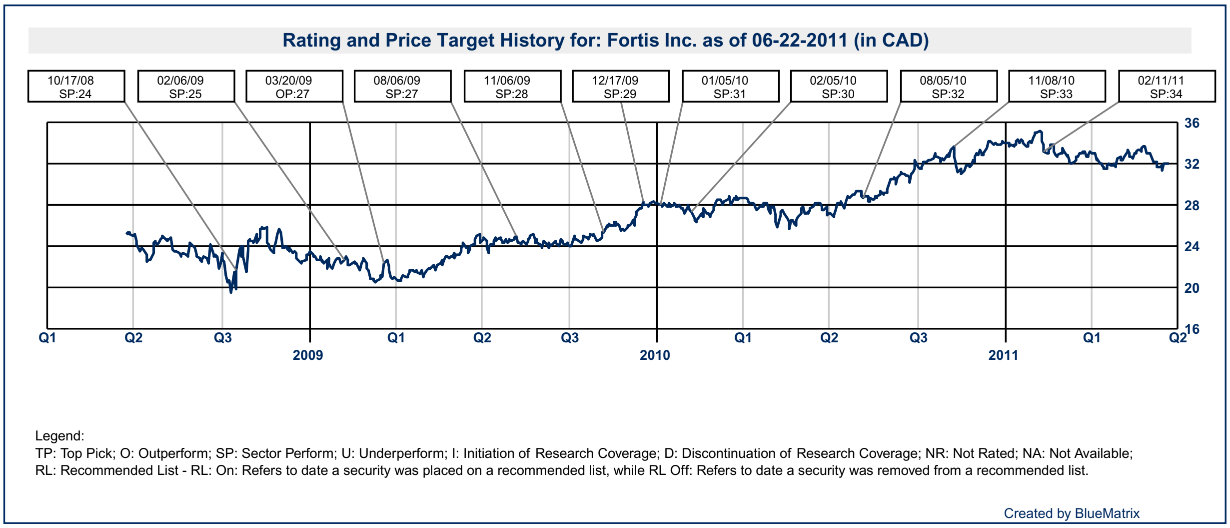
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Investment Banking Serv./Past 12 Mos. Percent
BUY[TP/O]	744	53.10	220	29.57
HOLD[SP]	598	42.70	135	22.58
SELL[U]	60	4.30	11	18.33



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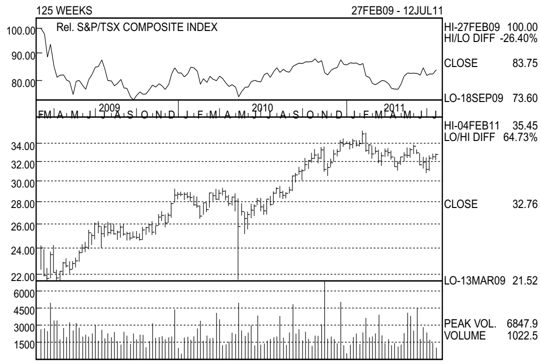

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FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.78	1.88
Prev.				1.91
P/E	21.3x	20.1x	18.4x	17.4x
EPS (Op) - FD	1.48	1.60	1.76	1.87
Prev.				1.89
P/E	22.1x	20.5x	18.6x	17.5x
DPS	1.04	1.12	1.16	1.24
Div. Yield	3.2%	3.4%	3.5%	3.8%
Payout Ratio- Basic	68%	69%	65%	66%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.36E	0.25E	0.50E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

JULY 13, 2011

Fortis Inc. (TSX: FTS)

CVPS Acquisition Terminated

Sector Perform
Average Risk

Price:	32.76	**Price Target:**	34.00
		Implied All-In Return:	7%
Shares O/S (MM):	184.6	**Market Cap (MM):**	6,047
Dividend:	1.16	**Yield:**	3.5%
Float (MM):	184.6		
Debt to Cap:	58%		

Event

CVPS deemed Gaz Metro's offer a "superior proposal" and terminated the previous merger agreement with Fortis.

Investment Opinion

- **CVPS Merger Agreement Terminated.** Central Vermont Public Service (CVPS) has deemed Gaz Metro's US$35.25/share offer a "superior proposal" and therefore its previous merger agreement with Fortis has been terminated. On June 23, 2011, Gaz Metro made a competing bid for CVPS, following Fortis' US$35.10/share offer that was announced on May 30, 2011.
- **Fortis Will Receive a Break Fee and Expenses.** Fortis will immediately receive a US$17.5 million break fee plus US$2.0 million in expense reimbursement, which is roughly $0.10/share.
- **Acquisition Loss Disappointing but Shows Discipline.** While the CVPS acquisition loss is disappointing, we believe that walking away from CVPS rather than getting involved in a bidding war shows tremendous discipline, which should serve to demonstrate that Fortis will take a measured approach with its U.S. acquisition strategy.
- **What About the Equity Issue?** While there will be negative carry through 2011 from the recent equity issue (already in our numbers), the equity would have been needed, albeit in late 2011/early 2012 to finance the significant capex plan, mostly related to the Western Canadian assets.
- **Fortis' Stock Could Be a Place to "Hide Out".** While we have hesitated to recommend Fortis as a good name in which to "hide out" during these uncertain times due to the potential negative headlines related to CVPS, we believe that defensive investors should consider the stock as a good place to park money now that the CVPS saga is over.
- **Modest Revision to 2012 Estimate.** We have modestly revised our 2012 EPS estimate to $1.88 (from $1.91) to reflect the impact of the CVPS acquisition termination (i.e., removing the expected EPS accretion from the transaction).
- **Valuation.** Since we did not previously increase our price target to reflect the transaction, we remain comfortable with our existing $34.00/share price target, which is based on a forward P/E of 18x 2012E EPS.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.

Exhibit 1: Revised Financial Forecast (In $MM except per share figures)

	2009	2010	Q1/11	Q2/11E	Q3/11E	Q4/11E	2011E	2012E	Old 2011E	Old 2012E
Newfoundland Power	$32	$35	$7	$11	$8	$9	$35	$36	*$35*	*$36*
Other Cdn (ME + FTS Ont)	17	19	6	4	5	4	20	21	*20*	*21*
FortisBC Energy	126	126	76	18	(6)	50	138	143	*138*	*143*
FortisAlberta	57	67	21	21	17	18	77	85	*77*	*85*
FortisBC Electric	37	43	19	10	13	10	51	53	*51*	*53*
CVPS								0		*21*
Regulated Utilities - Caribbean	25	24	4	8	9	5	26	27	*26*	*27*
Fortis Generation	16	19	3	4	7	4	19	19	*19*	*19*
Fortis Properties	25	26	1	8	9	8	27	28	*27*	*28*
Corporate and other	(72)	(78)	(20)	(19)	(17)	(16)	(72)	(59)	*(72)*	*(74)*
Normalized earnings	**$263**	**$281**	**$117**	**$65**	**$47**	**$93**	**$321**	**$353**	*$321*	*$359*
Shares O/S (MM)	171	173	175	177	185	186	180	188	*180*	*188*
Normalized EPS (Basic)	**$1.54**	**$1.63**	**$0.67**	**$0.36**	**$0.25**	**$0.50**	**$1.78**	**$1.88**	*$1.78*	*$1.91*
Dividends Paid	$1.04	$1.12					$1.16	$1.24	*$1.16*	*$1.24*
Payout Ratio	68%	69%					65%	66%	*65%*	*65%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $34.00 is based on a forward P/E of 18x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

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Ratings

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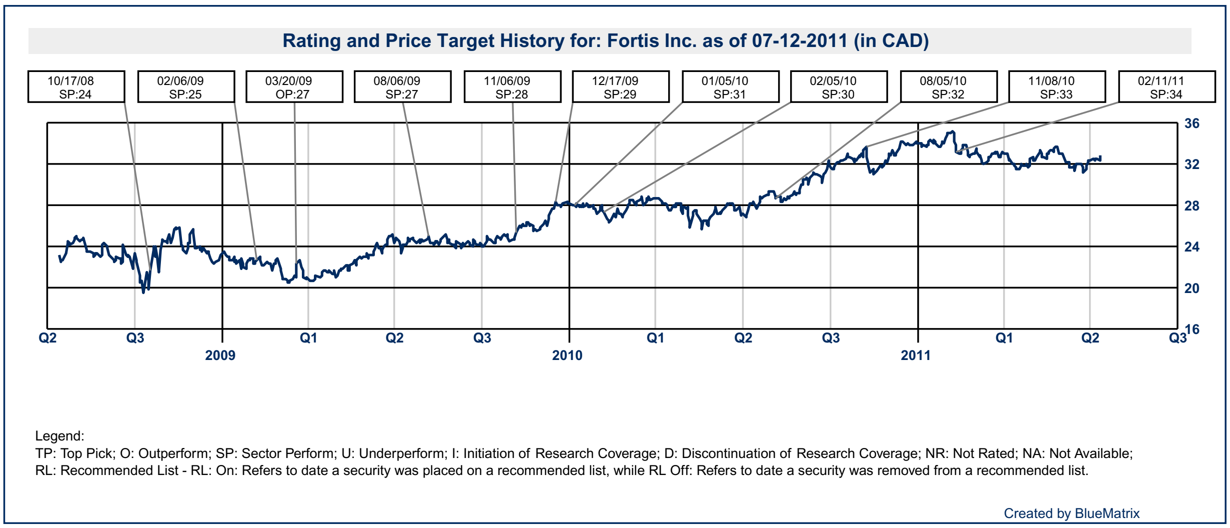
BUY[TP/O]	751	52.70	229	30.49
HOLD[SP]	612	43.00	136	22.22
SELL[U]	60	4.20	11	18.33



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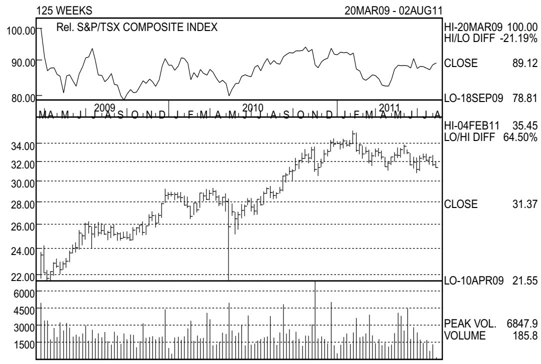
FIRST GLANCE | COMMENT

AUGUST 3, 2011

Fortis Inc. (TSX: FTS; 31.37)

First Glance: Q2/11 Results Modestly Below Expectations



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All values in CAD unless otherwise noted.

Sector Perform
Average Risk

Impact

Neutral

First Impression

- **Q2/11 Results Slightly Below Expectations.** Q2/11 normalized EPS was $0.33 compared to our estimate of $0.36 and $0.32 in Q2/10. Consensus was $0.35 (four estimates, range of $0.34 to $0.36). There were small negative variances in most of the segments with nothing major causing the modestly lower-than-forecast earnings. With most utility businesses that are regulated on an annual basis, some of the variances within the quarter could be due to timing differences that will reverse themselves throughout the rest of the year. A table showing the segment earnings compared to our estimates is set out in Exhibit 1.
- **Update on Belize Situation.** Due to the expropriation of Belize Electricity Limited (BEL), Fortis has deconsolidated the results of BEL effective June 20, 2011. The book value of the BEL investment was $112 million as at June 30, 2011. Fortis has initiated proceedings for compensation from the Government of Belize. With respect to BECOL, the company's unregulated power generation assets in Belize, the Government of Belize has publicly indicated that it does not intend to expropriate these assets.
- **$1.2 Billion Capex Program On Track.** Gross capex for H1/11 was $519 million and the $1.2 billion capex program for 2011 remains on track.
- **No Conference Call.** Fortis does not hold a conference call to discuss the Q2/11 results. We will follow up with management later today to discuss the quarter and the outlook.
- **Neutral View on the Quarter.** Based on our initial review of the quarterly results and pending a discussion with management on the quarter and outlook, we view the Q2/11 results as neutral for the share price.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 4.

Exhibit 1: Normalized Results (In $MM except per share figures)

	Q2/11	RBC CM Q2/11E	Q2/10	Comments
Newfoundland Power	$11	$11	$11	
FortisOntario & Maritime Electric	6	4	4	Lower effective tax rate (higher Q2/11 deductions)
FortisBC Energy	15	18	17	Timing of approved cost recovery
FortisAlberta	19	21	17	Lower transmission revenue and customer growth
FortisBC Electric	9	10	8	
Regulated Utilities - Canadian	60	63	57	
Regulated Utilities - Caribbean	7	8	7	
Non-regulated - Fortis Generation	2	4	3	Lower hydrology in Belize
Non-regulated - Fortis Properties	7	8	8	
Corporate	(18)	(19)	(20)	
Normalized Earnings	**$58**	**$65**	**$55**	
Normalized EPS	**$0.33**	**$0.36**	**$0.32**	
Average shares outstanding (MM)	177	177	172	

Source: Company reports; RBC Capital Markets estimates

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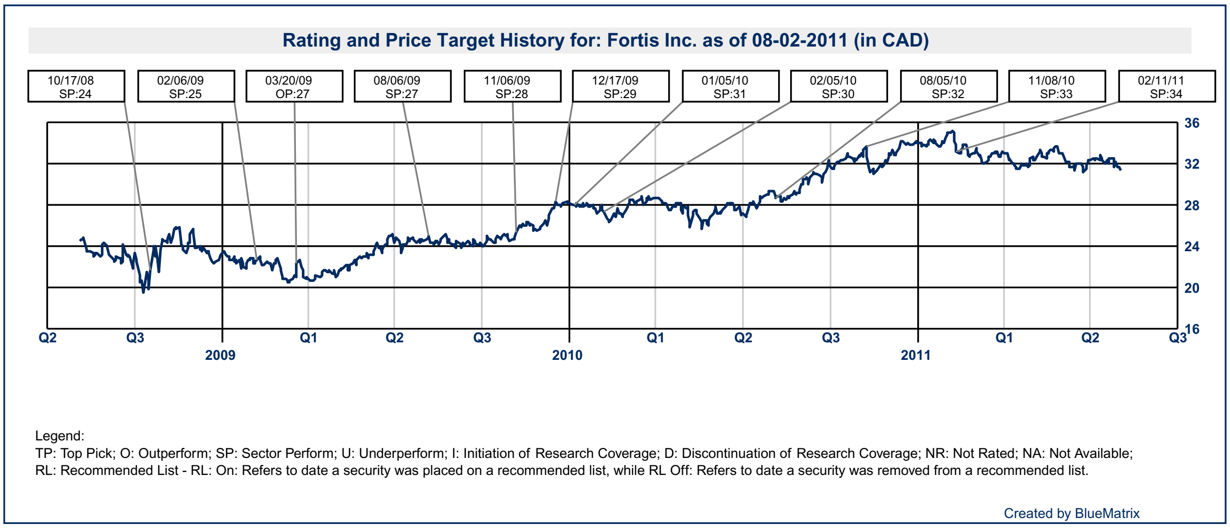
HOLD[SP]	623	43.50	134	21.51
SELL[U]	60	4.20	9	15.00



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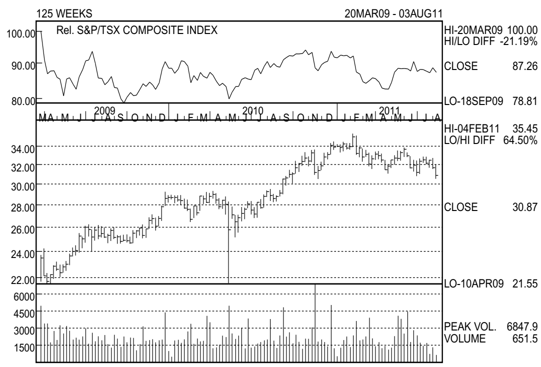

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FY Dec	2009A	2010A	2011E	2012E
EPS (Op) - Basic	1.54	1.63	1.74	1.82
Prev.			1.78	1.88
P/E	20.0x	18.9x	17.7x	17.0x
EPS (Op) - FD	1.48	1.60	1.72	1.81
Prev.			1.76	1.87
P/E	20.9x	19.3x	17.9x	17.1x
DPS	1.04	1.12	1.16	1.24
Div. Yield	3.4%	3.6%	3.8%	4.0%
Payout Ratio- Basic	68%	69%	67%	68%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2009	0.54A	0.30A	0.22A	0.48A
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.33A	0.24E	0.52E
Prev.		0.36E	0.25E	0.50E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

AUGUST 4, 2011

Fortis Inc. (TSX: FTS)

Q2/11 Results Modestly Below Expectations

Sector Perform
Average Risk

Price:	30.87	**Price Target:**	34.00
		Implied All-In Return:	14%
Shares O/S (MM):	186.3	**Market Cap (MM):**	5,751
Dividend:	1.16	**Yield:**	3.8%
Float (MM):	186.3		
Debt to Cap:	55%		

Event

Fortis reported Q2/11 results.

Investment Opinion

- **Q2/11 Results Modestly Below Expectations.** Fortis' Q2/11 normalized EPS was $0.33 compared to our estimate of $0.36 and $0.32 in Q2/10. There were small negative variances in most of the segments with nothing major causing the modestly lower-than-forecast earnings.
- **Still on the Hunt for a U.S. Utility Acquisition, but the CVPS Process Shows Fortis Will Be Disciplined.** Fortis remains interested in acquiring a U.S. utility, despite the recent Central Vermont Public Service (CVPS) agreement that was scuttled by a hostile bid by Gaz Metro. As evidenced by the company's walking away from CVPS rather than getting involved in a bidding war, we continue to believe that Fortis will remain very disciplined.
- **Capex Plan Nudged Up.** With gross capital expenditures of $519 million spent in H1/11, Fortis continues to expect $1.2 billion of capex in 2011. The company also expects a five-year capex program of $5.7 billion through to the end of 2015, which is up from the $5.5 billion capex plan stated in previous guidance.
- **Update on Belize.** Due to the expropriation of Belize Electricity Limited (BEL), Fortis has deconsolidated the results of BEL effective June 20, 2011. The book value of the BEL investment was $112 million as at June 30, 2011. Fortis has initiated proceedings for compensation from the Government of Belize, and from our discussion with management, the company plans to file a formal proposal in the next several months. With respect to Belize Electric Company Limited (BECOL), the company's unregulated power generation assets in Belize, the Government of Belize has publicly indicated that it does not intend to expropriate these assets.
- **Reducing Estimates.** We have reduced our 2011 and 2012 EPS estimates to $1.74 and $1.82, respectively (from $1.78 and $1.88) to primarily reflect the Q2/11 results in addition to modest changes to a number of the segments.
- **Valuation.** We have left our $34.00/share price target unchanged with a modest increase in the forward P/E to 18.5x (from 18.0x) offsetting the lower 2012 EPS estimate. We believe that a higher P/E valuation is supported by declining long bond yields and an overall rise in infrastructure valuations.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

Q2/11 Results Modestly Below Expectations

Fortis' Q2/11 normalized EPS was $0.33 compared to our estimate of $0.36 and $0.32 in Q2/10. There were small negative variances in most of the segments with nothing major causing the modestly lower-than-forecast earnings. A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q2/11	RBC CM Q2/11E	Q2/10	Comments
Newfoundland Power	$11	$11	$11	
FortisOntario & Maritime Electric	6	4	4	Lower effective tax rate (higher Q2/11 deductions)
FortisBC Energy	15	18	17	Timing of approved cost recovery
FortisAlberta	19	21	17	Lower transmission revenue and customer growth
FortisBC Electric	9	10	8	
Regulated Utilities - Canadian	60	63	57	
Regulated Utilities - Caribbean	7	8	7	
Non-regulated - Fortis Generation	2	4	3	Lower hydrology in Belize
Non-regulated - Fortis Properties	7	8	8	
Corporate	(18)	(19)	(20)	
Normalized Earnings	**$58**	**$65**	**$55**	
Normalized EPS	**$0.33**	**$0.36**	**$0.32**	
Average shares outstanding (MM)	177	177	172	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter and Outlook

- **Slightly Lower Q1/11 Results Due to Small Segment Variances.** Lower-than-forecast earnings were mainly attributable to lower results from FortisBC Energy (timing of approved cost recovery), FortisAlberta (lower transmission revenue and customer growth), and Non-regulated Fortis Generation (lower hydrology in Belize), partially offset by higher earnings from FortisOntario & Maritime Electric (lower effective tax rate due to higher Q2/11 deductions at FortisOntario).

- **Update on Belize Situation.** Due to the expropriation of Belize Electricity Limited (BEL), Fortis has deconsolidated the results of BEL effective June 20, 2011. The book value of the BEL investment was $112 million as at June 30, 2011. Fortis has initiated proceedings for compensation from the Government of Belize, and our discussion with management indicates the company plans to file a formal proposal in the next several months. With respect to Belize Electric Company Limited (BECOL), the company's unregulated power generation assets in Belize, the Government of Belize has publicly indicated that it does not intend to expropriate these assets.

- **Search for U.S. Utility Goes On Despite CVPS Acquisition That Fell Through.** Fortis remains interested in acquiring a U.S. utility, despite the recent Central Vermont Public Service (CVPS) agreement that was scuttled by a hostile bid by Gaz Metro (for additional details, please refer to our *Research Comment* dated July 13, 2011). As evidenced by the company's walking away from CVPS rather than getting involved in a bidding war, we continue to believe that Fortis will remain very disciplined with respect to its previously stated acquisition parameters.

    - **Potential for a Scale-Changing Acquisition.** The company continues to seek out regulated electric and/or gas utilities with a preference for businesses in a single state (i.e., one regulator). Fortis is comfortable with an integrated electric utility as long as the generation assets are in regulated rate base. The target size is US$1 billion to US$5 billion of enterprise value with a utility in the US$3 billion enterprise value range as being optimal.

    - **Going Solo is Preferred.** Similar to comments made throughout the years, management continues to prefer to acquire 100% of assets without any partners. The company feels this reduces the complexity of a transaction and allows it to proceed with an acquisition more expeditiously.

    - **Will Partner if Necessary, but Not a Consortium.** To the extent an acquisition target is too large for Fortis to complete on its own, the company would consider taking on one partner (e.g., a Canadian pension fund) where the company would have at least a 50% interest.

- **Long-Term Utility Growth Plan Remains on Track.** With gross capital expenditures of $519 million spent in H1/11, Fortis continues to expect $1.2 billion of capex in 2011. The company also expects a five-year capex program of $5.7 billion through to the end of 2015, which is up from the $5.5 billion capex plan stated in previous guidance.
- **Construction Work Continues on Waneta Expansion.** Construction work continued on the $900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. With a controlling interest of 51%, Fortis will operate and maintain the facility, which will sell energy and capacity to BC Hydro and FortisBC Electric under 40-year power sales contracts.
- **$341 Million Equity Issuance Completed.** Fortis recently completed its roughly $341 million equity offering (including approximately $41 million from the exercise of the over-allotment option). We had previously forecast Fortis' need for roughly $300 million of common equity in late 2011 or early 2012 to finance the growth in its existing utilities (in particular western Canada) and the Waneta hydro expansion.

Reducing 2011 and 2012 Estimates

We have reduced our 2011 and 2012 EPS estimates to $1.74 and $1.82, respectively (from $1.78 and $1.88) to primarily reflect the Q2/11 results in addition to modest changes to a number of the segments. Our revised estimates are set out in Exhibit 2.

Exhibit 2: Revised Financial Forecast (In $MM except per share figures)

	2009	2010	Q1/11	Q2/11	Q3/11E	Q4/11E	2011E	2012E	*Old 2011E*	*Old 2012E*
Newfoundland Power	$32	$35	$7	$11	$8	$9	$35	$36	*$35*	*$36*
Other Cdn (ME + FTS Ont)	17	19	6	6	5	5	22	24	*20*	*21*
Terasen	126	126	76	15	(5)	50	135	140	*138*	*143*
FortisAlberta	57	67	21	19	19	20	79	85	*77*	*85*
FortisBC	37	43	19	9	12	10	49	50	*51*	*53*
Regulated Utilities - Caribbean	25	24	4	7	7	5	23	25	*26*	*27*
Fortis Generation	16	19	3	2	7	4	17	19	*19*	*19*
Fortis Properties	25	26	1	7	9	9	26	28	*27*	*28*
Corporate and other	(72)	(78)	(20)	(18)	(17)	(16)	(72)	(62)	*(72)*	*(59)*
Normalized earnings	**$263**	**$281**	**$117**	**$58**	**$44**	**$96**	**$315**	**$345**	*$321*	*$353*
Shares O/S (MM)	171	173	175	177	185	186	181	189	*180*	*188*
Normalized EPS (Basic)	**$1.54**	**$1.63**	**$0.67**	**$0.33**	**$0.24**	**$0.52**	**$1.74**	**$1.82**	*$1.78*	*$1.88*
Dividends Paid	$1.04	$1.12					$1.16	$1.24	*$1.16*	*$1.24*
Payout Ratio	68%	69%					67%	68%	*65%*	*66%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $34.00 is based on a forward P/E of 18.5x 2012E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

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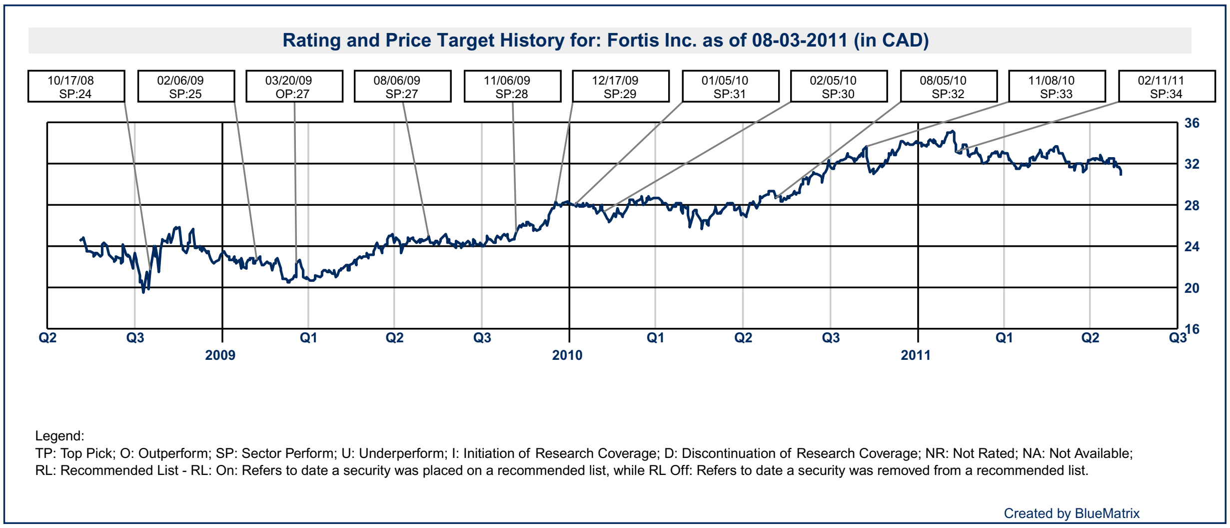

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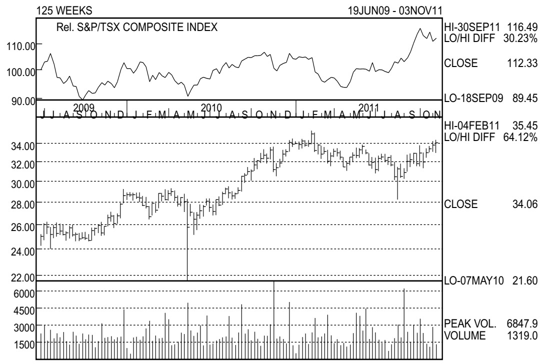

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FY Dec	2010A	2011E	2012E	2013E
EPS (Op) - Basic	1.63	1.74	1.82	1.91
P/E	20.9x	19.6x	18.7x	17.8x
EPS (Op) - FD	1.60	1.71	1.79	1.89
P/E	21.3x	19.9x	19.0x	18.0x
DPS	1.12	1.16	1.24	1.32
Div. Yield	3.3%	3.4%	3.6%	3.9%
Payout Ratio- Basic	69%	67%	68%	69%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.33A	0.25A	0.50E
Prev.			0.24E	0.52E
2012	0.67E	0.35E	0.26E	0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

NOVEMBER 4, 2011

Fortis Inc. (TSX: FTS)

Regulated Utilities Drive a Solid Quarter

Sector Perform
Average Risk

Price:	34.06	**Price Target:**	34.00
		Implied All-In Return:	3%
Shares O/S (MM):	186.9	**Market Cap (MM):**	6,366
Dividend:	1.16	**Yield:**	3.4%
Float (MM):	186.9		
Debt to Cap:	55%		

Event

Fortis reported Q3/11 results.

Investment Opinion

- **Normalized Results In-Line.** The Q3/11 normalized EPS was $0.25 compared to our estimate of $0.24 and $0.24 in Q3/10. Consensus for the quarter was $0.24 (four estimates with a range of $0.22 to $0.24). Reported EPS was $0.31 and included a $0.06/share gain from the termination fee from the CVPS transaction.
- **No Major Surprises.** Overall, Canadian regulated utilities posted a good quarter with $40 million of earnings (our estimate was $38 million). All of the other segments were within +/- $1 million of our estimate.
- **Growth Plan Remains Unchanged.** With gross capital expenditures of $806 million spent in the first nine months of the year, Fortis continues to expect $1.2 billion of capex in 2011. The company also expects a five-year capex program of $5.7 billion through to the end of 2015.
- **Update on Belize Situation.** Fortis has commissioned an independent valuation of its previous investment in BEL and expects to submit a claim for compensation to the Government of Belize during Q4/11.
- **Estimates Unchanged.** Based on an in-line quarter, we have left our 2011–2013 annual EPS estimates unchanged.
- **A Good Stock for Investors Looking to Play Defense.** With roughly 75% of earnings derived from Canadian cost-of-service regulated utilities, we believe that Fortis' stock is a good choice for investors looking for a defensive business to protect against both market and economic weakness.
- **Valuation.** Our price target of $34.00 (unchanged) is based on a forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

Q3/11 Results in Line with Expectations after One-Time Adjustment

Fortis' Q3/11 normalized EPS was $0.25 compared to our estimate of $0.24 and $0.24 in Q3/10. Reported EPS was $0.31 and included a $0.06/share gain from the termination fee from the CVPS transaction. There were no major surprises in the segment results. Overall, Canadian regulated utilities posted a good quarter with $40 million of earnings (our estimate was $38 million). All of the other segments were within +/- $1 million of our estimate. A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q3/11	RBC CM Q3/11E	Q3/10	Comments
Newfoundland Power	$8	$8	$8	
FortisOntario & Maritime Electric	6	5	5	
FortisBC Energy	(3)	(5)	(9)	Higher regulator-approved operating expenses recoverable from customers
FortisAlberta	19	19	19	
FortisBC Electric	10	12	11	Higher-than-expected PBR incentive adjustments owing to customers
Regulated Utilities - Canadian	40	38	34	
Regulated Utilities - Caribbean	6	7	8	
Non-regulated - Fortis Generation	8	7	9	Strong hydrology in New York State; weak hydrology in Belize
Non-regulated - Fortis Properties	9	9	9	
Corporate	(16)	(17)	(19)	Included roughly $2mm of FX gains
Normalized Earnings	**$47**	**$44**	**$41**	
Normalized EPS	**$0.25**	**$0.24**	**$0.24**	
Average shares outstanding (MM)	187	185	173	
Normalization adjustments (after-tax):				
Reversal related to project cost overrun			4	
Termination fee	11			Break fee from the CVPS merger termination
	11		4	
Reported Earnings	$58		$45	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter and Outlook

- **Newfoundland Power Sells 40% of Joint-Use Poles to Bell Aliant.** In September, 2011, Newfoundland Power received regulatory approval for the sale of 40% of the utility's joint-use poles to Bell Aliant. The transaction closed on October 5, 2011 and the proceeds were approximately $46 million.

- **$25 Million Acquisition Made by Fortis Properties.** On October 19, 2011, Fortis Properties acquired the 160-room, full-service Hilton Suites Winnipeg Airport Hotel for approximately $25 million.

- **Update on Belize Situation.** Due to the expropriation of Belize Electricity Limited (BEL), Fortis deconsolidated the results of BEL effective June 20, 2011. The book value of the BEL investment was $112 million as at June 30, 2011. Fortis has commissioned an independent valuation of its previous investment in BEL and expects to submit a claim for compensation to the Government of Belize during Q4/11.

- **Long-Term Utility Growth Plan Remains Unchanged.** With gross capital expenditures of $806 million spent in the first nine months of the year, Fortis continues to expect $1.2 billion of capex in 2011. The company also expects a five-year capex program of $5.7 billion through to the end of 2015.

- **Construction Work Continues on Waneta Expansion.** Construction work continued on the $900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. With a controlling interest of 51%, Fortis will operate and maintain the facility, which will sell energy and capacity to BC Hydro and FortisBC Electric under 40-year power sales contracts.

- **Still Looking for U.S. Acquisitions, but Nothing Appears Imminent.** Fortis continues to look in the U.S. for utilities to acquire, although we do not get the impression that anything meaningful is in the works at this time. We continue to expect management to remain patient (the acquisition hunt in the U.S. has been going on for years). The preference has been for a utility in the US$3 billion to US$5 billion range (enterprise value), operating in a single state with no material unregulated assets. Fortis would prefer to be the sole owner and operator but would consider a partnership with a Canadian pension fund if Fortis maintained control (i.e., not a minority position or part of a consortium).

- **Moose River Hydroelectric Facility Expected to Be Operational in February 2012.** In May 2011, the Moose River generator (part of Fortis Generation segment) in Upper New York State sustained electrical damage and is expected to be operational again in February 2012. In the meantime, equipment and business interruption insurance claims have been made.

Overall Estimates Remain Unchanged

We have made minor changes to our Q4/11 estimate, but have left our overall EPS estimates unchanged through 2013. Our revised estimates are set out in Exhibit 2.

Exhibit 2: Revised Financial Forecast (In $MM except per share figures)

	2010	Q1/11	Q2/11	Q3/11	Q4/11E	2011E	2012E	2013E	*OLD 2011E*	*OLD 2012E*	*OLD 2013E*
Newfoundland Power	$35	$7	$11	$8	$9	$35	$36	$37	*$35*	*$36*	*$37*
Other Cdn (ME + FTS Ont)	19	6	6	6	4	22	24	26	*22*	*24*	*26*
FortisBC Energy	126	76	15	(3)	47	135	140	145	*135*	*140*	*145*
FortisAlberta	67	21	19	19	20	79	85	92	*79*	*85*	*92*
FortisBC Electric	43	19	9	10	11	49	50	53	*49*	*50*	*53*
Regulated Utilities - Caribbean	24	4	7	6	6	23	25	28	*23*	*25*	*28*
Fortis Generation	19	3	2	8	4	17	19	19	*17*	*19*	*19*
Fortis Properties	26	1	7	9	9	26	28	29	*26*	*28*	*29*
Corporate and other	(78)	(20)	(18)	(16)	(18)	(72)	(64)	(60)	*(72)*	*(64)*	*(60)*
Normalized earnings	**$281**	**$117**	**$58**	**$47**	**$94**	**$316**	**$343**	**$367**	***$315***	***$343***	***$368***
Shares O/S (MM)	173	175	177	187	187	181	189	192	*181*	*189*	*192*
Normalized EPS (Basic)	**$1.63**	**$0.67**	**$0.33**	**$0.25**	**$0.50**	**$1.74**	**$1.82**	**$1.91**	***$1.74***	***$1.82***	***$1.91***
Dividends Paid	$1.12					$1.16	$1.24	$1.32	*$1.16*	*$1.24*	*$1.32*
Payout Ratio	69%					67%	68%	69%	*67%*	*68%*	*69%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $34.00 is based on a forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, two electric utilities in the Turks and Caicos, and 70%-owned Belize Electricity. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities. The company is in the process of acquiring Central Vermont Public Service.

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RBC Capital Markets has provided Fortis Inc. with non-securities services in the past 12 months.

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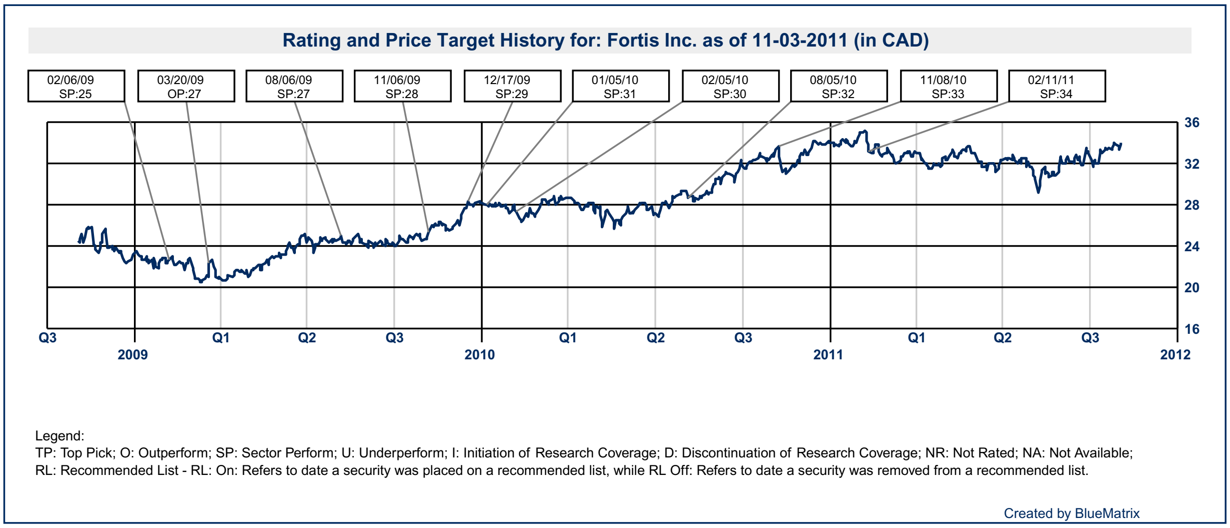
			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	775	52.80	230	29.68
HOLD[SP]	628	42.80	137	21.82
SELL[U]	64	4.40	6	9.38



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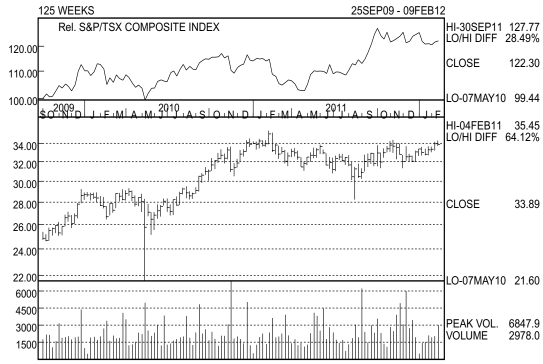
COMPANY UPDATE | COMMENT

FEBRUARY 10, 2012

Fortis Inc. (TSX: FTS)

Q4/11 Earnings Slightly Short of Expectations



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FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.69	1.76	1.87
Prev.		1.73	1.81	1.91
P/E	20.8x	20.1x	19.3x	18.1x
EPS (Op) - FD	1.60	1.67	1.74	1.85
Prev.		1.70	1.78	1.89
P/E	21.2x	20.3x	19.5x	18.3x
DPS	1.12	1.16	1.20	1.26
Prev.			1.24	1.32
Div. Yield	3.3%	3.4%	3.5%	3.7%
Payout Ratio- Basic	69%	69%	68%	67%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.33A	0.25A	0.46A
Prev.				0.49E
2012	0.65E	0.34E	0.26E	0.50E
Prev.	0.66E	0.35E		0.53E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Sector Perform
Average Risk

Price:	33.89	**Price Target:**	34.00
		Implied All-In Return:	4%
Shares O/S (MM):	189.0	**Market Cap (MM):**	6,405
Dividend:	1.20	**Yield:**	3.5%
Float (MM):	189.0		
Debt to Cap:	55%		

Event

Fortis reported Q4/11 results.

Investment Opinion

- **Q4/11 Results Slightly Short of Expectations.** Normalized Q4/11 EPS was $0.46, compared to our estimate of $0.49 and $0.49 in Q4/10. The core Canadian Regulated Utilities segment was in line with expectations with the shortfall coming from the utilities in the Caribbean and the Properties division.
- **Utility Spending Continues to Drive the Organic Growth Story.** After spending $900 million to grow rate base in its Canadian regulated utilities in 2011, Fortis expects to spend a similar amount in 2012 as part of the 5-year $5.5 billion capex plan with almost 90% directed to the utilities in Canada.
- **Nothing New on Potential U.S. Acquisitions.** The directional strategy of trying to grow in the U.S. has not changed, but there is nothing to update on strategy or likelihood of an acquisition coming to fruition. We continue to expect management to exercise patience and discipline given this strategy has existed for several years with Fortis walking away from various targets, some which have been high profile, given high valuations.
- **Modestly Reducing Estimates to Primarily Reflect Headwinds in the Caribbean and Properties.** Our new 2012 and 2013 EPS estimates are $1.76 and $1.87, respectively (down from $1.81 and $1.91, respectively). The estimates for the core Canadian Regulated Utilities remain largely unchanged. We would note that our forecast does not include any impact from a possible reduction in ROE for the B.C.-based utilities given the pending review by the BCUC. We estimate that a 50 basis point change in allowed ROE would impact EPS by roughly $0.05/share.
- **Valuation.** Our price target of $34.00 (unchanged) is based on forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

Q4/11 Results Slightly Lower-Than-Expected

Fortis' Q4/11 normalized EPS was $0.46 compared to our estimate of $0.49 and $0.49 in Q4/10. The lower-than-expected results were primarily driven by Caribbean Regulated Utilities ($0.02/share) and Fortis Properties ($0.02/share). All of the other segments were within +/- $1 million of our estimate. A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q4/11	RBC CM Q4/11E	Q4/10	2011	2010	Comments
Newfoundland Power	$8	$9	$9	$34	$35	
FortisOntario & Maritime Electric	4	4	5	22	19	
FortisBC Energy	51	47	45	139	126	
FortisAlberta	17	18	17	75	67	
FortisBC Electric	11	11	10	49	43	
Regulated Utilities - Canadian	91	90	86	319	290	
Regulated Utilities - Caribbean	3	6	5	20	24	Weaker-than-expected results primarily at Turks & Caicos
Non-regulated - Fortis Generation	5	4	5	18	19	
Non-regulated - Fortis Properties	5	9	7	22	26	Lower-than-expected occupancy rates and margins
Corporate	(18)	(18)	(18)	(72)	(78)	
Normalized Earnings	**$86**	**$92**	**$85**	**$307**	**$281**	
Normalized EPS	**$0.46**	**$0.49**	**$0.49**	**$1.69**	**$1.63**	
Average shares outstanding (MM)	188	187	174	182	173	
Normalization adjustments:						
Reversal (after-tax) related to project cost overrun					4	
Early Termination Fee				11		CVPS transaction
	0		0	11	4	
Reported Earnings	$86		$85	$318	$285	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter and Outlook

- **Regulatory Reviews on ROE: One Down, Two to Go.** With the Alberta Utilities Commission (AUC) modestly reducing the allowed ROE to 8.75% (from 9.00%), the focus shifts to the British Columbia Utilities Commission (BCUC), which will review allowed ROEs and capital structures this year. Further, the Newfoundland and Labrador Board of Commissioners of Public Utilities provided relief on the 2012 ROE by suspending the formula and maintaining the 8.38% ROE (it would have dropped to 7.85%) with a full cost of capital review also likely to occur this year. We estimate that a 50 basis point change in allowed ROE in B.C. would impact EPS by roughly $0.05/share. A similar change in Newfoundland and Labrador would impact EPS by about $0.01/share.

- **Government's Belize Valuation Significantly Lower-Than-Expected.** During Q4/11, Fortis commissioned an independent valuation of its investment in Belize Electricity Limited (BEL) and submitted a claim for compensation to the Government of Belize (GOB). In response to Fortis' claim, the GOB also commissioned an independent valuation of BEL, resulting in a significantly lower fair value than was estimated by the Fortis valuation. The company is pursuing alternative options for obtaining fair compensation from the GOB.

- **5-year Capex Plan Continues To Remain Strong.** The company's updated 5-year capex plan through 2016 has not significantly changed from the 2011 plan. In summary, over the next five years (2012 to 2016), Fortis' planned capex is expected to approximate $5.5 billion. The majority of Fortis' planned capital investment is in Canadian regulated electric utilities (approximately 64%) and Canadian regulated gas utilities (approximately 23%), subject to regulatory approval.

- **$244 Million Invested To Date In The Waneta Dam Expansion.** Construction work continues on the $900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015. The project is on schedule and budget, with approximately $244 million invested since construction started in late 2010. With a controlling interest of 51%, Fortis will operate and maintain the facility, which will sell energy and capacity to BC Hydro and FortisBC Electric under 40-year power sales contracts.

- **Mount Hayes Storage Facility Brought On-Line In Late 2011.** The 1.5 billion-cubic foot LNG storage facility, located on Vancouver Island, was completed during Q2/11 and brought on-line in late 2011. The project costs were approximately $212 million and are included in FortisBC Energy's rate base (Vancouver Island).
- **Customer Care Enhancement Project in Service in January 2012.** The $110 million project at FortisBC Energy was put into service in January 2012. The company estimates that approximately $30 million of the project costs will be incurred in H1/12, as they relate to final contractor payments. Total costs for the project are expected to come in under budget.

Modestly Reducing Estimates to Reflect Headwinds in Caribbean and Properties

We have slightly reduced our 2012 and 2013 EPS estimates $1.76 and $1.87, respectively (from $1.81 and $1.91, respectively). The estimates for the core Canadian Regulated Utilities remain largely unchanged. We would note that our forecast does not include any impact from a reduction in ROE for the B.C.-based utilities. We estimate that a 50 basis point change in allowed ROE would impact EPS by roughly $0.05/share. Due to our lower EPS forecast, we have also modified our dividend estimate for 2013 to an annual increase of $0.06/share (down from $0.08/share). Our revised estimates are set out in Exhibit 2.

Exhibit 2: Revised Financial Forecast (In $MM except per share figures)

									OLD	
	2010	2011	Q1/12E	Q2/12E	Q3/12E	Q4/12E	2012E	2013E	*2012E*	*2013E*
Newfoundland Power	$35	$34	$7	$11	$8	$8	$34	$35	*$36*	*$37*
Other Cdn (ME + FTS Ont)	19	22	7	7	7	4	24	26	*24*	*26*
FortisBC Energy	126	139	79	16	(3)	53	144	148	*140*	*145*
FortisAlberta	67	75	23	21	20	20	83	93	*83*	*92*
FortisBC Electric	43	49	18	9	10	13	50	53	*50*	*53*
Regulated Utilities - Caribbean	24	20	4	8	7	3	22	25	*25*	*28*
Fortis Generation	19	18	3	4	7	4	19	19	*19*	*19*
Fortis Properties	26	22	1	8	10	6	25	27	*28*	*29*
Corporate and other	(78)	(72)	(18)	(17)	(16)	(16)	(67)	(65)	*(64)*	*(61)*
Normalized earnings	**$281**	**$307**	**$124**	**$65**	**$50**	**$95**	**$335**	**$362**	***$342***	***$367***
Shares O/S (MM)	173	182	189	190	191	192	190	193	*189*	*192*
Normalized EPS (Basic)	**$1.63**	**$1.69**	**$0.65**	**$0.34**	**$0.26**	**$0.50**	**$1.76**	**$1.87**	***$1.81***	***$1.91***
Dividends Paid	$1.12	$1.16					$1.20	$1.26	*$1.24*	*$1.32*
Payout Ratio	69%	69%					68%	67%	*69%*	*69%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $34.00 is based on a forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

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Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.
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Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
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Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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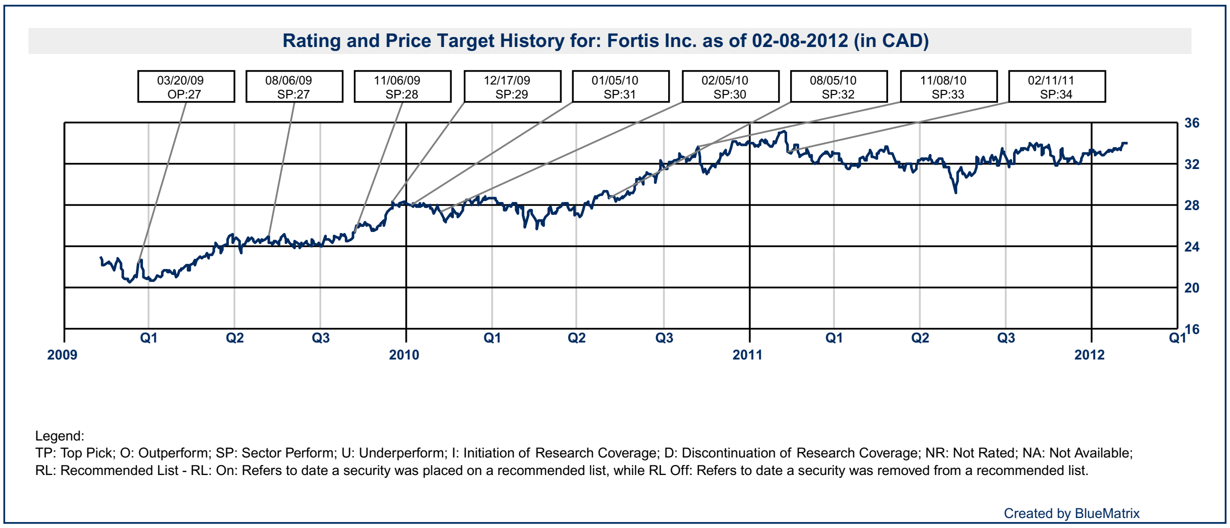
Distribution of Ratings RBC Capital Markets, Equity Research			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	774	51.90	224	28.94
HOLD[SP]	648	43.40	146	22.53
SELL[U]	71	4.80	5	7.04



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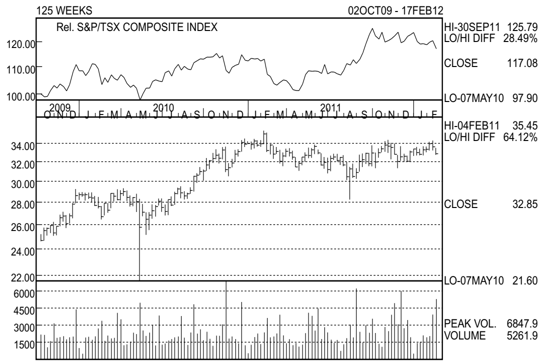

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All values in CAD unless otherwise noted.

Fortis Inc. (TSX: FTS; 32.85)

Agrees to Acquire U.S. Regulated Utility

Sector Perform
Average Risk

Impact

Modestly Positive

First Impression

- **Acquires CH Energy Group for US$1.5 Billion.** Fortis has entered into an agreement to acquire CH Energy Group (NYSE: CHG, US$58.77; not rated) for an aggregate purchase price of approximately US$1.5 billion (including US$500 million of debt). CH Energy's main business segment is a regulated transmission and distribution utility in New York State (97% of net income). CH Energy also owns and operates a non-regulated fuel delivery business.
- **Purchase Price Represents 10.5% Premium.** The US$65/share purchase price represents a 10.5% premium above CHG's most recent closing price. We note that the acquisition is subject to shareholder and other regulatory approvals including, the New York Public Service Commission and the Federal Energy Regulatory Commission.
- **Transaction Expected to Be Immediately Accretive to EPS.** Fortis stated that it expects the acquisition to be immediately accretive to EPS excluding one-time transaction costs. The total assets of Fortis are expected to increase by approximately 16% to $17 billion following the completion of the transaction.
- **Initial Financing Will Be the Credit Facility.** Fortis will use its multi-year committed credit facility to finance the acquisition in the short term. However, we note that any need for common equity would be reduced by the $341 million equity issuance in mid-2011 with proceeds that were partly intended to finance the CVPS acquisition that did not proceed.
- **Fast Growing Utility.** Fortis expects annual capital expenditures at Central Hudson to exceed US$100 million on average through 2016. The increase in rate base should drive above-average EPS growth.
- **Low Risk Utility.** Central Hudson operates under cost-of-service regulation with a framework that provides full recovery and deferral provisions for pension and fuel costs. Furthermore, rates are de-coupled, which provides increased protection against changes in customer usage.
- **Attractive ROE for Now.** Central Hudson's current rates having been established using a 10% return on equity and a 48% equity thickness for three years beginning on July 1, 2010. We note that ROEs in New York have recently been pegged below 9.5%.
- **Overall, We View the Transaction as a Modest Positive.** Similar to our thoughts on the CVPS approach, we view the CH Energy transaction as a modest positive as: (1) it is a smaller transaction that can help prove-up the U.S. expansion strategy; (2) the utility is fairly close geographically to Fortis' utilities in Eastern Canada; (3) Central Hudson is geographically close to other potential utility targets, particularly those owned by European companies; and (4) the transaction is expected to be immediately accretive to EPS.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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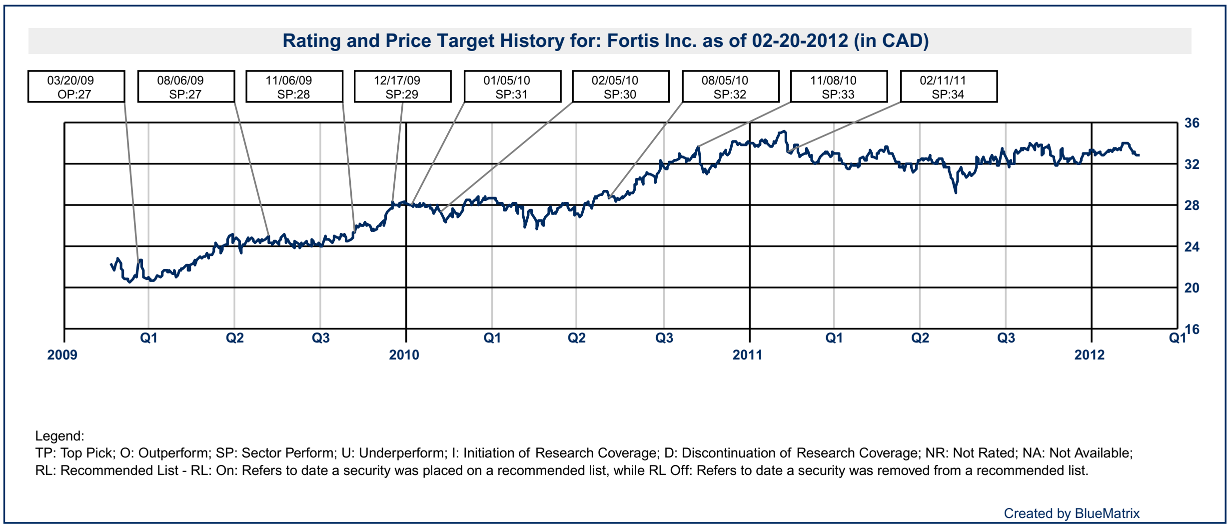

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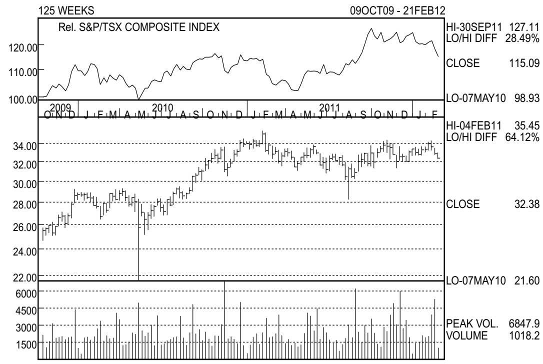

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FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.69	1.76	1.89
Prev.				1.87
P/E	19.9x	19.2x	18.4x	17.1x
EPS (Op) - FD	1.60	1.67	1.74	1.87
Prev.				1.85
P/E	20.2x	19.4x	18.6x	17.3x
DPS	1.12	1.16	1.20	1.26
Div. Yield	3.5%	3.6%	3.7%	3.9%
Payout Ratio- Basic	69%	69%	68%	67%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.67A	0.33A	0.25A	0.46A
2012	0.65E	0.34E	0.26E	0.50E

EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

FEBRUARY 22, 2012

Fortis Inc. (TSX: FTS)

Fortis Loves New York

Sector Perform
Average Risk

Price:	32.38	**Price Target:**	34.00
		Implied All-In Return:	9%
Shares O/S (MM):	189.0	**Market Cap (MM):**	6,120
Dividend:	1.20	**Yield:**	3.7%
Float (MM):	189.0		
Debt to Cap:	55%		

Event

Fortis agreed to acquire CH Energy, which owns a New York utility, for US$1.5 billion (includes US$500 million of debt).

Investment Opinion

- **Strategic and Accretive.** Similar to the CVPS approach, we view the CH Energy transaction as a modest positive as: (1) it is a smaller transaction that can help prove-up the U.S. expansion strategy; (2) Central Hudson is in New York State, which is where other potential utility targets are (particularly those held by European companies); and (3) the transaction is expected to be immediately accretive to EPS, which should increase over time due to expected 6% to 7% annual rate base growth through 2016.
- **Should Be EPS Accretive Regardless of ROE Outcome.** Our analysis in Exhibit 1 (on page 2) indicates that the acquisition should be mildly accretive to EPS even if the allowed ROE declines toward 9% (from 10%) as part of the upcoming rate case. Central Hudson's rate decision in mid-2010 runs through mid-2013 and includes an ROE of 10%. However, a rate decision for Orange & Rockland in mid-2011 pegged the ROE at 9.2%.
- **Equity Could Be Issued in Mid/Late 2012.** Fortis has the ability to fund the transaction using its credit facilities. At a minimum, the company will probably wait until the outcome of the CH Energy shareholder vote (likely summer 2012) before moving forward on financing. We have assumed that $500 million of common shares are issued in our analysis.
- **Feels Like Home: New York State Regulation a Lot Like Canada.** New York State regulation has many similarities to the low-risk, cost-of-service framework prevalent in Canada, including those for Fortis' existing utility assets. Specifically, fuel pass-through mechanisms, rate de-coupling (to protect against declines in customer usage), and the use of deferral accounts are part of Central Hudson's regulated framework.
- **Increasing 2013 Estimate.** Assuming the transaction closes in Q1/13, we have increased our 2013 EPS estimate to $1.89 (from $1.87). Our revised estimate assumes that the ROE in mid-2013 declines to 9.25% (from 10%), which is more in line with a recent ROE decision.
- **Valuation: No Change in Price Target.** Reflecting the modest expected accretion, we have left our $34.00/share price target unchanged. If the ultimate ROE decision for Central Hudson is closer to 10%, we see roughly $1/share of upside.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

CH Energy Acquisition Slightly Accretive

Similar to the CVPS transaction, we view the CH Energy acquisition as a modest positive for the stock for the following reasons:

(1) Relatively Small Size Allows Fortis to Test U.S. Waters. Although the acquisition is larger than the CVPS proposed transaction, we believe that the CH Energy acquisition at roughly US$1.5 billion enterprise value is a more manageable size than the US$3 billion to US$5 billion transaction range that Fortis has previously discussed. Since we believe that the market is cautious on the U.S. acquisition strategy, the CH Energy acquisition should allow the company to prove to the market that it can navigate U.S. state regulation.

(2) Good Fit Geographically. Central Hudson is in New York State, a state where there is the potential for future utility acquisitions (particularly from European owners). Furthermore, New York is relatively close geographically to Fortis' eastern Canadian utility assets.

(3) Expected to Be Accretive to EPS Regardless of the ROE Scenario. As shown in Exhibit 1, we expect the transaction to contribute $0.02/share to $0.04/share to annual EPS, depending on whether in the upcoming rate case the allowed ROE declines toward 9% (from 10%). We have set out a sensitivity analysis in Exhibit 2, which shows that under a range of ROEs and equity pricing, the transaction is expected to be accretive to EPS regardless of the assumption.

Exhibit 1: Estimated EPS Accretion - Base Analysis (In $MM except per share figures; assumes US$ at par)

Assumptions				
Total Purchase Price	$1,500			
Assumed Debt	500			
Equity Purchase Price	$1,000			
Financing of Equity Portion			**Cost of Financing**	
Equity Financed	50%	$500	$31.50	per share
Debt Financed	40%	400	5.0% rate	
Preferred Shares	10%	100	4.0% rate	
Regulated Structure				
Equity Thickness	48%			
ROE	9.25%			

	Full Year	**Comments**
Estimated Regulated Rate Base	$1,022	Assumes roughly 6% rate base growth into 2013
Equity Thickness	48%	
ROE	9%	
Regulated Net Income	45	
Unregulated Net Income	1	Based on disclosure that 3% of net income is unregulated
Total Net Income	$46	
Incremental Debt Financing	(15)	After-tax
Incremental Pfd Share Dividends	(4)	
Cross-Border Tax Structuring	7	Assumes reduction in holding company effective tax rate to 25% (from 35%)
Incremental Net Income	35	
2013E Stand Alone Net Income	362	Previous RBC estimate as a proxy for the first full-year
Pro Forma Net Income	$396	
Existing Shares Outstanding (MM)	193	2013E RBC estimate
Shares Issued (MM)	16	
Pro Forma Shares (MM)	209	
Stand Alone EPS	$1.87	
Pro Forma EPS	$1.89	
Accretion/(Dilution)	**$0.02**	

Source: Company reports; RBC Capital Markets estimates

Exhibit 2: Estimated EPS Accretion - Sensitivity Analysis

		Equity Issue Price (net of discount)					
		$30.50	$31.00	$31.50	$32.00	$32.50	
	9.00%	$0.01	$0.01	$0.02	$0.02	$0.02	
Allowed	9.25%	$0.02	$0.02	**$0.02**	$0.03	$0.03	← Forecast ROE
ROE	9.50%	$0.03	$0.03	$0.03	$0.03	$0.03	
	9.75%	$0.03	$0.03	$0.04	$0.04	$0.04	
	10.00%	$0.04	$0.04	**$0.04**	$0.05	$0.05	← Current Allowed ROE

Source: Company reports; RBC Capital Markets estimates

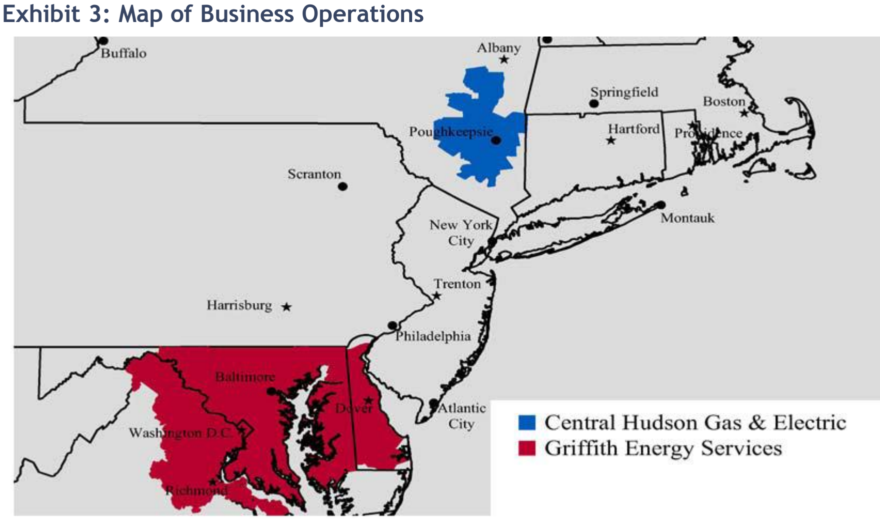
Transaction Mechanics

- **Purchase Price.** Fortis entered into an agreement to acquire CH Energy Group (NYSE: CHG; US$66.22; not rated) for US$65.00 in cash. The total purchase price is an approximately 10.5% premium to the previous close.
- **Transaction Approvals and Timing.** The transaction requires shareholder approval (meeting in summer of 2012) and regulatory approvals including the New York Public Service Commission (NYPSC), the Federal Regulatory Energy Commission (FERC), and the expiration of the waiting period under the Hart-Scott-Rodino (HSR) Act. We do not expect FERC or HSR approval to be an issue. However, for the NYPSC, Fortis must demonstrate a net tangible benefit to rate payers, and although no specifics were given, it appears that Fortis may have some tools at its discretion to help deliver value to rate payers without a material change in earnings. Fortis expects to close the acquisition within 12 months.
- **Financing.** The company expects to use its credit facilities in the short term, although we believe permanent financing will come in the form of common equity, additional debt, and potentially preferred shares. In terms of the timing of common equity, it appears that Fortis will wait at least until shareholder approval before reviewing the timing of its equity requirements.

Overview of CH Energy

- **Primarily Acquiring a Single-State, Regulated Electric and Gas Transmission & Distribution Business.** CH Energy's main business segment is Central Hudson Gas & Electric Corporation (Central Hudson), a regulated transmission and distribution utility in New York State (97% of net income) serving 300,000 electric and 75,000 natural gas customers. CH Energy also owns and operates a non-regulated fuel delivery business (Griffith Energy Services) with this business contributing only about 3% to annual earnings.
- **Fast-Growing Utility.** Fortis expects annual capital expenditures at Central Hudson to exceed US$100 million on average through 2016. The increase in rate base should be about 6% to 7% per year, which will help drive attractive EPS growth.
- **Capital Structure and ROE.** Central Hudson's current rates were established using a 10% return on equity and a 48% equity thickness for three years beginning on July 1, 2010. We note that ROEs in New York have recently been pegged below 9.5%.

Exhibit 3: Map of Business Operations



Source: Company reports; RBC Capital Markets

2013 EPS Estimate Increased

Assuming the transaction closes in Q1/13, we have increased our 2013 EPS estimate to $1.89 (from $1.87). Our revised estimate assumes that the ROE in mid-2013 declines to 9.25% (from 10%), which is more in line with a recent ROE decision in New York for Orange & Rockland, another utility in the state. Our revised estimates are set out in Exhibit 4.

Exhibit 4: Revised Financial Forecast (In $MM except per share figures)

	2010	2011	Q1/12E	Q2/12E	Q3/12E	Q4/12E	2012E	2013E	*OLD 2012E*	*OLD 2013E*
Newfoundland Power	$35	$34	$7	$11	$8	$8	$34	$35	*$34*	*$35*
Other Cdn (ME + FTS Ont)	19	22	7	7	7	4	24	26	*24*	*26*
FortisBC Energy	126	139	79	16	(3)	53	144	148	*144*	*148*
FortisAlberta	67	75	23	21	20	20	83	93	*83*	*93*
FortisBC Electric	43	49	18	9	10	13	50	53	*50*	*53*
CH Energy								46		
Regulated Utilities - Caribbean	24	20	4	8	7	3	22	25	*22*	*25*
Fortis Generation	19	18	3	4	7	4	19	19	*19*	*19*
Fortis Properties	26	22	1	8	10	6	25	27	*25*	*27*
Corporate and other	(78)	(72)	(18)	(17)	(16)	(16)	(67)	(77)	*(67)*	*(65)*
Normalized earnings	**$281**	**$307**	**$124**	**$65**	**$50**	**$95**	**$335**	**$396**	***$335***	***$362***
Shares O/S (MM)	173	182	189	190	191	192	190	209	*190*	*193*
Normalized EPS (Basic)	**$1.63**	**$1.69**	**$0.65**	**$0.34**	**$0.26**	**$0.50**	**$1.76**	**$1.89**	***$1.76***	***$1.87***
Dividends Paid	$1.12	$1.16					$1.20	$1.26	*$1.20*	*$1.26*
Payout Ratio	69%	69%					68%	67%	*68%*	*67%*

Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $34.00 is based on a forward P/E of 18.0x 2013E EPS. Our selected P/E multiple is at the upper end of the five-year range, reflecting the low interest rate environment, good growth from the core Canadian regulated utilities, and the Waneta Dam expansion, which will not contribute to earnings until 2015.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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Rating	Count	Percent	Count	Percent
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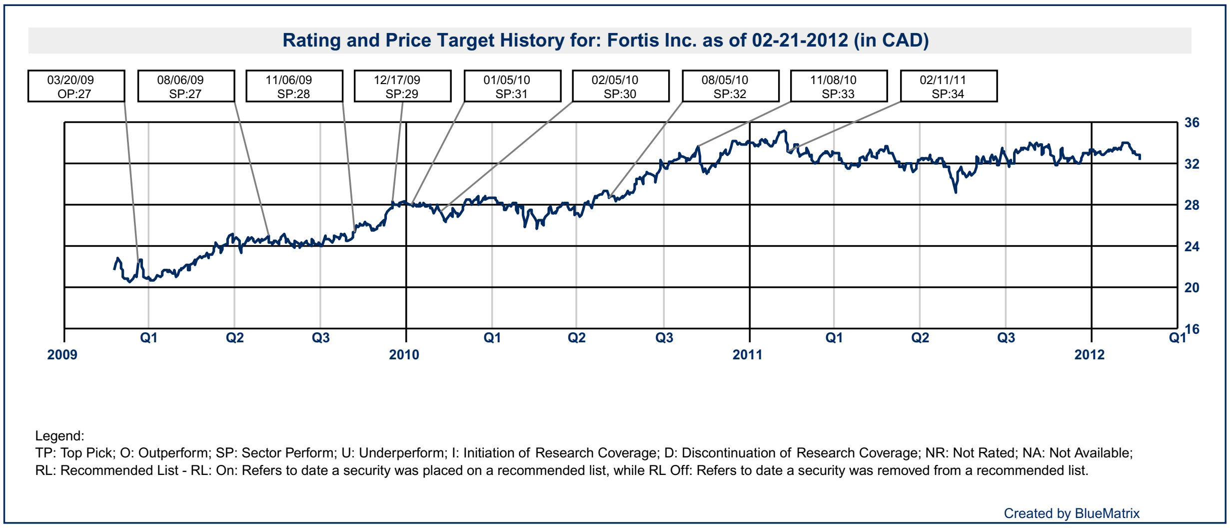

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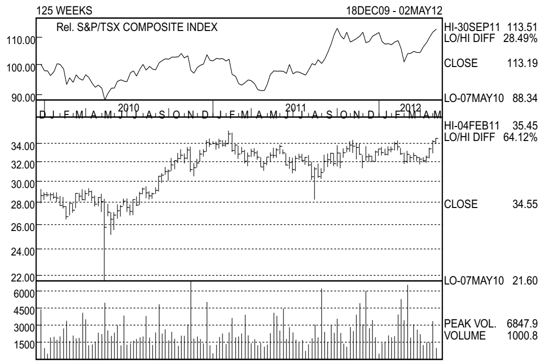

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FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.66	1.76	1.89
Prev.		1.69		
P/E	21.2x	20.8x	19.6x	18.3x
EPS (Op) - FD	1.60	1.64	1.74	1.87
Prev.		1.67		
P/E	21.6x	21.1x	19.9x	18.5x
DPS	1.12	1.16	1.20	1.26
Div. Yield	3.2%	3.4%	3.5%	3.6%
Payout Ratio- Basic	69%	70%	68%	67%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.66A	0.32A	0.24A	0.44A
Prev.	0.67A	0.33A	0.25A	0.46A
2012	0.66A	0.34E	0.26E	0.49E
Prev.	0.65E			0.50E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.
EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

MAY 3, 2012

Fortis Inc. (TSX: FTS)

Utilities Performing Well; Busy Year on the Regulatory Front

Sector Perform
Average Risk

Price:	34.55	**Price Target:**	35.00 ↑ 34.00
		Implied All-In Return:	5%
Shares O/S (MM):	189.3	**Market Cap (MM):**	6,540
Dividend:	1.20	**Yield:**	3.5%
Float (MM):	189.3		
Debt to Cap:	56%		

Event

Fortis reported Q1/12 results; increasing price target to $35.00 (from $34.00).

Investment Opinion

- **Q1/12 Results Generally in Line with Expectations.** Q1/12 normalized EPS was $0.66 compared to our estimate of $0.65 and $0.66 (restated) in Q1/11. All of the segments were roughly in line with our expectations. Non-Regulated Generation and FortisBC Energy were slightly ahead of expectations, whereas FortisAlberta and FortisBC Electric were slightly below expectations.
- **Various Regulatory Decisions Pending.** The generic cost of capital proceeding in B.C. to determine the cost of capital (effective January 1, 2013) and a PBR rate-regulation initiative in Alberta are in progress. Further, a cost of capital application was filed for Newfoundland Power in March 2012. We estimate that a 50 basis point change in allowed ROE in B.C. would impact EPS by roughly $0.05/share, whereas a similar change in Newfoundland and Labrador would impact EPS by approximately $0.01/share.
- **CH Energy Acquisition Continuing to Progress.** On April 20, 2012, Fortis filed for state regulatory approval and management expects the CH Energy shareholder transaction approval vote to be scheduled in mid to late June. Management is targeting to close the transaction during Q4/12 or Q1/13.
- **Equity Issuance Expected During H2/12.** Management indicated that the company's financing plan to issue approximately $500 million in common equity has not materially changed. However, the equity issuance may be slightly higher, depending on discussions with the credit rating agencies, as management wants to maintain its A- credit rating. We believe that the company will not issue equity until it has greater visibility on shareholder and regulatory approval.
- **Valuation: Increasing Price Target to $35.00 (from $34.00).** Our new price target of $35.00 is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately $1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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Q1/12 Generally in Line with Expectations

Fortis' Q1/12 normalized EPS was $0.66 compared to our estimate of $0.65 and $0.66 (restated) in Q1/11. All of the segments were roughly in line with our expectations. Non-Regulated Generation (good hydrology in Belize) and FortisBC Energy (quarterly timing of operating costs) were slightly ahead of expectations, whereas FortisAlberta (lower consumption) and FortisBC Electric (higher-than-expected operating expenses) were slightly below expectations.

A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q1/12	RBC CM Q1/12E	Q1/11 (Restated)	Comments
Newfoundland Power	$7	$7	$6	
FortisOntario & Maritime Electric	7	7	6	
FortisBC Energy	82	79	75	Quarterly timing of operating costs
FortisAlberta	21	23	21	Lower-than-average consumption due to warm weather
FortisBC Electric	16	18	19	Higher operating expenses due to timing of expenditures
Regulated Utilities - Canadian	133	133	127	
Regulated Utilities - Caribbean	3	4	4	Higher-than-expected financing charges
Non-regulated - Fortis Generation	5	3	3	Good hydrology in Belize
Non-regulated - Fortis Properties	1	1	1	
Corporate	(17)	(18)	(19)	
Normalized Earnings	**$125**	**$124**	**$116**	
Normalized EPS	**$0.66**	**$0.65**	**$0.66**	
Average shares outstanding (MM)	189	189	175	
Normalization adjustments:				
CH Energy Transaction Costs	(4)		0	
	(4)		0	
Reported Earnings	$121		$116	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter and Outlook

- **Various Regulatory Decisions Received During the Quarter.** In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates for FortisBC Energy and 2012 customer electricity distribution rates for FortisAlberta. A decision on the 2012/2013 customer electricity rates at FortisBC is expected in mid-2012.

- **Regulatory Processes Under Way for FortisBC, FortisAlberta and Newfoundland Power.** The generic cost of capital proceeding in British Columbia to determine the cost of capital as of January 1, 2013 (and an ROE automatic adjustment mechanism) is currently under way and a cost of capital application was filed by Newfoundland Power in March 2012. We estimate that a 50 basis point change in allowed ROE in B.C. would impact EPS by roughly $0.05/share, whereas a similar change in Newfoundland and Labrador would impact EPS by approximately $0.01/share. Lastly, the Alberta Utilities Commission is currently reviewing a PBR rate-regulation initiative.

- **Waneta Dam Expansion Continues to Progress.** Management indicated that the project is still on schedule and budget. Since construction started in late 2010, the company has invested approximately $290 million into the $900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015.

- **2012 Capex Plan Remains Unchanged.** Fortis' capital expenditure plan of $1.3 billion for 2012 is unchanged from Q4/11 guidance. Fortis spent approximately $229 million in capital expenditures during the quarter.

CH Energy Transaction Is Moving Along As Expected

- **CH Energy Acquisition Expected to Close by Q1/13.** In April 2012, Fortis filed for New York state regulatory approval, which management is confident it will receive. The CH Energy shareholder vote is expected to be scheduled for mid to late June. Management's target is for the transaction to close in Q4/12, but depending on the timing of approvals, the transaction could close in Q1/13. We note that our 2013 EPS estimates include a full year contribution from CH Energy, but a delay to Q1/13 would not have a material impact on our estimates.
- **CH Energy Financing Plans Virtually Unchanged.** Management indicated that the company still intends to issue approximately $500 million in common equity. However, management wants to ensure that the A- credit rating is maintained, and depending on discussions with the credit rating agencies, the equity issuance may be slightly higher.

Overall Estimates Remain Unchanged

We have made minor changes within the segments to our 2012 forecast, and since Q1/12 was generally in line with our estimate, we have left our overall EPS estimates unchanged through 2013. A summary of our segment forecast is set out in Exhibit 2.

Exhibit 2: Financial Forecast (In $MM except per share figures)

	Cdn. GAAP							
	2010	2011	Q1/12	Q2/12E	Q3/12E	Q4/12E	2012E	2013E
Newfoundland Power	$35	$33	$7	$11	$8	$8	$34	$35
Other Cdn (ME + FTS Ont)	19	20	7	7	7	4	24	26
FortisBC Energy	126	137	82	16	(3)	49	144	148
FortisAlberta	67	74	21	21	20	21	83	93
FortisBC Electric	43	48	16	9	10	15	50	53
CH Energy								46
Regulated Utilities - Caribbean	24	20	3	7	6	4	21	25
Fortis Generation	19	18	5	4	7	4	21	19
Fortis Properties	26	23	1	8	10	6	25	27
Corporate and other	(78)	(72)	(17)	(17)	(16)	(17)	(67)	(77)
Normalized earnings	**$281**	**$301**	**$125**	**$66**	**$50**	**$95**	**$335**	**$396**
Shares O/S (MM)	173	182	189	190	191	192	190	209
Normalized EPS (Basic)	**$1.63**	**$1.66**	**$0.66**	**$0.34**	**$0.26**	**$0.49**	**$1.76**	**$1.89**
Dividends Paid	$1.12	$1.16					$1.20	$1.26
Payout Ratio	69%	70%					68%	67%

Source: Company reports; RBC Capital Markets estimates

Increasing Price Target to $35.00 (from $34.00)

We have increased our price target to $35.00 (from $34.00) to reflect a forward P/E of 18.0x (previously 17.5x) applied to the 2013 EPS estimate plus a present value of approximately $1.00/share for the Waneta Dam expansion (applying a 18.0x P/E to the estimated $0.06/share of EPS accretion on a present value basis). The P/E multiple of 18.0x is consistent with other Canadian utility valuations.

Valuation

Our price target of $35.00 is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately $1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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RBC Capital Markets, Equity Research

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
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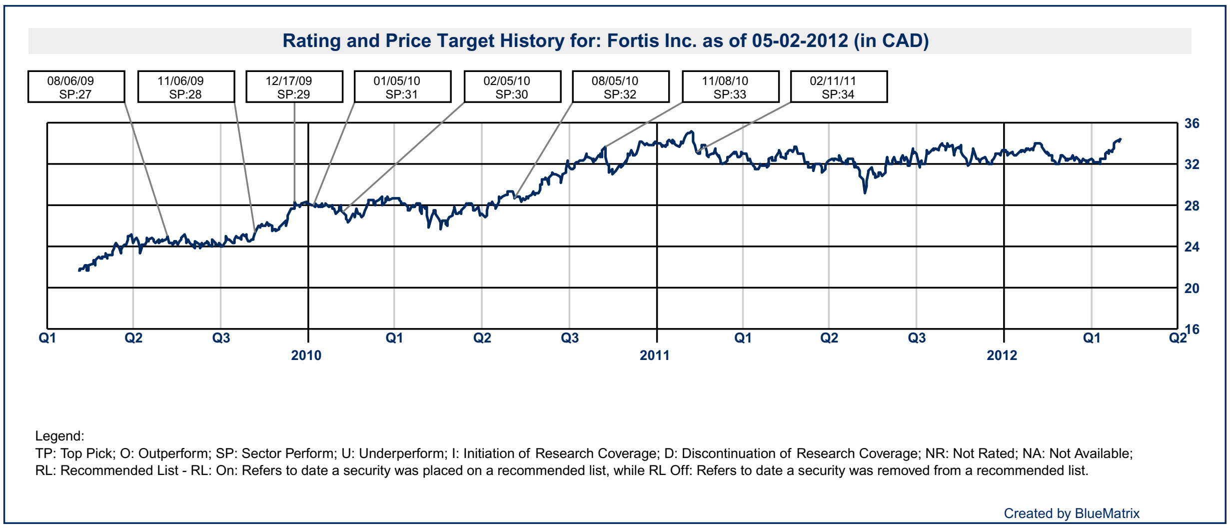

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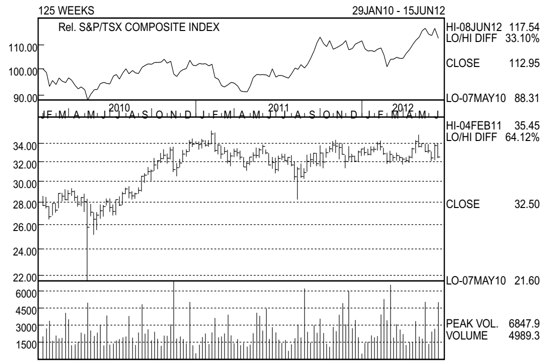

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FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.66	1.76	1.89
Div Yield	3.4%	3.6%	3.7%	3.9%
P/E	19.9x	19.6x	18.5x	17.2x
EPS (Op) - FD	1.60	1.64	1.74	1.87
P/E	20.3x	19.8x	18.7x	17.4x
DPS	1.12	1.16	1.20	1.26
Payout Ratio- Basic	69%	70%	68%	67%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.66A	0.32A	0.24A	0.44A
2012	0.66A	0.34E	0.26E	0.49E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.
EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

COMPANY UPDATE | COMMENT

JUNE 18, 2012

Fortis Inc. (TSX: FTS)

In a New York State of Mind

Sector Perform
Average Risk

Price:	32.50	**Price Target:**	35.00
		Implied All-In Return:	11%
Shares O/S (MM):	189.3	**Market Cap (MM):**	6,152
Dividend:	1.20	**Yield:**	3.7%
Float (MM):	189.3		
Debt to Cap:	56%		

Event

We recently hosted investor meetings with Barry Perry, CFO of Fortis.

Investment Opinion

- **Central Hudson is Both Strategic and Accretive.** We continue to view the transaction as strategic, while delivering modest EPS accretion ($0.02/share). With a similar regulatory framework to Canada's low-risk provincial utility structures, Central Hudson is an attractive way for Fortis to enter the U.S. and demonstrate that its success with acquisitions in Canada can be applied to the U.S., particularly other utilities in New York that may come up for sale over the next several years.
- **A Big Week for the Central Hudson Transaction.** CH Energy's shareholders will vote on the takeover bid by Fortis on Tuesday, June 19. A nice positive last week was the support for the transaction from proxy firms ISS and Glass Lewis. A positive shareholder vote (50% plus one of all shareholders) will open the window for the roughly $600 million of common equity financing. The major hurdle following the shareholder vote is New York State Public Service Commission approval, which continues to progress well. The company anticipates closing the transaction by the end of Q1/13.
- **Good Progress on the Waneta Dam Expansion.** The company is making good progress on the $900 million Waneta Dam expansion project (51%-owned by Fortis) with both costs and timing slightly ahead of plan. The 335 MW hydro project is expected to be completed in the spring of 2015 and is underpinned by 40-year contracts.
- **An Attractive Total Return Story, Although We Would Wait for the Equity Issuance.** Based on expected regulated rate base growth along with the Waneta Dam expansion project, EPS growth should be in the mid-single digits and dividends are expected to grow at a similar rate with upside depending on acquisition activity. The expected total return profile is in the 10%-range (dividend yield 3.6%), which we see as attractive for yield-oriented investors seeking businesses with below average risk profiles. While we believe investors should look to accumulate shares on weakness, we would wait for the pending equity issuance to finance the CH Energy acquisition to build larger positions.
- **Valuation.** Our price target of $35.00 is based on a forward P/E of 18x applied to the 2013E EPS plus a present value of approximately $1.00/share for the Waneta Dam expansion.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 6.

CH Energy Acquisition is Both Strategic and Accretive

- **A Low-Risk Way to Enter the U.S.** After over five years of patiently pursuing a U.S. regulated utility acquisition, we see CH Energy, which owns Central Hudson (electric transmission and distribution in New York), as the most strategic target of the utilities that Fortis has been reported to have pursued. Specifically, we like the low-risk regulatory framework that matches up very well with Canadian provincial regulation, the relatively small size of the transaction, the ability to demonstrate a relationship with the New York State Public Service Commission (NYSPSC) ahead of potential follow-on deals in the state.

- **Similar Regulatory Framework to Canadian Provincial Regulation.** As shown in Exhibit 1, we have reproduced a slide from Fortis' presentation that shows how Central Hudson's regulatory framework compares to Canadian provincial regulation. Specifically, we note that Central Hudson's framework matches up with FortisBC Energy (formerly Terasen Gas) and has some risk-mitigation features that other utilities owned by Fortis do not have.

Exhibit 1: Central Hudson's Regulatory Framework Matches Up Well With What Fortis' Investors Have Come to Expect

	FortisBC Energy	FortisBC Electric	Fortis Alberta	Nfld Power	Central Hudson	Comments/What This Means
Regulator	BCUC	BCUC	AUC	PUB	NYSPSC	
Cost of Service Regulation	✓	✓	✓	✓	✓	
Fwd Test Year/Neg. Rate Settlement	✓	✓	✓	✓	✓	Forecast (vs. historical) costs recovered in rates; low reg. lag
Energy Supply Cost Trackers	✓	Note 1 & 2	N/A; note 3	✓	✓	Changes in commodity costs do not impact earnings
Advance Approval for Capex	✓	✓	✓	✓	✓	Reduces risk of disallowances
Weather (Volume) Normalization	✓	Note 2	N/A; note 3	✓	✓	Warm/cold weather does not impact earnings
Pension Cost Tracker	✓	✓	N/A; note 4	✓	✓	Variances recovered from (refunded to) customers
Interest Expense Tracker	✓	✓	✗	✗	✓	Variances recovered from (refunded to) customers
Property Tax Tracker	✓	✓	✗	✓	✓	Variances recovered from (refunded to) customers
Recovery of Major Non-Controllable Costs	✓	✓	✓	✓	✓	Such as taxes, storm damage, acct'ng changes
Equity Thickness (2012)	40%	40%	41%	45%	48%	
Allowed ROE (2012)	9.50%	9.90%	8.75%	8.80%	10.00%	Please see note (5)
Customers (000s)	939	162	501	248	375	As at March 31, 2012
Rate Base ($ billion)	$3.6	$1.1	$2.0	$0.9	$1.0	Mid-year 2012 forecast

Notes:
(1) Majority of power requirements met through the utility's own generation and long-term fixed-price contracts.
(2) FortisBC Electric has requested energy supply cost trackers for 2012 and 2013, subject to regulatory approval.
(3) Distribution utility only. No commodity or purchased power exposure.
(4) Primarily has a defined contribution pension plan.
(5) ROE is for FortisBC Energy. The ROE for FortisBC Energy (Vancouver Island) and FortisBC Energy (Whistler) is 50 bps higher.

Source: Company reports; RBC Capital Markets

- **Forecast EPS Accretion Under a Range of Scenarios (Including a Lower Allowed ROE).** As shown in Exhibit 2 and Exhibit 3, our analysis indicates that the CH Energy acquisition should be modestly accretive to EPS under a range of scenarios including the cost of financing in addition to the potential for a lower allowed ROE. The most recent ROE decision from the NYSPSC was 9.5% (Orange and Rockland; June 2012).

Exhibit 2: CH Energy Transaction Accretion Analysis (In $MM except per share figures)

Assumptions			
Total Purchase Price	$1,500		
Assumed Debt	500		
Equity Purchase Price	$1,000		
Financing of Equity Portion		**Cost of Financing**	
Equity Financed	60%	$600	$32.50 per share
Debt Financed	20%	200	5.0% rate
Preferred Shares	20%	200	4.0% rate
Regulated Structure			
Equity Thickness	48%		
ROE	9.50%		

	Full Year	**Comments**
Estimated Regulated Rate Base	$1,022	Assumes roughly 6% rate base growth into 2013
Equity Thickness	48%	
ROE	10%	
Regulated Net Income	47	
Unregulated Net Income	1	Based on disclosure that 3% of net income is unregulated
Total Net Income	$48	
Incremental Debt Financing	(8)	After-tax
Incremental Pfd Share Dividends	(8)	
Cross-Border Tax Structuring	7	Assumes reduction in holding company effective tax rate to 25% (from 35%)
Incremental Net Income	39	
2013E Stand Alone Net Income	362	Previous RBC estimate as a proxy for the first full-year
Pro Forma Net Income	$401	
Existing Shares Outstanding (MM)	193	2013E RBC estimate
Shares Issued (MM)	18	
Pro Forma Shares (MM)	212	
Stand Alone EPS	$1.87	
Pro Forma EPS	$1.89	
Accretion/(Dilution)	**$0.02**	

Source: Company reports; RBC Capital Markets estimates

Exhibit 3: CH Energy Transaction Expected to be Modestly Accretive Under a Range of Scenarios

Allowed ROE	Equity Issue Price (net of discount) $31.50	$32.00	$32.50	$33.00	$33.50	
9.00%	$0.00	$0.01	$0.01	$0.01	$0.01	
9.25%	$0.01	$0.01	$0.02	$0.02	$0.02	
9.50%	$0.02	$0.02	**$0.02**	$0.03	$0.03	← Forecast ROE
9.75%	$0.02	$0.03	$0.03	$0.03	$0.03	
10.00%	$0.03	$0.03	**$0.04**	$0.04	$0.04	← Current Allowed ROE

Source: Company reports; RBC Capital Markets estimates

Exhibit 4: Model Summary (In $MM except per share figures)

	Cdn. GAAP							
	2010	2011	Q1/12	Q2/12E	Q3/12E	Q4/12E	2012E	2013E
Newfoundland Power	$35	$33	$7	$11	$8	$8	$34	$35
Other Cdn (ME + FTS Ont)	19	20	7	7	7	4	24	26
FortisBC Energy	126	137	82	16	(3)	49	144	148
FortisAlberta	67	74	21	21	20	21	83	93
FortisBC Electric	43	48	16	9	10	15	50	53
CH Energy								46
Regulated Utilities - Caribbean	24	20	3	7	6	4	21	25
Fortis Generation	19	18	5	4	7	4	21	19
Fortis Properties	26	23	1	8	10	6	25	27
Corporate and other	(78)	(72)	(17)	(17)	(16)	(17)	(67)	(77)
Normalized earnings	**$281**	**$301**	**$125**	**$66**	**$50**	**$95**	**$335**	**$396**
Shares O/S (MM)	173	182	189	190	191	192	190	209
Normalized EPS (Basic)	**$1.63**	**$1.66**	**$0.66**	**$0.34**	**$0.26**	**$0.49**	**$1.76**	**$1.89**
Dividends Paid	$1.12	$1.16					$1.20	$1.26
Payout Ratio	69%	70%					68%	67%

Source: Company reports; RBC Capital Markets estimates

Valuation

Our price target of $35.00 is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately $1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

Company Description

Fortis Inc. is a utility holding company for Newfoundland Power, FortisAlberta, FortisBC, Terasen Inc., Maritime Electric, Canadian Niagara Power, Cornwall Electric, BECOL, and two electric utilities in the Turks and Caicos. It also holds a 100% interest in Fortis Properties and a 59.5% interest in Caribbean Utilities.

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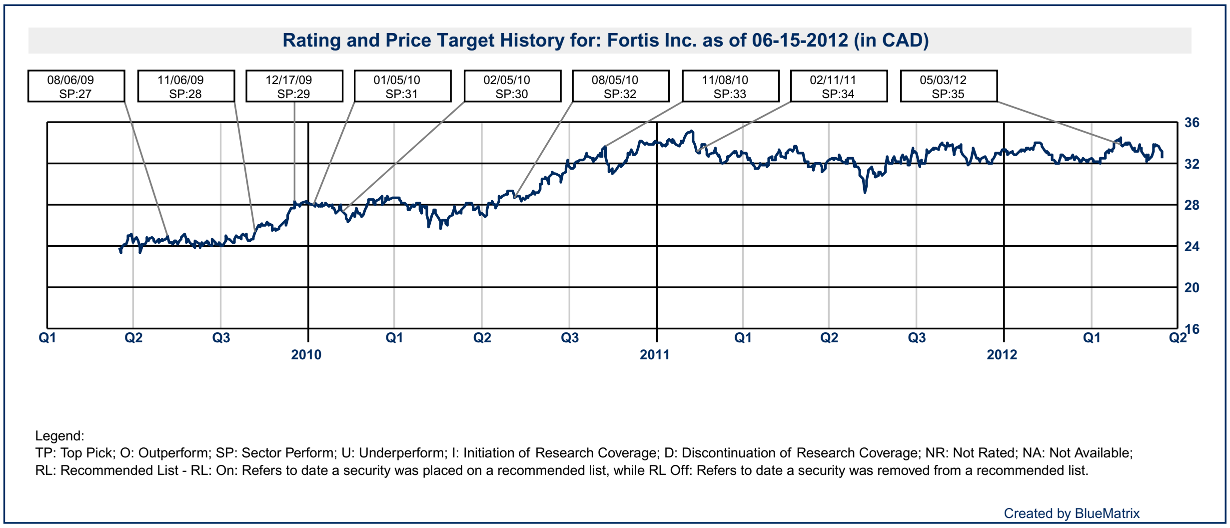

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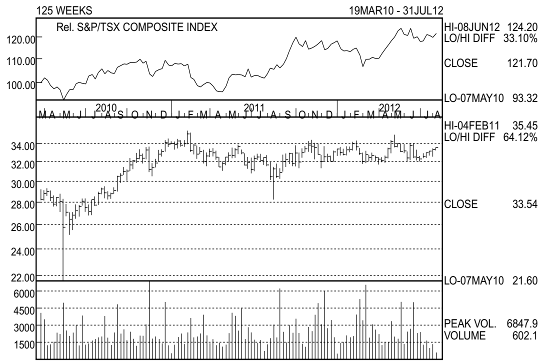
COMPANY UPDATE | COMMENT

AUGUST 1, 2012

Fortis Inc. (TSX: FTS)

Making Good Progress on Rate Base Growth and Closing CH Energy Transaction



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FY Dec	2010A	2011A	2012E	2013E
EPS (Op) - Basic	1.63	1.66	1.76	1.89
Div Yield	3.3%	3.5%	3.6%	3.8%
P/E	20.6x	20.2x	19.1x	17.7x
EPS (Op) - FD	1.60	1.64	1.74	1.87
P/E	21.0x	20.5x	19.3x	17.9x
DPS	1.12	1.16	1.20	1.26
Payout Ratio- Basic	69%	70%	68%	67%

EPS (Op) - Basic	Q1	Q2	Q3	Q4
2010	0.58A	0.32A	0.24A	0.49A
2011	0.66A	0.32A	0.24A	0.44A
2012	0.66A	0.33A	0.26E	0.51E
Prev.		0.34E		0.49E

EPS (Op): 2011 annual and quarterly figures have been restated for U.S. GAAP conversion.
EPS (Op): Amounts are normalized and may not be consistent with GAAP.

All values in CAD unless otherwise noted.

Sector Perform
Average Risk

Price:	33.54	**Price Target:**	35.00
		Implied All-In Return:	8%
Shares O/S (MM):	190.0	**Market Cap (MM):**	6,373
Dividend:	1.20	**Yield:**	3.6%
Float (MM):	190.0		
Debt to Cap:	56%		

Event

Fortis reported its Q2/12 results.

Investment Opinion

- **Q2/12 Results in Line with Expectations.** Fortis' Q2/12 normalized EPS was $0.33 compared to our estimate of $0.34 and $0.32 (restated) in Q2/11. Most of the segments were roughly in line with our expectations. We note that normalized EPS has been adjusted for offsetting one-time items (about $0.02/share of acquisition-related costs related to the CH Energy deal and about $0.02/share of positive adjustments related to Q1/12 booked at FortisAlberta).
- **Waneta Dam Expansion Continues to Make Good Progress.** The company is making good progress on the $900 million Waneta Dam expansion project (51%-owned by Fortis) with both costs and timing appearing to be slightly ahead of plan. The Waneta Expansion is a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015 and is underpinned by a 40-year contract with BC Hydro and FortisBC Electric.
- **CH Energy Shareholders Approved the Transaction.** In June 2012, the transaction received shareholder approval and regulatory approval from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the U.S. The New York State Public Service Commission is currently reviewing the application for approval of the transaction. The company expects to close the acquisition by the end of Q1/13 and we continue to view this transaction as strategic and modestly accretive to EPS in the first full year.
- **The B.C. Generic Cost of Capital Hearing the Last Major Decision on Allowed ROE.** Following decisions in Alberta and Newfoundland & Labrador, the remaining material ROE decision is in B.C. The oral hearings, if necessary, are not scheduled to begin until December 2012 and any changes to ROE will impact 2013 results. We estimate that a 50 basis point change in allowed ROE in B.C. would impact earnings by $0.05/share.
- **Valuation.** Our price target of $35.00 (unchanged) is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately $1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 5.

Q2/12 Generally in Line with Expectations

Fortis' Q2/12 normalized EPS was $0.33 compared to our estimate of $0.34 and $0.32 (restated) in Q2/11. Most of the segments were roughly in line with our expectations. FortisAlberta (higher-than-average consumption) was ahead of expectations, whereas FortisBC Energy (quarterly timing of operating costs) was slightly below expectations. We note that normalized EPS has been adjusted for offsetting one-time items (about $0.02/share of acquisition-related costs related to the CH Energy deal in the Corporate segment and about $0.02/share of positive adjustments related to Q1/12 at FortisAlberta).

A table showing the segment earnings compared to our estimates is set out in Exhibit 1.

Exhibit 1: Normalized Earnings (In $MM except per share figures)

	Q2/12	RBC CM Q2/12E	Q2/11 (Restated)	Comments
Newfoundland Power	$12	$11	$10	
FortisOntario & Maritime Electric	5	7	6	
FortisBC Energy	13	16	15	Quarterly timing of operating costs
FortisAlberta	23	21	18	Higher-than-average consumption due to increased oilfield activity
FortisBC Electric	9	9	9	
Regulated Utilities - Canadian	62	63	58	
Regulated Utilities - Caribbean	6	7	6	
Non-regulated - Fortis Generation	5	4	2	
Non-regulated - Fortis Properties	8	8	8	
Corporate	(19)	(17)	(17)	
Normalized Earnings	**$62**	**$66**	**$57**	
Normalized EPS	**$0.33**	**$0.34**	**$0.32**	
Average shares outstanding (MM)	190		177	
Normalization adjustments:				
FortisAlberta Regulatory Adjustment	3		0	
CH Energy Transaction Costs	(3)		0	
	0		0	
Reported Earnings	$62		$57	

Source: Company reports; RBC Capital Markets estimates

Highlights of the Quarter and Outlook

- **Allowed ROE for Newfoundland Power Increases.** In June 2012, Newfoundland Power received regulatory approval of an increase in its allowed ROE to 8.80% for 2012, up from 8.38% for 2011. The company expects to file a general rate application during the quarter.
- **Regulatory Processes Under Way for FortisBC and FortisAlberta.** The generic cost of capital proceeding in British Columbia to determine the cost of capital as of January 1, 2013 (and an ROE automatic adjustment mechanism) and the Alberta Utilities Commission (PBR rate-regulation initiative) are currently under review. On the B.C. cost of capital proceeding, we estimate that a 50 basis point change in ROE in B.C. would impact Fortis' earnings by about $0.05/share.
- **Equity Issuance to Fund CH Energy.** Fortis issued 18.5 million subscription receipts at $32.50/share (gross proceeds of $601 million) to finance a portion of the purchase price of CH Energy. The proceeds are being held in escrow pending the close of the transaction.
- **Waneta Dam Expansion Continues to Progress.** Management indicated that the project is still on schedule and budget. Since construction started in late 2010, the company has invested approximately $345 million into the $900 million Waneta Expansion, a 335 MW hydro project in B.C. that is expected to be in service in the spring of 2015.
- **2012 Capex Plan Remains Unchanged.** Fortis' capital expenditure plan of $1.3 billion for 2012 is unchanged from Q1/12 guidance. Fortis spent approximately $511 million in capital expenditures during the H1/12. The company continues to expect a

total of $5.5 billion of capex as part of its five-year plan with CH Energy, adding $0.5 billion to that plan following the close of the transaction.

CH Energy Transaction Expected to Close in Q1/13

In June, 92% of the CH Energy's shareholders who voted on the transaction voted to approve Fortis' acquisition of 100% of CH Energy. Furthermore, the transaction received regulatory approval from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the U.S. in June. The New York State Public Service Commission (NYSPSC) is currently reviewing the application for approval of the transaction. Management expects the transaction to close by the end of Q1/13, depending on the timing of receiving approval from NYSPSC. We note that our 2013 EPS estimates include a full-year contribution from CH Energy, but a delay in closing to the end of Q1/13 would not have a material impact on our estimates.

Overall Estimates Remain Unchanged

We have made minor changes within the segments to our 2012 forecast, and since Q2/12 was generally in line with our estimate, we remain comfortable with our overall EPS estimates and have left them unchanged. A summary of our segment forecast is set out in Exhibit 2.

Exhibit 2: Financial Forecast (In $MM except per share figures)

	Cdn. GAAP							
	2010	2011	Q1/12	Q2/12	Q3/12E	Q4/12E	2012E	2013E
Newfoundland Power	$35	$33	$7	$12	$9	$7	$34	$35
Other Cdn (ME + FTS Ont)	19	20	7	5	7	5	24	26
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Corporate and other	(78)	(72)	(17)	(19)	(16)	(17)	(69)	(75)
Normalized earnings	**$281**	**$301**	**$125**	**$62**	**$50**	**$97**	**$334**	**$400**
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Normalized EPS (Basic)	**$1.63**	**$1.66**	**$0.66**	**$0.33**	**$0.26**	**$0.51**	**$1.76**	**$1.89**
Dividends Paid	$1.12	$1.16					$1.20	$1.26
Payout Ratio	69%	70%					68%	67%

Source: Company reports; RBC Capital Markets estimates

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Our price target of $35.00 is based on a forward P/E of 18.0x applied to the 2013E EPS plus a present value of approximately $1.00/share for the Waneta Dam expansion that is expected to contribute to earnings in 2015. The P/E multiple is consistent with other Canadian utility valuations.

Price Target Impediment

The political environment in Belize, the risk of punitive regulatory decisions, economic/tourism conditions in its service territories, operational or financial issues at newly acquired businesses, and acquisitions or projects that fail to gain the confidence of investors may have implications for our price target.

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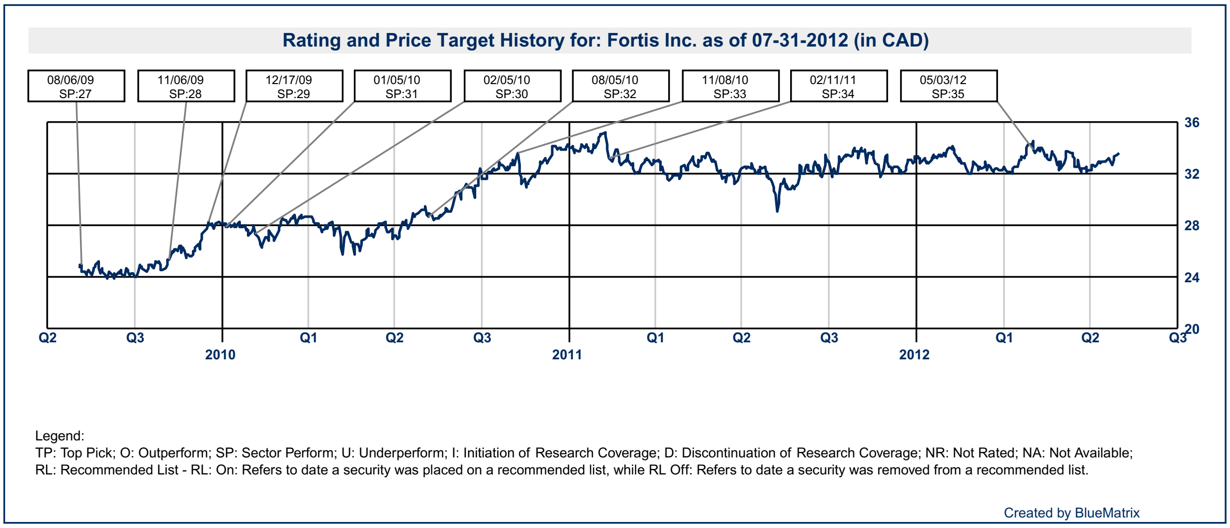
BUY[TP/O]	774	51.98	225	29.07
HOLD[SP]	647	43.45	153	23.65
SELL[U]	68	4.57	2	2.94



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Company Comment

Wednesday, February 08, 2006

Fortis Inc.

(FTS-T C$22.96)

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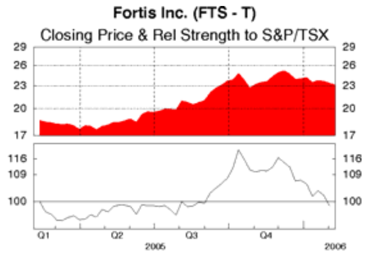
Rating: 2-Sector Perform	**Target**	1-Yr:	$25.50	**ROR**	1-Yr:	13.9%	**Est. NTM Div.**	$0.64
Risk Ranking: Medium		2-Yr:	$26.50		2-Yr:	21.0%	**Div. (Current)**	$0.64
Valuation: 1-yr target based on 20x P/E on 2007E EPS							**Yield**	2.8%

Q4/05 EPS Slightly Misses



Source: Global Insight, Inc.

Event

- Fortis (FTS) reported basic Q4/05 earnings of $0.22/share ($0.22/share in Q4/04) that, on a recurring basis, was about $0.26/share basic versus our $0.28/share estimate and the First Call Average of $0.27/share.

What It Means

- In Q4/05, FTS' regulated Ontario and Newfoundland power utilities experienced lower earnings due to negative demand YOY that more than offset much stronger Fortis non-regulated generation earnings.
- The Q4/05 non-recurring items were: 1) a $3M one time adjustment for implementing the FortisAlberta negotiated rate settlement established in May 2005, 2) a $1.1M write-off of some Rankine Niagara Falls Ontario power assets and 3) FortisOntario early retirement program costs were $0.8M pre-tax.
- Our one year valuation of Fortis is unchanged at 20x P/E on 2007 EPS.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2004A	$0.28 A	$0.31 A	$0.27 A	$0.22 A	$1.07	16.24
2005A	$0.40 A	$0.37 A	$0.36 A	$0.22 A	$1.35	17.98
2006E	$0.32	$0.30	$0.30	$0.28	$1.20	19.13
2007E	$0.33	$0.32	$0.32	$0.31	$1.27	18.08

(FY-Dec.)	2003A	2004A	2005A	2006E	2007E
Earnings/Share	$1.06	$1.07	$1.35	$1.20	$1.27
Cash Flow/Share	$2.09	$2.59	$3.13	$2.95	$3.02
Price/Earnings	13.9	16.2	18.0	19.1	18.1
Relative P/E	0.7	0.9	0.9	0.9	0.9
Revenues	$843	$1146	$1442	$1491	$1510
EBITDA	$264	$380	$515	$531	$541
Current Ratio	0.7	0.5	0.7	0.6	0.6
EBITDA/Int. Exp	3.2	3.5	4.1	3.3	3.3

IBES Estimates	BVPS06E	$13.11	Shares O/S (M)	103.2
EPS 2006E: $1.22	ROE06E	9.4%	Float O/S (M)	103.2
EPS 2007E: N/A			Total Value ($M)	2,369
			Float Value ($M)	2,369
Next Reporting Date	May-06		TSX Weight	0.19%
Credit Ratings	S&P: BBB			

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Target:		
2-Yr	$26.50	$26.00

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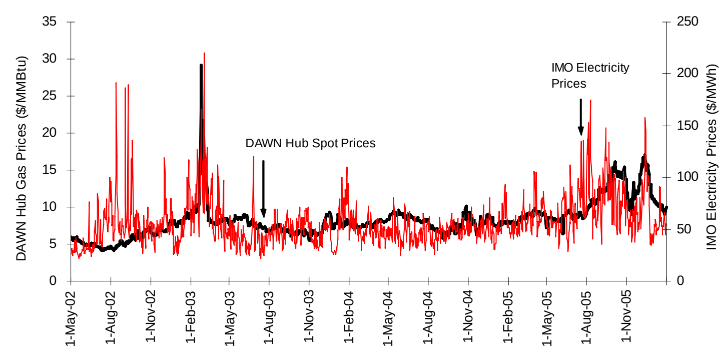
Highlights

- **Q4/05 EPS Misses Slightly:** FTS' recurring basic Q4/05 earnings were about $0.26/share which was lower than our $0.28/share estimate and the consensus of $0.27/share. Q4/05 reported basic EPS of $0.22/share included three non-recurring items: a $3.0M ($0.03/share) one time adjustment due to the implementation of the negotiated rate settlement for FortisAlberta, a $1.1M charge associated with the write down of FortisOntario's Rankine hydro asset as well as a $0.8M pre-tax cost for FortisOntario employees that retired in Q4/05. Increased earnings from higher energy prices and non-regulated generation in Ontario and New York were more than offset by increased operating expenses and decreased earnings from regulated assets.
- **Q4/05 Newfoundland Power:** 2005 earnings of $30.7M decreased $0.4M YOY due to timing differences related to when purchased power is charged and the impact of a 0.5% decrease in electricity rates in 2005 versus 2004, early retirement costs and higher financing costs. **Previously, FTS forecasted 2005 earnings to be flat in the $31M area**. Q4/05 earnings were down to $2.9M from $3.3M in Q4/04 for the same reasons and poor demand.
    - **Power demand declined 3.6%** to 1,191GWh in Q4/05 from 1,236GWh in Q4/04 due to lower customer usage (likely from a warmer than normal Q4/05) partially offset by an increase in customers. FY2005 usage was up 0.5% YOY.
    - In January 2006, Newfoundland Power received notice from its regulator that it had approved customer rates unchanged from 2005 with an unchanged 9.24% allowed ROE.
- **Q4/05 Maritime Electric Flat, FortisOntario Declined:**
    - Maritime Electric earned $1.7M versus $1.8M in Q4/04 and $9.1M for FY05 versus $8.2M for 2004. **Demand in Q4/05 at Maritime Electric was flat** at 242GWh. On January 31, 2006 Maritime filed an application with its regulator for an increase in electricity rates by 1.6% effective July 1, 2006. Maritime's proposed 2006 capital budget was approved by the regulator on Jan 20, 2006.
    - Financing charges for Q4/05 were $1.8M, down from $2.2M in Q4/04. The decrease is related to the use of short term financing and the capitalization of interest costs associated with the construction of the $35M 50MW gas turbine generation facility in Charlottetown, PEI. Commissioning and winter operation testing should be complete in February 2006.
    - FortisOntario earned $0.2M versus $0.9M in Q4/04. The $0.7M decline was due mostly to costs associated with the early retirement program offered in Q4/05. Electricity sales in Q4/05 **were flat** YOY (296GWh) while 2005 electricity sales were **also flat**. In September 2005, FortisOntario filed a GRA to set electricity rates effective May 1, 2006. We understand that this will only get allowed 2006 ROE to 6%-7% **as there is a maximum rate hike cap of only 10%/year in Ontario.** There is no cumulative catch-up provision.
- **Q4/05 FortisAlberta and FortisBC Recurring Earnings Flat to Down**:
    - FortisAlberta reported Q4/05 earnings of $4.2M down from $7.5M in Q4/04, while electricity sales for Q4/05 were up 8.4% YOY and electricity rates were up 2.1%. Earnings were down due to amortization costs from the negotiated settlement and a higher effective corporate income tax.
    - On November 22, 2005, based on its automatic adjustment formula, the Alberta Energy and Utilities Board (EUB) set **FortisAlberta's allowed ROE at 8.93% for 2006 down from 9.5% for 2005, due to lower long-term Canada interest rate forecasts.** FortisAlberta filed its 2006/07 distribution access tariff with the EUB on December 12, 2005. If approved the filing will result in no distribution rate increase in 2006 and a 3% rate increase to customers in 2007. On December 20, 2005 the EUB approved interim rates effective January 1, 2006.

- FortisBC reported Q4/05 earnings of $5.7M, down from $11.6M during Q4/04 due to lower accrued unbilled electricity revenue, increased operating expenses and amortization charges. On February 1, 2006 FortisBC announced it had received approval from the BCUC for its 2006 capital plan. The plan calls for cap-ex of $111.7M with expenditures being used for upgrading transmission and distribution assets as well as generation upgrades of hydro facilities on the Kootenay River.
- On November 24, 2005 FortisBC filed its 2006 revenue requirement application with the British Columbia Utilities Commission (BCUC) for a 5.9% electricity rate increase effective January 1, 2006. The BCUC approved an interim rate increase and will review the application in February 2006. The Generic ROE mechanism for the application set FortisBC's **allowed ROE at 8.69% for 2006 down from 9.43% for 2005, due to lower long-term Canada interest rate forecasts.**
- Forecast quarterly normalized earnings seasonality should be about 35%/20%/20%/25% for FortisBC and 28%/22%/22%/28% for FortisAlberta.

- **Q4/05 CUP:** Equity income of $2.8M from 36.8% owned Caribbean Utilities (CUP.u) was up from $(5.8M) from Q4/04, due to the negative impact on demand from Hurricane Ivan's destruction in Q4/04. FTS expects CUP to have electricity sales back to pre-Ivan levels (September 2004) by April 2006 (unchanged). In November 2005, CUP resumed License extension negotiations with the government and expects to obtain a new license in the summer of 2006.
- **Q4/05 Belize Electricity Stronger:** Earnings of $2.0M were up $0.4M from Q4/04, due to an 11% increase in electricity rates (effective July 2005 from a 4-year tariff agreement), higher electricity sales and the foreign exchange impact associated with Fortis' Euro debt. That was somewhat offset by the depreciation of the US$ versus the C$. On December 31, 2005 the Belize regulator approved a BZ5.1 cents/kWh (13%) increase in electricity prices effective January 1, 2006. The increase in the rate will have no impact on Belize Electricity's 2006 earnings due to a flow through to customers.
- **Q4/05 Fortis Non-Regulated Generation Strong:** Earnings **were up sharply** to $8.5M in Q4/05 from $4.7M in Q4/04. The earnings strength is largely due to much higher Q4/05 spot electricity prices and production in New York and Belize. Power prices in Ontario were up sharply to $71.46/MWh vs. $50.80/MWh in Q4/04 but warm weather weighed on demand (See Exhibit 1). Operating expenses increased mainly due to a $1.1M after-tax write down of the Rankine hydro assets due to the implementation of the Niagara Exchange Agreement which gives FortisOntario's water rights to the OPG in exchange for 75MW of power **but only until April 30, 2009**.

Exhibit 1 – 2002 - 2006 Ontario YTD Power and Gas Prices



Source: Ontario Independent Market Operator, Bloomberg, Scotia Capital.

- **Q4/05 Fortis Properties Flat:** Earnings were relatively flat at $2.9M in Q4/05 versus $2.8M in Q4/04. This was a little disappointing since Fortis acquired additional properties in Western Canada in February 2005 while the expansion of the Delta St. John's hotel was completed in June 2005. REVPAR increased 3.3% in Q4/05 to $63.38 from $61.37 in Q4/04 due to an increase in occupancy. Completion of the previously announced $7.7M expansion to the Holiday Inn Sarnia, $2.5M expansion to the Holiday Inn Kitchener-Waterloo and a $7.2M expansion of the Blue Cross Centre in Moncton remain on track. Cap-ex for these projects was $6.7M in 2005 with completion expected by mid-2006.
- **Q4/05 Corporate/Financial:** Net corporate expenses increased to a loss of $8.6M in Q4/05 versus a loss of $7.2M in Q4/04. The decrease was mainly related to lower revenue, higher expenses and lower net unrealized foreign exchange gains, offset by lower finance charges.

FTS' debt level dropped to 58.7% versus 61.4% at December 31, 2004, its preference share level dropped to 8.6% from 9.4% while its equity rose to 32.7% from 29.2% of capitalization due to 2005 earnings and a March 1, 2005 equity issue. FTS targets a minimum 40% equity, 60% debt capital structure going forward. **FTS has an S&P issuer credit rating of BBB+/Stable which was revised from a Negative outlook in December 2005**. DBRS is currently conducting its annual review of Fortis and currently rates Fortis BBB (high).

- **2006 Outlook OK:** Fortis expects FortisAlberta and FortisBC to comprise most of its cap-ex over the next five years. 2006 capital expenditures for 2006 are forecast by Fortis to be about $450M of which $420M will be allocated for regulated utilities. Fortis also expects there could be further acquisitions of utility assets in Canada, the U.S. and in the Caribbean as well as in non-regulated businesses including hydro generation, hotels and real estate. Previously, Fortis has stated it was not able to compete with "income trust valuations" on hotels and real estate transactions.
- **Q4/05 Valuation Observations:** On December 7, 2005, we downgraded FTS to a 3-Sector Underperform at $25.40. Then on December 13, 2005, based solely on the 7.5% price depreciation the company experienced since December 7, 2005 we upgraded Fortis back to a 2-Sector Perform at $23.50. It is still our view that FTS has strong growth opportunities over the next few years, including a program of organic growth starting with $450M in utility capital expenditures in 2006 and $2B over the next five years. Fortis will experience slightly lower earnings from its regulated assets within **FortisAlberta (now the largest contributor to EBITDA, having passed Newfoundland Power**) and FortisBC. We reiterate our 2-Sector Perform rating with a one year unchanged target of $25.50 and a slightly increased two year target of $26.50.

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Fortis Inc.	FTS	H3, S, U

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The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

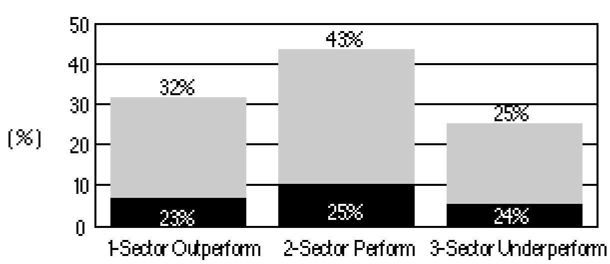
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



* As at January 31, 2006.

Percentage of companies covered by Scotia Capital Equity Research within each rating category.

Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Equity Research DAILY Edge

Company Comment
Tuesday, May 02, 2006

Fortis Inc.

(FTS-T C$21.42)

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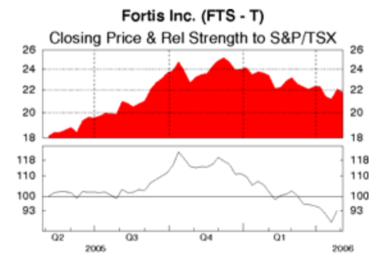
Rating: 2-Sector Perform	**Target** 1-Yr:	$24.00	**ROR** 1-Yr:	15.0%	**Est. NTM Div.**	$0.64
Risk Ranking: Medium	2-Yr:	$26.50	2-Yr:	29.7%	**Div. (Current)**	$0.64
Valuation: 1-yr target based on 19x P/E on 2007E EPS					**Yield**	3.0%

Q1/06 EPS Slightly Misses



Source: Global Insight, Inc.

Event

- Fortis (FTS) reported basic Q1/06 earnings of $0.35/share ($0.34/share diluted) that was slightly below the First Call average of $0.36/share and modestly above our $0.32/share estimate.

What It Means

- We had underestimated the magnitude of improved hydro generation in Belize and had been a little more conservative with Ontario power generation due to materially weaker Ontario merchant power prices. However, Ontario generation was not as bad as expected as YOY water flow improved over Niagara Falls. F/X also helped a little.
- Fortis Properties results were flat YOY that may have led to slight market disappointment.
- FTS' 15% stock correction since December 7/05 is representative of its higher yield sector, so accordingly we left FTS as a 2-Sector Perform.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2004A	$0.28 A	$0.31 A	$0.27 A	$0.22 A	$1.07	16.24
2005A	$0.40 A	$0.37 A	$0.36 A	$0.22 A	$1.35	17.98
2006E	$0.35 A	$0.30	$0.30	$0.28	$1.23	17.41
2007E	$0.33	$0.32	$0.32	$0.31	$1.27	16.87

(FY-Dec.)	2003A	2004A	2005A	2006E	2007E
Earnings/Share	$1.06	$1.07	$1.35	$1.23	$1.27
Cash Flow/Share	$2.09	$2.59	$3.13	$2.97	$3.02
Price/Earnings	13.9	16.2	18.0	17.4	16.9
Relative P/E	0.7	0.9	0.9	0.9	0.9
Revenues	$843	$1146	$1442	$1491	$1510
EBITDA	$264	$380	$515	$535	$541
Current Ratio	0.7	0.5	0.7	0.6	0.6
EBITDA/Int. Exp	3.2	3.5	4.1	3.3	3.3

IBES Estimates	BVPS06E	$13.13	Shares O/S (M)	103.3
EPS 2006E: $1.23	ROE06E	9.6%	Float O/S (M)	103.3
EPS 2007E: $1.32			Total Value ($M)	2,213
			Float Value ($M)	2,213
Next Reporting Date	04-Aug-06		TSX Weight	0.17%
Credit Ratings	S&P: BBB/Stable			

Pertinent Revisions

	New	Old
EPS06E	$1.23	$1.20

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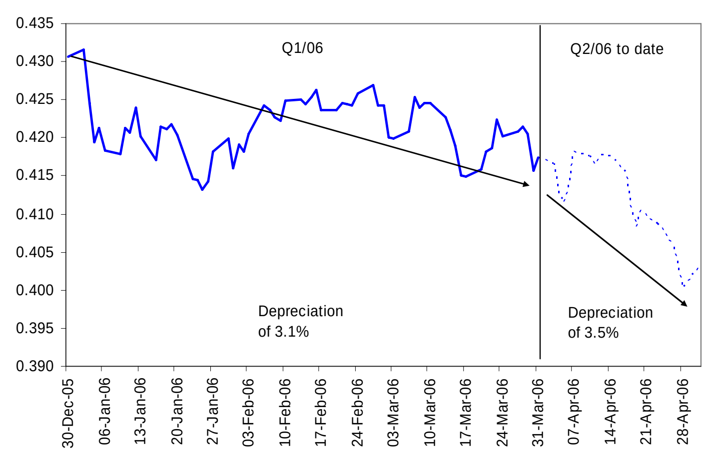
Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Highlights

- **Q1/06 EPS Misses Consensus Slightly:** FTS reported basic Q1/06 earnings of $0.35/share ($0.34/share diluted) that was a little higher than our $0.32/share estimate and slightly below the consensus of $0.36/share. While we do not know what was in our competitor's forecasts, the softness in Newfoundland Power's Q1/05 from a regulatory revenue shift may have been missed by some.
- **Q1/06 Stock Valuation/Observations:** On December 7, 2005, we downgraded FTS to a 3-Sector Under-perform at $25.40. Then on December 13, 2005, based solely on the 7.5% price depreciation the company experienced since December 7, 2005 we upgraded Fortis back to a 2-Sector Perform at $23.50/share. On Mar. 31/06 we reduced all of the sector's P/Es by 1x (including FTS and excluding CUP) due to too much capital chasing commodity stocks and lowered expectations on provincial dividend tax cuts. This took our FTS 1-YR target down to $24/share. **Given the recent strength of the U.S. economy and higher than expected Canadian PPI at 0.8%, it is likely that interest sensitive stocks will continue to under-peform in the short term.** This could swing a little if the first minority Conservative Budget on Tuesday May 2/06 confirms/denies a material Federal dividend tax cut. Our bias at the moment is to lower P/E multiples again.
- **2006 Outlook OK:** Fortis expects FortisAlberta and FortisBC to comprise most of its capex over the next five years. 2006 capital expenditures forecast remains unchanged at about $450M of which $425M will be allocated for regulated utilities. Fortis also expects there could be further acquisitions of utility assets in Canada, the U.S. and in the Caribbean as well as in non-regulated businesses including hydro generation, hotels and real estate. Previously, Fortis has stated it was not able to compete with "income trust valuations" on hotels and real estate transactions.
- **Q1/06 Newfoundland Power Soft But Expected:** Q1/06 earnings of $10.7M decreased $2.3M YOY primarily due to a known change (effective 1/1/06) of its revenue recognition policy to an accrual basis from a billed basis. Lower Q1 and Q2 earnings should be offset by higher Q3 and Q4 earnings. The allowed 2005 ROE was kept constant at 9.25% for 2006. Electricity sales for the quarter were 67 GWh lower YOY with 57 GWh attributed to the change in revenue recognition, and the remaining 10 GWh decline (0.6%) was primarily due to reduced consumption from changing customer demographics and conservation due to increased energy prices.
- **Q1/06 Maritime Electric Flat, FortisOntario Declined Slightly:**
    - Maritime Electric earned $2.1M in the quarter, in line with Q1/05. Demand in Q1/06 at Maritime Electric was flat at 255GWh, with a slight decrease in residential sales (down 1.8%) that was offset by a slight increase in commercial sales (up 0.6%). On January 31, 2006 Maritime filed an application with its regulator for a 1.6% increase in electricity rates effective July 1, 2006. Maritime Electric expects to receive a decision in Q2/06.
    - On Apr. 5/06 Maritime Electric filed for approval of a 39MW wind power purchase agreement with PEI, as PEI legislation requires Maritime to obtain 15% of its annual energy requirements from renewable sources going forward. During Q1/06, Maritime commissioned a 50MW combustion turbine generating facility that can run on either diesel or natural gas.
    - FortisOntario earned $1.0M versus $1.1M in Q1/05. The $0.1M decline was due to a decrease in electricity sales (down 6 GWh or 1.8%) and an increase in the allocation of shared service costs. In September 2005, FortisOntario filed a general rate application (GRA) to set electricity rates effective May 1, 2006. Based on a 50/50 capital structure, FortisOntario seeks an allowed ROE of 9%. A decision from the OEB is expected in Q2/06.

- **Q1/06 FortisAlberta and FortisBC Stronger**
  - **FortisAlberta** reported Q1/06 earnings of $9.5M up from $7.8M in Q1/05. Electricity sales were 69GWh or 1.9% higher due to growth in both commercial/industrial customers and their levels of consumption. Expenses were $1.8M higher due mostly to the inflationary effect on Alberta labour conditions.
  - On November 22, 2005, based on its automatic adjustment formula, the Alberta Energy and Utilities Board (AEUB) set **FortisAlberta's allowed ROE at 8.93% for 2006 down from 9.5% for 2005, due to lower long-term Canada interest rate forecasts.** FortisAlberta filed its 2006/07 distribution access tariff with the AEUB on December 12, 2005. If approved the filing will result in no distribution rate increase in 2006 and a 3% rate increase to customers in 2007. On December 20, 2005 the AEUB approved interim rates effective January 1, 2006.
  - **FortisBC** reported Q1/06 earnings of $11.8M, up from $8.9M during Q1/05 due to higher electricity revenue (1% higher on Okanagan customer growth), and lower operating expenses ($0.7M lower due to an increased allocation to capitalized overhead). This was offset by higher finance charges ($1.1M higher YOY for a larger capex program) and increased energy supply costs. On February 1, 2006 FortisBC announced it had received approval from the BCUC for its $111.7M 2006 capital plan to upgrade transmission and distribution assets as well as generation upgrades of hydro facilities on the Kootenay River.
  - On November 24, 2005 FortisBC filed its 2006 revenue requirement application with the British Columbia Utilities Commission (BCUC) for a 5.9% electricity rate increase effective January 1, 2006. The Generic ROE mechanism for the application **set FortisBC's allowed ROE at 8.69% for 2006 down from 9.43% for 2005,** due to lower long-term Canada interest rate forecasts. On Mar. 2/06 the BCUC approved an **increase** in FortisBC's ROE to 9.20% from 8.69% due to BCUC's review of the current ROE mechanism.
  - Management forecast quarterly normalized earnings seasonality should be about 35%/20%/20%/25% for FortisBC and 28%/22%/22%/28% for FortisAlberta.
- **Q1/06 CUP:** Equity income of $1.6M from 37% owned Caribbean Utilities (CUP.u) was down from $2.5 from Q1/05, due partly to the negative impact on demand from Hurricane Ivan's destruction in Q4/04 and a weaker US$. Equity income also declined due to higher insurance premiums, interest expense, and leasing costs associated with temporary generation. CUP is now finally at pre-Ivan generation sales and levels. CUP expects to have generating capacity of 120MW by Q2/Q3-06 compared to 123MW pre-Ivan.
- **Q1/06 Belize Electricity Stronger:** Earnings of $1.5M was up $0.5M from Q1/05, due to an 11% increase in electricity rate (effective July 2005 from a 4-year tariff agreement) and higher electricity sales (up 5.3%). That was partially offset by a negative foreign exchange impact associated with Fortis' Euro debt and higher finance charges. The Belize dollar weakened by 3.1% relative to the Euro during Q1/06 (Exhibit 1). On

Exhibit 1 - Bad to Worse - Depreciation of Belize Dollar to Euro

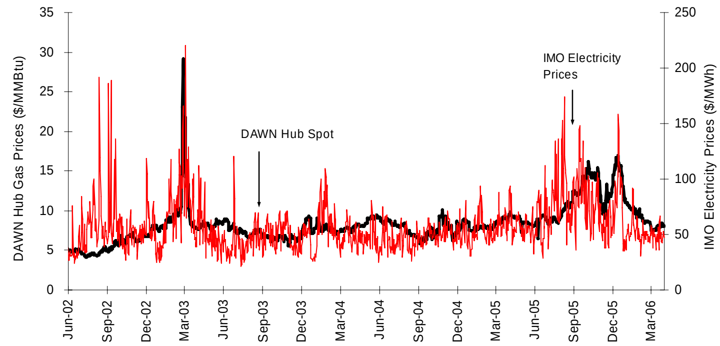


Source: Bloomberg.

December 31, 2005 the Belize regulator approved a BZ5.1 cents/kWh (13%) increase in electricity prices effective January 1, 2006. but this will have no impact on Belize Electricity's 2006 earnings due to it being a flow through to customers.

- **Q1/06 Fortis Non-Regulated Generation (Recurring) Strong:** Earnings fell to $5.4M in Q1/06 from $10M in Q1/05 but Q1/05 included a $7.9M after-tax settlement with OPG. Q1/06 recurring earnings were therefore $3.3M higher YOY due to increased production and lower finance charges. Energy sales strengthened YOY primarily from Belize and Upper New York State, up 20GWh to 27GWh and up 12GWh to 29GWh respectively. Generation revenue rose to $19.3M from $17M YOY due to stronger production. This was partially offset by lower Ontario wholesale power prices at $50.98/MWh compared to $55.99/MWh YOY (Exhibit 2). The repayment of a $22.5M term loan in Q2/05 reduced finance charges in Q1/06 by $1.2M YOY.

Exhibit 2 - 2002 - 2006 Ontario YTD Power and Gas Prices



Source: Ontario Independent Market Operator, Bloomberg, Scotia Capital

- **Q1/06 Fortis Properties Flat:** Earnings were flat at $1.5M in Q1/06. Real Estate revenue increased 3% to $13.6M and Hospitality revenue increased 8.6% to $21.5M, but this was offset by 8% higher operating expenses ($24.6M). Occupancy rose slightly to 95.9% from 95.1% but revenue per room fell to $59.26 from $60.15 YOY. Expansions totalling $17.4M ($11.7M spent to date) continued at the Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo, and the Blue Cross Centre in Moncton all continued in Q1/06 with a second quarter expected completion.

- **Q1/06 Corporate/Financial:** Net corporate expenses improved slightly to a loss of $8.5M in Q1/06 versus a loss of $8.7M in Q1/05. The decrease was mainly related to lower finance charges and a reduction in unrealized foreign exchange **losses due to unhedged U.S. dollar denominated debt**, offset by a slight decline in inter-company interest revenue. In Q1/06 FTS' debt level increased to 59.1% versus 58.7% at December 31, 2005, its preference share level dropped to 8.4% from 8.6% while its equity declined to 32.5% from 32.7% of capitalization. FTS targets a minimum 40% equity, 60% debt capital structure going forward. **FTS has an S&P issuer credit rating of BBB/Stable which was revised from a Negative outlook in December 2005**. DBRS rates FTS's unsecured debt at BBB(high), confirmed Feb/06. On April 21 2006, FortisAlberta raised $100M in unsecured debentures at a 5.4% interest rate to mature on April 21 2036.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

The Fundamental Research Analysts' compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

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* *Legend*

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S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

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Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

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High financial and/or operational risk, low predictability of financial results, high stock volatility.

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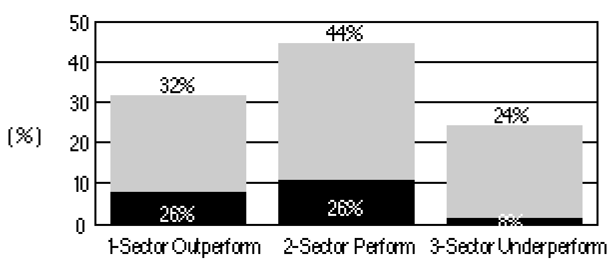

- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at April 28, 2006.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Company Comment
Tuesday, August 08, 2006

(FTS-T C$22.65)

Fortis Inc.

Sam Kanes, CA, CFA - 416-863-7798
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Rating: 2-Sector Perform	**Target** 1-Yr:	$24.00	**ROR** 1-Yr:	8.8%	**Est. NTM Div.**	$0.64
Risk Ranking: Medium	2-Yr:	$26.00	2-Yr:	20.4%	**Div. (Current)**	$0.64
Valuation: 1-yr target based on 18x P/E on 2H/07E and 1H/08E EPS					**Yield**	2.8%

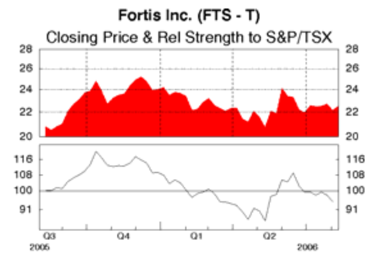
Q2/06 EPS Slight/Mild Miss

Event

- Fortis (FTS) reported basic Q2/06 earnings of $0.37/share that included $0.07/share for reduced future income tax liabilities and $0.01/share for the sale of a property. Recurring EPS of $0.29/share was just under our $0.30/share estimate, and below the First Call average of $0.32/share.

What It Means

- Overall, regulated operations were weaker due partly to a shift in revenue recognition being deferred at Newfoundland Power into the second half of its year. Recurring non-regulated generation and property results supported the quarter but did not fully offset regulated operations weakness.
- We introduce our 2008E EPS and now value FTS at 2007E EPS plus 2008E EPS averaged using an 18x (unchanged) P/E. This added $1/share to both our 1-YR and 2-YR targets.



Source: Global Insight, Inc.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2005A	$0.40 A	$0.37 A	$0.36 A	$0.22 A	$1.35	17.98
2006E	$0.35 A	$0.37 A	$0.30	$0.28	$1.30	17.42
2007E	$0.33	$0.32	$0.32	$0.31	$1.27	17.83
2008E	$0.35	$0.33	$0.34	$0.33	$1.35	16.78

(FY-Dec.)	2004A	2005A	2006E	2007E	2008E
Earnings/Share	$1.07	$1.35	$1.30	$1.27	$1.35
Cash Flow/Share	$2.59	$3.13	$3.11	$3.14	$3.30
Price/Earnings	16.2	18.0	17.4	17.8	16.8
Relative P/E	0.9	0.9	1.0	1.0	1.0
Revenues	$1146	$1442	$1493	$1530	$1577
EBITDA	$380	$515	$543	$551	$577
Current Ratio	0.5	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	3.5	4.1	3.6	3.5	

IBES Estimates	BVPS06E	$13.21	Shares O/S (M)	103.4
EPS 2006E: $1.24	ROE06E	10.1%	Float O/S (M)	102.3
EPS 2007E: $1.33			Total Value ($M)	2,343
			Float Value ($M)	2,318
Next Reporting Date	04-Aug-06		TSX Weight	0.19%
Credit Ratings	S&P: BBB/Stable			

Pertinent Revisions

	New	Old
Target:		
1-Yr	$24.00	$23.00
2-Yr	$26.00	$25.00
EPS06E	$1.30	$1.23
EPS08E	$1.35	$1.27

New Valuation:
1-yr target based on 18x P/E on 2H/07E and 1H/08E EPS

Old Valuation:
1-yr target based on 18x P/E on 2007E EPS

SC Online Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Highlights

- **Q2/06 EPS Misses Consensus:** FTS reported basic Q2/06 earnings of $0.37/share ($0.35/share diluted), or $0.29/share recurring that was just under our $0.30/share estimate and below the First Call consensus of $0.32/share. We exclude the $0.07/share positive future tax liability reduction and the $0.01/share gain on the sale of a property in Sydney NS. Stronger performance by Fortis Properties and better than expected hydroelectric production results were more than offset by relatively weak regulated utility results. Exhibit 1 shows a breakdown of Q2/06 EPS contribution by segment, with select prior periods shown for comparative purposes.

Exhibit 1 – Fortis' EPS Contribution By Segment

FORTIS INC.		EPS Contribution					
		Q2/06	(%)	Q1/06	(%)	Q2/05	(%)
Regulated Utilities	Newfoundland Power	0.08	21%	0.10	29%	0.11	30%
	Maritime Electric	0.02	6%	0.02	6%	0.02	6%
	FortisOntario	0.00	1%	0.01	3%	0.01	2%
	FortisAlberta	0.11	30%	0.09	26%	0.14	38%
	FortisBC	0.03	9%	0.11	32%	0.05	14%
	Belize Electricity	0.02	6%	0.01	4%	0.02	5%
	Caribbean Utilities	0.02	6%	0.02	4%	0.03	8%
Non-regulated Businesses	Fortis Generation	0.06	18%	0.05	15%	0.03	8%
	Fortis Properties	0.08	21%	0.01	4%	0.05	13%
	Fortis Corporate	-0.06	-18%	-0.08	-23%	-0.09	-25%
		0.37		0.35		0.37	

Note: Q2/05 EPS contribution adjusted to reflect 4 - 1 split completed October 2005.

Source: Company reports; Scotia Capital estimates.

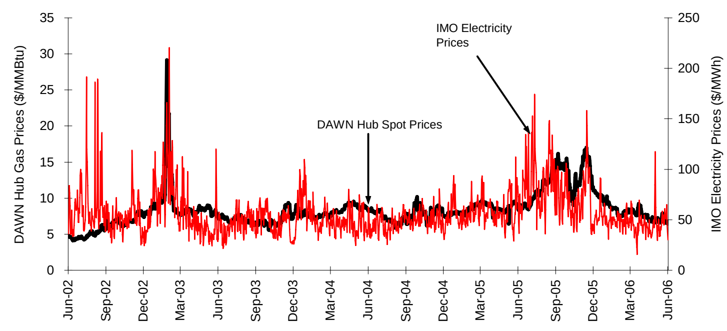
- **Stock Valuation/Observations:** We have moved our energy utility valuations to 2007E plus 2008E EPS averaged from using 2007E only previously, including Fortis. We expect Fortis to grow its EPS by 6%-7% in 2008. The certainty of FTS' EPS growth is relatively high as is its EPS quality. **We therefore use an 18x P/E for FTS.** Given 1) greater geopolitical risks; 2) slower than expected U.S. economy; 3) lower 2007 GDP for both the U.S. and Canada; and, 4) a lower interest rate forecast, we moved up to recommending Overweight Energy Utilities on July 31/06. Weak Canadian and U.S. employment growth data last week and Ontario decreasing taxes on corporate dividends over the next 5 years also support after tax dividend yield values. Our P/E bias on all energy utilities is therefore biased a little higher lately on energy utilities.
- **Q2/06 Maritime Electric:** Maritime Electric earned $2.2M in the quarter, **slightly below** Q2/05's $2.3M. Demand in Q2/06 at Maritime Electric **was flat** at 241GWh, with **a slight decrease** in residential sales due to a milder than normal winter/spring that was offset by a slight increase in basic electricity rates (2%). On June 27/06 Maritime Electric's regulator approved a 1.2% decrease in customer electricity rates, as an effective refund to a previous 3.55% increase in basic electricity rates due to higher fuel costs. The regulator also approved Maritime Electric's maximum allowed ROE at 10.25%. On Apr. 6/06 Maritime Electric filed for approval of a 39MW wind power purchase agreement with PEI, as PEI legislation requires Maritime Electric to obtain 15% of its annual energy requirements from renewable sources going forward. If approved, the agreement will take affect on January 1, 2007.

- **FortisOntario Q2/06 Declines**: FortisOntario earned $0.5M versus $0.9M in Q1/05. The $0.4M decline was due to 1) a decrease in electricity sales (down 13 GWh or 4.8%); 2) a higher allocation of shared-service costs; 3) increased payroll costs; and 4) higher taxes due to the reduction of future income tax **asset** balances. On April 28/06, the OEB approved (effective May 1/06) a 50/50 capital structure, with an allowed ROE of 9%.
- **Q2/06 Newfoundland Power Down:** Newfoundland Power earned only $8.0M compared to Q2/05's $11.5M. Effective January 1, 2006, the company changed its revenue recognition policy from a billed basis to an accrual basis. On a 2005 comparable basis, Q2/06 earnings would have been $11.2M, **or 2.6% lower YOY**. Higher finance charges reduced YOY earnings for the quarter, partially offset by lower operating expenses and a reduced effective income tax rate. On July 1, 2006, the average rate of electricity increased 4.8% as part of the Rate Stabilization Account, primarily to recover higher fuel costs. 1H/06 capital spending was $26M, in line with its projected $52M 2006 capital expenditure program.
- **Q2/06 FortisAlberta Up:** reported Q2/06 earnings of $11.3M up $1.6M from $9.7M in Q2/05. The increase was due to reduced operating expenses and lower income taxes. Partially offsetting was a rate decrease, and higher depreciation and interest costs. While total Q2/06 revenue was down 16% YOY to $58.6M from $70.1M, $10.8M in Q2/05 was associated with the resolution of a tax-related matter. YOY comparable revenue was about flat. FortisAlberta increased YOY capex expenditures by 68% to $48.1M. The company made significant capital investments in its electrical system, including the commissioning of a distribution line from the Bassano substation, increasing Alberta's electrical capacity by 25MW.
- **FortisAlberta 2006-07 Revenue Requirements:** On June 29, 2006, FortisAlberta announced AEUB approval for the company's 2006-07 revenue requirements. Revenue for 2006 and 2007 is set at $217M and $228M, respectively. As part of the agreement with AUEB, FortisAlberta has agreed to an operating expense of $114M in each of 2006 and 2007. Also capital expenditures (before customer contributions) will be about $400M for the two years combined.
- **Q2/06 FortisBC** reported Q2/06 net earnings of $3.6M, down from $4.7M during Q2/05. YOY earnings were lower due to increased power purchases, higher depreciation/amortization, and a higher interest expense. Partially offsetting the decline in earnings were increases in electricity revenue, lower operating expenses, and reduced income taxes. FortisBC also announced the conclusion of its negotiations with BCUC for the company's 2006 revenue requirements. BCUC approved a 5.9% customer rate increase effective January 1, 2006. During Q2/06, the company spent $20.5M to expand and upgrade its transmission and distribution system as part of FortisBC's long-term capital investment plan.
- **Q4/06 CUP:** Q4/06 CUP earnings of US$0.20/share were below our US$0.25/share estimate due to higher insurance costs and lower than expected revenue growth. Operating revenue rose 57% YOY to US$32.2M due to the ongoing hurricane recovery and new customer growth such as the recently opened 365-room Ritz-Carlton hotel. Under CUP's current license, effective until January 2011, CUP is entitled to a 2% rate increase effective August 1/06. However, as part of the Hurricane Ivan related settlement, CUP did not seek to implement this rate increase as part of an ongoing negotiation to renew its license after 2011 with the Cayman Islands Government. This is now expected to be completed by early 2007, a chronic delay. CUP forecasts fiscal 2007 sales volume growth of about 10%.
- **Q2/06 Belize Electricity Stronger:** Earnings of $2.3M was up $0.4M from Q2/05, due primarily to a sharp increase in revenue. This was due to a 13% increase in electricity rates (11% effective July 2005 from a 4-year tariff agreement, and 2% effective January 2006). Q2/06 electricity sales increased 1.1% YOY to 93GWh. The increase in earnings was partially offset by a YOY negative foreign exchange impact of $0.4M ($0.2M loss in Q2/06 and $0.2M gain in Q2/05). QOQ amortization costs declined slightly due to the recovery of all generation power equipment depreciation through the costs of power. On June 19, 2006, BEL announced a BZ$66.8M share offering (US$38.2M). The proceeds will be used to repay short term debt and to continue investments in capital projects. From 2006 through 2011,

capital investment is expected to be about BZ$177M, or over C$100M. Demand for energy is growing at about 6% annually in Belize. As a result of the offering, FTS **increased** its ownership position to 70.1% from 68.5%

- **Q2/06 Fortis Non-Regulated Generation Strong:** Earnings sharply improved to $6.7M in Q2/06 from $3.2M in Q2/05 due mainly to a 12% YOY increase in electricity sales to 290GWh. Generation in both Belize and Upper New York State improved sharply, offset partially by a decline in Central Newfoundland. Q2/06 operating expenses declined 11% YOY to $3.9M, due to a reduction in the allocation of shared-service costs, lower water right fees, and about $0.2M in cost savings from the closure of the Rankine Generating Station. The repayment of a $22.5M term loan in Q2/05 reduced finance charges in Q2/06 by about $1.4M YOY.
- **Q2/06 Fortis Properties Up Sharply:** Earnings jumped almost 70% YOY to $8.1M in Q2/06, partly due to a sale of the Sydney, NS based Days Inn. Both Real Estate and Hospitality revenues each increased 3% YOY to $13.7M and $28.2M, respectively. Q2/06 corporate taxes dropped in half YOY to $1.7M, due to the reduction of future income tax liabilities. Q2/06 saw the completion of a few major projects, including 1) $7.7M expansion of the Holiday Inn in Sarnia; 2) a $2.5M expansion of the Holiday Inn in Kitchener-Waterloo; and, 3) a $7.2M expansion of the Blue Cross Centre in Moncton.

Exhibit 2 – 2002 - 2006 Ontario YTD Power and Gas Prices



Source: Ontario Independent Market Operator, Bloomberg, Scotia Capital.

- **Q2/06 Corporate/Financial:** Net corporate expenses improved to a loss of $6.7M in Q2/06 versus a loss of $9.6M in Q2/05. The improvement was mainly related to a $3.1M positive YOY change in foreign exchange, or a $1.9M gain in Q2/06 compared to a $1.2M loss in Q2/05. In Q2/06 FTS' debt level increased to 59.2% versus 58.7% at December 31, 2005, its preference share level dropped to 8.3% from 8.6% while its equity declined to 32.5% from 32.7% of capitalization. FTS targets a minimum 40% equity, 60% debt capital structure going forward. **FTS has an S&P issuer credit rating of BBB/Stable which was revised from a Negative outlook in December 2005**. DBRS rates FTS's unsecured debt at BBB (high), confirmed Feb/06. Fiscal 2006 capital expenditures are expected to be about $450M, of which $228M has been spent to date.
- **2H/06-2007 Outlook OK:** Fortis expects FortisAlberta and FortisBC to comprise most of its capex over the next five years. The 2006 capital expenditure forecast of $450M has $425M budgeted for regulated utilities. Fortis also expects there could be further acquisitions of utility assets in Canada, the U.S. and in the Caribbean as well as in non-regulated businesses including hydro generation, hotels and real estate. Previously, Fortis stated that it was not able to compete with "income trust valuations" on hotels and real estate transactions.

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Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

The Fundamental Research Analysts' compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

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* *Legend*

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We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

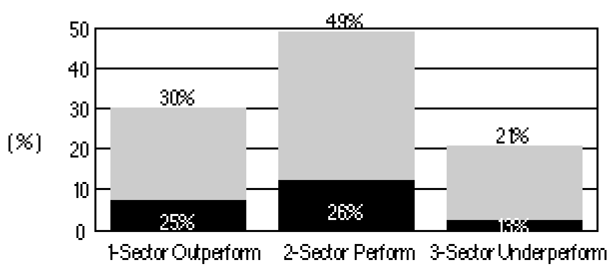
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at July 31, 2006.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

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Company Comment

Tuesday, August 29, 2006

(FTS-T C$23.76)

Fortis Inc.

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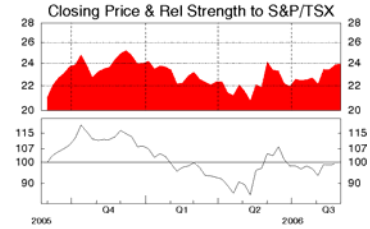
Rating: 2-Sector Perform	**Target**	1-Yr:	$24.50	**ROR**	1-Yr:	5.8%	**Est. NTM Div.**	$0.64
Risk Ranking: Medium		2-Yr:	$26.50		2-Yr:	16.9%	**Div. (Current)**	$0.64
Valuation: 1-yr target based on 18x P/E on 2H/07E and 1H/08E EPS							**Yield**	2.7%

Fortis Acquires 2 Turks & Caicos Utilities

Fortis Inc. (FTS - T)
Closing Price & Rel Strength to S&P/TSX



Source: Global Insight, Inc.

Event

- Fortis (FTS) announced yesterday that it had acquired two electric utilities in the Turks & Caicos for US$90M that includes assumed debt. EPS accretion could be $0.03-$0.04/FTS share.

What It Means

- Fortis Energy, a wholly owned subsidiary of FTS, acquired all of the outstanding shares of PPC Limited (PPC) and Atlantic Equipment and Power (Atlantic) for US$90M, which includes assumed debt. Book value is about $50M that is allowed a 17.5% pre-tax base return.
- The two companies serve 80% of electricity customers in the Turks & Caicos. PPC and Atlantic each have exclusive 50-year licenses for their operating regions that expire in 2037 and 2036, respectively.
- The two utilities generate a combined 35MW of diesel-fired power to service a peak demand of about 20MW. Growth could be 6%-12%/year.
- We added $0.01 and $0.04/share to our 2H/06E and 2007E EPS on this news and added $0.50/share to our 1-YR and 2-YR targets.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2005A	$0.40 A	$0.37 A	$0.36 A	$0.22 A	$1.35	17.98
2006E	$0.35 A	$0.37 A	$0.30	$0.29	$1.31	18.14
2007E	$0.35	$0.33	$0.32	$0.31	$1.31	18.14
2008E	$0.37	$0.35	$0.34	$0.33	$1.39	17.09

(FY-Dec.)	2004A	2005A	2006E	2007E	2008E
Earnings/Share	$1.07	$1.35	$1.31	$1.31	$1.39
Cash Flow/Share	$2.59	$3.13	$3.12	$3.19	$3.34
Price/Earnings	16.2	18.0	18.1	18.1	17.1
Relative P/E	0.9	0.9	1.1	1.1	1.0
Revenues	$1146	$1442	$1494	$1536	$1583
EBITDA	$380	$515	$544	$558	$583
Current Ratio	0.5	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	3.5	4.1	3.6	3.5	3.6

IBES Estimates	BVPS06E	$13.21	Shares O/S (M)	103.4
EPS 2006E: $1.26	ROE06E	10.2%	Float O/S (M)	102.3
EPS 2007E: $1.37			Total Value ($M)	2,457
			Float Value ($M)	2,431
Next Reporting Date	Nov-06		TSX Weight	0.19%
Credit Ratings	S&P: BBB/Stable			

Pertinent Revisions

	New	Old
Target:		
1-Yr	$24.50	$24.00
2-Yr	$26.50	$26.00
EPS06E	$1.31	$1.30
EPS07E	$1.31	$1.27
EPS08E	$1.39	$1.35

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Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

For important disclosure information see Appendix A of this report.

Transaction Details:

- **Turks and Caicos' Political Structure:** While still a British Colony, Turks and Caicos just brought back a Constitution from England. There is a "Premier" as well as a British Governor since 1973 for the string of islands (two Turks and 12 Caicos islands in total). Canada has tried several times since 1973 to consolidate or form a union with Turks and Caicos. However, since the population is less than 20,000, it is possible that Turks and Caicos could join as a territory. In 2004, Nova Scotia voted to invite Turks and Caicos to join its province. This would bypass the problems admitting it as a separate province.
- **Purchase Price/Valuation:** Fortis closed this 100% regulated deal yesterday for US$90M. **We are told this equates to about 9x 2006 EPS for the assets acquired.** The status of Turks and Caicos power regulation sophistication is somewhere between Cayman Islands (advanced) and Belize (behind). FTS expects a 10% net return on its new asset base (17.5% of allowed original asset base). After higher interest expense and depreciation/amortization, FTS anticipates a $0.03-$0.04/share EPS pick-up annualized. Power demand growth (100% diesel based like Cayman Islands) in the Turks and Caicos is mostly dependent on condo developments. The 35MW of diesel generation meet a peak demand of 20MW. In 2005, there were less than 100,000 tourists that visited the islands. 2005 real growth was 4.9% with a 4% inflation rate. FTS believes that over the next 5 years, Turks and Caicos' power demand growth will be about 6%-12%/year depending on the pace of condo completions. The regulated assets were bought privately by Fortis at what appears to us to be a discount price.

Exhibit 1 – Turks and Caicos

Source: www.wikipedia.org

- **Risks:** As for all Caribbean and Atlantic islands, hurricane risks are #1 for energy utilities followed by local political changes and credit quality changes. Currently Belize's sovereign debt is in default, leading to ratings of C by S&P and Caa3 by Moody's. **FTS has close to 10% of its assets tied up in Belize.** The only dent into the 15%/year growth rate in Turks and Caicos power demand over the past 5 years was in 2004 due to tropical storm damage. While there has been no direct impact yet on FTS's profitability at either its generation or transmission/distribution assets in Belize from the default there has been a dramatic slowdown in the growth rate of Belize lately down to 2%-3%/year from 10%/year. Downside earnings risk exists on Fortis' Belize returns as higher government imposed taxation of sales and income have already occurred in Belize since its default. Belize has to import over half of its power needs from Mexico. We have not taken any Fortis EPS reduction due to Belize but caution that this is possible.

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Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

The Fundamental Research Analysts' compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

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H3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

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Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

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Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

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Caution Warranted
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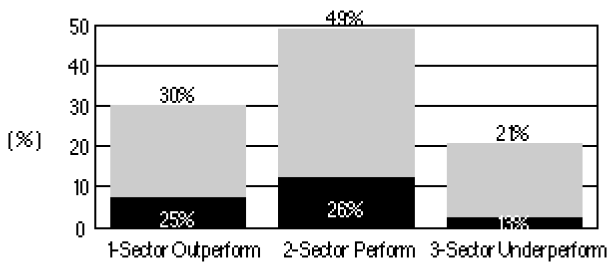
Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



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Source: Scotia Capital.

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Equity Research
DAILY Edge

Company Comment
Thursday, November 02, 2006

Fortis Inc.

(FTS-T C$25.75)

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Rating: 2-Sector Perform	**Target** 1-Yr:	$27.00	**ROR** 1-Yr:	7.6%	**Est. NTM Div.**	$0.70
Risk Ranking: Medium	2-Yr:	$28.50	2-Yr:	16.1%	**Div. (Current)**	$0.67

Valuation: 1-yr target based on 20.5x P/E on Q4/07E and Q1-Q3/08E EPS

Yield 2.6%

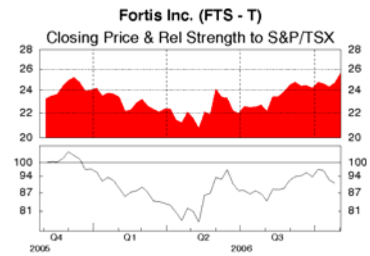
Q3/06 EPS Slight Beat Net of Tax Change

Event

- Fortis (FTS) reported basic Q3/06 earnings of $0.37/share that included $0.05/share for reduced future income tax liabilities. Recurring EPS of $0.32/share was slightly above our $0.30/share estimate and the First Call average of $0.31/share in a tight $0.29/share to $0.32/share range.

What It Means

- There was a $5.7 million positive non-recurring adjustment to FortisAlberta future taxes payable as FTS is moving to a flow through tax methodology as of January 1, 2007 ($0.05/share).
- The new $51 million hotel purchase (plus $11.6 million debt) should add about $0.01/share going forward to FTS. We believe that there was very little premium given to FTS's hotel and property division for a possible REIT conversion.
- We added 1x P/E to 20.5x to value FTS 1-Yr out for the drastic change announced on taxing income trusts in Canada that should lead to more funds flow into high yielding stocks like Fortis.



Source: Global Insight, Inc.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2005A	$0.40 A	$0.37 A	$0.36 A	$0.22 A	$1.35	17.98
2006E	$0.35 A	$0.37 A	$0.37 A	$0.29	$1.38	18.66
2007E	$0.34	$0.32	$0.32	$0.30	$1.28	20.12
2008E	$0.36	$0.34	$0.34	$0.32	$1.36	18.93

(FY-Dec.)	2004A	2005A	2006E	2007E	2008E
Earnings/Share	$1.07	$1.35	$1.38	$1.28	$1.36
Cash Flow/Share	$2.59	$3.13	$3.20	$3.16	$3.31
Price/Earnings	16.2	18.0	18.7	20.1	18.9
Relative P/E	0.9	0.9	1.2	1.2	1.2
Revenues	$1146	$1442	$1505	$1532	$1578
EBITDA	$380	$515	$555	$554	$578
Current Ratio	0.5	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	3.5	4.1	3.6	3.5	

IBES Estimates	BVPS06E	$13.25	Shares O/S (M)	103.4
EPS 2006E: $1.27	ROE06E	10.7%	Float O/S (M)	102.3
EPS 2007E: $1.40			Total Value ($M)	2,663
			Float Value ($M)	2,635
Next Reporting Date	Jan-07		TSX Weight	-
Credit Ratings	S&P: BBB/Stable			

Pertinent Revisions

	New	Old
Target:		
1-Yr	$27.00	$25.50
2-Yr	$28.50	$27.00
EPS06E	$1.38	$1.31
EPS07E	$1.28	$1.27
EPS08E	$1.36	$1.35

New Valuation:
1-yr target based on 20.5x P/E on Q4/07E and Q1-Q3/08E EPS

Old Valuation:
1-yr target based on 19.5x P/E on 2H/07E and 1H/08E EPS

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Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

For important disclosure information see Appendix A of this report.

Highlights

- **Q3/06 EPS Slightly Beats Consensus:** FTS reported basic Q3/06 earnings of $0.37/share ($0.36/share diluted), or $0.32/share recurring ($0.31/share diluted) that was slightly above our $0.30/share estimate as well as the First Call consensus estimate of $0.31/share. We exclude $0.05/share ($5.7M) for the **one-time positive adjustment** in FortisAlberta to a flow through tax methodology that resulted from the mid-2006 AEUB negotiated settlement for 2007-08 rates. Exhibit 1 shows a breakdown of Q3/06 EPS contribution by segment, with select prior periods shown for comparative purposes.

Exhibit 1 – Fortis' EPS Contribution By Segment

FORTIS INC.		EPS Contribution					
		Q3/06	(%)	Q2/06	(%)	Q3/05	(%)
Regulated Utilities	FortisAlberta	0.12	32%	0.11	30%	0.09	25%
	FortisBC	0.05	15%	0.03	9%	0.04	12%
	Newfoundland Power	0.03	7%	0.08	21%	0.03	9%
	Maritime Electric	0.03	8%	0.02	6%	0.03	8%
	FortisOntario	0.02	4%	0.00	1%	0.02	6%
	Belize Electricity	0.04	10%	0.02	6%	0.03	9%
	Caribbean Utilities	0.03	8%	0.02	6%	0.03	8%
	Turks and Caicos	0.01	2%				
Non-Regulated Businesses	Fortis Generation	0.08	20%	0.06	18%	0.08	21%
	Fortis Properties	0.06	16%	0.08	21%	0.05	13%
	Fortis Corporate	-0.08	-21%	-0.06	-18%	-0.04	-10%
		0.37		0.37		0.36	

Note: Q3/05 EPS contribution adjusted to reflect 4 - 1 split completed October 2005.

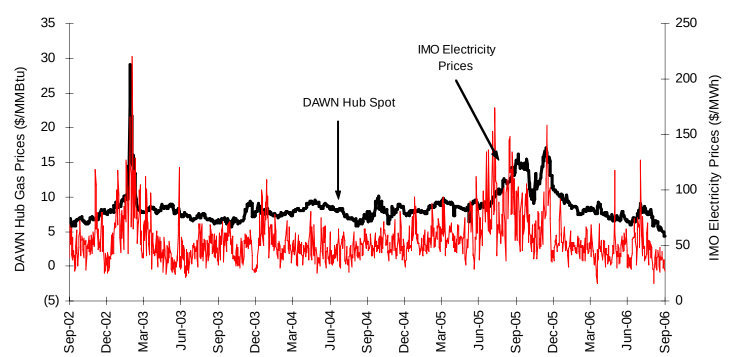
Source: Company reports; Scotia Capital estimates.

- **Stock Valuation/Observations:** We have rolled forward our energy utility valuations to Q4/07E plus Q1-Q3/08E EPS averaged. We expect Fortis to grow its EPS by 6% to 7% per year in 2007 and 2008. The certainty of FTS' EPS growth is relatively high as is its EPS quality (excluding Belize Electricity). **We now use a 20.5x P/E for FTS (up 1x yesterday on the major Income Trust taxation announcement by the Canadian Government). We believe this will steer income oriented funds flows into high yielding Canadian equities over time.**
- **Sector Thoughts:** Given 1) slower than expected U.S. and Canadian economic data; and, 2) a very low interest-rate forecast (3.8% 1-Yr out on 10-year Canadas), we moved up to recommending Overweight Energy Utilities on July 31, 2006. **We maintain that view.**
- **Q3/06 Maritime Electric:** Maritime Electric earned $3.1 million in the quarter, **slightly above** Q3/05's $3 million. Demand in Q3/06 at Maritime Electric **was up 2%** at 255 GWh due to customer growth in the residential sector and higher consumption by customers in the general service sector. On August 22, 2006, Maritime Electric received regulatory approval for a 39 MW wind power purchase agreement with the PEI Energy Corporation, which takes effect on January 1, 2007. **The Government of PEI requires 15% of its annual energy requirements to come from wind-based power by 2010.** On June 27, 2006, Maritime Electric's regulator approved a 1.2% decrease in customer electricity rates, as an effective

refund to a previous 3.55% increase in basic electricity rates due to higher fuel costs. The regulator also approved Maritime Electric's maximum allowed ROE at **10.25%, which is higher than all other Canadian energy utilities.**

- **FortisOntario Q3/06 Declines**: FortisOntario earned $1.6 million versus $2.1 million in Q3/05. The $0.5 million decline was due to the Q3/05 recognition of $1.6 million relating to a CRA reassessment of Cornwall Electric. Excluding last year's reassessment, earnings were $1.1 million higher year-over-year due to higher electricity rates. Energy supply costs decreased by $5.5 million year-over-year, due to lower market energy prices, which was partially offset by an OEB Regulated Price Plan rate increase, effective May 1, 2006.
- **Q3/06 Newfoundland Power Down:** Newfoundland Power earned only $2.6 million, compared to Q3/05's $3.4 million. Effective January 1, 2006, the company changed its revenue recognition policy from a billed basis to an accrual basis. On a 2005 comparable basis, Q3/06 earnings would have been $2.4 million, **or 8% lower year-over-year**. Higher energy supply costs led to the reduction in earnings, which was partially offset by the adoption of the accrual method for revenue recognition. During Q3/06, the regulator approved Newfoundland Power's $62.2 million 2007 Capital Budget. Customer rates increased by an average of 4.8% at the start of Q3/06, as a direct result of the Rate Stabilization Plan. Year-over-year finance charges increased slightly by $0.2 million to $8.2 million as lower-cost short-term borrowings were replaced last year with a 30-year 5.441% $60 million first mortgage sinking fund bond.
- **Q3/06 FortisAlberta Strong:** reported Q3/06 earnings of $12.3 million, up $3 million from $9.3 million in Q3/06. The increase was due to lower effective corporate income tax rates relative to previous regulatory structure for income tax recognition. Also, increased energy deliveries (**up 3.8% year-over-year** to 3,658 GWh) benefited Q3/06. Revenue decreased by 3.3% due to 1) a 1.9% decrease in distribution rates, effective January 1, 2006; and, 2) billing adjustments that favourably impacted revenue during Q3/05. FortisAlberta recognized a corporate tax gain of $1.2 million, compared to an expense of $8.3 million in Q3/05. The year-over-year reduction in corporate taxes by $9.5 million was mainly due to increased deductions taken for income tax expense purposes in excess of amounts for accounting purposes in 2006 versus 2005. FTS estimated a net non-recurring positive $5.7 million impact on Q3/06 ($0.05/share) for current and prior-year tax period adjustments.
- **FortisAlberta 2006-07 Revenue Requirements:** On June 29, 2006, FortisAlberta announced AEUB approval for the company's 2006-07 revenue requirements. Revenue for 2006 and 2007 is set at $217 million and $228 million, respectively. As part of the agreement with AEUB, FortisAlberta has agreed to an operating expense of $114 million in each of 2006 and 2007. Also capital expenditures (before customer contributions) will be about $400 million for the two years combined. Under the agreement and effective January 1, 2006, **the allowed rate of return on common equity is 8.93%.**
- **Q3/06 FortisBC** reported Q3/06 net earnings of $5.7 million, up from $4.6 million during Q3/05. Year-over-year earnings were higher due to 1) 5.9% higher electricity rates; 2) electricity sales growth; 3) lower operating expenses; and, 4) lower effective corporate tax rates. The increase in earnings was partially offset by 1) higher amortization costs; 2) higher finance charges; 3) increased power purchase expenses; and, 4) the implementation of the new performance-based rate-setting mechanism (PBR). Electricity sales were 20 GWh, or **3% higher** than the same period last year due to customer growth in the Okanagan area. Q3/06 operating expenses declined by $1.2 million year-over-

Exhibit 2 – 2002 - 2006 Ontario YTD Power and Gas Prices



Source: Ontario Independent Market Operator, Bloomberg, Scotia Capital year as a **relatively higher amount of overhead costs were capitalized**. The higher costs of borrowing increased FortisBC's year-over-year finance charges by $1.7 million in Q3/06.

- **Q1/07 CUP:** Q1/07 CUP earnings of US$0.30/share, was **above our estimate of US$0.18/share** due to lower operating expenses and the implementation of the Cost Recovery Surcharge. Operating revenue for Q1/07 rose 30% year-over-year to US$41.3 million due to new customers such as the recently opened 365-room Ritz-Carlton hotel as well as new office towers. On August 1, 2005, CUP implemented a Cost Recovery Surcharge (CRS) of about $0.0089/kWh to recover about US$13.4 million of uninsured hurricane losses. The Q1/07 CRS surcharge revenue was US$1.2 million. During the expected term of the CRS ending July 31, 2008, there will be no increase in CUP's billing rate as agreed to with the Cayman Islands Government. CUP forecasts fiscal 2007 sales volume growth of about 10%.
- **Q3/06 Belize Electricity Stronger:** Earnings of $3.8 million were up $0.6 million from Q3/05, **due primarily to** reduced finance charges (down $1.1 million year-over-year) and slightly stronger electricity sales growth (up only 1% versus a historical 10% due to the country's bankruptcy). Energy supply costs increased 21% year-over-year (excluding f/x currency translation impacts), primarily due to an increase in the cost of purchased fuel. Q3/06 finance charges dropped by $1.1 million year-over-year due to the repayment (with proceeds from a recent preferred share offering) of 1) certain trade payables; 2) inter-company loans; 3) external loans; and, 4) various overdraft facilities. On August 20, 2006, Belize Electricity signed a new PPA with Comision Federal de Electricidad (CFE) of Mexico, following the expiration of the previous PPA with CFE. Under the agreement, the cost of power to Belize Electricity will be tied to international fuel prices (similar to the recent US$50 billion natural gas deal between Bolivia and Argentina), which represents about a 59% increase to the company's average cost of power. As a result of the increased cost of CFE's power, Belize Electricity has reduced its purchases of firm power by 10 MW to 15 MW.
- **Q3/06 Turks and Caicos Utilities:** On August 28, 2006, FTS acquired all of the outstanding shares of PPC Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. for a combined purchase price of about $97.4 million. The two companies combined serve 7,400 customers, or about 80% of electricity requirements in the Turks and Caicos Islands. Both companies operate on 50-year licenses that expire between 2036 to 2037. A fixed rate of return of 17.5% is used on a defined asset base of about US$50 million, so FTS' net return is about 9%. For the period August 28, 2006 to September 30, 2006, Turks and Caicos Utilities generated $0.7 million in earnings, or about $0.01/share.
- **Q3/06 Fortis Non-Regulated Generation:** Year-over-year earnings remained flat at $7.8 million due to 1) lower average wholesale energy prices in Ontario; and, 2) higher operating costs; which offset 1) higher production in Belize; 2) lower finance charges; and, 3) a lower effective corporate income tax rate. Year-over-year energy sales increased by 24% to 288 GWh, primarily due to higher hydroelectric production at the Mollejon and Chalillo generating facilities in Belize that benefited from higher rainfall levels. In Ontario, the average wholesale energy price was $46.59/MWh compared to $85.91/MWh last year. Finance charges were $1 million lower year-over-year due to a reduction of inter-company finance charges in the company's Belize operations. During the quarter, a relatively higher proportion of earnings were derived from the tax-exempt Belize operations, which resulted in a $2.8 million year-over-year decline in corporate taxes, to $1.6 million.
- **Q3/06 Fortis Properties Up:** Earnings jumped 29% year-over-year to $6.3 million in Q3/06, partly due to higher earnings from the expansions of the Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo, and the Blue Cross Centre. Real Estate and Hospitality revenues increased 5% and 4% year-over-year to $13.7 million and $30.3 million, respectively. Q3/06 corporate taxes remained flat year-over-year at $3.2 million as the effective corporate tax rate was lower due to Federal tax rate reductions effective January 1, 2006. On October 19, 2006, Fortis Properties announced an agreement to purchase four hotels in Western Canada for $51.6 million (plus $11.6 million of debt).The deal closed on November 1, 2006. Fortis' CEO stated "the acquisition is expected to be immediately accretive to earnings of Fortis". Our speculative estimate is that initial EPS accretion is quite modest at $0.01/share/year starting in 2007.

- **Q3/06 Corporate/Financial:** Net corporate expenses increased year-over-year to a loss of $8.3 million in Q3/06 versus a loss of $3.9 million in Q3/05. The increase was mainly related to a negative $3.5 million year-over-year change in foreign exchange, or a $0.3 million gain in Q3/06 compared to a $3.8 million gain in Q3/05. In Q3/06 FTS' debt level decreased to 57.1% versus 58.7% at December 31, 2005. Its preference share level increased to 11% from 8.6% ($125 million preferred share issuance - F Series) while its equity declined to 31.9% from 32.7% of capitalization. FTS targets a minimum 40% equity, 60% debt capital structure going forward. **FTS has an S&P issuer credit rating of BBB/Stable which was revised from a Negative outlook in December 2005**. DBRS rates FTS's unsecured debt at BBB (high). Fiscal 2006 capital expenditures are expected to be about $475 million, of which $346 million has been spent to date.
- **Outlook:** Fortis expects FortisAlberta and FortisBC to comprise most of its capex over the next five years. The 2006 capital expenditure forecast of $475 million has $425 million budgeted for regulated utilities. Fortis also expects there could be further acquisitions of utility assets in Canada, the U.S. and in the Caribbean (such as Turks and Caicos) as well as in non-regulated businesses including hydro generation, hotels and real estate. Previously, Fortis stated that it was not able to compete with "income trust valuations" on hotels and real estate transactions. This has not stopped management from finding several good deals over the past few years. Now, with the announced Federal changes to tax income trusts going forward, **the real estate playing field will be level once again.**

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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* *Legend*

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U Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

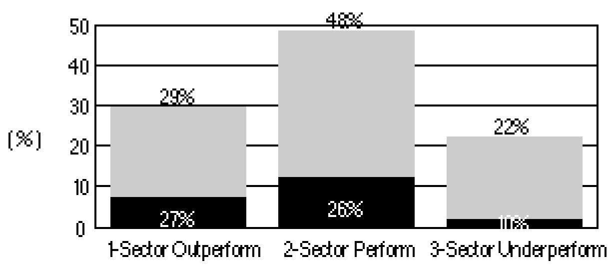
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



■ Percentage of companies covered by Scotia Capital Equity Research within each rating category.

■ Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at October 31, 2006.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Equity Research
DAILY Edge

Company Comment
Friday, February 09, 2007

Fortis Inc.

(FTS-T C$26.50)

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Rating: 2-Sector Perform	**Target** 1-Yr:	$28.50	**ROR** 1-Yr:	10.4%	**Est. NTM Div.**	$0.76
Risk Ranking: Medium	2-Yr:	$30.00	2-Yr:	18.9%	**Div. (Current)**	$0.67
Valuation: 1-yr target based on 20x P/E on 2008E EPS					**Yield**	2.5%

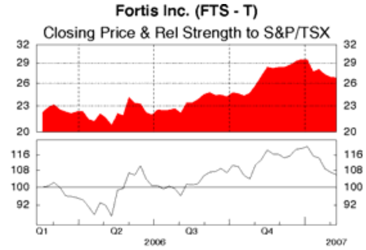
Q4/06 EPS Slightly/Mildly Beats

Event

- Fortis (FTS) reported basic Q4/06 earnings of $0.33/share that appears to be about $0.30/share on a recurring basis, slightly beating our $0.29/share estimate and the First Call average of $0.27/share in an unusually wide and unrealistic $0.19/share to $0.37/share range.

What It Means

- We are upgrading FTS to 2-Sector Perform from 3-Sector Underperform on its 12% plus recent price depreciation from a peak price of about $30/share, on January 2, 2007.
- Given the stronger than expected U.S. economy since January 2, 2007, that has weakened U.S. prospects for rate cuts toward nil and resulted in higher Canadian and U.S. interest rates, we shaved 0.5x off our FTS P/E to 20x.
- After a review of our 2007E-08E EPS, we added $0.05/share to 2007E and 2008E EPS. This kept our $28.50/share 1-Yr target unchanged.



Source: Global Insight, Inc.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2005A	$0.40 A	$0.37 A	$0.36 A	$0.22 A	$1.35	17.98
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007E	$0.35	$0.33	$0.34	$0.33	$1.35	19.63
2008E	$0.37	$0.36	$0.35	$0.35	$1.43	18.53

(FY-Dec.)	2004A	2005A	2006A	2007E	2008E
Earnings/Share	$1.07	$1.35	$1.42	$1.35	$1.43
Cash Flow/Share	$2.59	$3.13	$3.26	$3.15	$3.31
Price/Earnings	16.2	18.0	21.0	19.6	18.5
Relative P/E	0.9	0.9	1.3	1.2	1.2
Revenues	$1146	$1442	$1521	$1555	$1601
EBITDA	$380	$515	$571	$576	$601
Current Ratio	0.5	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	3.5	4.1	3.7	3.7	3.7

IBES Estimates	BVPS07E	$13.95	Shares O/S (M)	109.3
EPS 2007E: $1.40	ROE07E	9.9%	Float O/S (M)	108.1
EPS 2008E: N/A			Total Value ($M)	2,895
			Float Value ($M)	2,864
Next Reporting Date	May-07		TSX Weight	0.20%
Credit Ratings	S&P: BBB/Stable			

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Rating:	2-SP	3-SU
EPS07E	$1.35	$1.30
EPS08E	$1.43	$1.38

New Valuation:
1-yr target based on 20x P/E on 2008E EPS

Old Valuation:
1-yr target based on 20.5x P/E on 2008E EPS

Fixed Income Research Link

SC Online Analyst Link

Highlights

- **Q4/06 EPS A Slight/Mild Beat:** FTS reported basic Q4/06 earnings of $0.33/share that appeared to be about $0.30/share net of minor non-recurring items. This was slightly above our $0.30/share estimate as well as the First Call consensus estimate of $0.27/share that was $0.02/share lower that it should have been due to an outlier $0.19/share estimate. We excluded $0.01/share ($1.2 million) for the one-time Q4/06 positive regulatory adjustment in FortisAlberta to a flow through tax methodology change in mid-2006 (same amount in Q3/06). We also excluded $0.01/share for the hurricane related cost recovery of previously written down costs at Caribbean Utilities in its Oct. 31, 2006 quarterly. Exhibit 1 shows a breakdown of Q4/06 EPS contribution by segment, with select prior periods shown for comparative purposes.

Exhibit 1 – Fortis' EPS Contribution by Segment

FORTIS INC.		EPS Contribution Q4/06	(%)	Q3/06	(%)	Q4/05	(%)
Regulated Utilities	FortisAlberta	0.08	24%	0.12	32%	0.04	19%
	FortisBC	0.06	19%	0.05	15%	0.06	26%
	Newfoundland Power	0.08	26%	0.03	7%	0.03	13%
	Maritime Electric	0.02	7%	0.03	8%	0.02	8%
	FortisOntario	0.01	3%	0.02	4%	0.00	1%
	Belize Electricity	0.03	8%	0.04	10%	0.02	9%
	Caribbean Utilities	0.03	8%	0.03	8%	0.03	13%
	Turks and Caicos	0.03	8%	0.01	2%		
Non-Regulated Businesses	Fortis Generation	0.07	20%	0.08	20%	0.08	38%
	Fortis Properties	0.03	8%	0.06	16%	0.03	13%
	Fortis Corporate	-0.11	-32%	-0.08	-21%	-0.08	-39%
		0.33		0.37		0.22	

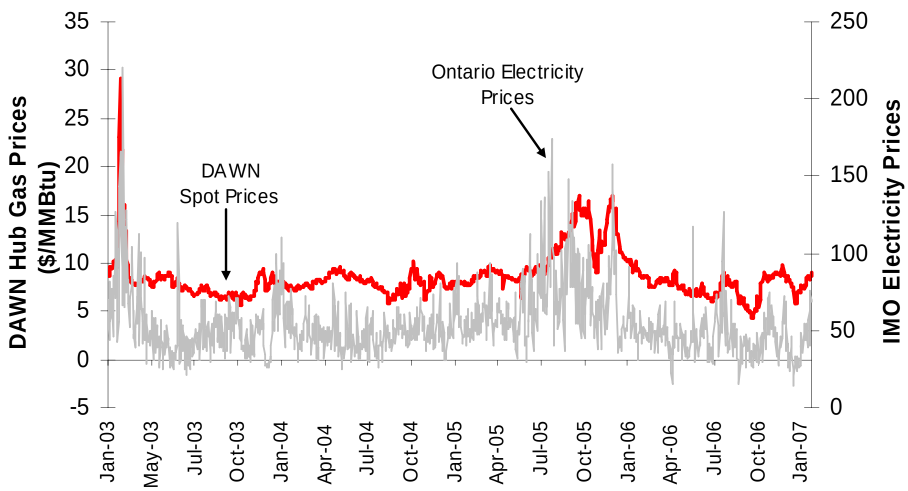
Note: Q4/05 EPS contribution adjusted to reflect 4 - 1 split completed October 2005.

Source: Company reports; Scotia Capital estimates.

- **Stock Valuation/Observations:** We went to **3-Sector Underperform in Q4/06** as FTS' interest sensitive stock shot up over 20% with **no** change in interest rates. We shaved our 20.5x P/E multiple to 20x to reflect somewhat higher interest rates in 2007 YTD than our economists were forecasting. However, we added $0.05/share to both 2007E and 2008E EPS for stronger organic growth expectations. FTS announced 7% earnings growth in 2006. We expect Fortis to grow its EPS by 6% to 7% per year in 2007 and 2008 **but only at constant allowed ROEs**. This will **not** be the case in 2007 as (1) FTS received a 64 basis point cut at Newfoundland Power to an 8.6% Allowed ROE for 2007; and, (2) Fortis Alberta received a 42 basis point cut to an 8.51% Allowed ROE from an 8.93% Allowed ROE. Coupled with FTS' 5.1M share equity deal at $29/share and some positive non-recurring items, 2007 EPS should be about flat. The equity deal was a timing coup as the yield market turned south the day after its deal was announced on much stronger than expected U.S. and Canadian jobs growth. FTS' yield is also still materially lower than both Canada's large cap pipeline stock yields. We still prefer the pipes.

- **Sector Weight Lowered Entering 2007: We also reduced** our Overweight call on the Energy Utilities sector to Market Weight entering January 2007. This was due to Canadian energy utility stock yields falling to a point where they entered fair valuation territory relative to 10-year Canada yields. Given (1) better than expected U.S. and Canadian economic data; and, (2) a very low interest-rate forecast (3.8% 1-Yr out on 10-year Canadas), we moved up to recommending Overweight Energy Utilities on July 31, 2006. **We maintain that view.** We just received net funds flows data into dividend and income funds for December 2006. It was a **negative $8 million, the second month of negative flow in a row. The last time this occurred was in early 2000.**
- **Q4/06 Maritime Electric:** Maritime Electric earned $2.4 million in the quarter, **well above** Q4/05's $1.7 million. Higher earnings were due to a 3.35% increase in basic electricity rates as well as higher electricity sales. In Q3/06, Maritime Electric received regulatory approval for a 39 MW wind power purchase agreement with the PEI Energy Corporation, which took effect on January 1, 2007. **2007 Allowed ROE: 10.25%** (2006 Allowed ROE: 10.25%).
- **FortisOntario Q4/06 Up**: FortisOntario earned $1 million in Q4/06 versus $0.2 million in Q4/05. The $0.8 million increase was due to increased distribution electricity rates and lower YOY operating expenses that included costs for an early retirement program in Q4/05. Moderate weather conditions reduced electricity sales by 5.1% to 15 GWh. **2007 Allowed ROE: 9%** (2006 Allowed ROE: similar).

Exhibit 2 – Ontario Power Prices vs. DAWN Spot Prices



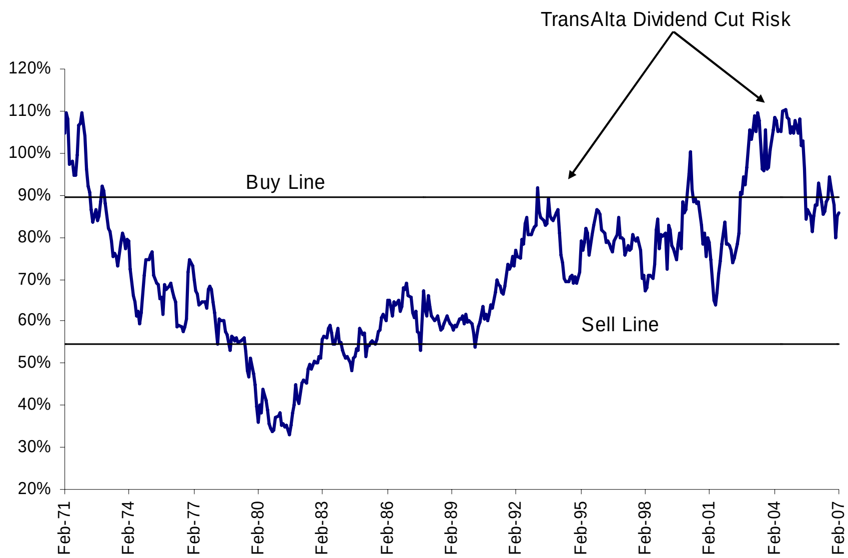
Source: IESO; Bloomberg; Scotia Capital.

- **Q4/06 Newfoundland Power Up, 2007 Earnings To Be Slightly Lower:** Newfoundland Power earned $8.8 million versus only $2.9 million in Q4/05 due partially to YOY changes in billing methodology and a 4.8% increase in customer rates in mid-2006. During Q4/06, the Regulator allowed a $2.7 million one-time accounting accrual to offset increased taxes in 2007 plus ordered the deferral of $6.9 million of increased depreciation expense until a 2007 hearing. The regulator also approved Newfoundland Power's $62.2 million 2007 Capital Budget. FTS' CEO stated that Newfoundland Power's 2007 earnings will be slightly lower due to a materially lower ROE more than offsetting rate base growth. **2007 Allowed ROE: 8.60%** (2006 Allowed ROE: 9.24%).
- **Q4/06 FortisAlberta Doubles YOY:** Reported Q4/06 earnings of $8.3 million, or about double the $4.2 million earned in Q4/05. The YOY earnings increase was primarily due to lower effective corporate income tax rates relative to the previous regulatory structure for

income tax recognition. Also, energy deliveries of 68 GWh increased 2.8% YOY. Corporate taxes at FortisAlberta were only $1 million in Q4/06, compared to $2.4 million in Q4/05. The YOY reduction in corporate taxes by $1.4 million was mainly due to increased deductions taken for income tax expense purposes in excess of amounts for accounting purposes in 2006 versus 2005. **2007 Allowed ROE: 8.51%** (2006 Allowed ROE: 8.93%).

- **Q4/06 FortisBC** reported Q4/06 net earnings of $6.4 million, up from $4.6 million during Q4/05. Year-over-year earnings were higher due to 5.9% higher electricity rates as well as electricity sales growth. The increase in earnings was partially offset by 1) higher amortization costs; 2) higher finance charges; and, 3) increased power purchase expenses. **2007 Allowed ROE: 8.77%** (2006 Allowed ROE: 9.20%).
- **Q2/07 CUP:** Q2/07 CUP earnings of US$0.27/share, was **above our estimate of US$0.19/share** due to lower operating expenses and the Cost Recovery Surcharge ($0.05/share). Operating revenue for Q2/07 rose 19% YOY due to new customers such as the recently opened 365-room Ritz-Carlton hotel as well as new office towers. On August 1, 2005, CUP implemented a temporary Cost Recovery Surcharge (CRS) of about $0.0089/kWh to recover about US$13.4 million of uninsured hurricane losses. The Q2/07 CRS non-recurring surcharge revenue was US$1.2 million. During the expected term of the CRS ending July 31, 2008, there will be no increase in CUP's billing rate as agreed to with the Cayman Islands Government. CUP forecasts fiscal 2007 sales volume growth of about 10%.

Exhibit 3 – Electric Utility Dividend Yields vs. 10-year Canadas



Source: Global Insight Inc.; Scotia Capital.

- **Further CUP Developments:** On November 7, 2007, FTS acquired an additional 16% ownership interest in CUP for US$49 million, and now owns about 54% of CUP. **Going forward, FTS will consolidate CUP's financials on a 2-month lag basis.** CUP's stock has dropped over 10% recently, primarily due to, in our opinion, local Caymans that may be selling CUP's stock on the back of a series of unexpected generator failures that made front page news there. Some of these unplanned outages appear to be the lingering effect of Hurricane Ivan on transmission and distribution assets. We believe that this is temporary in nature, and not a chronic problem. System availability in 2006 was 99.92%. We continue to have concerns over fair CUP treatment by the government in a license extension that has drifted since pre-hurricane Ivan (expires in 2011).

- **Q4/06 Belize Electricity Stronger:** Earnings of $2.8 million were up $0.8 million from Q4/05, due primarily to lower finance charges and slightly stronger electricity sales growth (up 4.6% QOQ). Finance charges were $1.2 million lower than Q4/05 due to debt repayment from proceeds received from a recent Belize share offering. A 35% increase in energy supply costs had little if any impact on the company as the cost of fuel and purchased power is effectively a flow through to customer rates. On August 20, 2006, Belize Electricity signed a new two-year PPA with Comision Federal de Electricidad (CFE) of Mexico, following the expiration of the previous PPA with CFE. Under the agreement, the cost of power to Belize Electricity will be tied to international fuel prices **which represents about a 59% increase to the company's average cost of power.** As a result of the increased cost of CFE's power, Belize Electricity has reduced its purchases of firm power by 10 MW to 15 MW. The country of Belize remains rated D (insolvent) by S&P. We have concerns about consistent treatment of FTS' asset there by the government.
- **Q4/06 Turks and Caicos Utilities:** On August 28, 2006, FTS acquired all of the outstanding shares of PPC Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. for $97.4 million. Both companies operate on 50-year licenses. During Q4/06, Turks and Caicos Utilities generated $2.8 million in earnings, reflecting the first full quarter under Fortis since the acquisition. YOY electricity sales increased 32% in Q4/06. **Fixed rate of return: 17.5% (on a defined asset based of US$50 million).** FTS paid only 10x P/E for this business.
- **Q4/06 Fortis Non-Regulated Generation:** YOY earnings fell by $1.7 million to $6.8 million due to (1) materially lower average wholesale energy prices in Ontario ($42.69/MWH versus $71.46/MWH); and, (2) a lower contracted price for energy sales in Belize, which offset (1) increased production; 2) lower operating expenses; and, (3) a lower effective corporate income tax rate. YOY energy sales increased by 9.3% to 340 GWh, primarily due to higher hydroelectric production at the Mollejon and Chalillo generating facilities in Belize that benefited from higher rainfall levels.
- **Q4/06 Fortis Properties:** Q4/06 earnings were relatively flat YOY at $2.8 million. On November 1, 2006, Fortis Properties purchased four hotels in Alberta and B.C. for $52 million (including assumed debt). Higher operating expenses and amortization costs prevented a 9% YOY revenue increase from flowing through to earnings. The occupancy rate in the Real Estate Division was 94.9%, **down** from 95.9% during the previous year. Fortis' CEO previously stated "the acquisition is expected to be immediately accretive to earnings of Fortis". Our speculative estimate remains that the initial EPS accretion will be quite modest at $0.01/share/year starting in 2007.
- **Outlook:** FTS' forecast of $600 million for 2007 spending and $2.6 billion over the next five years will keep it coming back for more equity at times, especially if acquisitions continue. FTS also issued $25 million of 4.9% preferred in September 2006. In the January 29, 2007, issue of *Power Finance & Risk*, FTS' CFO stated that its target equity structure is about 40% versus only 32% (which is why FTS is rated BBB+ and not A). With plenty of organic growth, we believe FTS should trade similar to Canada's pipes on P/E and yield minus a fraction for the financial mess uncertainty in Belize and uncertainty in Cayman Islands over future shareholder treatment.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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* *Legend*

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S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

U Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

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The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

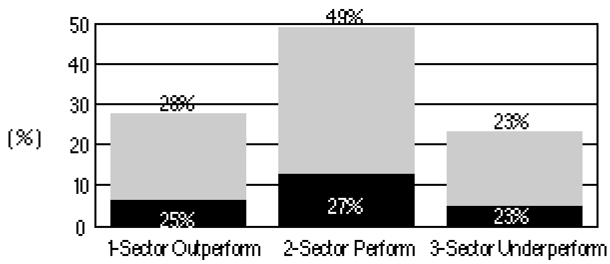
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at January 31, 2007.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

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Company Comment
Wednesday, March 28, 2007

(FTS-T C$28.20)

Fortis Inc.

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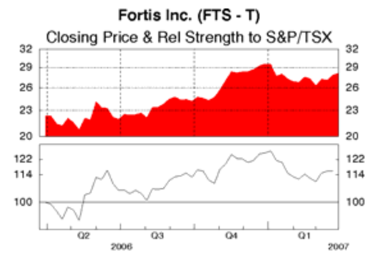
Rating: 2-Sector Perform	**Target** 1-Yr:	$29.50	**ROR** 1-Yr:	7.3%	**Est. NTM Div.**	$0.76
Risk Ranking: Medium	2-Yr:	$31.00	2-Yr:	15.3%	**Div. (Current)**	$0.67
Valuation: 1-yr target based on 20x P/E on 2008E EPS					**Yield**	2.4%

Blue Chip Terasen Gas Acquisition Slightly/Mildly Accretive



Source: Global Insight, Inc.

Event

- We came off a Fortis (FTS) research restriction following its $1.15 billion subscription receipts offering, issued as part of the February 26, 2007 acquisition of Terasen Inc. from Kinder Morgan.

What It Means

- The $3.7 billion acquisition, including assumed debt of $2.3 billion, of Terasen Gas from Kinder Morgan gives Fortis on average, a higher quality and broader regulated asset base. We calculate 2H/07E accretion of $0.02/share assuming the deal closes on June 30/07 and 2008E accretion of $0.04/share (possibly $0.05/share in 2009E assuming some SG&A synergies by that time). This assumes about 90-100 bp of additional ROE is earned from Terasen Gas PBR savings.
- We added $1/share rounded to our $28.50/share 1-Yr target (now $29.50/share) using an unchanged 20x P/E. Our last recommendation move was upgrading Fortis to 2-Sector Perform after a 12% stock price correction from its peak January 2, 2007 share price of $30/share.
- Using our new 1-Yr target price of $29.50/share, we like the deal at $26.00/share. We maintain FTS at 2-Sector Perform.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2005A	$0.40 A	$0.37 A	$0.36 A	$0.22 A	$1.35	17.98
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007E	$0.35	$0.33	$0.34	$0.35	$1.37	20.58
2008E	$0.39	$0.37	$0.34	$0.37	$1.47	19.18

(FY-Dec.)	2004A	2005A	2006A	2007E	2008E
Earnings/Share	$1.07	$1.35	$1.42	$1.37	$1.47
Cash Flow/Share	$2.59	$3.13	$3.29	$2.90	$2.85
Price/Earnings	16.2	18.0	21.0	20.6	19.2
Relative P/E	0.9	0.9	1.3	1.2	1.1
Revenues	$1146	$1442	$1472	$1603	$1703
EBITDA	$380	$515	$533	$625	$703
Current Ratio	0.5	0.7	0.7	0.6	0.6
EBITDA/Int. Exp	3.5	4.1	3.6	4.0	4.3

IBES Estimates	**BVPS07E**	$13.94	**Shares O/S (M)**	109.3
EPS 2007E: $1.43	**ROE07E**	10.1%	**Float O/S (M)**	108.1
EPS 2008E: $1.54			**Total Value ($M)**	3,081
			Float Value ($M)	3,048
Next Reporting Date	May-07		**TSX Weight**	0.21%
Credit Ratings	S&P: BBB/Stable			

Pertinent Revisions

	New	Old
Target:		
1-Yr	$29.50	$28.50
2-Yr	$31.00	$30.00
EPS07E	$1.37	$1.35
EPS08E	$1.47	$1.43

Fixed Income Research Link

SC Online Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

For important disclosure information see Appendix A of this report.

Acquisition Details

- On February 26, 2007, Fortis announced it will acquire Terasen Inc. from Kinder Morgan for $3.7 billion that includes the assumption of $2.3 billion in A3-rated debt (Moody's). The deal is expected to close in mid-2007 following various regulatory approvals.
- Assets included in the purchase are:
  - **Terasen Gas Inc.** - natural gas distribution to 90% of B.C. gas users. The 2007 rate base is $2,474 million, using a 35% common equity component. The allowed regulated ROE for 2007 is 8.37%. We assume FTS earns 50 bp extra of ROE under agreed upon cost performance sharing programs.
  - **Terasen Gas (Vancouver Island)** - 85,000 customers on Vancouver Island and B.C.'s Sunshine Coast. The 2007 rate base is $482 million, using a 40% common equity component. The allowed ROE for 2007 is 9.07%.
  - **Terasen Gas Whistler** - serves over 2,000 customers in the Whistler, B.C. area; and,
  - **Terasen Gas Energy Services** - an alternative energy development company with small distribution systems.
- Assets **not** included in the Terasen purchase are: (1) the Corridor Pipeline; (2) the Express Pipeline; (3) the Platte Pipeline; (4) Trans Mountain; and, (5) Kinder Morgan Canada.
- **Next Steps:** On March 21, 2007 the Competition Bureau of Canada approved the Terasen Inc. transaction with a "no-action" letter (expected). The final material regulatory approval will be from the British Columbia Utilities Commission (BCUC), which is expected without controversy in Q2/07.

Financing Details

- Fortis will finance the Terasen acquisition with a now completed $1.152 billion subscription receipt offer at $26.00/receipt. The deal went well as it was priced at a 5% discount to its previous closing price at that time. Since the acquisition/offering announcements on February 26, 2007 at $26/share, Fortis's stock is up 7.2% to $28.12/share, which beat the S&P/TSX Utilities Index at 3.6% and the S&P/TSX Composite at 1.8%. This showed that FTS' $26/share receipt deal was priced to sell while the $29/share deal in early January 2007 was not.
- FTS was rated BBB+ going into the Terasen transaction due to inadequate equity levels according to the credit rating agencies, even after its $150 million equity deal in early January 2007.
- The $3.7 billion purchase price will buy:
  - $900 billion of regulated equity (35% of $2.5B rate base) at Terasen Gas;
  - $200 million of regulated equity (40% of $480M) at Terasen Gas Vancouver Island (TGVI); and,
  - about $10 million of regulated equity at Terasen Gas Whistler (TGW).
- FTS therefore issued $1.152 billion of new equity for $1.11 billion of Terasen's 2007 regulated equity, in line.

Valuation Impact

- For 2007, we increased our average FTS shares O/S to 131.5 million, or the mid-point between Q4/06 shares outstanding of 109.3 million and post Terasen transaction shares O/S of 153.6 million (44.3M new shares).
- Since FTS' purchase price of about 18x P/E on 2007E Terasen earnings of $102 million (see Exhibit 1) is lower than FTS' P/E multiple of 20x, the transaction by definition is moderately accretive prior to additional debt and preferred financing as FTS raised equity that is almost identical to the regulated equity being purchased.
- However, **one has to deduct** the after-tax incremental debt and preferred service charges on the additional $450 million of holdco debt ($14 million est. at 3% after-tax) and $200 million of preferred shares ($9 million at 4.5% after tax) that we assume FTS needs to issue ($650 million total). Regulated debt to be assumed is only $1.9 billion versus $2.55 billion required at FTS' $3.7 billion purchase price. **We therefore believe that only with immediate synergies** (FTS estimated a minimum 2 years that it would run Terasen as a stand alone) could the deal be materially accretive.

Exhibit 1 – Terasen Regulated 2007 Earnings

ROE	Regulated Equity	2007E Earnings
8.37%	$900M (TG)	$75
9.03%	$200M (TGVI)	$18
10.00%	$10M (TGW)	$1
Est. 2007 PBR (70bps x $900M)		$6
		$102M
18x P/E multiple		**$1.8B**

Source: Scotia Capital.

- **2007E-08E EPS Pick-Up:** We estimate FTS could pick up $0.02/share for 2H/07E, $0.04/share for 2008E and $0.05/share for 2009E from the deal as currently envisioned depending on degree of success in performance based cost savings sharing (PBR). Without any PBR, the deal looks like an EPS wash. FTS applied for a 2-year extension to a 4-year PBR agreement at Terasen Gas that the Regulator has not yet ruled on.
- **Summary:** We added $1/share to our FTS 1-Yr target and 2-Yr targets maintaining our 20x P/E. We rounded up the additional $0.04/share in 2008 from the deal at 20x to $1/share. At $26/share where the equity issue was priced at a 5% discount to trading levels, we would by definition have gone to a 1-Sector Outperform as the deal (1) is mildly accretive; (2) lowers the regulatory risk of FTS; and, (3) at $26/share would have produced a 16% 1-Yr return. However, FTS' stock moved up 7% to over $28/share from the $26/share deal while we were under restriction.

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Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

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The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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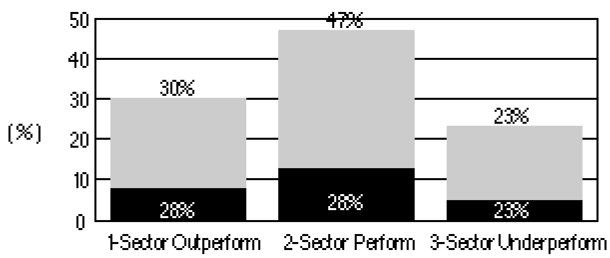
Distribution by Ratings and Equity and Equity-Related Financings*



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* As at February 28, 2007.

Source: Scotia Capital.

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Disclaimer

Company Comment
Friday, May 04, 2007

(FTS-T C$28.08)

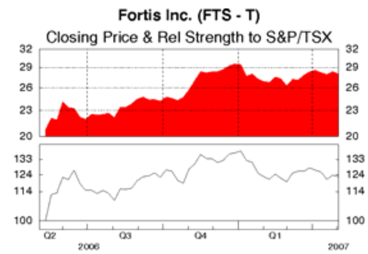
Fortis Inc.

Sam Kanes, CA, CFA - 416-863-7798
sam_kanes@scotiacapital.com

Ben Isaacson, MBA, CFA - 416-863-7846
ben_isaacson@scotiacapital.com

Rating: 2-Sector Perform	**Target**	1-Yr:	$29.50	**ROR**	1-Yr:	7.8%	**Est. NTM Div.**	$0.76
Risk Ranking: Medium		2-Yr:	$31.00		2-Yr:	15.8%	**Div. (Current)**	$0.67
Valuation: 1-yr target based on 20x P/E on 2008E EPS							**Yield**	2.4%

Q1/F07 EPS Beats On Tax Adjustments



Source: Global Insight, Inc.

Event

- Fortis (FTS) reported basic Q1/F07 EPS of $0.38 ($0.35 diluted) beating our $0.35 estimate and the Bloomberg consensus EPS estimate of $0.35. Results were in line except for a $0.05/share positive swing year-over-year in regulator-approved Alberta tax treatments.

What It Means

- Q1/F07 EPS: The key factor was the $0.05/share positive swing in year-over-year Alberta tax treatments. Starting in Q3/F07, year-over-year quarterly earnings will finally be comparable again except for the new acquisition of Terasen Gas.
- FTS also raised its quarterly dividend by 10.5% or $0.02/share to $0.21/share.
- On Feb. 9, 2007, we upgraded FTS to 2-Sector Perform from 3-Sector Underperform on its 12% plus price depreciation from a peak price of about $30/share (January 2, 2007).

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2005A	$0.40 A	$0.37 A	$0.36 A	$0.22 A	$1.35	17.98
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007E	$0.38 A	$0.30	$0.34	$0.35	$1.37	20.50
2008E	$0.39	$0.37	$0.34	$0.37	$1.47	19.10

(FY-Dec.)	2004A	2005A	2006A	2007E	2008E
Earnings/Share	$1.07	$1.35	$1.42	$1.37	$1.47
Cash Flow/Share	$2.59	$3.13	$3.29	$2.90	$2.85
Price/Earnings	16.2	18.0	21.0	20.5	19.1
Relative P/E	0.9	0.9	1.3	1.2	1.1
Revenues	$1146	$1442	$1472	$1603	$1703
EBITDA	$380	$515	$533	$625	$703
Current Ratio	0.5	0.7	0.7	0.6	0.6
EBITDA/Int. Exp	3.5	4.1	3.6	4.0	4.3

IBES Estimates	**BVPS07E**	$13.93	**Shares O/S (M)**	109.3
EPS 2007E: $1.44	**ROE07E**	10.1%	**Float O/S (M)**	108.1
EPS 2008E: $1.55			**Total Value ($M)**	3,068
			Float Value ($M)	3,035
Next Reporting Date	Aug-07		**TSX Weight**	0.21%

Fixed Income Research Link

SC Online Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

For important disclosure information see Appendix A of this report.

Highlights

- **Q1/F07 EPS A Slight/Mild Beat:** FTS reported basic Q1/07 EPS of $0.38 ($0.35 diluted). Basic earnings were moderately above our $0.35/share estimate as well as the Bloomberg consensus estimate of $0.354/share. The one-time Q3/06 regulatory adjustment to FortisAlberta's tax charges in customer rates to a flow through tax methodology from normalized taxes worked its way through Q1/07 with a positive $0.05 EPS swing. There was also $0.01/share for the non-recurring hurricane-related cost recovery of previously written-down costs at Caribbean Utilities. Exhibit 1 shows a breakdown of Q1/07 EPS contribution by segment, with select prior periods shown for comparative purposes.

Exhibit 1 – Fortis' EPS Contribution by Segment

FORTIS		EPS Contribution					
		Q1/07	(%)	Q4/06	(%)	Q1/06	(%)
Regulated Utilities	FortisAlberta	0.11	29%	0.08	24%	0.09	26%
	FortisBC	0.11	28%	0.06	19%	0.11	32%
	Newfoundland Power	0.10	25%	0.08	26%	0.10	29%
	Maritime Electric	0.02	6%	0.02	7%	0.02	6%
	FortisOntario	0.01	3%	0.01	3%	0.01	3%
	Belize Electricity	0.02	7%	0.03	8%	0.01	4%
	Caribbean Utilities	0.00	-1%	0.03	8%	0.02	4%
	Turks and Calcos	0.02	4%	0.03	8%		
Non-Regulated Businesses	Fortis Generation	0.07	18%	0.07	20%	0.05	15%
	Fortis Properties	0.02	4%	0.03	8%	0.01	4%
	Fortis Corporate	-0.09	-23%	-0.11	-32%	-0.08	-23%
		0.38		0.33		0.35	

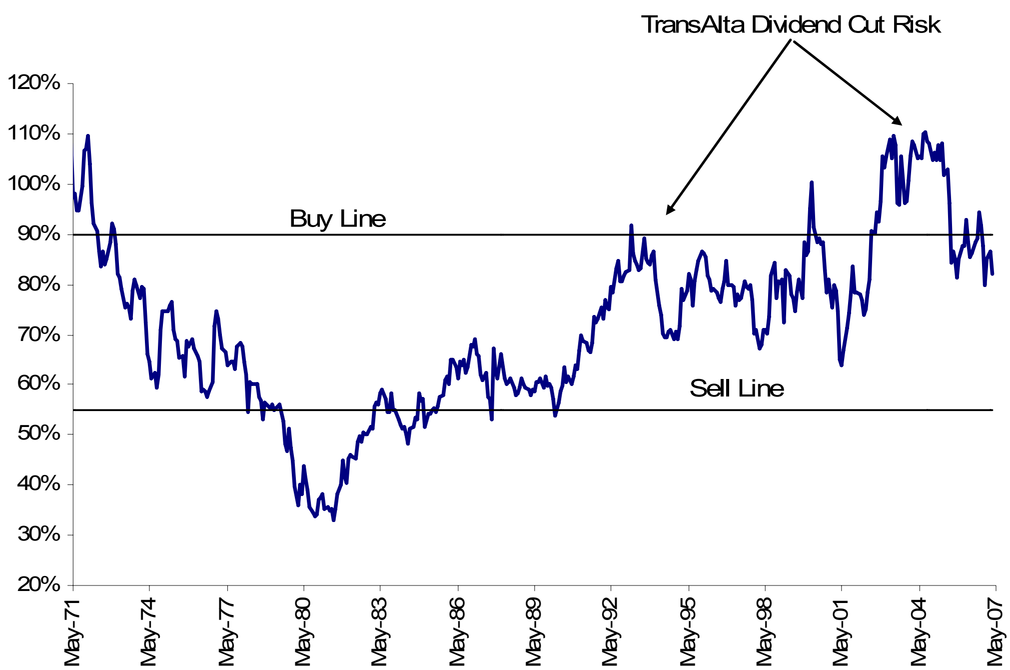
Note: Q4/05 EPS contribution adjusted to reflect 4 - 1 split completed October 2005.

Source: Company reports; Scotia Capital estimates.

- **Stock Valuation/Observations:** We are at 2-Sector Perform and stayed there after FTS' results, shaving Q2/F07 by the same $0.03/share that FTS beat by in Q1/F07. We use a 20x P/E multiple on an unchanged 2008E EPS of $1.47/share. There is a slight bias higher on 2008E EPS as our economists are now looking at 4.4%. 10-Yr Canada rates in one year (up 25 bp). If proven accurate, 4.4% rates would also compel us to reduce our sector P/E's by about 1x. FTS' yield moved up with a 10.5% dividend hike to $0.21/share yesterday. Its yield was materially lower than both Canada's large cap pipeline stock yields. We still prefer the pipes.
- **Sector Weight Neutral: We reduced** our Overweight call on the Energy Utilities sector to Market Weight entering January 2007 on (1) much higher than expected jobs growth that lifted interest rates; and, (2) a 14% total return in Q4/06 for the group we cover**.** At that time, our economists forecast 3.8% 10-Yr Canada rates one year out.
- **Q1/F07 Maritime Electric:** Maritime Electric earned $2.6 million in the quarter, up $0.5 million, as a 3.35% increase in basic electricity rates as well as higher electricity sales kicked in. Allowed 2007 ROE remains at the 2006 rate of 10.25%. Maritime Electric will file for new rates in fall 2007 for 2008.

- **Q1/F07 FortisOntario:** FortisOntario earned $1.3 million in Q1/F07 versus $1 million in Q1/06 on higher electricity rates and a 1.5% sales increase. Colder weather conditions supported. **2007 Allowed ROE: 9%, same as 2006**.
- **Q1/F07 Newfoundland Power:** Earnings of $10.5 million were slightly off the $10.7 million earned in Q1/F06 as a materially lower allowed ROE hurt earnings, partly offset by higher sales (up 1.8%) and lower effective tax rates. Newfoundland Power's $62.2 million 2007 Capital Budget was approved. **2007 Allowed ROE: 8.60%** (2006 Allowed ROE was 9.24%).
- **Q1/F07 FortisAlberta Up 25%:** Earnings of $11.9 million were up 25% over the $9.5 million earned in Q1/F06 due to lower effective FortisAlberta corporate income tax rates. FTS posted a $4.1 million recovery of tax expenses versus $1.1 million expensed in Q1/F06 (a $0.05/share swing). Revenue was up only 2.2% to $63.3 million on energy deliveries of 3,945 GWh (up 2.8% year-over-year). FTS estimated $275 million of 2007 capital expenditures driven by customer growth and inflation. **2007 Allowed ROE: 8.51%** (2006 Allowed ROE was 8.93%).
- **Q1/F07 FortisBC:** Reported Q1/F07 net earnings of $11.7 million were flat with $11.8 million earned in Q1/F06. The positive impacts of 5.9% higher electricity rates and 4.6% higher electricity sales were offset by a lower allowed ROE, lower capitalization of overhead costs to projects (20% versus 27.5%) and higher amortization. **2007 Allowed ROE: 8.77%** (2006 Allowed ROE was 9.20%).

Exhibit 3 – Electric Utility Dividend Yields vs. 10-year Canadas



Source: Global Insight Inc.; Scotia Capital

- **Q1/F07 CUP:** FTS estimated the March 31, 2007 CUP quarter earnings loss at $0.4 million (actual quarter will end April 30, 2007) versus $1.6 million earned in equity income in 2006. Operating expenses were up due to a charge on disposal of CUP's steam system (US$3.7 million) that could debatably be a one time item. FTS now consolidates CUP's results as it now owns 54% of CUP. During the expected term of the hurricane recovery (CRS) ending

July 31, 2008, there will be no increase in CUP's billing rate as agreed to with the Cayman Islands Government. CUP forecasts fiscal 2007 sales volume growth of about 10%.

- **Q1/F07 Belize Electricity Stronger:** Earnings of $2.7 million were up $1.2 million from Q1/F06, due primarily to lower finance charges and 8.8% higher electricity sales. Finance charges were $0.9 million lower than Q1/F06 due to debt repayment from proceeds received from a recent Belize share offering. On August 20, 2006, Belize Electricity signed a new two-year PPA with Comision Federal de Electricidad (CFE) of Mexico, following the expiration of the previous PPA with CFE. Under the agreement, the cost of power to Belize Electricity will be tied to international fuel prices. This is **a 59% increase to the company's average cost of power.** As a result of the increased cost of CFE's power, Belize Electricity has reduced its purchases of firm power by 10 MW to 15 MW. The country of Belize remains rated D (insolvent) by S&P. We have concerns about consistent treatment of FTS' asset there by the government that will set rates on or before June 26/07 for July 1, 2007 implementation.
- **Q1/F07 Turks and Caicos Utilities:** On August 28, 2006, FTS acquired all of the outstanding shares of PPC Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. for $97.4 million (10x P/E). In Q1/F07, Turks and Caicos Utilities generated $1.8 million in earnings on a 23% sales increase. **Fixed rate of return: 17.5% (on a defined asset based of US$50 million).**
- **Q1/F07 Fortis Non-Regulated Generation:** Year-over-year earnings increased $1.9 million to $7.3 million due to increased generation in Belize and slightly higher average wholesale prices in Ontario. Year-over-year energy sales increased by 2.5% to 291 GWh, primarily due to higher hydroelectric production at the Chalillo generating facilities in Belize that benefited from higher rainfall levels.
- **Q1/F07 Fortis Properties:** Q1/F07 earnings increased 20% year-over-year to $1.8 million due mostly to the addition of 4 hotels in western Canada acquired on November 1, 2006. Higher operating expenses and amortization costs offset a 14% year-over-year revenue increase. The occupancy rate in the Real Estate Division was 94.9%, down slightly from 95.9% in Q1/F06.
- **Outlook:** FTS' 2007 regulated capital spending forecast of $630 million and $2.8 billion over the next five years (up $30 million and $200 million respectively) is mainly due to robust Alberta and B.C. growth. It will require a variety of financing to support 7%-8% asset growth. The new Terasen asset base may be included by July 1, 2007 and will have its own spending profile. FTS' low risk growth rate is similar to the growth profiles of Enbridge and TransCanada which is why we have all three at 20x-22x P/E. We do discount FTS' Belize and Cayman Islands contributions/values a bit off FTS's P/E multiples due to higher risks as we do for TransCanada's spot merchant power and more volatile nuclear results. FTS is also rated only BBB (like Emera) by S&P due in part to its higher leverage than the pipes have. The acquisition of Terasen Gas will support FTS' credit rating due to its high quality low risk nature monopoly.

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Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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* *Legend*

H 3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

U Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

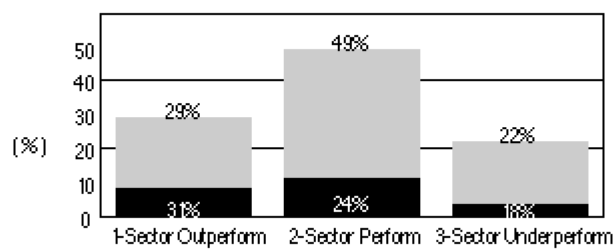
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at April 30, 2007.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Company Comment
Tuesday, August 07, 2007

Fortis Inc.

(FTS-T C$26.05)

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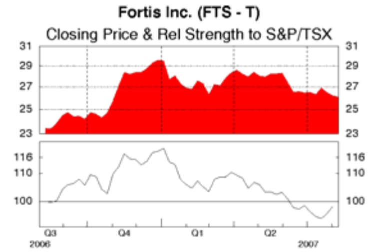
Rating: 1-Sector Outperform	**Target** 1-Yr:	C$28.50	**ROR** 1-Yr:	12.7%	**Est. NTM Div.**	C$0.87
Risk Ranking: Medium	2-Yr:	C$30.00	2-Yr:	21.8%	**Div. (Current)**	C$0.84
Valuation: 1-yr target based on 18x P/E on 2H/08E and 1H/09E EPS					**Yield**	3.2%

Q2/07 EPS A Match



Source: Global Insight, Inc.

Event

- Fortis (FTS) reported basic Q2/07 EPS of $0.31 ($0.27 diluted), essentially matching our $0.30 estimate and the Bloomberg consensus EPS estimate of $0.305. There were no major variances.

What It Means

- Q2/07: This was a trickier quarter to estimate as FTS' $3.4B Terasen purchase closed on May 17/07, resulting in the issuance of 44.3M additional shares. The Bloomberg forecast range was $0.25-$0.36/share. Terasen's seasonally weak 6-week $1.6M contribution to FTS was normal. FTS' CEO re-stated the Terasen acquisition will be accretive in the first year.
- Since: (1) FTS' stock has eased back towards $26/share; (2) Canada's 10-year rates have eased from 4.75% to 4.5% (we use 5% for our forecast Q3/08, Scotia Economics uses 5.25%); and, (3) a quarter has passed, we decided to move up FTS to a 1-Sector Outperform. FTS' Q4/07 and Q1/08 will also look very strong with Terasen's seasonally strong winter results.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007E	$0.38 A	$0.31 A	$0.30	$0.40	$1.39	18.74
2008E	$0.43	$0.35	$0.32	$0.42	$1.52	17.14
2009E	$0.45	$0.37	$0.36	$0.45	$1.63	15.98

(FY-Dec.)	2005A	2006A	2007E	2008E	2009E
Earnings/Share	$1.35	$1.42	$1.39	$1.52	$1.63
Cash Flow/Share	$3.13	$3.29	$3.23	$3.53	$3.69
Price/Earnings	18.0	21.0	18.7	17.1	16.0
Relative P/E	0.9	1.3	1.1	1.0	0.9
Revenues	$1442	$1472	$2417	$3291	$3385
EBITDA	$1	$-2	$4	$4	$6
Current Ratio	0.7	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	4.1	3.6	3.1	2.9	2.9

IBES Estimates	BVPS07E	$13.84	Shares O/S (M)	154.0
EPS 2007E: $1.43	ROE07E	10.3%	Float O/S (M)	152.6
EPS 2008E: $1.61			Total Value ($M)	4,013
			Float Value ($M)	3,974
Next Reporting Date	Nov-07		TSX Weight	0.27%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Rating:	1-SO	2-SP
EPS07E	$1.39	$1.37

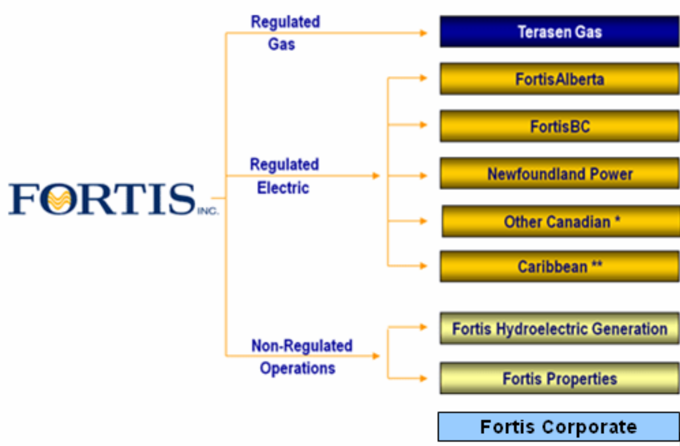
Fixed Income Research Link

SC Online Analyst Link

Highlights

- **Q2/07 EPS A Match:** FTS reported basic Q2/07 EPS of $0.31 ($0.27 diluted). Basic earnings generally matched our $0.30/share estimate as well as the Bloomberg consensus estimate of $0.305/share.
- **Stock Valuation/Observations:** We moved up to 1-Sector Perform as FTS's stock price has eased while results were in line. We use a 18x P/E multiple on unchanged blended 2H/08E and 1H/09E EPS.
- **Sector Underweight:** We reduced our Market Weight call on the Energy Utilities sector to Underweight in mid-June 2007 on a material hike in our forecast for 10-year Canada interest rates to 5.25% and 5.4% for Q3/08 and Q4/08, respectively. We are using 5% to set our energy utility and pipeline P/E multiples.

Exhibit 1 – Fortis' EPS Contribution by Segment



	EPS Contribution			
	Q2/07	(%)	Q2/06	(%)
Terasen Gas	0.01	4%	0.00	0%
FortisAlberta	0.12	37%	0.11	30%
FortisBC	0.05	16%	0.03	9%
Newfoundland Power	0.06	19%	0.08	21%
Other Canadian *	0.03	10%	0.03	7%
Caribbean **	0.06	18%	0.04	12%
Fortis Hydroelectric Generation	0.04	12%	0.06	18%
Fortis Properties	0.05	15%	0.08	21%
Fortis Corporate	-0.10	-31%	-0.06	-18%
	0.31		0.37	

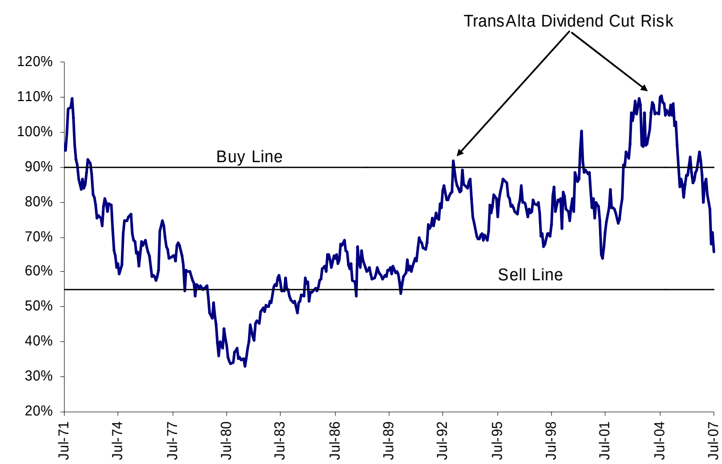
Source: Company reports; Scotia Capital estimates.

- **Q2/07 Terasen Gas:** Terasen contributed $1.6 million in earnings for the 6 weeks in Q2/07 that it was owned by Fortis. This was expected as Terasen's Q2 and Q3 are relatively weak relative to Q4 and Q1 due to natural gas demand. FTS restated that the first full year of Terasen operations will be earnings accretive. Terasen Gas is comprised of TGI (i.e. Vancouver), TGVI (i.e. Vancouver Island), and TGWI (i.e. Whistler area). TGI's allowed ROE is 8.37% on deemed equity of 35%, while TGVI's allowed 2007 ROE is 9.07% on deemed equity of 40%.
- **TGVI** filed an application with the BCUC on June 5, 2007, seeking approval for the construction and operation of a natural gas storage facility on Vancouver Island. The facility would have a storage capacity of 1.5 Bcf/d, enabling both TGI and TGVI to meet their respective future gas needs. Capital costs have been estimated by the company between $175 million and $200 million, with an in-service date of 2011.
- **Q2/07 FortisAlberta Up 37%:** Earnings of $15.5 million increased by 37% over Q2/06 levels due to higher sales revenues partially offset by higher operating costs. Revenue was up 17% to $63.3 million on energy deliveries of 3,650 GWh (up 3.2% year over year). Operating expenses were $3.6 million higher year over year due to higher labour costs,

employee-benefits costs and taxes. FTS estimated $271 million of 2007 capital expenditures driven by customer growth and inflation, of which $122 million has been invested year to date. FTS' rates for 2007 assumed an 8.93% ROE versus the 8.51% allowed. There will be a small $1.3M credit ($0.01/share) given back to rate payers in 2008 to reflect the difference. **2007 Allowed ROE: 8.51%** (2006 Allowed ROE was 8.93%).

- **2008/09 FortisAlberta Rate Applications**: FortisAlberta filed rate applications with the AEUB on June 1, 2007. The company has requested an 8.5% increase in base distribution rates for 2008, followed by a 9% increase in 2009. The rate increases are due to "significant investment in electrical infrastructure". These rate hike proposals may give the AEUB some grief.
- **Q2/07 FortisBC:** Reported Q2/07 net earnings of $6.5 million were well above the $3.4 million earned in Q2/06. Modestly higher electricity sales (670 GWh vs. 662 GWh in Q2/06), an approved rate increase of 3.3%, and lower corporate taxes were cited. PBR customer incentive decreases and a decrease in operating expenses associated with a true up to the estimate of capitalization expenses in Q2/06 were partially offset by higher depreciation expenses. **2007 Allowed ROE: 8.77%** (2006 Allowed ROE was 9.20%).
- **Q2/07 Newfoundland Power:** Earnings of $8.0 million were flat with Q2/06 as increased revenues were offset by (1) 28% higher energy supply costs; (2) a lower ROE for 2007; and (3) slightly higher amortization and corporate tax expenses. Electricity sales increased 3.1% in Q2/07 due to both customer growth and higher average consumption. During Q2/07, Newfoundland Power began an $18 million refurbishment of its Rattling Brook Hydro plant, representing the subsidiary's largest capital project ever. Newfoundland Power has a 2007 Capital Budget of $62.2 million, $30 million of which has already been invested year to date. **2007 Allowed ROE: 8.60%** (2006 Allowed ROE was 9.24%).
- **Q2/07 Other Canadian Electric Utilities**: Following the acquisition of Terasen, Fortis has lumped together Maritime Electric and FortisOntario into an "other" category. The two subsidiaries combined for a year-over-year earnings improvement of 50% due to (1) higher generation in both units; (2) a 3.35% rate increase at Maritime Electric; (3) higher electricity sales; and (4) a lower corporate tax rate (38.5% versus 47.1% in Q2/06).

Exhibit 2 – Electric Utility Dividend Yields vs. 10-year Canadas



Source: Global Insight Inc.; Scotia Capital

- **Q2/06 Regulated Utilities - Caribbean:** FTS now consolidates earnings of Caribbean Utilities (54% owned since Q4/06), Belize Electricity (70% owned), and Fortis Turks and Caicos (100% owned) into a new group: Regulated Utilities - Caribbean. Year-over-year electricity sales grew a weighted average 10% in GWh sales. Earnings increased by $3.2 million year over year to $7.6 million due to (1) $2.4 million in earnings from Fortis Turks and Caicos that were not owned in Q2/06; 2) lower finance charges at Belize Electricity; and, (3) increased investment in Caribbean Utilities from 37% to 54%. There was no further progress made on the license negotiations between Caribbean Utilities and the Cayman Government.
- **Q2/07 Fortis Non-Regulated Generation:** Year-over-year earnings **decreased** by $1.8 million to $4.9 million due to decreased generation in Belize, central Newfoundland, and Upper NY State. The 16 GWh, or 5.5%, decline in generation was due to lower rainfall in these regions. The average price per MWh of energy sold in Upper NY State increased to US$63.72/MWh from US$56.11/MWh due to the expiry of two fixed-rate energy sale contracts at lower-than-market rates. The average price per MWh in Ontario was $47.74, slightly below the Q2/06 average price of $48.15/MWh.

- **Q2/07 Fortis Properties:** Q2/07 earnings decreased 26% year over year despite a 12% increase in revenue. However, last year's earnings included a non-recurring $1.6 million after-tax gain on the sale of Days Inn Sydney as well as a $1.6 million corporate tax adjustment. Q2/07 recurring earnings were $1.1 million higher due to additional contributions from four new hotels in western Canada that were acquired on November 1, 2006. Revenue per available room increased to $82.11 in Q2/07 from $75.97 one year earlier. The average occupancy rate also increased to 96% from 95.6% previously. On August 1, 2007, Fortis Properties announced the purchase of the Delta Regina for $49.95 million. The complex adds 274 rooms and includes the four-star Delta Regina hotel as well as the Saskatchewan Trade and Convention Centre.
- **Outlook Strong:** The increase in FTS' 2007 regulated capital spending forecast to $770 million and $2.8 billion over the next five years (up $30 million and $200 million respectively) is attributable to the robust economic growth of Alberta and B.C. A variety of financing will be required to support this 7%-8%/year asset growth. The new Terasen asset base will have its own spending profile. FTS' low risk growth rate is similar to the growth profiles of Enbridge and TransCanada, which is why we have all three at 18x-20x P/E's. As 84% of assets are now Canadian Regulated, the discount for FTS' Belize and Cayman Islands contributions/values has become immaterial. S&P upgraded FTS to an A- from BBB+ due to the acquisition of Terasen. We last wrote that the acquisition of Terasen Gas will support FTS' credit rating due to its high quality and low risk monopoly nature.

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Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

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* *Legend*

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S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

U Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, this issuer.

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We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

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Medium
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High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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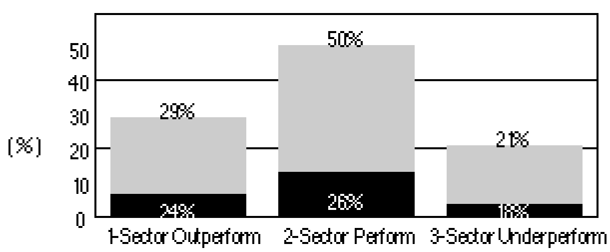
Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



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- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at July 31, 2007.

Source: Scotia Capital.

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Disclaimer

Scotia Capital

Equity Research DAILY Edge

Company Comment
Monday, November 05, 2007

(FTS-T C$27.19)

Fortis Inc.

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Ben Isaacson, MBA, CFA - 416-863-7846
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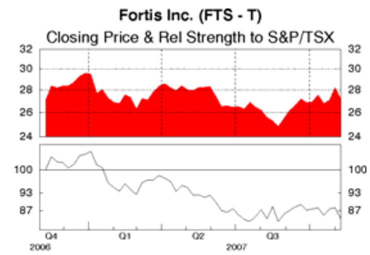
Rating: 1-Sector Outperform	**Target** 1-Yr:	C$29.50	**ROR** 1-Yr:	11.7%	**Est. NTM Div.**	C$0.87
Risk Ranking: Medium	2-Yr:	C$31.00	2-Yr:	20.4%	**Div. (Current)**	C$0.84
Valuation: 1-yr target based on 18x P/E on 2009E EPS					**Yield**	3.1%

Q3/07 EPS Misses Us, Matches Street



Source: Global Insight, Inc.

Event

- Fortis (FTS) reported basic Q3/07 EPS of 20¢, missing our 25¢ estimate but essentially matching the Bloomberg consensus EPS estimate of 20.6¢ (in a wide 17¢ to 25¢ range).

What It Means

- Q3/07: We had expected seasonal weakness at Terasen as well as an f/x translation hit to earnings. Our 5¢ miss was mainly due to higher than forecast financing costs at the corporate level, and materially poorer than expected hydroelectric production as a result of lower rainfall in Belize and Upper NY State.
- Valuation: We remain comfortable with our earnings forecasts for 2008 and 2009. It is time to roll forward our valuation to 2009E EPS only. This increased our 1-Yr FTS target to $29.50/share, using an unchanged 18x PE multiple.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007E	$0.38 A	$0.31 A	$0.20 A	$0.45	$1.34	20.29
2008E	$0.43	$0.35	$0.32	$0.42	$1.52	17.89
2009E	$0.45	$0.37	$0.36	$0.45	$1.63	16.68

(FY-Dec.)	2005A	2006A	2007E	2008E	2009E
Earnings/Share	$1.35	$1.42	$1.34	$1.52	$1.63
Cash Flow/Share	$3.13	$3.29	$3.17	$3.53	$3.69
Price/Earnings	18.0	21.0	20.3	17.9	16.7
Relative P/E	0.9	1.3	1.1	1.0	0.9
Revenues	$1442	$1472	$2407	$3291	$3385
EBITDA	$515	$533	$772	$992	$1030
Current Ratio	0.7	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	4.1	3.6	3.1	2.9	2.9

IBES Estimates	**BVPS07E**	$13.79	**Shares O/S (M)**	154.0
EPS 2007E: $1.37	**ROE07E**	9.9%	**Float O/S (M)**	152.6
EPS 2008E: $1.59			**Total Value ($M)**	4,189
			Float Value ($M)	4,148
Next Reporting Date	Feb-08		**TSX Weight**	0.28%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Target:		
1-Yr	$29.50	$28.50
2-Yr	$31.00	$30.00
EPS07E	$1.34	$1.39

New Valuation:
1-yr target based on 18x P/E on 2009E EPS

Old Valuation:
1-yr target based on 18x P/E on 2H/08E and 1H/09E EPS

Fixed Income Research Link

SC Online Analyst Link

Highlights

- **Q3/07 EPS Misses Us, Matches Street:** FTS reported basic Q3/07 EPS of 20¢ versus 37¢ in Q3/06. The current quarter is not comparable due to the large and seasonal Terasen Gas acquisition. Earnings per share missed our 25¢ estimate but essentially matched the Bloomberg consensus estimate of 20.6¢. Poorer than expected rainfall in Belize and Upper NY State, as well as higher corporate financing charges than we had forecast were the primary reasons for our miss.
- **Stock Valuation/Observations:** We have rolled forward our valuation to 2009E EPS using an unchanged 18x P/E multiple. As a result, we have increased our 1-Yr target by $1/share to $29.50/share.
- **Sector Market Weight:** As the global credit crunch hit in early Q3/07, we went to Market Weight and on August 16, we went to short-term Overweight prior to the S&P/TSX Composite Index collapsing 580 points. We returned to Market Weight Energy Utilities, Pipes and high yielding IPP's like TA following the aggressive global injection of about US$1 trillion of liquidity and the aggressive 50 point cut by the U.S. Fed that lessened recession risks and increased inflation risks. A further 25 bp U.S. Fed cut occurred on October 31. For further details, please refer to our October 2007 *Gas & Electric Utilities Outlook.*

Exhibit 1 – Fortis' EPS Contribution by Segment

FORTIS INC.

		EPS Contribution			
		Q3/07	(%)	Q3/06	(%)
Regulated Gas	Terasen Gas	-0.02	-12%		
Regulated Electric	FortisAlberta	0.10	48%	0.12	32%
	FortisBC	0.04	20%	0.06	15%
	Newfoundland Power	0.02	9%	0.03	7%
	Other Canadian *	0.03	14%	0.05	12%
	Caribbean **	0.06	32%	0.07	20%
Non-Regulated Operations	Fortis Hydroelectric Generation	0.03	16%	0.08	20%
	Fortis Properties	0.05	26%	0.06	16%
	Fortis Corporate	-0.11	-53%	-0.08	-21%
		0.20		0.37	
	Shares (MM)	154.5		103.6	

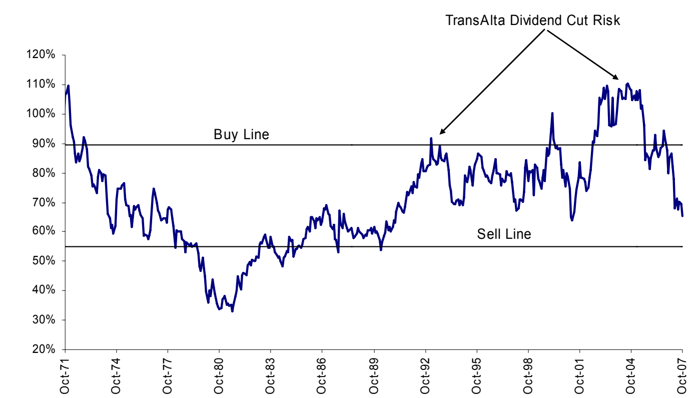
Source: Company reports; Scotia Capital estimates.

- **Q3/07 Terasen Gas:** Terasen Gas reported a $3.7M loss for Q3/07, as expected and inline with previous Q3s. The majority of Terasen's annual earnings are generated in Q1 and Q4 due to stronger natural gas demand. Gas volume for the quarter was 31,441 TJ, down 4.2% year over year due to a 10.2% decline ingas transportation volumes. FTS restated **again** that the first full year of Terasen operations will be **earnings accretive**. Terasen Gas is comprised of TGI (i.e. Vancouver), TGVI (i.e. Vancouver Island), and TGWI (i.e. Whistler area). TGI's allowed ROE is 8.37% on deemed equity of 35%, while TGVI's allowed 2007 ROE is 9.07%

on deemed equity of 40%. On June 19, S&P raised its senior unsecured debt rating on TGI to A from BBB.

- **TGVI** filed an application with the BCUC on June 5, 2007, seeking approval for the construction and operation of a 1.5 Bcf/d natural gas storage facility on Vancouver Island. FTS estimates a capital cost of $175 million to $200 million, with an in-service date of 2011.
- **Q3/07 FortisAlberta Up 20%:** Earnings of $14.7 million increased by 20% over Q3/06 levels due to higher sales revenues and increased corporate income tax recoveries, which were partially offset by higher operating costs. Revenue was up 8% to $69.7 million on energy deliveries of 3,781 GWh (up 3.4% year over year). Operating expenses were $2 million higher year over year due to higher labour costs and employee-benefits costs. FTS estimated $283 million of 2008 capital expenditures ($312 million for 2009) driven by strong customer growth and an improvement to system reliability. There will be a small $1.3 million credit ($0.01/share) given back to rate payers in 2008 to reflect the difference. **2007 Allowed ROE: 8.51%** (2006 Allowed ROE was 8.93%).
- **2008/09 FortisAlberta Rate Applications**: FortisAlberta filed rate applications with the AEUB on June 1, 2007. The company has requested an 8.5% increase in base distribution rates for 2008, followed by a 9% increase in 2009. The rate increases are due to "significant investment in electrical infrastructure". The size of the rate hike proposals may give the AEUB some grief.
- **Q3/07 FortisBC:** Reported Q3/07 net earnings of $6.2 million were 9% above the $5.7 million earned in Q3/06. Modestly higher electricity sales (703 GWh vs. 694 GWh in Q3/06), an approved rate increase of 3.3%, and lower energy supply costs supported. Higher operating expenses, amortization costs and finance charges partially offset. On July 4, FortisBC issued $105 million 5.90% senior unsecured 40 year debentures, primarily to repay existing credit facilities. **2007 Allowed ROE: 8.77%** (2006 Allowed ROE was 9.20%).
- **Q3/07 Newfoundland Power:** Earnings of $2.7 million were flat with Q3/06 as a 13% increase to revenue was offset by higher energy supply costs (due to the flow through of higher purchased power costs from Newfoundland Hydro). Customer growth was mostly offset by lower average consumption per customer, as well as a lower ROE for 2007. On September 18, the PUB approved Newfoundland Power's 2008 capital budget program of $51 million. On October 11, the company filed for a 2.8% increase in electricity rates, effective January 1, 2008, down from the originally proposed 5.3% increase. The PUB has agreed to a **2008 Allowed ROE of 8.95%** (2007 Allowed ROE: 8.60%, and 2006 Allowed ROE: 9.24%).

Exhibit 2 – Electric Utility Dividend Yields vs. 10-year Canadas



Source: Global Insight Inc.; Scotia Capital

- **Q3/07 Other Canadian Electric Utilities**: Following the acquisition of Terasen, Fortis lumped together Maritime Electric and FortisOntario into an "other" category. The two subsidiaries combined for a year-over-year **earnings decline of 6%** due to increased operating expenses and higher amortization costs, which were partially offset by a lower effective tax rate (36.2% compared to 37.3% in Q3/06). Electricity sales decreased by 14 GWh, or 2.5%, due to lower sales at FortisOntario (moderate weather conditions and a loss of a major customer).
- **Q3/07 Regulated Utilities - Caribbean:** FTS now consolidates earnings of Caribbean Utilities (54% owned since Q4/06), Belize Electricity (70% owned), and Fortis Turks and Caicos (100% owned) into a new group: Regulated Utilities - Caribbean. Year-over-year electricity sales grew a weighted average 8.8% to 283 GWh. Earnings increased by $2.1

million year over year (up 27%) to $9.8 million due to (1) $2 million in earnings from Fortis Turks and Caicos that was only owned for one month in Q3/06; and, (2) increased investment in Caribbean Utilities from 37% to 54%. There was no update provided on the license negotiations between Caribbean Utilities and the Cayman Government. The earnings increase was partially offset by a decreased contribution from Belize Electricity of $0.8 million due to higher operating expenses, amortization costs and financing charges. The strengthening of the C$ also negatively impacted earnings by $0.8 million.

- **Q3/07 Fortis Non-Regulated Generation:** Year-over-year earnings **decreased materially** by $2.8 million to $5 million due to decreased production as a result of lower rainfall and a $0.2 million f/x translation hit. Energy sales declined in 4 of 5 regions (B.C. increased slightly), resulting in an overall 12% decline in energy sales to 254 GWh. The average price per MWh in Ontario was $47.42, slightly above the Q3/06 average price of $46.59/MWh.
- **Q3/07 Fortis Properties:** Q3/07 earnings increased 27% year over year on the back of a 22% increase in revenue. Hospitality revenue improved 29% to $38.9 million due to growth in the company's western Canadian operations, as well as increased revenue earned from the expanded Ontario hotels. Real estate revenue increased by $1 million year over year due to the Blue Cross Centre expansion in Moncton. Revenue per available room increased substantially to $95.11 in Q3/07 from $88.09 one year earlier. The average occupancy rate also increased to 96.9% from 94.7% previously. On August 1, 2007, Fortis Properties announced the purchase of the Delta Regina for $50 million. The complex adds 274 rooms and includes the four-star Delta Regina hotel as well as the Saskatchewan Trade and Convention Centre.

SC Online Analyst Link

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Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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U Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

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Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
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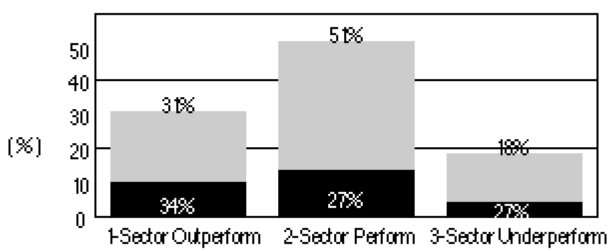
Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



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* As at October 31, 2007.

Source: Scotia Capital.

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Disclaimer

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Company Comment
Friday, December 14, 2007

(FTS-T C$28.64)

Fortis Inc.

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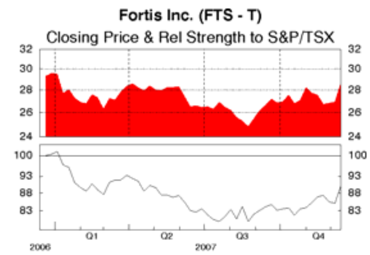
Ben Isaacson, MBA, CFA - 416-863-7846
ben_isaacson@scotiacapital.com

Rating: 1-Sector Outperform	**Target** 1-Yr:	C$31.00	**ROR** 1-Yr:	11.7%	**Est. NTM Div.**	C$1.00
Risk Ranking: Medium	2-Yr:	C$32.50	2-Yr:	20.5%	**Div. (Current)**	C$0.84
Valuation: 1-yr target based on 19x P/E on 2009E EPS					**Yield**	2.9%



Source: Global Insight, Inc.

Strong FTS Dividend Hike

Event

- Fortis (FTS) announced a 19% increase of its quarterly dividend to 25¢ from 21¢. We had estimated a 7% increase to 22.5¢.

What It Means

- The 19% dividend increase to 25¢ per quarter results in a payout ratio of 66%, above our universe average of 59% but below that of Emera (70%) and TransAlta (69%). FTS has the longest Canadian track record of dividend hikes at 35 years in a row. The dividend increase clearly implies that the $4B Terasen Gas acquisition form Kinder Morgan is performing "as planned". Accordingly, we nudged up our P/E by 0.5x to reflect this.
- We attended a Toronto Board of Trade Power Breakfast this week where FTS' CEO spoke about the future of Canada's electricity industry. Highlights were: (1) his negative view on all aspects of attempts to deregulate the electricity business other than for generation, particularly in Alberta; and, (2) his support for Mr. Harper in Bali with respect to having to get China and India on the same CO_2 reduction page.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007E	$0.38 A	$0.31 A	$0.20 A	$0.45	$1.34	21.37
2008E	$0.43	$0.35	$0.32	$0.42	$1.52	18.84
2009E	$0.45	$0.37	$0.36	$0.45	$1.63	17.57

(FY-Dec.)	2005A	2006A	2007E	2008E	2009E
Earnings/Share	$1.35	$1.42	$1.34	$1.52	$1.63
Cash Flow/Share	$3.13	$3.29	$3.17	$3.53	$3.69
Price/Earnings	18.0	21.0	21.4	18.8	17.6
Relative P/E	0.9	1.3	1.1	1.0	0.9
Revenues	$1442	$1472	$2407	$3291	$3385
EBITDA	$515	$533	$772	$992	$1030
Current Ratio	0.7	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	4.1	3.6	3.1	2.9	2.9

IBES Estimates	BVPS07E	$13.77	Shares O/S (M)	154.0
EPS 2007E: $1.36	ROE07E	9.9%	Float O/S (M)	152.6
EPS 2008E: $1.58			Total Value ($M)	4,412
			Float Value ($M)	4,370
Next Reporting Date	Feb-08		TSX Weight	0.30%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Target:		
1-Yr	$31.00	$30.00
2-Yr	$32.50	$31.50

New Valuation:
1-yr target based on 19x P/E on 2009E EPS

Old Valuation:
1-yr target based on 18.5x P/E on 2009E EPS

Fixed Income Research Link

SC Online Analyst Link

-

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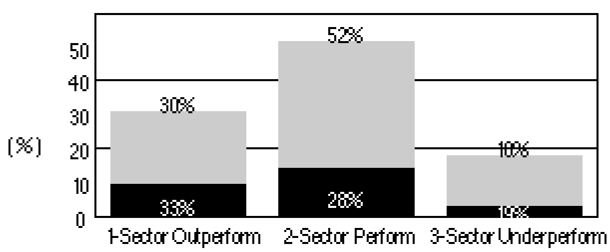

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Company Comment

Friday, February 08, 2008

(FTS-T C$29.24)

Fortis Inc.

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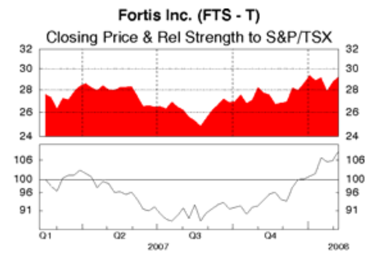
Risk Ranking: Medium		2-Yr:	C$32.50		2-Yr:	18.0%	**Div. (Current)**	C$0.84
Valuation: 1-yr target based on 19x P/E on 2009E EPS							**Yield**	2.9%

Q4/07 Recurring EPS Mildly Misses Us/Street



Source: Global Insight, Inc.

Event

- Fortis (FTS) reported basic Q4/07 EPS of $0.51 that was about $0.43 recurring after adjusting for various non-recurring items. This mildly missed our $0.45 recurring estimate and the Bloomberg consensus EPS estimate of $0.45 in a 42¢ to 48¢ range.

What It Means

- Q4/07 EPS: We did not see any reason why we and the Street were a little optimistic other than overestimating the Q4/07 Terasen Gas acquisition contribution. FTS' CEO re-stated that this $3.7B acquisition that doubled FTS' regulated assets will be EPS accretive in year one, implying that Q1/08 should be stronger.
- Non-recurring Items: They were: 1) gain on sale of vacant land ($0.04/share), 2) gain on regulatory adjustment in Ontario ($0.01/share), 3) Fortis Property corporate tax rate reduction ($0.04/share) partly offset by a hedge loss ($0.01/share). This netted to $0.08/share.
- Valuation: We stuck with our FTS earnings forecasts for 2008 and 2009 and our valuation set at 19x 2009E EPS, anticipating a seasonally stronger Q1/08 EPS with Terasen's peak winter quarter.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008E	$0.43	$0.35	$0.32	$0.42	$1.52	19.24
2009E	$0.45	$0.37	$0.36	$0.45	$1.62	18.05

(FY-Dec.)	2005A	2006A	2007A	2008E	2009E
Earnings/Share	$1.35	$1.42	$1.40	$1.52	$1.62
Cash Flow/Share	$3.13	$3.29	$3.56	$3.53	$3.68
Price/Earnings	18.0	21.0	20.7	19.2	18.0
Relative P/E	0.9	1.3	1.1	1.2	1.1
Revenues	$1442	$1472	$2718	$3291	$3385
EBITDA	$515	$533	$814	$992	$1030
Current Ratio	0.7	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	4.1	3.2	2.7	2.9	2.9

IBES Estimates	BVPS08E	$14.37	Shares O/S (M)	155.5
EPS 2008E: $1.57	ROE08E	10.8%	Float O/S (M)	153.0
EPS 2009E: N/A			Total Value ($M)	4,547
			Float Value ($M)	4,473
Next Reporting Date	07-Feb-08		TSX Weight	0.34%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
EPS09E	$1.62	$1.63

Fixed Income Research Link

SC Online Analyst Link

Highlights

- **Q4/07 EPS Mildly Misses Us/Street, Make-up in Q1/08?** FTS reported basic Q4/07 EPS of 51¢ that appears to be about 43¢ recurring. This mildly missed our 45¢ recurring Q4/07 EPS estimate as well as the Street's 45¢ average. The current quarter is not comparable year over year due to the seasonal nature of Terasen Gas contributions. We as FTS analysts collectively appear to have been a touch optimistic on Q4/07. This implies we may also be a little pessimistic on our Q1/08 EPS forecasts if one believes FTS's CEO stating that "the Terasen acquisition will be accretive in year one". Our initial view was that the $3.7B deal done in mid-May 2007 was 3% EPS accretive in year one. Non-recurring details are shown in Exhibit 1.

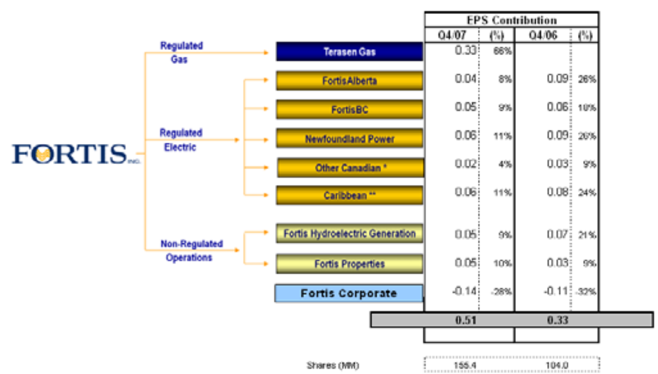
Exhibit 1 – FTS' Q4/07 Recurring EPS Mildly Missed Our Estimate

FTS Reported Q4/07 EPS:	**$0.51**
After-tax gain on sale of land - Terasen Gas	$0.05
Regulator approved after-tax gain - FortisOntario	$0.01
Reduction of future tax liability - Fortis Properties	$0.03
Mark-to-market loss on derivative instruments	($0.01)
FTS Recurring Q4/07 EPS:	**$0.43**
SC Q4/07E Recurring EPS	**$0.45**

Source: Company reports; Scotia Capital estimates.

- **Valuation:** We value FTS at 19x 2009E unchanged EPS to set our one year $31/share unchanged target. Our FTS P/E multiple is biased a little higher as our forecast long Canada interest rates are now down to 4% from 4.3% one year out. We have been conservatively using 4.5% to set our P/E multiples. Our TransCanada Corp is at a similar P/E with Enbridge as our top P/E at 20.5x. We discount Fortis somewhat for its Belize assets as Belize debt is rated deep junk debt. We discount TransCanada to 18.5x P/E due to its material exposure to spot merchant power markets. The major stock market correction to date from peak levels has reduced 1.5x P/E points off trailing S&P/TSX earnings. Stocks like FTS are normally at about 0.5x beta to the TSX volatility.
- **Sector Overweight:** We went to sector overweight defensive energy utilities in early December 2007 as both the U.S. and Canadian long interest rates fell through 4% signalling an economic slowdown. U.S. economists are now split at 50% believing the U.S. is entering a recession. This is an **ideal situation** for relative as well as absolute outperformance by defensive high yielding stocks as both the U.S. and Canadian yield curves are poised to steepen and drop further. For further details, please refer to our January 2008 *Gas & Electric Utilities Outlook*.

Exhibit 2 – Fortis' EPS Contribution by Segment



Source: Company reports; Scotia Capital estimates.

- **Q4/07 Terasen Gas:** Terasen Gas reported $52 million in earnings for Q4/07 that included a $7 million after-tax gain on the sale of land ($0.04/share). Gas volumes were up 7% during the quarter to 69,108 TJ due to customer growth and colder-than-normal weather. The majority of Terasen's annual earnings are generated in Q1 and Q4 due to stronger natural gas demand. Terasen Gas is comprised of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2008 ROE is 8.62% on a deemed equity of 35%, while TGVI's allowed 2008 ROE is 9.32% on deemed equity of 40%.
- **TGVI** filed an application with the BCUC on June 5, 2007, seeking approval for the construction and operation of a 1.5 Bcf/d natural gas storage facility on Vancouver Island. FTS estimates a capital cost of $175 million to $200 million, with an in-service date of 2011.

- **Q4/07 FortisAlberta Drops 33%:** Earnings of $6 million decreased by 33% over Q4/06 levels due to higher operating expenses (mainly labour costs), amortization costs. Additionally, finance charges were $2 million higher year over year due to the January 2007 issuance of $110 million senior debt at 5%. Energy deliveries increased by 101 GWh to 4,002 GWh due to normal customer growth. **2008 Allowed ROE: 8.75%** (2007 Allowed ROE was 8.51%).
- **Q4/07 FortisBC:** Reported Q4/07 net earnings of $7 million were 16% higher than one year ago, despite flat energy deliveries of 839 GWh. We were **disappointed** by a $3 million increase in operating expenses to $20 million due to "inflationary pressures" as well as an increase in the allowance for doubtful accounts related to the forestry sector. **2008 Allowed ROE: 9.02%** (2007 Allowed ROE was 8.77%).
- **Q4/07 Newfoundland Power:** Earnings of $9 million were **flat** as expected with Q4/06 as a 16% increase to revenue was offset by higher energy supply costs (due to the flow through of higher purchased power costs from Newfoundland Hydro). Higher electricity sales (up 2.3%) were offset by a lower year over year allowed ROE of 64 bp in 2007. On September 18, the PUB approved Newfoundland Power's 2008 capital budget program of $51 million. On October 11, the company filed for a 2.8% increase in electricity rates, effective January 1, 2008, down from the originally proposed 5.3% increase. The PUB has given the FTS subsidiary a **2008 Allowed ROE of 8.95%** (8.6% in 2007).

Exhibit 3 – Nature of FTS' Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008
		ROE		
Terasen Gas Companies				
TGI	35	8.8	8.37	8.62
TGVI	40	9.5	9.07	9.32
FortisBC	40	9.2	8.77	9.02
FortisAlberta	37	8.93	8.51	8.75
Newfoundland Power	45	9.24	8.6	8.95
Maritime Electric	40	10.25	10.25	10
Fortis Ontario	50	9	9	9
		ROA		
Belize Electricity	N/A	10-15	10-15	10-15
Caribbean Utilities	N/A	15	15	9-11
Fortis Turks and Caicos	N/A	17.5	17.5	17.5

Source: Company reports.

- **Q4/07 Other Canadian Electric Utilities**: Following the acquisition of Terasen, Fortis lumped Maritime Electric and FortisOntario into an "other" category. The two subsidiaries' had flat year-over-year earnings at $3 million, despite $3 million higher combined revenue of $66 million. There was a $1 million year-over-year increase in each of the following: (1) amortization - due to higher investment in capital assets; (2) finance charges - due to higher borrowings to fund capital spending; and, (3) corporate taxes - due to higher pre-tax earnings. Maritime Electric's 2008 ROE will **decline** to 10% (on deemed equity of 40%) from 10.25% previously due to a multi-year reset.
- **Q4/07 Regulated Utilities - Caribbean:** FTS owns 54% of Caribbean Utilities, 70% of Belize Electricity and 100% of Fortis Turks and Caicos in this group. Year-over-year electricity sales grew 5% to 272 GWh. Earnings increased by $1 million year over year to $9 million due to increased investment in Caribbean Utilities from 37% to 54%. License negotiations between Caribbean Utilities and the Cayman Government finally settled on December 20, 2007 after three years of effort. Its return on rate base **fell to 9%-11% from 15%** based on attaining various incentive levels. We viewed this reduction as being in line with our expectations given where interest rates are. Belize Electricity was weaker by $0.8 million due to higher operating expenses, amortization costs and financing charges. The strengthening of the C$ also negatively impacted C$ earnings by $0.8 million.

- **Q4/07 Fortis Non-Regulated Generation:** Year-over-year earnings were **flat** at $7 million despite 11% lower production (303 GWh), higher energy supply costs, and higher corporate taxes. Partially offsetting softer energy deliveries was a higher Ontario average power price at $48.33/MWh compared to $42.69/MWh one year ago. Operating expenses were $1 million lower year over year due to the receipt of flood-related insurance proceeds. Energy sales declined in four of five regions (B.C. increased slightly).
- **Q4/07 Fortis Properties:** Q4/07 earnings increased by $5 million to $8 million year over year on 1) Corporate taxes that were $4 million lower in Q4/07 due to lower future federal tax rates and 2) a 19% increase in revenue. Hospitality revenue improved by 21% to $34 million due to growth in the company's western Canadian operations. Real estate revenue increased by $2 million year over year due to the Blue Cross Centre expansion in Moncton. Revenue per available room was up 9% to $73.84 in Q4/07 from $67.84 one year earlier. The average occupancy rate also increased to 96.8% from 94.9% previously.
- **Financial:** FTS drew down $125M on its existing credit facilities to help pay for Terasen in mid-2007. This, along with regulated capital expenditures of $900M in 2008 will eventually have to be financed with some form of new equity. FTS issued $200M of 6.6% coupon U.S. debt in September 2007 in a private placement to 2037. We speculate FTS visits equity markets for $150M in Q4/08. At December 31 2007, FTS' capital structure had only 30.5% equity and 5.2% preference shares. The $1.00/share dividend as of March 1 2008 yields 3.4% on FTS' stock as of yesterday's close just above $29/share.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

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U Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, this issuer.

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We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

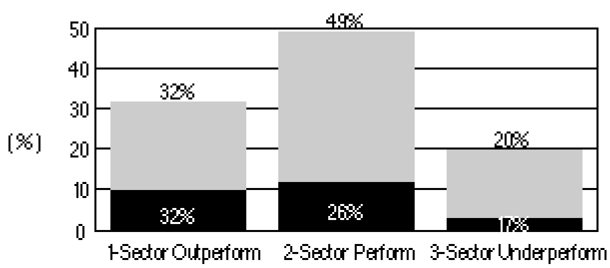
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at January 31, 2008.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Equity Research
DAILY Edge

Company Comment
Friday, May 02, 2008

(FTS-T C$27.96)

Fortis Inc.

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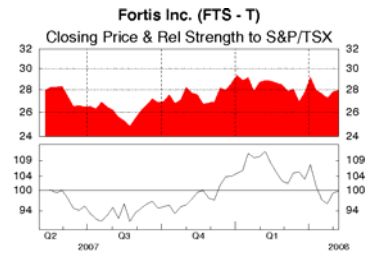
Rating: 1-Sector Outperform	**Target** 1-Yr:	C$33.00	**ROR** 1-Yr:	21.6%	**Est. NTM Div.**	C$1.00
Risk Ranking: Medium	2-Yr:	C$35.00	2-Yr:	32.3%	**Div. (Current)**	C$1.00
Valuation: 1-yr target based on 19.5x P/E on 2009E EPS					**Yield**	3.6%

Q1/08 EPS Shows Terasen Gas Accretive



Source: Global Insight, Inc.

Event

- Fortis (FTS) reported Q1/08 EPS of $0.58 versus our $0.43 recurring estimate and the Bloomberg consensus EPS estimate of $0.58 in a $0.43 to $0.65 range. We were too low on Q1/08 and too high on Q2/08.

What It Means

- Q1/08 EPS: After three quarters of mildly missing Street average estimates including ours, FTS finally had its big quarter from its $3.7B Terasen Gas acquisition. The CEO stated "Terasen is delivering as expected". We were too conservative on Q1 and too aggressive on Q2.
- Excluding Terasen the quarter was unusually uneventful across the board. There was a minor increase in Corporate Tax recovery to $5M that was offset by a $5M adjustment in Newfoundland Power's Q1/08 annual purchased power expense that will be picked up in Q2-Q4.
- Valuation: We use an unchanged 19.5x 2009E EPS to set our 1-YR $33/share target, up $1. We moved our $1.62 to $1.67 for 2009 EPS sensing we have been a bit conservative on the magnitude of growth at Fortis partly offset by our estimated 5M share issue at $30 for 1/1/09.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008E	$0.58 A	$0.25	$0.21	$0.55	$1.59	17.58
2009E	$0.63	$0.24	$0.20	$0.60	$1.67	16.74

(FY-Dec.)	2005A	2006A	2007A	2008E	2009E
Earnings/Share	$1.35	$1.42	$1.40	$1.59	$1.67
Cash Flow/Share	$3.13	$3.29	$3.56	$3.57	$3.64
Price/Earnings	18.0	21.0	20.7	17.6	16.7
Relative P/E	0.9	1.3	1.1	1.0	1.0
Revenues	$1442	$1472	$2718	$3314	$3415
EBITDA	$515	$533	$814	$1015	$1060
Current Ratio	0.7	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	4.1	3.2	2.7	3.0	3.0

IBES Estimates	**BVPS08E**	$14.44	**Shares O/S (M)**	156.8
EPS 2008E: $1.55	**ROE08E**	11.2%	**Float O/S (M)**	155.1
EPS 2009E: $1.60			**Total Value ($M)**	4,383
			Float Value ($M)	4,336
Next Reporting Date	Jul-08		**TSX Weight**	-

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Target:		
1-Yr	$33.00	$32.00
2-Yr	$35.00	$33.50
EPS08E	$1.59	$1.52
EPS09E	$1.67	$1.62

Fixed Income Research Link

SC Online Analyst Link

For important disclosure information see Appendix A of this report.

Highlights

- **Q1/08 EPS Meets Street Expectations:** FTS reported Q1/08 EPS of $0.58 matching the Bloomberg average in a $0.43 (us) to $0.65/share range. The vast majority of the growth in earnings was due to Terasen Gas that was acquired for $3.7B in mid-May 2007. A $5M drop in earnings at Newfoundland Power caused by a change in the quarterly distribution of annual purchased power expense was offset by $5M of Corporate Tax recovery ($2M recovery in Q1/07). We are told that the Corporate Tax recovery should be relatively constant. The Alberta and BC tax recovery levels have been shrinking as tax versus accounting variances have narrowed.
- **Stock Valuation:** We value FTS at 19.5x 2009E EPS that we moved up $0.05 to $1.67 to account for the $900M of new capital spending at Fortis utilities in 2008 less an assumed 5M share issue for $150M at $30/share effective 1/1/09. This added $1/share to our 1-YR target.
- **Sector Valuation:** We set our energy utility P/E multiples assuming 4.25% 10-YR Canada rates (currently 3.6%). Our TransCanada Corp P/E is similar P/E to FTS'. We discount both slightly versus Enbridge due to FTS' Belize interests as it is a junk debt country and TransCanada due to its material exposure to spot merchant power markets.
- **Q1/08 Terasen Gas:** Terasen Gas reported $58 million in earnings for Q1/08 versus nil YOY as it was not acquired until mid-May/07. Gas volumes were up 3% during the quarter to 78,184 TJ due to customer growth and colder-than-normal weather. Customer additions weakened to 2,494 from 3,157. According to management, "Virtually all of the earnings of the Terasen Gas companies are generated in the first and fourth quarters" due to strong natural gas demand in winter months for space heating. Terasen Gas is comprised of TGI (i.e. Vancouver), TGVI (i.e. Vancouver Island), and TGWI (i.e. Whistler area). TGI's allowed 2008 ROE is 8.62% on a deemed equity of 35%, while TGVI's allowed 2008 ROE is 9.32% on deemed equity of 40%. See Exhibit 1 for a breakdown of EPS by segment.

Exhibit 1 - Fortis' EPS Contribution by Segment

FORTIS INC.

		EPS Contribution			
		Q1/08	(%)	Q1/07	(%)
Regulated Gas	Terasen Gas	0.37	64%		
Regulated Electric	FortisAlberta	0.07	12%	0.11	29%
	FortisBC	0.08	13%	0.11	29%
	Newfoundland Power	0.04	7%	0.10	26%
	Other Canadian *	0.03	4%	0.04	10%
	Caribbean **	0.04	8%	0.04	10%
Non-Regulated Operations	Fortis Hydroelectric Generation	0.04	7%	0.06	17%
	Fortis Properties	0.02	3%	0.02	5%
	Fortis Corporate	-0.10	-18%	-0.09	-24%
		0.58		0.38	
	Shares (MM)	156.6		109.4	

Source: Company reports; Scotia Capital estimates.

- **TGVI** got approval for the construction and operation of a 1.5 Bcf/d natural gas storage facility on Vancouver Island. FTS estimated a capital cost of $175 million to $200 million, with an in-service date of 2011.
- **Q1/08 FortisAlberta:** Earnings for Q1/08 were down $1M YOY to $11M due to lower tax recoveries, higher wages and higher depreciation. Higher 2008/09 negotiated settlement rates have been allowed. Energy deliveries increased by 193 GWh to 4,138 GWh due to normal customer growth. **2008 Allowed ROE: 8.75%** (2007 Allowed ROE was 8.51%).
- **Q1/08 FortisBC:** Reported Q1/08 net earnings of $12 million were flat YOY and consistent with flat electricity sales of 875 GWh versus 879 GWh YOY. A customer rate increase and lower effective corporate taxes were offset by increased energy supply costs (driven by higher power purchase prices), as well as higher amortization and finance charges. **2008 Allowed ROE: 9.02%** (2007 Allowed ROE was 8.77%).

- **Q1/08 Newfoundland Power:** Earnings fell 45% YOY from $11M to $6M mainly due to a new timing difference caused by a change in expense recognition. Electricity sales volumes increased to 1,716 GWh compared to 1,663 GWh in Q1/07 and revenues increased 6%. Supply costs jumped from $106M in Q1/07 to $122M in Q1/08 due mainly to a timing difference. Winter months have a higher expense per kWh and lower in the summer under the regulated rate structure. In 2007, expenses were estimated based on a forecasted annual average. Any difference between this smoothed amount and actual costs were adjusted to a regulatory reserve. The Newfoundland and Labrador Board of Commissioners of Public Utilities mandated **that this reserve be eliminated effective January 1, 2008.** Now, monthly cost is actual cost which will drive Q1 and Q4 earnings down in comparison to prior years but help Q2 and Q3. **This change will have no impact on annual earnings.** The PUB has given the FTS subsidiary a 2008 Allowed ROE of 8.95% (8.6% in 2007).
- **Q1/08 Other Canadian Electric Utilities**: Following the acquisition of Terasen, Fortis lumped Maritime Electric and FortisOntario into an "other" category. The two subsidiaries' had flat year-over-year earnings at $4 million, with identical revenues and expenses YOY. Maritime Electric's 2008 ROE will **decline slightly** to 10% (on deemed equity of 40%) from 10.25% previously due to a multi-year reset.

Exhibit 2 - Nature of FTS' Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008
		ROE		
Terasen Gas Companies				
TGI	35	8.8	8.37	8.62
TGVI	40	9.5	9.07	9.32
FortisBC	40	9.2	8.77	9.02
FortisAlberta	37	8.93	8.51	8.75
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps
Maritime Electric	40	10.25	10.25	10
Fortis Ontario	46.7	9	9	9
		ROA		
Belize Electricity	N/A	10-15	10-15	10-15
Caribbean Utilities	N/A	15	15	9-11
Fortis Turks and Caicos	N/A	17.5	17.5	17.5

Source: Company reports.

- **Q1/08 Regulated Utilities - Caribbean:** FTS owns 54% of Caribbean Utilities, 70% of Belize Electricity and 100% of Fortis Turks and Caicos in this group. Year-over-year electricity sales grew 7% to 258 GWh. Earnings increased by $3 million year over year to $7 million as there was a one-time charge in Q1/07 of $2M relating to the disposition of steam-turbine assets. There was $12M in FX losses caused by the C$ reaching parity. In April 2008, Caribbean Utilities obtained an exclusive T&D license from the Government of the Cayman Islands for 20 years, as well as a non-exclusive 21.5 year generation license. The T&D license will set customer rates using an initial targeted rate of return on rate base assets of 10%, down from 15% allowed under the previous license, in line with our previous estimate. Following this agreement, S&P affirmed 'A' credit ratings on Caribbean's long-term corporate credit and senior unsecured debt and removed it from credit watch.
- **Q1/08 Fortis Non-Regulated Generation:** Year-over-year earnings were **down slightly** to $6 million from $7 million a year before. Lower production (288 GWh in Q1/08 vs. 291 GWh in Q1/07) resulted in a $2 million decrease in revenue which was offset by lower amortization and finance charges, each down $1 million. Corporate taxes increased by $1 million. The Ontario average power price dropped to $49.93/MWh compared to $52.61/MWh one year ago.
- **Q1/08 Fortis Properties:** Q1/08 earnings increased by $1 million to $3 million year over year. Real estate revenues grew by $2M, mainly due to the real estate acquired in August 2007 as a part of the acquisition of the Delta Regina. Overall occupancy improved significantly YOY, to 96.6% in Q1/08 from 94.9% in Q1/07. Hospitality was up $3M over the prior year due to the same acquisition (Delta Regina). Revenue per available room rose 3.6% to $67.82 YOY. Partially offsetting were the expenses, also coming from the Delta Regina.
- **2009 Impact of Niagra Exchange Agreement:** As of April 30, 2009, FTS will lose the earnings from the Rankine Generating Station as per the Niagra Exchange Agreement implemented late in 2005. The lost run rate is $14-$15 million per year or $0.02 per quarter.

FTS expects the earnings from the new 18MW Vaca hydroelectric generating facility in Belize should offset the loss in earnings from Rankine. Since we assume an October 1, 2009 in service date for Vaca, this leaves a flat spot in earnings for Q2 and Q3 2009 for which we are taking off $0.02/quarter.

- **Corporate and Other:** Overall net corporate and other expenses increased 60% YOY to $16 million. Revenues increased by $4 million on higher inter-corporate lending but this was more than offset by a $10 million increase in finance charges due to new Terasen acquisition-related finance charges.
- **Financial:** FTS issued $400M in debt markets in YTD 2008. Utility capital expenditures are expected to be $900M in 2008 with most growth driven by BC and Alberta. We speculate FTS asks equity markets for $150M in Q1/09 or 5M share at $30/share in our 20089 EPS. At March 31 2007, FTS' capital structure had only 31.1% equity and 5.1% preference shares. The new $1.00/share dividend became effective as of March 1, 2008.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
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The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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Tender – Investors are guided to tender to the terms of the takeover offer.

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Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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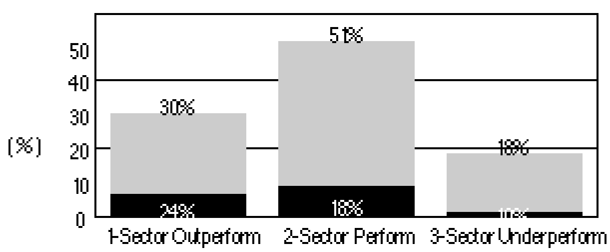
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
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* As at April 30, 2008.

Source: Scotia Capital.

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Fortis Inc.

(FTS-T C$27.26)

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sam_kanes@scotiacapital.com

David Forster, CA - 416-863-7846
david_forster@scotiacapital.com

Rating: 1-Sector Outperform	**Target** 1-Yr:	C$33.50	**ROR** 1-Yr:	26.6%	**Est. NTM Div.**	C$1.00
Risk Ranking: Medium	2-Yr:	C$35.50	2-Yr:	37.6%	**Div. (Current)**	C$1.00
Valuation: 1-yr target based on 19.5x P/E on 2H/09E & 1H/10E EPS					**Yield**	3.7%

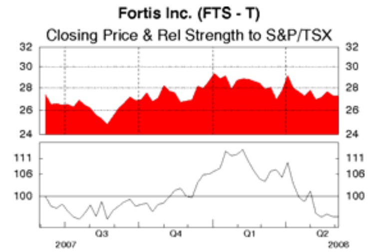
Belize Government Plays Hardball

Event

- Fortis (FTS) rejected a hardball proposal by the new Belize government that would have reduced its regulated return from roughly 12% ROE earned in recent years to 8.5%. FTS views 15% ROE as acceptable.

What It Means

- EPS: A maximum $0.01/share/quarter current EPS exposure to date, or $1.5M/quarter, at 70%-owned BEL is due to FTS rejecting a hardball Belize government proposal for higher rates that do not cover higher power costs from Mexico.
- A U.S. arbitrator has been called in with a decision expected by the end of June/08. The Belize government offered about 8.5% ROE on a 50% BEL equity base. FTS has earned about 12% ROE in recent years on 50% of its now-$90M investment in BEL under different regulations.
- The soaring cost of Mexico power imports based on diesel and natural gas prices are behind the rate conflict. The new government was elected in Feb/08 with promises to reduce power, cable, and phone rates.
- Valuation: We chose to stay put for now on this immaterial negative. Our bias is perhaps down $0.50/share if the final ruling is not fair.



Source: Global Insight, Inc.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008E	$0.58 A	$0.25	$0.21	$0.55	$1.59	17.14
2009E	$0.63	$0.24	$0.20	$0.60	$1.67	16.32

(FY-Dec.)	2005A	2006A	2007A	2008E	2009E
Earnings/Share	$1.35	$1.42	$1.40	$1.59	$1.67
Cash Flow/Share	$3.13	$3.29	$3.56	$3.57	$3.64
Price/Earnings	18.0	21.0	20.7	17.1	16.3
Relative P/E	0.9	1.3	1.1	1.0	0.9
Revenues	$1442	$1472	$2718	$3314	$3415
EBITDA	$515	$533	$814	$1015	$1060
Current Ratio	0.7	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	4.1	3.2	2.7	3.0	3.0

IBES Estimates	BVPS08E	$14.44	Shares O/S (M)	156.8
EPS 2008E: $1.55	ROE08E	11.2%	Float O/S (M)	155.1
EPS 2009E: $1.60			Total Value ($M)	4,273
			Float Value ($M)	4,227
Next Reporting Date	Jul-08		TSX Weight	0.28%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Fixed Income Research Link

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

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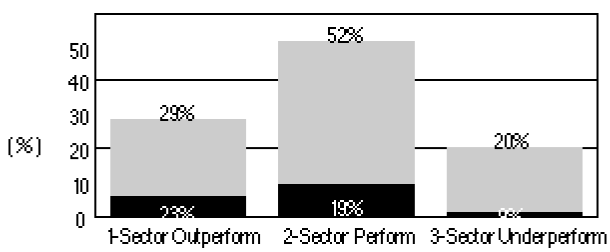

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Disclaimer

Fortis Inc.

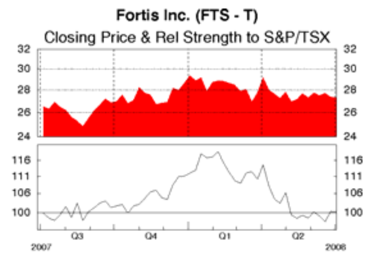
(FTS-T C$27.31)

Sam Kanes, CA, CFA - 416-863-7798
sam_kanes@scotiacapital.com

David Forster, CA - 416-863-7846
david_forster@scotiacapital.com

Rating: 1-Sector Outperform	**Target**	1-Yr:	C$33.00	**ROR**	1-Yr:	24.5%	**Est. NTM Div.**	C$1.00
Risk Ranking: Medium		2-Yr:	C$35.00		2-Yr:	35.5%	**Div. (Current)**	C$1.00
Valuation: 1-yr target based on 19.5x P/E on 2H/09E & 1H/10E EPS							**Yield**	3.7%

Belize Government Disappoints



Source: Global Insight, Inc.

Event

- Fortis (FTS) last rejected a tough proposal by the new Belize government that would have cut 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL got 10% but with a rejection of $12.6M of retroactive costs net to FTS. BEL will legally contest the decision.

What It Means

- EPS: The C$12.6M retroactive denial net to FTS of higher third-party power costs should hurt FTS's Q2/08E EPS by about $0.08. We had last wrote/estimated a maximum of $0.01/quarter EPS exposure to date or $1.5M/quarter.
- A U.S. arbitrator had been called in, with its recommendations mostly rejected. The Belize government's initial offer of about 8.5% ROE on a 50% BEL equity base will now be a harder initial retroactive cost denial but with a more fair return going forward of 10%. FTS had earned about 12% on assets on 50% of its now $90M investment in BEL.
- The soaring cost of Mexico power imports based on diesel and natural gas prices are behind this, while the new government was elected in Feb/08 with promises to reduce power, cable, and phone rates.
- Valuation: Our last observation on this topic suggested a $0.50/share cut in FTS's one-year target if the final ruling was not fair. It was not, in our opinion.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008E	$0.58 A	$0.25	$0.21	$0.55	$1.59	17.18
2009E	$0.63	$0.24	$0.20	$0.60	$1.67	16.35

(FY-Dec.)	2005A	2006A	2007A	2008E	2009E
Earnings/Share	$1.35	$1.42	$1.40	$1.59	$1.67
Cash Flow/Share	$3.13	$3.29	$3.56	$3.57	$3.64
Price/Earnings	18.0	21.0	20.7	17.2	16.4
Relative P/E	0.9	1.3	1.1	1.0	0.9
Revenues	$1442	$1472	$2718	$3314	$3415
EBITDA	$515	$533	$814	$1015	$1060
Current Ratio	0.7	0.7	0.6	0.6	0.6
EBITDA/Int. Exp	4.1	3.2	2.7	3.0	3.0

IBES Estimates	BVPS08E	$14.44	Shares O/S (M)	156.9
EPS 2008E: $1.55	ROE08E	11.2%	Float O/S (M)	155.1
EPS 2009E: $1.60			Total Value ($M)	4,285
			Float Value ($M)	4,235
Next Reporting Date	Jul-08		TSX Weight	0.28%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Pertinent Revisions

	New	Old
Target:		
1-Yr	$33.00	$33.50
2-Yr	$35.00	$35.50

Fixed Income Research Link

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

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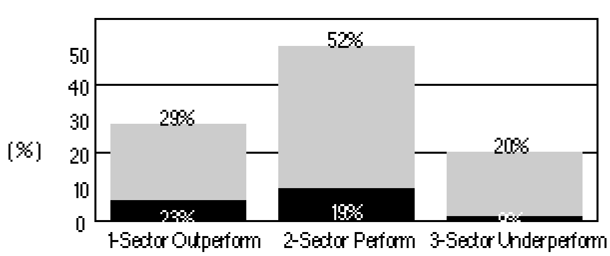

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Disclaimer

Equity Research
DAILY Edge

Company Comment
Monday, November 03, 2008

(FTS-T C$26.30)

Fortis Inc.

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David Forster, CA - 416-863-7846
david_forster@scotiacapital.com

Rating: 1-Sector Outperform	**Target** 1-Yr:	C$29.00	**ROR** 1-Yr:	14.1%	**Est. NTM Div.**	C$1.00
Risk Ranking: Medium	2-Yr:	C$31.00	2-Yr:	25.5%	**Div. (Current)**	C$1.00
Valuation: 17x P/E on blended 2009E & 2010E EPS					**Yield**	3.8%

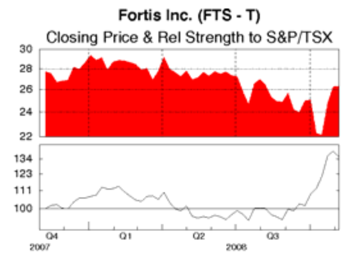
Q3/08 Recurring EPS Modestly Beats

Event

- Fortis (FTS) reported Q3/08 EPS of $0.31 of which $0.05 was one time Terasen tax related. We estimate FTS' net was $0.23 recurring, modestly beating us and consensus at $0.21 in an $0.18-$0.24 range.

What It Means

- Q3/08 EPS OK: After mildly missing EPS consensus for Q2-Q4/07, FTS beat in Q1/08, matched in Q2/08 and modestly beat in Q3/08. FTS' $3.7B Terasen asset had a non-recurring $0.05 tax adjustment in Q3/08.
- Hurricane Ike cost FTS $0.01 in Q3/08 and is expected to cost $0.01 more in Q4/08 that will be about $0.02 lower overall as the new quarterly expense allocation at Nfld Power that helped its Q3 should mildly hurt Q4.
- Valuation: We nudged up our P/E multiple by 0.5x to 17x for greater liquidity available for FTS's stock, being added to the TSX 60 index recently. We shaved our 2009/2010 EPS estimates by $0.02 and $0.01 for the economic slowdown effect on at FTS' Caribbean operations and Real Estate/Hospitality division. This netted $1 up on our one-year target.



Source: Global Insight, Inc.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2006A	$0.35 A	$0.37 A	$0.37 A	$0.33 A	$1.42	20.96
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008E	$0.58 A	$0.19 A	$0.31 A	$0.58	$1.66	15.84
2009E	$0.60	$0.21	$0.22	$0.60	$1.63	16.13

(FY-Dec.)	2005A	2006A	2007A	2008E	2009E
Earnings/Share	$1.35	$1.42	$1.40	$1.66	$1.63
Cash Flow/Share	$3.13	$3.29	$3.56	$3.79	$3.72
Price/Earnings	18.0	21.0	20.7	15.8	16.1
Relative P/E	0.9	1.3	1.1	1.4	1.4
Revenues	$1442	$1472	$2718	$3605	$3695
EBITDA	$515	$533	$814	$1054	$1070
Current Ratio	0.7	0.7	0.6	0.7	0.7
EBITDA/Int. Exp	4.0	3.2	2.7	3.1	3.1

IBES Estimates	**BVPS08E**	$14.51	**Shares O/S (M)**	157.1
EPS 2008E: $1.53	**ROE08E**	11.7%	**Float O/S (M)**	155.4
EPS 2009E: $1.58			**Total Value ($M)**	4,133
			Float Value ($M)	4,087
Next Reporting Date	Jan-09		**TSX Weight**	-

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Pertinent Revisions

	New	Old
Target:		
1-Yr	$29.00	$28.00
2-Yr	$31.00	$30.00
EPS08E	$1.66	$1.54
EPS09E	$1.63	$1.65

New Valuation:
17x P/E on blended 2009E & 2010E EPS

Old Valuation:
16.5x P/E on blended 2009E & 2010E EPS

Fixed Income Research Link

SC Online Analyst Link

For important disclosure information see Appendix A of this report.

Q3/08 Highlights

- **Q3/08 Recurring EPS A Modest Beat:** Fortis (FTS) reported Q3/08 EPS of $0.31 which we calculate at $0.23 recurring. This modestly beat our $0.21 and consensus of $0.21 in a $0.18-$0.24 range. Reported earnings included: $0.006/share loss in earnings due to Hurricane Ike in the Turks and Caicos, a $0.025 hydro gain due to wet weather in both the U.S. Northeast and in Belize and a $0.01 gain from a one-time future income tax benefit being booked at Fortis Alberta. This nets FTS' recurring to $0.23. There was also a $0.035/share favourable shift in the quarterly distribution of annual purchased power expense at Newfoundland Power. Q4/08 should be $0.02 lower. FTS reported $0.20/share in Q3/07. See Exhibit 1.
- **Q3/08 vs. Q3/07 EPS Results Summary:** Full comparable recurring EPS was flat at $0.20 in Q3/08 vs. $0.20 in Q3/07. FortisAlberta and FortisBC had a reported improvement YOY, increasing $2M each due to higher corporate tax recoveries at Fortis Alberta and lower energy supply costs at FortisBC. These gains were partially offset by $3M lower earnings at its Caribbean operation where Belize Electricity's targeted allowed ROA was reduced to 10% from 12%. Terasen Gas results were **flat** YOY. See Exhibit 2 for a breakdown of EPS by segment and Exhibit 3 for each segment's allowed ROE.
- **Stock & Sector Valuation:** We are nudging up our P/E multiple for FTS by 0.5x to reflect its recent addition to the S&P/TSX 60, 60 Capped and Equity 60 indices**.** Our 2009 EPS forecast includes an assumed 5.5M share issue for $150M at $27.50/share effective 1/1/09 that may/may not happen. We set our energy utility P/E multiples assuming 4.25% 10-year Canada rates. Our range is 15x (Emera) to 20x (Enbridge) vs. our new FTS multiple of 17x. FTS' Belize interests are less than 10% of assets but have been hurt by its new government promising to keep power rates frozen to get elected. Belize is a junk debt country so earnings from there should be given a 10x P/E. We shaved our 2009/10 EPS estimates by $0.02/share and $0.01/share to reflect some likely impact of the economic slowdown at FTS' Caribbean operations and Canadian Real Estate/Hospitality division. The 0.5x P/E multiple increase more than offsets this so our one-year target moves up $1 to $29.
- **Q3/08 Terasen Gas:** Reported $1 million in earnings for Q3/08 versus a loss of $4 million in Q3/07. **All of the difference was caused by a $5.5M tax reduction** which benefitted Q3/08, otherwise, results were in line YOY. Gas volumes were **down 2.0%** to 30,798 TJ. Residential volumes were up on cooler than normal weather, but this was more than offset by lower transportation volumes to customers sourcing their own gas supplies. Net customer additions eased a bit to 5,573 YTD versus 6,323 YOY. The $1M recurring loss incurred is consistent for an off-season quarter. Terasen Gas is comprised of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2008 ROE is 8.62% on a deemed equity of 35%, while TGVI's allowed 2008 ROE is 9.32% on deemed equity of 40%.

Exhibit 1 – EPS Recurring Breakdown

		FTS Reported
Reported EPS / Forecast	$	0.31
Tax reduction at Terasen Gas companies and Terasen Inc.	-$	0.05
Increased hydroelectric production as a result of higher rainfall	-$	0.03
Increased future income tax recoveries associated with Alberta Electric System Operator	-$	0.01
Loss due to Hurricane Ike	$	0.01
Recurring EPS	**$**	**0.23**
Scotia Capital	**$**	**0.21**
Bloomberg Consensus	**$**	**0.21**
Recurring EPS	$	0.23
Newfoundland Power monthly purchased power expense change	-$	0.04
Q3/08 Recurring EPS	**$**	**0.20**
Q3/07 Recurring EPS	**$**	**0.20**

Source: Bloomberg; Scotia Capital estimates.

- **Terasen Gas Vancouver Island (TGVI)** got approval on April 1, 2008 for the construction and operation of a 1.5 Bcf/d natural gas storage facility on Vancouver Island. FTS estimated a capital cost of $175 million to $200 million, with an in-service date of 2011.
- **Q3/08 FortisAlberta:** Earnings increased $2M YOY to $17M **primarily due to booked future income tax recoveries.** Energy deliveries **decreased** by 33 GWh YOY to 3,748 GWh due to strong customer additions. In June 2008, the AUC determined that a review of the ROE level and adjustment mechanism was warranted and in July 2008 issued its notice of application for the 2009 Generic Cost of Capital Proceeding. A hearing is scheduled for Q1/09. **2008 Allowed ROE: 8.75%** (2007 was 8.51%).
- **Q3/08 FortisBC:** Reported Q3/08 net earnings of $8 million were up $2 million YOY and consistent with relatively flat electricity sales YOY. A customer rate increase of 2.9% and lower energy supply costs were partly offset by increased financing charges as the company continues its investment in capital expenditures. In June 2008, FortisBC filed its Capital Plan for 2009/10; a decision is expected in Q4/08. **2008 Allowed ROE: 9.02%** (2007 was 8.77%). In September 2008, FTS filed a 5.6% rate increase with the BCUC that would be effective January 1, 2009.
- **Q3/08 Newfoundland Power:** Earnings rose $6M from $2M to $8M YOY **mainly due to a new timing difference caused by a change in expense recognition.** Electricity sales volumes increased 2.6% YOY to 897 GWh compared to 874 GWh in Q3/07 and revenues increased 4%. Supply costs decreased by 14% from $59M in Q3/07 to $51M in Q3/08 due mainly to a timing difference. Winter months have a higher expense per kWh and lower in the summer under the regulated rate structure. In 2007, expenses were estimated based on a forecasted annual average while any difference between this smoothed amount and actual costs were adjusted to a regulatory reserve. The Newfoundland and Labrador Board of Commissioners of Public Utilities mandated **that this reserve be eliminated effective January 1, 2008.** Now, monthly cost is actual cost which is driving Q1 and Q4 earnings down and Q2 and Q3 up.

Exhibit 2 – Fortis' EPS Contribution by Segment

FORTIS INC.

Group	Segment	EPS Contribution Q3/08	(%)	Q3/07	(%)
Regulated Gas	Terasen Gas	$ 0.01	2%	$ (0.03)	-13%
Regulated Electric	FortisAlberta	$ 0.11	35%	$ 0.10	48%
	FortisBC	$ 0.05	16%	$ 0.04	19%
	Newfoundland Power	$ 0.05	16%	$ 0.01	6%
	Other Canadian *	$ 0.03	10%	$ 0.03	16%
	Caribbean **	$ 0.04	14%	$ 0.06	32%
Non-Regulated Operations	Fortis Hydroelectric Generation	$ 0.06	18%	$ 0.03	16%
	Fortis Properties	$ 0.06	18%	$ 0.05	26%
	Fortis Corporate	$ (0.10)	-31%	$ (0.10)	-52%
	EPS	$0.31		$0.20	
	Shares Outstanding (MM)	157.2		154.5	

Source: Company reports; Scotia Capital estimates.

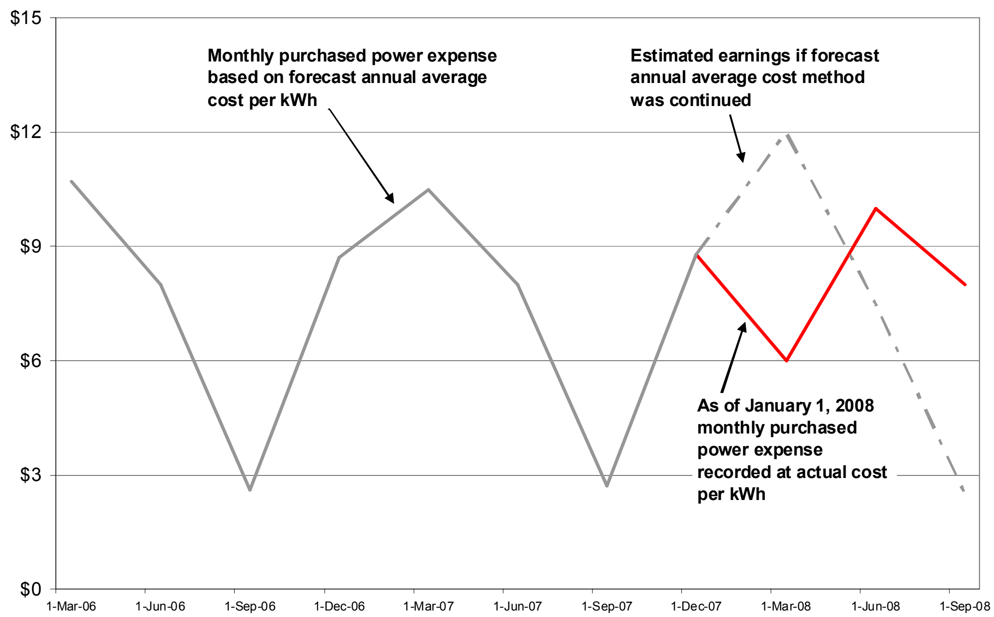
Exhibit 3 – Nature of FTS' Regulation

Nature of Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008
		ROE		
Terasen Gas Companies				
TGI	35	8.8	8.37	8.62
TGVI	40	9.5	9.07	9.32
FortisBC	40	9.2	8.77	9.02
FortisAlberta	37	8.93	8.51	8.75
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps
Maritime Electric	40	10.25	10.25	10
Fortis Ontario	46.7	9	9	9
		ROA		
Belize Electricity	N/A	10-15	10-15	10
Caribbean Utilities	N/A	15	15	9-11
Fortis Turks and Caicos	N/A	17.5	17.5	17.5

Source: Company reports.

Exhibit 4 – Impact of Expense Accounting Change on FTS Earnings



Source: Company reports; Scotia Capital estimates.

See Exhibit 4 for the impact of this accounting change on earnings. **This change has no impact on annual earnings.** The PUB has given the FTS subsidiary a 2008 Allowed ROE of 8.95% (8.6% in 2007).

- **Q3/08 Other Canadian Electric Utilities**: Following the acquisition of Terasen, Fortis lumped Maritime Electric and FortisOntario into an "other" category. The two subsidiaries' had **flat** year-over-year earnings at $5 million. Excluding the one-time charge to FortisOntario of $2 million, earnings were **flat YOY.** Maritime Electric's 2008 ROE **declined slightly** to 10% (on deemed equity of 40%) from 10.25%. In October 2008, FortisOntario agreed to acquire a 10% minority interest in Grimsby Power Inc.'s Fort Erie distribution business (10,000 customers) for $1.1M. FTS also agreed to provide services to Grimsby Power Inc.'s customer information system. In October 2008, Maritime Electric filed its 2009 basic rate application for 7.46%-8.25% higher rates and a 2009 maximum ROE of 9.75%.
- **Q3/08 Regulated Utilities - Caribbean:** FTS owns 54% of Caribbean Utilities, 70% of Belize Electricity and 100% of Fortis Turks and Caicos in this group. Electricity sales increased 7% YOY to 304 GWh but earnings decreased by $3 million to $7 million. Contributing to the decline were: (1) lower VAD component of the average electricity rate at Belize Electricity, (2) 3.25% reduction in basic electricity rates and (3) higher amortization costs. The Caribbean operation also lost $1M due to Hurricane Ike and expects to lose another $1M in Q4/08. The Company has a 30-day insurance deductible when claiming lost revenues, so the $1M loss in revenues in Q4/08 may be partially offset. Electricity service was restored as of October 22, 2008. In April 2008, Caribbean Utilities obtained an exclusive T&D license extension from the Government of the Cayman Islands for 20 years and a non-exclusive 21.5 year generation license. The T&D license sets customer rates using a 10% rate of return on rate base assets versus 15% allowed previously, in line with our previous reduction estimate. S&P affirmed 'A' credit ratings on Caribbean's long-term corporate credit

and senior unsecured debt and removed it from credit watch. In July 2008, Caribbean Utilities began a process to evaluate wind-generation projects up to 10 MW.

- **Regulated Utilities - Caribbean, Outlook:** Electricity sales growth at Caribbean Utilities and FTS Turks & Caicos is expected by FTS to be **lower than expected**, now at 6%-7%. The decline in forecast is due to reduced demand expected on account of the U.S. slowdown which should impact the tourism industry on the islands. Also, Hurricane Ike has delayed the reopening of hotels on the islands. Offsetting the lower-than-expected sales growth, is a lower C$ (we are using C$0.90 compared to parity last year).
- **Belize Electricity ("BEL") 2008/2009 Rate Application:** On June 30, 2008, Fortis rejected a tough proposal by the new Belize government that would have cut 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL got 10% but with a rejection of $12.6M of retroactive costs net to FTS. In Q2/08, FTS recorded a $13 million charge or $0.08/share as a result of this ruling. On July 25, 2008, BEL appealed this decision to the Supreme Court of Belize that will rule on this in 2009.
- **Q3/08 Fortis Non-Regulated Generation:** Year-over-year earnings were up 23% to $21 million from $17 million. Higher hydro production (305 GWh in Q3/08 vs. 254 GWh in Q3/07) resulted in a $4 million increase in revenue which was partially offset by higher amortization and the negative impact of foreign exchange translation. The Ontario average power price increased to $50.76/MWh compared to $47.42/MWh one year ago.
- **Q3/08 Fortis Properties:** Q3/08 earnings increased by $1 million to $9 million year over year as Hospitality and Real Estate revenues each grew by $1 million YOY. The Delta Regina purchase last year helped with other operations flat. Occupancy was down 30 bp YOY to 96.6%.
- **2009 Impact of Niagara Exchange Agreement:** As of April 30, 2009, FTS will lose the earnings stream from the Rankine Generating Station as per the Niagara Exchange Agreement with OPG. The lost earnings will be $14-$15 million per year or $0.02/share per quarter. FTS expects the earnings from its new 18MW Vaca hydroelectric generating facility in Belize **should offset the loss in earnings from Rankine**. Since we assume an October 1, 2009 in-service date for Vaca, this leaves a flat spot in earnings for Q2 and Q3 2009 for which we previously took off $0.02/quarter.
- **Corporate and Other:** Overall net corporate and other expenses decreased $1M YOY to $15 million while revenues decreased by the same amount. Both operating expenses and financing charges increased YOY. A $2M tax reduction related to historical tax matters at Terasen was booked that offset the increase.
- **Financial:** Utility capital expenditures are expected to be over $900M in 2008 with most growth driven by B.C. and Alberta. Capital expenditures are currently at $623M. Over the next five years, FTS expects capital expenditures **to exceed $4.5B**. We speculate FTS asks equity markets for $150M in Q1/09 or 5.5M shares at $27.50/share in our 2009 EPS. At September 30 2008, FTS' Q3/08 capital **structure had only 28.6% equity** including 3.3% in preference shares that included a new $230M 5.25% First Preference share issue in May/08 to complete the Terasen financing. FTS' new $1.00/share dividend was effective March 1, 2008.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

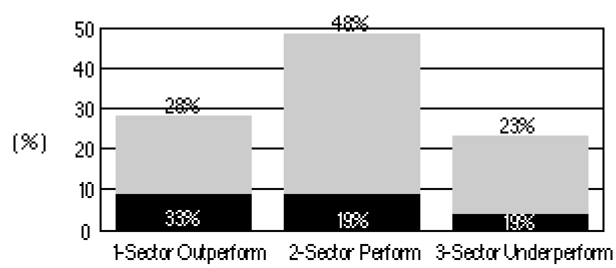
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



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Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at September 30, 2008.

Source: Scotia Capital.

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Disclaimer

Equity Research

DAILY Edge

Company Comment

Tuesday, November 18, 2008

(FTS-T C$27.58)

Fortis Inc.

Sam Kanes, CA, CFA - 416-863-7798
sam_kanes@scotiacapital.com

David Forster, CA - 416-863-7846
david_forster@scotiacapital.com

Rating: 2-Sector Perform	**Target** 1-Yr:	C$30.00	**ROR** 1-Yr:	12.4%	**Est. NTM Div.**	C$1.00
Risk Ranking: Low	2-Yr:	C$32.00	2-Yr:	23.3%	**Div. (Current)**	C$1.00
Valuation: 17x P/E on 2010E EPS					**Yield**	3.6%

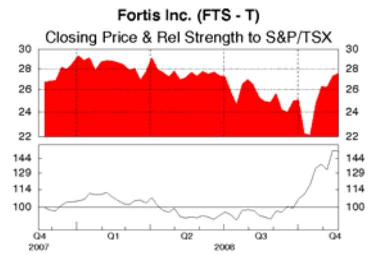
Downgrading on Price Appreciation

Event

- We are downgrading Fortis solely on relative price appreciation, to 2-SP from 1-SO. At the same time, we are lowering our risk ranking to Low from Medium.

What It Means

- Since upgrading FTS to 1-Sector Outperform on August 7, 2007, FTS has appreciated +8%, significantly outperforming the S&P TSX Utilities Index at -17% as well as outperforming all utility stocks in our coverage universe. We are now downgrading FTS to a 2-Sector Perform solely due to relative price appreciation. Our target price and EPS forecasts remain unchanged.
- The acquisition of blue chip Terasen Gas has lowered the overall risk ranking of FTS, representing ~40% of FTS' balance sheet. As a result, we are improving the risk ranking to Low from Medium, consistent with others in the space.



Source: Global Insight, Inc.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008E	$0.58 A	$0.19 A	$0.31 A	$0.58	$1.66	16.61
2009E	$0.60	$0.21	$0.22	$0.60	$1.63	16.92
2010E	$0.65	$0.23	$0.23	$0.63	$1.74	15.85

(FY-Dec.)	2006A	2007A	2008E	2009E	2010E
Earnings/Share	$1.42	$1.40	$1.66	$1.63	$1.74
Cash Flow/Share	$3.29	$3.56	$3.79	$3.72	$3.84
Price/Earnings	21.0	20.7	16.6	16.9	15.8
Relative P/E	1.3	1.1	1.6	1.6	1.5
Revenues	$1472	$2718	$3605	$3695	$3860
EBITDA	$533	$814	$1054	$1070	$1107
Current Ratio	0.7	0.6	0.7	0.7	0.7
EBITDA/Int. Exp	3.2	2.7	3.1	3.1	3.1

IBES Estimates	**BVPS08E**	$14.51	**Shares O/S (M)**	157.1
EPS 2008E: $1.56	**ROE08E**	11.7%	**Float O/S (M)**	155.4
EPS 2009E: $1.61			**Total Value ($M)**	4,334
			Float Value ($M)	4,286
Next Reporting Date	02-Feb-09		**TSX Weight**	0.46%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Pertinent Revisions

	New	Old
Rating:	2-SP	1-SO
Risk:	Low	Medium

Fixed Income Research Link

SC Online Analyst Link

For important disclosure information see Appendix A of this report.

Appendix A: Important Disclosures

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I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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U Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

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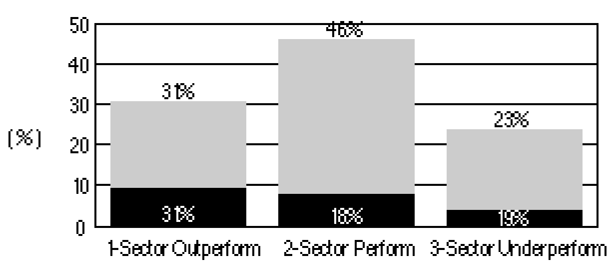
Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



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Source: Scotia Capital.

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Company Comment
Thursday, January 08, 2009

Fortis Inc.

(FTS-T C$24.53)

Sam Kanes, CA, CFA - 416-863-7798
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David Forster, CA - 416-863-7846
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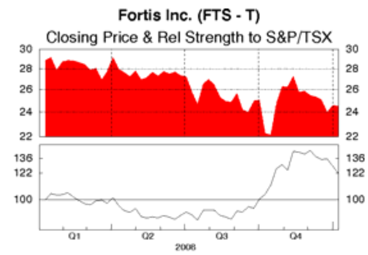
Rating: 2-Sector Perform	**Target** 1-Yr:	C$28.50	**ROR** 1-Yr:	20.4%	**Est. NTM Div.**	C$1.03
Risk Ranking: Low	2-Yr:	C$30.50	2-Yr:	32.7%	**Div. (Current)**	C$1.04
Valuation: 17x P/E on 2010E EPS					**Yield**	4.2%

Off Restriction; Equity Raise More than Expected



Source: Global Insight, Inc.

Event

- Fortis has closed its $300M common share issue which could result in gross proceeds of $345M if the over-allotment is exercised. We had assumed $150M in our 2009/2010 estimates.

What It Means

- FTS stated that it would use a portion of the proceeds to repay the $200M Terasen debt that matured in December 2008. The remainder will be used to repay credit facilities and general corporate purposes.
- To account for greater-than-expected dilution from the share issue, we are lowering our 2009E and 2010E EPS by $0.07/share and $0.03/share, respectively. Additionally we are assuming an 8% 2009 ROE (70 bp lower YOY) on FTS' Canadian regulated utility returns, directionally lower than expected. This cuts a further $0.08 and $0.04 from our 09/10E EPS, respectively. Our one-year target is reduced by $1.50/share to $28.50. We kept our 17x P/E multiple constant.
- We downgraded FTS on November 18, 2008 to 2-Sector Perform solely due to price appreciation after FTS stock hit $28/share intraday. At its current price, we continue to prefer Fortis within our Utilities universe, and prefer Pipelines over Utilities.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008E	$0.58 A	$0.19 A	$0.31 A	$0.58	$1.66	14.81
2009E	$0.55	$0.19	$0.19	$0.55	$1.48	16.57
2010E	$0.63	$0.21	$0.22	$0.61	$1.67	14.69

(FY-Dec.)	2006A	2007A	2008E	2009E	2010E
Earnings/Share	$1.42	$1.40	$1.66	$1.48	$1.67
Cash Flow/Share	$3.29	$3.56	$3.79	$3.47	$3.69
Price/Earnings	21.0	20.7	14.8	16.6	14.7
Relative P/E	1.3	1.1	1.4	1.5	1.3
Revenues	$1,472	$2,718	$3,605	$3,685	$3,861
EBITDA	$533	$814	$1,054	$1,049	$1,108
Current Ratio	0.7	0.6	0.7	0.7	0.7
EBITDA/Int. Exp	3.2	2.7	3.1	3.0	3.1

IBES Estimates	BVPS09E	$14.95	Shares O/S (M)	169.2
EPS 2008E: $1.55	ROE09E	10.1%	Float O/S (M)	167.4
EPS 2009E: $1.61			Total Value ($M)	4,150
			Float Value ($M)	4,107
Next Reporting Date	02-Feb-09		TSX Weight	0.39%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Pertinent Revisions

	New	Old
Target:		
1-Yr	$28.50	$30.00
2-Yr	$30.50	$32.00
EPS09E	$1.48	$1.63
EPS10E	$1.67	$1.74

Fixed Income Research Link

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

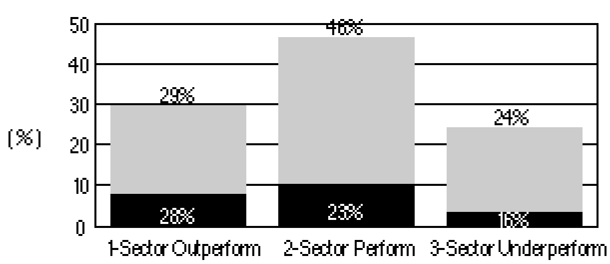
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
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Source: Scotia Capital.

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Disclaimer

(FTS-T C$23.64)

Fortis Inc.

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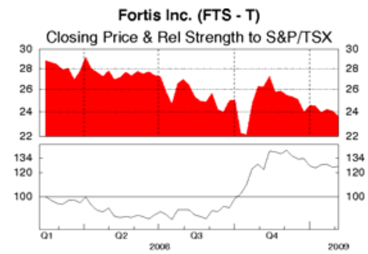
Rating: 2-Sector Perform	**Target**	1-Yr:	C$28.00	**ROR**	1-Yr:	22.8%	
Risk Ranking: Low		2-Yr:	C$30.00		2-Yr:	35.7%	
Valuation: 17x P/E on 2010E EPS							

Est. NTM Div.	C$1.04
Div. (Current)	C$1.04
Yield	4.4%



Source: Global Insight, Inc.

Q4/08 EPS Mildly Above Consensus

Event

- Fortis reported Q4/08 EPS of $0.48 or a net $0.49 recurring. This beat consensus at $0.46 in a $0.36-$0.58 range, but missed our $0.58 that had lower depreciation ($0.05 difference) and assumed non-cash FX gains.

What It Means

- After mildly missing EPS Bloomberg consensus for Q2-Q4/07, FTS beat in Q1/08, matched in Q2/08 and mildly beat in Q3/08 and Q4/08.
- **2009 EPS outlook:** We shaved $0.04/share off 2009E EPS split evenly between the economic slowdown's impact on FTS' Hospitality and tourism-related (Caribbean) operations and the announced three-month delay in the start-up of the Belize Vaca hydro plant to Q1/10.
- **2010 EPS outlook:** We also shaved $0.02/share from our 2010 EPS due to substandard 2010 economic recovery expectations.
- **Valuation:** We left our P/E multiple of 17x intact but rounded down our one-year target to $28 from $28.50 on slightly lower 2010E EPS. We like FTS' exposure to its green assets relative to all other Canadian power utilities that have coal-fired power plant exposure.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009E	$0.57	$0.20	$0.19	$0.56	$1.52	15.55
2010E	$0.62	$0.22	$0.21	$0.62	$1.67	14.16

(FY-Dec.)	2006A	2007A	2008A	2009E	2010E
Earnings/Share	$1.42	$1.40	$1.56	$1.52	$1.67
Cash Flow/Share	$3.29	$3.56	$3.68	$3.51	$3.68
Price/Earnings	21.0	20.7	15.7	15.6	14.2
Relative P/E	1.3	1.1	1.5	1.5	1.4
Revenues	$1,472	$2,718	$3,582	$3,691	$3,860
EBITDA	$533	$814	$1,031	$1,058	$1,107
Current Ratio	0.7	0.6	0.7	0.7	0.7
EBITDA/Int. Exp	3.2	2.7	3.0	3.0	3.1

IBES Estimates	BVPS09E	$14.89	Shares O/S (M)	169.2
EPS 2009E: $1.55	ROE09E	10.4%	Float O/S (M)	167.5
EPS 2010E: N/A			Total Value ($M)	4,000
			Float Value ($M)	3,959
Next Reporting Date	May-09		TSX Weight	0.41%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Pertinent Revisions

	New	Old
Target:		
1-Yr	$28.00	$28.50
2-Yr	$30.00	$30.50
EPS09E	$1.52	$1.56
EPS10E	$1.67	$1.69

Fixed Income Research Link

SC Online Analyst Link

Q4/08 Highlights

- **Fortis reported Q4/08 EPS** of $0.48 which appears to be $0.49 recurring. This beats consensus at $0.46 in a $0.36-$0.58 range but missed our $0.58 as we had included some expected FX gains due to the C$ slump and had our depreciation too high by about $0.05/share. See Exhibit 1 for recurring adjustment details. See Exhibit 2 for a breakdown of EPS by segment and Exhibit 3 for each segment's allowed ROE.

Exhibit 1 – EPS Recurring Breakdown

Reported EPS	**$**	**0.48**
Caribbean Utilities change in year end	$	(0.006)
Loss in revenue due to Hurricane Ike	$	0.006
Newfoundland Power shift in quarterly distribution	$	0.013
Recurring EPS	**$**	**0.492**
Scotia Capital EPS Estimate	**$**	**0.58**
Bloomberg Consensus EPS (range $0.38-$0.56)	**$**	**0.46**

Source: Bloomberg; Scotia Capital estimates.

- **EPS outlook flatter:** Hospitality earnings growth is expected to be weak in 2009 due to the economic downturn (Hospitality represented 9% of FTS' 2008 EPS). FTS' Caribbean operations are driven by U.S. tourism so their earnings will also be negatively affected. FTS had stated that electricity sales growth at Caribbean Utilities and FTS Turks & Caicos will be lower than 2008. We had already shaved our 2009/10 EPS estimates by $0.02/share and $0.01/share to reflect some likely impact of the economic slowdown at FTS' Caribbean operations and Canadian Real Estate/Hospitality division. Given worsethan-expected economic conditions we shaved a further $0.02/share from 2009E and 2010E. We are also taking 2009E EPS by another $0.02/share in Q4/09 as FTS announced a three-month delay starting its Belize Vaca hydro plant (see below for further details) to January 1, 2010. FTS had estimated that this hydro plant could contribute $0.08/share/year offsetting the loss of $0.08/share earned from the OPG Niagara Falls water rights sale that expires in late 2009.
- **Stock & sector valuation:** We left our 17x P/E multiple steady but rounded down our $28.50/share one-year target to $28.00**.** We set our energy utility P/E multiples assuming 4.25% 10-year Canada rates (currently 3.1%) and much more normal corporate debt risk premiums (currently 200-300 points over normal levels for BBB+/A-). Our current range is 15.5x (Emera) to 20x (Enbridge) with FTS slightly below the median. We do **not like** FTS' Belize interests that were temporarily held for ransom by the new 2008 government that confiscated rightful earnings from FTS' 70% owned Belize Electricity in 2008. Belize assets are about 10% of FTS assets once the new dam is finished there. Belize debt remains rated as junk so earnings from there should be given a sub-10x P/E. We do like FTS' exposure to its benign, green assets over all other utilities covered that have exposure to coal-fired assets.
- **Q4/08 Terasen Gas:** Reported $47 million in earnings for Q4/08 versus $52 million in Q4/07 that had a $7M after-tax gain on a Q4/07 land sale. Recurring earnings were $2M higher YOY. Gas volumes were **down 3.3%**. Residential volumes were up on cooler-than-normal weather, but this was more than offset by lower transportation volumes to customers sourcing their own gas supplies. Net customer additions eased a bit to 12,800 YTD (up 1.3%) versus 13,900 YOY. Virtually all of Terasen's earnings are achieved in the 1st and 4th quarters. Terasen Gas is composed of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2008 ROE was 8.62% on deemed equity of 35%, while TGVI's allowed 2008 ROE was 9.32% on deemed equity of 40%.

Exhibit 2 – Fortis' EPS Contribution by Segment

FORTIS INC.	Segment	EPS Contribution Q4/08	(%)	Q4/07	(%)
Regulated Gas	Terasen Gas	$ 0.30	63%	$ 0.34	66%
Regulated Electric	FortisAlberta	$ 0.07	14%	$ 0.04	8%
	FortisBC	$ 0.04	9%	$ 0.05	9%
	Newfoundland Power	$ 0.05	11%	$ 0.06	11%
	Other Canadian *	$ 0.02	4%	$ 0.02	4%
	Caribbean **	$ 0.05	10%	$ 0.06	11%
Non-Regulated Operations	Fortis Hydroelectric Generation	$ 0.05	10%	$ 0.05	9%
	Fortis Properties	$ 0.03	5%	$ 0.05	10%
	Fortis Corporate	$ (0.13)	-26%	$ (0.14)	-28%
	EPS	$0.48		$0.51	

Source: Company reports; Scotia Capital estimates.

- **Terasen Gas Vancouver Island (TGVI)** got approval on April 1, 2008 for the construction and operation of a 1.5 Bcf/d LNG natural gas storage facility on Vancouver Island. FTS estimated a capital cost of $175 million to $200 million, with an in-service date of 2011.
- **Q4/08 FortisAlberta:** Earnings increased $5M YOY to $11M primarily due to the approved AESO charges deferral account. Energy deliveries **increased** by 66 GWh YOY or 1.6%. In June 2008, the AUC determined that a review of the ROE level and adjustment mechanism was warranted and in July 2008 issued its notice of application for the 2009 Generic Cost of Capital Proceeding. A hearing is scheduled for Q1/09. 2008 Allowed ROE was 8.75% (2007 was 8.51%).
- **Q4/08 FortisBC:** Reported Q4/08 net earnings of $7 million were flat YOY with flat electricity sales. An electricity rate increase of 2.9% was offset by increased energy supply costs. 2008 allowed ROE was 9.02% (2007 was 8.77%). In December 2008, the BCUC approved a general rate increase of 4.6% effective January 1, 2009.
- **Q4/08 Newfoundland Power:** Earnings fell $1M from $9M to $8M YOY **due to the quarterly distribution of annual purchased power expenses that decreased Q4/08 earnings by $2M.** Electricity sales volumes increased 2.0% YOY to 1,412 GWh in Q4/07. Supply costs increased by 7% from $88M in Q4/07 to $94M in Q4/08 due mainly to a timing difference. Winter months have a higher expense per kWh and lower in the summer under the new regulated rate structure. In 2007, expenses were estimated based on a forecasted annual average while any difference between this smoothed amount and actual costs were adjusted to a regulatory reserve. The Newfoundland and Labrador Board of Commissioners of Public Utilities mandated **that this reserve be eliminated effective January 1, 2008.** Now, monthly cost is based on actual cost. This drives down Q1 and Q4 earnings and drives Q2 and Q3 up. **This change has no impact on annual earnings.** The PUB gave this FTS subsidiary a 2008 allowed ROE of 8.95% (8.6% in 2007).

- **Q4/08 other canadian electric utilities**: Following the acquisition of Terasen, Fortis lumped Maritime Electric and FortisOntario into an "other" category. It had **flat** year-over-year earnings at $3 million. Maritime Electric's 2008 ROE **declined slightly** to 10% (on deemed equity of 40%) from 10.25%. In October 2008, Maritime Electric filed its 2009 basic rate application for 7.46%-8.25% higher rates and a 2009 maximum ROE of 9.75%. A decision is expected Q1/09.

Exhibit 3 – Nature of FTS' Regulation

Nature of Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	2009
		ROE			
Terasen Gas Companies					
TGI	35	8.8	8.37	8.62	8.47
TGVI	40	9.5	9.07	9.32	9.17
FortisBC	40	9.2	8.77	9.02	8.87
FortisAlberta	37	8.93	8.51	8.75	8.51
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75 (1)
Fortis Ontario	46.7	9	9	9	9
		ROA			
Belize Electricity	N/A	10-15	10-15	10	12 (2)
Caribbean Utilities	N/A	15	15	9-11	TBA
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	TBA

(1) Application pending regulatory approval
(2) Rate effective 1H/09

Source: Company reports.

- **Q4/08 regulated utilities - caribbean:** FTS owns 54% of Caribbean Utilities, 70% of Belize Electricity, and 100% of Fortis Turks and Caicos in this group. Electricity sales increased 32.7% YOY to 361 GWh but earnings **decreased** by $1 million to $8 million due to: (1) lower VAD component of the average electricity rate at Belize Electricity, (2) 3.25% reduction in basic electricity rates and (3) higher amortization costs. Fortis Turks and Caicos also lost $2M due to Hurricane Ike (Class 4) that hit those islands. The company has a 30-day insurance deductible when claiming lost revenues, so the $2M loss may be partially offset upon claims settlement. The T&D license for Caribbean Utilities sets customer rates using a 10% rate of return on rate base assets versus 15% allowed previously. S&P affirmed 'A' credit ratings on Caribbean's long-term corporate credit and senior unsecured debt and removed it from credit watch.
- **Belize electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a tough proposal by the new Belize government that would have cut 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL got 10% but the government rejected $12.6M of retroactive costs buying necessary diesel-based power from Mexico net to FTS. In Q2/08, FTS recorded a $13 million charge or $0.08/share as a result of this ruling. On July 25, 2008, BEL appealed this decision to the Supreme Court of Belize. They will rule on this in 2009.
- **Q4/08 Fortis non-regulated generation:** Year-over-year earnings were up 14% to $8 million from $7 million. Higher hydro production (312 GWh in Q4/08 vs. 303 GWh in Q4/07) resulted in a $1 million increase in revenue, which was partially offset by higher amortization and the negative impact of foreign exchange translation. The Ontario average power price increased to $48.83/MWh compared to $47.81/MWh one year ago.
- **Q4/08 Fortis properties:** Q4/08 earnings decreased by $4 million to $4 million YOY even though Hospitality revenues grew $2 million and Real Estate revenues remained constant. The Delta Regina purchase last year helped keep other operations flat. Occupancy remained steady YOY at 96.8%.
- **2009 impact of Niagara Exchange Agreement:** As of April 30, 2009, FTS will lose the $15M annual earnings stream from its Rankine Generating Station that controlled 5% of the Niagara Falls water flow. This was sold under the Niagara Exchange Agreement to Ontario's OPG. This was adding $0.02/FTS share per quarter. FTS expects its new US$53M 19 MW Vaca hydroelectric generating facility in Belize **could offset this earnings loss, but only starting in 2010.** We had previously assumed an October 1, 2009 in-service date for Vaca, as did FTS, **so we lowered our Q4/09 EPS by $0.02/quarter.**
- **Corporate and other:** Overall net corporate and other expenses decreased $2M YOY to $20 million. Both operating expenses increased YOY while financing charges decreased. There was a $2M tax reduction in 2008 related with the settlement of historical tax matters at Terasen.

- **Capital expenditures:** Utility capital expenditures are expected to be an **unchanged $1B** in 2009 ($904M in 2008) with most growth driven by B.C. and Alberta. Over the next five years, FTS still expects capital expenditures **to exceed $4.5B**. Major projects include:
  - **$200M** liquefied natural gas facility on Vancouver Island.
  - **US$53M** Vaca hydro facility (see above).
  - **$124M** installation of auto meters at Fortis Alberta.
- **Financial:** FTS' capital structure is now at 59.5% debt, 7% preferred equity, and 33% common equity. **This is now in line with its target** of 60% debt post its $300M Q4/08 equity issue. FTS has $2.2B in credit facilities available (maturities do not start until 2011) with **$1.5B undrawn**. Due to the regulator's decision on Belize Electric (BE) Rate application, BE does **not** meet debt covenant ratios for its $11M loan. Waivers have been requested. First Caribbean Bank also withdrew its credit facility requiring payment of $2.5M. Scotiabank said that it may not renew their $3.2M facility (undrawn). **We view this Belize covenant-related issue of just under $20M as immaterial but a key reason why we view Belize earnings to be worth no more than 10x P/E**. In December 2008 the Government of Newfoundland expropriated the Newfoundland assets of Abitibi, which included a hydro facility owned by Exploits River Hydro Partnership (51% owned by FTS Properties). Exploit has a $61M loan secured by assets of Exploit and is **now classified as current. This loan is non-recourse to FTS.** We are watching to see what the Newfoundland government pays for this asset or how it deals with Fortis. The government has stated it had no interest in damaging the interests of Abitibi's JV partners in Newfoundland assets.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Emera Incorporated	EMA	B17, B24, H3, S, U
Enbridge Inc.	ENB	H3, S, U
Fortis Inc.	FTS	H3, S, U

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* *Legend*

B17 Elizabeth Parr-Johnston is a director of Emera Incorporated and is a director of the Bank of Nova Scotia.

B24 Paul D. Sobey is a director of Emera Incorporated and is a director of the Bank of Nova Scotia.

H3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

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Venture
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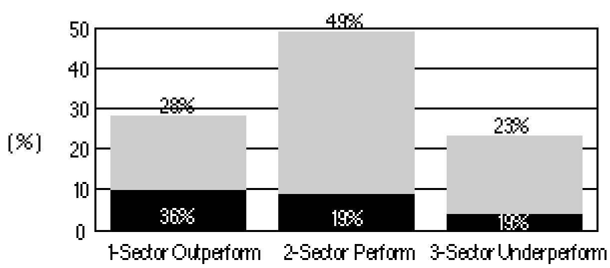
Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



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Disclaimer

(FTS-T C$22.15)

Fortis Inc.

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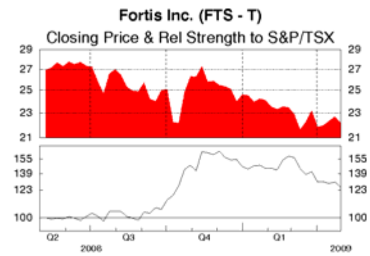
Rating: 2-Sector Perform	**Target**	1-Yr:	C$27.00	**ROR**	1-Yr:	26.6%	**Est. NTM Div.**	C$1.04
Risk Ranking: Low		2-Yr:	C$29.00		2-Yr:	40.3%	**Div. (Current)**	C$1.04
Valuation: 17x P/E on 2010E EPS							**Yield**	4.7%

Q1/09 EPS Mildly Misses Us/Consensus



Source: Global Insight, Inc.

Event

- Fortis reported Q1/09 EPS of $0.54 mildly missing us and consensus at $0.57. Weak economies weighed on FTS' Hospitality and tourism-related (Caribbean) operations. Terasen Gas' results were flat and weaker non-utility generation results weighed.

Implications

- We shaved $0.02 off our 2009E EPS and cut our 2010E EPS by $0.05 due to the depth of the economic downturn and now swine flu that will reduce air travel to the Caribbean for a while.
- A possible Alberta EUB change in allowed ROE's to a WACC-based formula in Alberta could be a positive catalyst for FTS' EPS forecasts.
- We kept our 17x P/E multiple steady but took $1/share off our FTS one-year target on lower 2010E EPS to $27/share.

Recommendation

- We like FTS' exposure to its green assets relative to all other Canadian power utilities that have coal-fired power plant exposure. However, we do not like FTS' Caribbean and hotel exposure so we maintain a 2-SP.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009E	$0.54 A	$0.21	$0.19	$0.56	$1.50	14.77
2010E	$0.61	$0.21	$0.20	$0.60	$1.62	13.67

(FY-Dec.)	2006A	2007A	2008A	2009E	2010E
Earnings/Share	$1.42	$1.40	$1.56	$1.50	$1.62
Cash Flow/Share	$3.29	$3.56	$3.90	$3.49	$3.63
Price/Earnings	21.0	20.7	15.8	14.8	13.7
Relative P/E	1.3	1.1	1.5	1.1	1.0
Revenues	$1,472	$2,718	$3,903	$3,686	$3,847
EBITDA	$533	$814	$1,048	$1,053	$1,094
Current Ratio	0.7	0.6	0.7	0.7	0.7
EBITDA/Int. Exp	3.2	2.7	2.9	3.0	3.0

IBES Estimates	BVPS09E	$14.84	Shares O/S (M)	169.2
EPS 2009E: $1.52	ROE09E	10.3%	Float O/S (M)	167.5
EPS 2010E: $1.61			Total Value ($M)	3,749
			Float Value ($M)	3,710
Next Reporting Date	Jul-09		TSX Weight	0.39%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Pertinent Revisions

	New	Old
Target:		
1-Yr	$27.00	$28.00
2-Yr	$29.00	$30.00
EPS09E	$1.50	$1.52
EPS10E	$1.62	$1.67

Fixed Income Research Link

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Q1/09 Highlights

- **Fortis reported Q1/09 EPS** of $0.54 which appears to us to be also recurring - see Exhibit 1. This mildly missed us and consensus at $0.57 in a $0.53-$0.59 range. The EPS impact of the economic slowdown on FTS' Hospitality and tourism-related (Caribbean) operations was worse than expected while all other utility results appeared in line. See Exhibit 2 for a breakdown of EPS by segment and Exhibit 3 for each segment's allowed ROE.
- **2009 EPS down $0.02, 2010 EPS down $0.05:** We shaved both our 2009E and 2010E as the depth and duration of the downturn and now swine flu impacts on travel to anywhere will linger longer on FTS' Caribbean operations and Canadian Real Estate/Hospitality division.
- **Stock & sector valuation:** We left our 17x P/E multiple on FTS steady even though 2009 EPS should be flat to down due to a sizable equity dilution that helped FTS' balance sheet but should hurt short-term EPS. However, **we shaved our one-year target by $1/share to $27/share.** We set our energy utility P/E multiples assuming 4.25% 10-year Canada rates (currently 3.1% and rising) and more normal corporate debt risk premiums (currently 200 points over normal levels for BBB+/A-). We see rising interest rates (negative) offset by narrowing corporate spreads (positive). Our current range is 15x (CU and Emera) to 19.5x (Enbridge) with FTS in the middle. We do **not like** FTS' Belize interests that were temporarily held for ransom by the new 2008 government that confiscated rightful earnings from FTS' 70% owned Belize Electricity in 2008. Belize assets are growing to about 5% of FTS assets once the new Belize dam is on the books. The Government of Belize's debt remains rated as junk so we believe Belize EPS should get a sub-10x P/E. We **do like** FTS' exposure to its benign, green asset base over utilities with coal-fired assets. Our sector weighting is Market, biased to Underweight.

Exhibit 1 – EPS Recurring Breakdown

Reported EPS	**$**	**0.54**
Fortis Turks & Caicos favorable appeal judgment	$	(0.01)
Fortis Turks & Caicos change in accounting of unbilled fuel factor revenue	$	(0.01)
Sheraton Newfoundland transitional operating costs	$	0.01
Recurring EPS	**$**	**0.535**
Scotia Capital EPS Estimate	**$**	**0.57**
Bloomberg Consensus EPS (range $0.53-$0.59)	**$**	**0.57**

Source: Bloomberg; Scotia Capital estimates.

- **Regulated allowed returns changing?** Late March 2009, the NEB agreed to allow Trans Quebec & Maritimes Pipeline Inc. (TQM, owned 50% by TRP and 50% by Gaz Metro) the right to include after-tax weighted average cost of capital (ATWACC) in its revenue requirement for 2007 and 2008. This translated into a 100bp increase in TQM's allowed ROE. FTS' Terasen Gas and Terasen Gas Vancouver Island are also applying for a review of their current ROE formula and deemed equity through their application for 2010, to be decided in mid-09. Fortis Alberta is also pursuing a review of its 2009 allowed ROE/capital structure. **We believe an ATWACC-based formula shows more economic reality than historical book value ROE methods based on forecasted 10-year risk free government bonds.**
- **Q1/09 Terasen Gas:** Reported $58 million in earnings for Q1/09 versus $58 million in Q1/08 or $0.01/FTS share disappointing as gas volumes **fell 0.3% YOY**. Residential volumes were up on cooler-than-normal weather, but this was more than offset by lower transportation volumes to customers sourcing their own gas supplies. Net customer adds thinned to 2,256 for the quarter, bringing the total customer count to approximately 934,000. All of Terasen's annual earnings are typically achieved in the 1st and 4th quarters. Terasen Gas is comprised of TGI (i.e. Vancouver), TGVI (i.e. Vancouver Island), and TGWI (i.e. Whistler area). TGI's allowed 2009 ROE is 8.47% on a deemed equity of 35%, while TGVI's allowed 2009 ROE is 9.17% on deemed equity of 40%.

- **Terasen Gas Vancouver Island (TGVI)** got approval on April 1, 2008 for the construction and operation of a 1.5 Bcf/d LNG natural gas storage facility on Vancouver Island. FTS estimated a capital cost of $175 million to $200 million, with an in-service date of 2011.

Exhibit 2 – Fortis' EPS Contribution by Segment

FORTIS INC.	Segment	EPS Contribution Q1/09	(%)	EPS Contribution Q1/08	(%)
Regulated Gas	Terasen Gas	$ 0.34	63%	$ 0.37	64%
Regulated Electric	FortisAlberta	$ 0.07	13%	$ 0.07	12%
	FortisBC	$ 0.08	15%	$ 0.08	13%
	Newfoundland Power	$ 0.04	7%	$ 0.04	7%
	Other Canadian *	$ 0.03	5%	$ 0.03	4%
	Caribbean **	$ 0.04	7%	$ 0.04	8%
Non-Regulated Operations	Fortis Hydroelectric Generation	$ 0.04	7%	$ 0.04	7%
	Fortis Properties	$ 0.01	2%	$ 0.02	3%
	Fortis Corporate	$ (0.10)	-19%	$ (0.10)	-18%
	EPS	$0.54		$0.58	
	Shares Outstanding (MM)	169.4		156.6	

Source: Company reports; Scotia Capital estimates.

- **Q1/09 FortisAlberta:** Earnings increased $1M YOY to $12M primarily due to customer growth and an increase in customer distribution rates. However, energy deliveries **increased** only 14 GWh YOY or 0.3%. In June 2008, the AUC determined that a review of the ROE level and adjustment mechanism was warranted and in July 2008 issued its notice of application for the 2009 Generic Cost of Capital Proceeding (GCCP). Interim customer rates for 2009 have been set using the 2007 ROE of 8.51%, pending the outcome of the GCCP already underway.
- **Q1/09 FortisBC:** Reported Q1/09 net earnings of $14 million were $2 million **higher YOY** with a 3.2% increase in electricity sales. An electricity rate increase of 4.6% was offset by increased energy supply costs. 2009 Allowed ROE is 8.87% (2007 was 9.02%).
- **Q1/09 Newfoundland Power:** Earnings were **flat** at $6 million YOY. Revenue was $5 million higher, offset by the impact of higher demand charges from Newfoundland and Labrador Hydro. Electricity sales volumes increased 2.7% YOY to 1,763 GWh in Q1/09. Supply costs rose by 4% from $122M in Q1/08 to $127M in Q1/09. Winter months have a higher expense per kWh and lower in the summer under the new regulated rate structure. The PUB gave this FTS subsidiary a 2009 Allowed ROE of 8.95% (unchanged from 2008).

- **Q1/09 Other Canadian Electric Utilities**: Following the acquisition of Terasen, Fortis lumped Maritime Electric and FortisOntario into an "other" category. It had **positive** year-over-year earnings at $5 million versus $4 million in Q1/08. Maritime Electric's 2009 ROE **declined slightly** to 9.75% (on deemed equity of 40%) from 10.0%. FortisOntario's 2009 ROE decreased materially to 8.39% from 9.00% in 2008.
- **Q1/09 Regulated Utilities - Caribbean:** FTS owns 54% of Caribbean Utilities, 70% of Belize Electricity, and 100% of Fortis Turks and Caicos in this group. Electricity sales **decreased 4% YOY** to 247 GWh and earnings **decreased** by $1 million to $6 million due to: (1) decreased electricity sales, (2) a lower ROA at Caribbean Utilities and Belize Electricity, (3) higher amortization costs, and (4) the elimination of the utility's hurricane cost recovery surcharge. The new T&D license for Caribbean Utilities sets 2009 customer rates using a 10% rate of return on rate base assets versus 15% allowed previously. S&P affirmed 'A' credit ratings on Caribbean's long-term corporate credit and senior unsecured debt and removed it from credit watch.

Exhibit 3 – Nature of FTS' Regulation

Nature of Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	2009
		ROE			
Terasen Gas Companies					
TGI	35	8.8	8.37	8.62	8.47
TGVI	40	9.5	9.07	9.32	9.17
FortisBC	40	9.2	8.77	9.02	8.87
FortisAlberta	37	8.93	8.51	8.75	8.51
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75 (1)
Fortis Ontario	46.7	9	9	9	8.39
		ROA			
Belize Electricity	N/A	10-15	10-15	10	10
Caribbean Utilities	N/A	15	15	9-11	9-11
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5

(1) Application pending regulatory approval

Source: Company reports.

- **Belize Electricity ("BEL") 2008/2009 Rate Application:** On June 30, 2008, Fortis rejected a tough proposal by the new Belize government that would have cut 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL got 10% but the Government rejected $12.6M of retroactive costs buying necessary diesel-based power from Mexico net to FTS. In Q2/08, FTS recorded a $13 million charge or $0.08/share as a result of this ruling. On July 25, 2008, BEL appealed this decision to the Supreme Court of Belize. Their ruling is expected in 2009.
- **Q1/09 Fortis Non-Regulated Generation:** Year-over-year earnings were **flat** at $6 million. Lower hydro production (257 GWh in Q1/09 vs. 288 GWh in Q1/08) resulted in a $3 million decrease in revenue which was partially offset by the approximate $1 million favourable impact of foreign exchange. The Ontario average power price **decreased** to $42.98/MWh compared to $49.93/MWh one year ago.
- **Q1/09 Fortis Properties:** Earnings **decreased** by $1-$2 million YOY even though Hospitality revenues grew $2 million and Real Estate revenues remained constant. Fortis purchased the 214-room Holiday Inn Select in Windsor, Ontario in April 2009 for $7 million. Occupancy remained steady YOY at 96.6%.
- **2009 Impact of Niagara Exchange Agreement:** As of April 30, 2009, FTS will lose the $15M annual earnings stream from its Rankine Generating Station that controlled 5% of the Niagara Falls water flow. This was sold under the Niagara Exchange Agreement to Ontario's OPG. **This was adding $0.02/FTS share per quarter**. FTS expects its new US$53M 19MW Vaca hydroelectric generating facility in Belize **could offset this earnings loss but only starting in 2010.**
- **Corporate and Other:** Overall net corporate and other expenses increased $1M YOY to $17 million. Operating expenses remained flat YOY while financing charges decreased. There was an unfavourable foreign exchange impact associated with the translation of US dollar-denominated interest expense.
- **Capital expenditures:** Utility capital expenditures are expected to be an **unchanged $1B** in 2009 ($904M in 2008) with most growth driven by B.C. and Alberta. Over the next five years, FTS still expects capital expenditures **to exceed $4.5B**. Major projects include:
  - **$200M** liquefied natural gas facility on Vancouver Island
  - **US$53M** Vaca hydro facility in Belize
  - **$161M** installation of automated meters at Fortis Alberta
  - **$139M** Okanagan Transmission Reinforcement Project at Fortis BC

- **Financial:** FTS' capital structure is now at 59.1% debt, 7.2% preferred equity and 33.7% common equity. **This is in line with FTS' target** of 60% debt post its $300M Q4/08 equity issue. FTS has $2.2B in credit facilities available (maturities do not start until 2011) with **$1.6B undrawn**. Due to the regulator's decision on Belize Electric (BE) Rate application, BE does **not** meet debt covenant ratios for its $9M loan (down $2M from Q4/08). Waivers have been requested. In December 2008 the Government of Newfoundland expropriated the Newfoundland assets of Abitibi which included a hydro facility owned by Exploits River Hydro Partnership (51% owned by FTS Properties). Exploit has a $61M loan secured by assets of Exploit and is **now classified as current. This loan is non-recourse to FTS.** We are watching to see what the Newfoundland Government pays for this asset or how it deals with Fortis. The government has stated it had no interest in damaging the interests of Abitibi's JV partners in Newfoundland assets. On April 23, 2009, Abitibi announced it was challenging the Newfoundland government's decision to expropriate Abitibi's resource rights and most of its assets within the province. Abitibi is seeking $300M in direct compensation.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Emera Incorporated	EMA	B17, B24, H3, S, U
Enbridge Inc.	ENB	H3, S, U
Fortis Inc.	FTS	H3, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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* *Legend*

B17 Elizabeth Parr-Johnston is a director of Emera Incorporated and is a director of the Bank of Nova Scotia.

B24 Paul D. Sobey is a director of Emera Incorporated and is a director of the Bank of Nova Scotia.

H3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

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Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

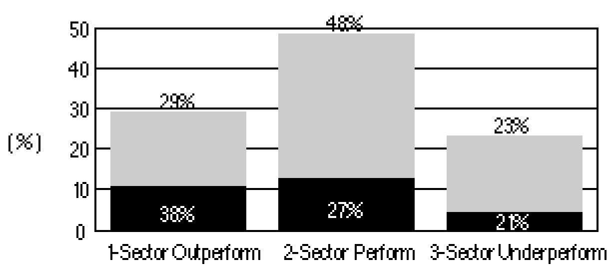
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at March 31, 2009.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

(FTS-T C$23.85)

Fortis Inc.

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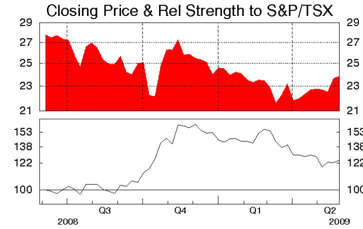
Rating: 2-Sector Perform	**Target** 1-Yr:	C$27.00	**ROR** 1-Yr:	17.6%	**Est. NTM Div.**	C$1.04
Risk Ranking: Low	2-Yr:	C$29.00	2-Yr:	30.3%	**Div. (Current)**	C$1.04
Valuation: 17x P/E on 2010E EPS					**Yield**	4.4%

Fortis Inc. (FTS - T)
Closing Price & Rel Strength to S&P/TSX



Source: Global Insight, Inc.

Possible Waneta B.C. Dam Acquisition from Teck Resources (TCK/b)

Event

- TCK (BB+ credit) is now in the process of shopping its B.C. based 450-490MW Waneta Dam in an effort to raise funds through sales of non-core assets and equity interests in core assets (i.e. coal to China).

Implications

- TCK's CEO stated that he believes the company's Waneta Dam residual interest could fetch US$300M-$400M. This suggests a 5.4x-7.2x trailing P/EBITDA multiple using the current CDN/USD exchange rate.
- We believe FTS is a logical buyer as: (1) it operates the dam, (2) it is net short power for its regulated BC power customers, (3) it has made investments in the past in hydro dams and (4) it is part of the B.C. Canal Plant Agreement

Recommendation

- If approved by all parties, including the B.C. Government and B.C. Hydro, and assuming TCK's value estimate is reasonable, the asset would become part of FortisBC's rate base. We continue to prefer Fortis over other Canadian utilities due partly to its green asset mix.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009E	$0.54 A	$0.21	$0.19	$0.56	$1.50	15.90
2010E	$0.61	$0.21	$0.20	$0.60	$1.62	14.72

(FY-Dec.)	2006A	2007A	2008A	2009E	2010E
Earnings/Share	$1.42	$1.40	$1.56	$1.50	$1.62
Cash Flow/Share	$3.29	$3.56	$3.90	$3.49	$3.63
Price/Earnings	21.0	20.7	15.8	15.9	14.8
Relative P/E	1.3	1.1	1.5	1.0	0.9
Revenues	$1,472	$2,718	$3,903	$3,686	$3,847
EBITDA	$533	$814	$1,048	$1,053	$1,094
Current Ratio	0.7	0.6	0.7	0.7	0.7
EBITDA/Int. Exp	3.2	2.7	2.9	3.0	3.0

IBES Estimates	**BVPS09E**	$14.84	**Shares O/S (M)**	169.2
EPS 2009E: $1.50	**ROE09E**	10.3%	**Float O/S (M)**	167.5
EPS 2010E: $1.62			**Total Value ($M)**	4,036
			Float Value ($M)	3,995
Next Reporting Date	Jul-09		**TSX Weight**	0.37%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Fixed Income Research Link

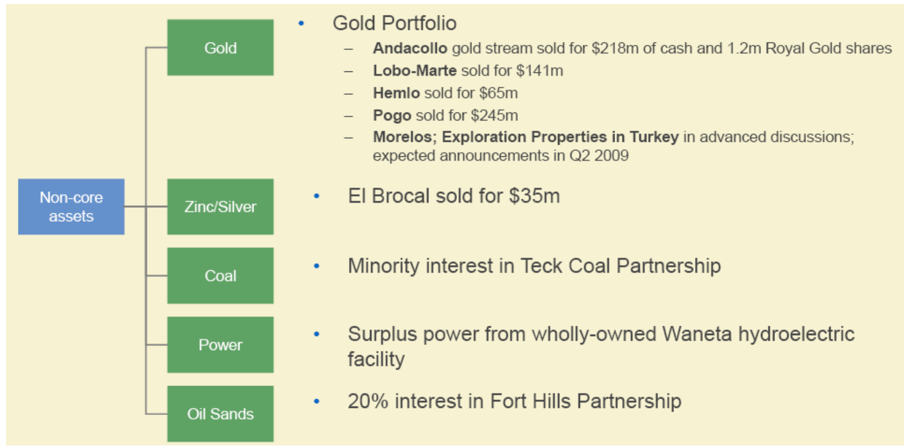
SC Online Analyst Link

For important disclosure information see Appendix A of this report.

FTS As Potential Buyer of Dam

- **TCK's Waneta Dam is now up for sale** according to Exhibit 1, a slide taken from TCK's most recent investor presentation on May 13, 2009. Its 450 MW-490 MW Waneta dam is located in B.C. and operated by FTS. The dam was built in 1954 and is located 10 kilometres south of TCK's Trail Operations, near the U.S. border. TCK also owns a 15 km transmission line from Waneta to the U.S. power distribution system.
- **Canal Plant Agreement (CPA):** The Waneta dam is operated by FTS via a contractual arrangement (CPA) that lasts until 2035. FTS, B.C. Hydro, Crown owned Columbia Power, TCK and Brilliant Power Corp. are parties to the CPA. Its purpose is to allow for all of the water reservoirs and generating plants to produce more power together than they could if they were independent. The CPA provides TCK with 2,750 GWh per year **regardless of variable water flow available** for generation. TCK uses its share of the Waneta power (about 66%) for its integrated zinc and lead smelting and refining complexes at Trail, B.C. The 33% or so energy surplus is sold by TCK to third parties at market rates. **It is this third that is for sale** as TCK will likely take back a power purchase agreement to 2035 for its 66% first rights power share at cost. In 2008, the 33% or so power surplus sales increased TCK's EBITDA by $62M in 2008 vs. $60M in 2007 - see Exhibit 2 for a history of EBITDA from TCK's surplus energy sales from its Waneta Dam interest.
- **FTS' interest in TCK's Waneta Dam is logical.** FTS' familiarity with the Waneta Dam as its sole operator allows FTS to fast track due diligence. Given the exclusive club in the CPA arrangement, it would also appear logical that club members would first sort out any asset sale/transfer/purchase agreement changes internally.
- **FortisBC:** FTS' FortisBC regulated operations are **net short power** as only 15% of its rate base assets are currently generation assets. There is a logical case that FTS can make to the B.C. government and regulator for acquiring this residual asset as a regulated addition. We speculate that FTS would offer TCK conditional to receiving this support.
- **Valuation of TCK's Waneta Dam:**
  - **TCK's expectation:** At a recent TCK Investor Conference, TCK's CEO stated a US$300M-$400M value. This would imply a 5.4x-7.2x trailing P/EBITDA multiple using the current US/CDN exchange rate of C$1.115/USD. We note/caution that TCK's EBITDA from annual residual net power sales is **wildly volatile** and that current prices in the PacNW are depressed back to 2002 levels when TCK earned less than $10M EBITDA.
  - **$/MW B.C. hydro benchmark:** Using a C$4M per MW benchmark for British Columbia hydro asset replacement cost new implies the 450 MW-490 MW Waneta Dam could be worth C$1.8B-C$2B at 100% replacement cost, so a 33% value would be closer to C$600M (US$550M). If B.C. water storage potential is included, a benchmark new B.C. hydro generation price could reach up to $5M per MW. The devil gets into the details fast with power assets as any long-term contracts could be above/below market such as TCK's, priority of power allocation on a variable hydro dam complex going to TCK first. This reduces the potential fair value of the residual 33% of the dam's power to TCK's assumed value range of US$300-$400M.

Exhibit 1 – TCK Non-Core Asset Sales



Source: Company reports.

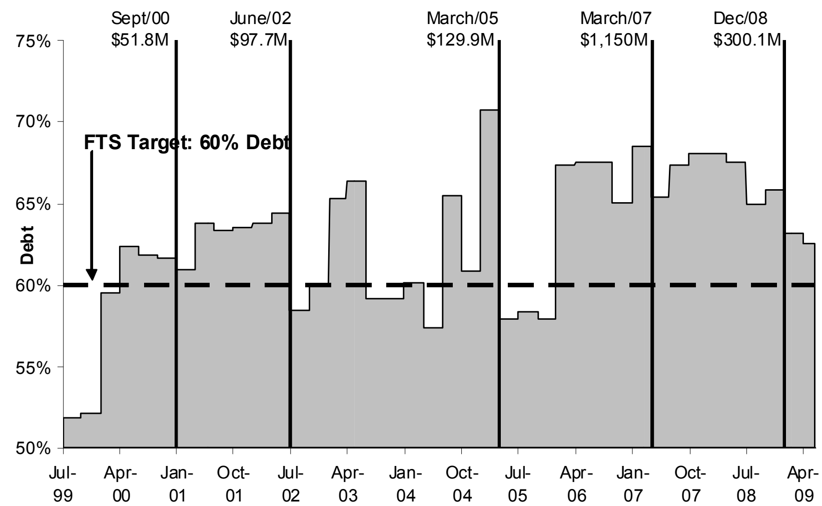
Exhibit 2 – Waneta Dam Surplus Energy Power EBITDA

	Cdn$M	Non-recurring events
2008	$ 62	
2007	$ 60	
2006	$ 25	Maintenance performed reduced the amount of power produced.
2005	$ 69	Strike at Trail Operations, increasing the power available to be sold to market.
2004	$ 37	
2003	$ 26	
2002	$ 6	

Source: Company reports.

- **Recent Canadian hydro generation market transaction comps.** In March 2009, AbitibiBowater announced the sale of its 60% interest in the Manicouagan River hydro facility to Hydro-Quebec for C$615M (**$3.06M per MW)**. Abitibi's December 2008 hydro asset sale was eventually blocked by the Ontario government. It valued Abitibi's ACH Limited Partnership hydro assets at **$3.95M per MW** based on a combined capacity of 136.8 MW for C$540M.
- **Other valuation considerations:** The contracts/agreements surrounding the method of sale of the 1/3 energy surplus will therefore impact its valuation. If the purchaser (such as FTS) is able to earn a fixed return on capital by its regulator (BCUC), this would allow for a higher purchase multiple whereas residual spot market sales only would have the greatest volatility and therefore the lowest purchase multiple, but potentially higher earnings. The BCUC might go for a fixed rate of return on FTS' purchase price if the overriding concern is to keep this surplus power in-province as: (1) B.C. is net short power today and (2) the just elected Liberals have committed in previous B.C. governments to get B.C. self sufficient in power by 2016. We would expect a rate of return agreement to be more in line with FTS' interests and its shareholders.

Exhibit 3 --FTS Capital Structure History



Source: Company reports.

- **FTS' capital structure implications:** As of March 31, 2009, FTS' capital structure was at 59.1% debt, 7.2% preferred equity and 33.7% common equity. This is **currently in line** with FTS' target of 60% debt post its $300M Q4/08 equity issue. See Exhibit 3 for FTS' capital structure and equity issue history. At the end of Q1/09, FTS also had $1.6B in undrawn credit facilities. Yesterday, FortisBC issued $105M in 30-year debt with only a +200 bp spread that was heavily sold out. **We believe FTS would need about C$150M of equity or so again if FTS buys the residual 33% power interest in TCK's Waneta Dam to stay below 60% debt.** Currently we have no material reason to argue for/against TCK's suggested US$300M-$400M sales price.

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Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S, U
Fortis Inc.	FTS	H3, S, U
Teck Resources Limited	TCK.B	H3, S, U
TransCanada Corporation	TRP	H3, S, U

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Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

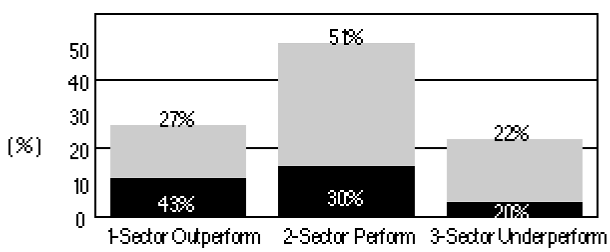
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



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* As at April 30, 2009.

Source: Scotia Capital.

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Disclaimer

Fortis Inc.

(FTS-T C$25.15)

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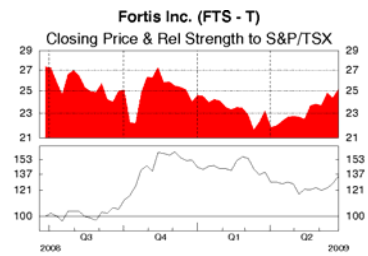
David Forster, CA - 416-863-7846
Lisa Wilkinson - 416-863-7077

Rating: 2-Sector Perform	**Target** 1-Yr:	C$27.00	**ROR** 1-Yr:	11.5%	**Est. NTM Div.**	C$1.04
Risk Ranking: Low	2-Yr:	C$29.00	2-Yr:	23.6%	**Div. (Current)**	C$1.04
Valuation: 17x P/E on 2010E EPS					**Yield**	4.1%

$68M Distribution Asset Acquisition



Source: Global Insight, Inc.

Event

- Fortis agreed to purchase Great Lakes Power Distribution Inc. (GLPD) from Brookfield Renewable Power for $68M, subject to approvals. The Ontario Energy Board (OEB) will assess the need to change the cost of capital formula in Sep/09 for 2010 but rejected 2009 changes.

Implications

- GLPD's assets include over 1,800 km of distribution lines in the district of Algoma, Ontario. Starting in 2010, we added $0.01/share rounded upwards for this small acquisition.
- Last week, the OEB postponed the decision to change the cost of capital calculation. The Board left the formula for 2009 rates unchanged but will consider adjusting the 2010 calculation at a stakeholder meeting to be held Sep. 21-25, 2009. If 2009 was not considered sufficient to warrant a change in methodology, we do not see how 2010 will.
- FTS also had a debenture offering; terms were not disclosed.

Recommendation

- The acquisition is immaterial to FTS, at only 0.5% of its $12B asset book value. A possible OEB switch to a WACC return approach for 2010 could be a mild catalyst for FTS. Due to FTS' strong relative performance we have moved both ACO and TA above FTS in our relative rankings of Energy Utilities/IPPs.

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009E	$0.54 A	$0.21	$0.19	$0.56	$1.50	16.77
2010E	$0.61	$0.22	$0.20	$0.60	$1.63	15.43

(FY-Dec.)	2006A	2007A	2008A	2009E	2010E
Earnings/Share	$1.42	$1.40	$1.56	$1.50	$1.63
Cash Flow/Share	$3.29	$3.56	$3.90	$3.49	$3.64
Price/Earnings	21.0	20.7	15.8	16.8	15.4
Relative P/E	1.3	1.1	1.5	1.0	1.0
Revenues	$1,472	$2,718	$3,903	$3,686	$3,850
EBITDA	$533	$814	$1,048	$1,053	$1,097
Current Ratio	0.7	0.6	0.7	0.7	0.7
EBITDA/Int. Exp	3.2	2.7	2.9	3.0	3.0

IBES Estimates	BVPS09E	$14.84	Shares O/S (M)	169.2
EPS 2009E: $1.50	ROE09E	10.3%	Float O/S (M)	167.5
EPS 2010E: $1.62			Total Value ($M)	4,256
			Float Value ($M)	4,213
Next Reporting Date	Jul-09		TSX Weight	0.41%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Pertinent Revisions

	New	Old
EPS10E	$1.63	$1.62

Fixed Income Research Link
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Table of Contents

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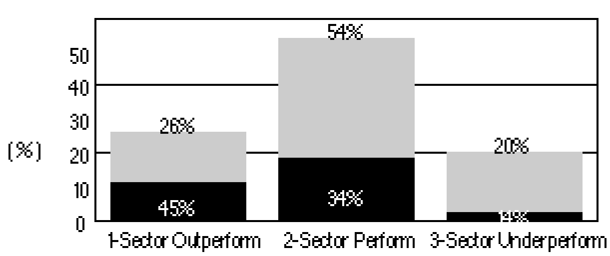

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* As at May 31, 2009.

Source: Scotia Capital.

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Disclaimer

(FTS-T C$25.63)

Fortis Inc.

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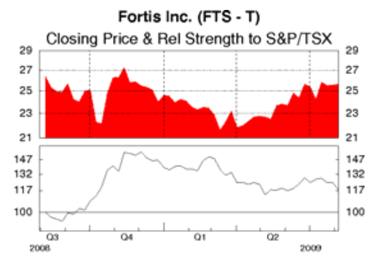
David Forster, CA - 416-863-7846
Lisa Wilkinson, MBA, P.Eng. - 416-863-7077

Rating: 3-Sector Underperform	**Target** 1-Yr:	C$27.00	**ROR** 1-Yr:	9.4%	**Est. NTM Div.**	C$1.04
Risk Ranking: Low	2-Yr:	C$29.00	2-Yr:	21.3%	**Div. (Current)**	C$1.04
Valuation: 17x P/E on 2010E EPS					**Yield**	4.1%



Source: Global Insight, Inc.

Q2/09 Adjusted EPS in Line With Street

Event

- Fortis reported Q2/09 EPS of $0.31 or $0.27 adjusted, in line with the Street's $0.27 average in a $0.21 (Scotia) to $0.29 range. We had used a 20% tax rate versus 10% actual and did not adjust for foreign exchange.

Implications

- Fortis Properties earnings improve $1M to $8M from $7M YOY. We had assumed lower YOY given the economic downturn. We did not adjust for the lower C$ in the quarter in our $0.21 Q2/09 EPS estimate and assumed a 20% tax rate for 2009 versus 10% actual in Q2/09.
- We chose to maintain our 17x P/E multiple for FTS on 2010E EPS giving us a $27 one-year target price, unchanged. Given the relative strength in FTS' stock price since late March 2009 against all others except for Enbridge that beat consensus EPS, we cut FTS' rating to 3-SU.

Recommendation

- After upgrading CU last week from 3-SU to 2-SP on material stock price underperformance we are obliged to downgrade another energy utility, being Underweight in that subsector. FTS's stock rose 16% while CU fell 4% since late March 2009 (peer average was 9%).

Qtly EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2007A	$0.38 A	$0.31 A	$0.20 A	$0.51 A	$1.40	20.71
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009E	$0.54 A	$0.31 A	$0.19	$0.50	$1.54	16.64
2010E	$0.55	$0.30	$0.20	$0.55	$1.60	16.02

(FY-Dec.)	2006A	2007A	2008A	2009E	2010E
Earnings/Share	$1.42	$1.40	$1.56	$1.54	$1.60
Cash Flow/Share	$3.29	$3.56	$3.90	$3.85	$4.03
Price/Earnings	21.0	20.7	15.8	16.6	16.0
Relative P/E	1.3	1.1	1.5	0.8	0.8
Revenues	$1,472	$2,718	$3,903	$4,015	$4,195
EBITDA	$533	$814	$1,048	$1,070	$1,113
Current Ratio	0.7	0.6	0.7	0.7	0.7
EBITDA/Int. Exp	3.2	2.7	2.9	3.1	3.1

IBES Estimates	BVPS09E	$14.88	Shares O/S (M)	170.3
EPS 2009E: $1.49	ROE09E	10.5%	Float O/S (M)	168.5
EPS 2010E: $1.61			Total Value ($M)	4,365
			Float Value ($M)	4,319
Next Reporting Date	Nov-09		TSX Weight	0.37%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Pertinent Revisions

	New	Old
Rating:	3-SU	2-SP
EPS09E	$1.54	$1.50
EPS10E	$1.60	$1.63

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Q2/09 EPS Highlights

- **Q2/09 adjusted in line with street average:** Fortis reported Q2/09 EPS of $0.31 or $0.27 adjusted, in line with the Street average rounded $0.27 estimate in a $0.21-$0.29 range. See Exhibit 3 for a breakdown of EPS by segment and Exhibit 4 for each segment's allowed ROE. In our $0.21 estimate we did not assume any US$ related foreign exchange gains (C$ at $1.17 versus $1.01 YOY). We also did not know FTS's 10% overall Q2/09 tax rate due to a credit in FortisAlberta taxes payable versus our 20% assumed for Q2/09 and for the years (see Exhibit 1). We also assumed lower FortisProperties earnings that rose to $8M from $7M YOY. Details on FTS' foreign exchange and the FortisAlberta tax impacts:

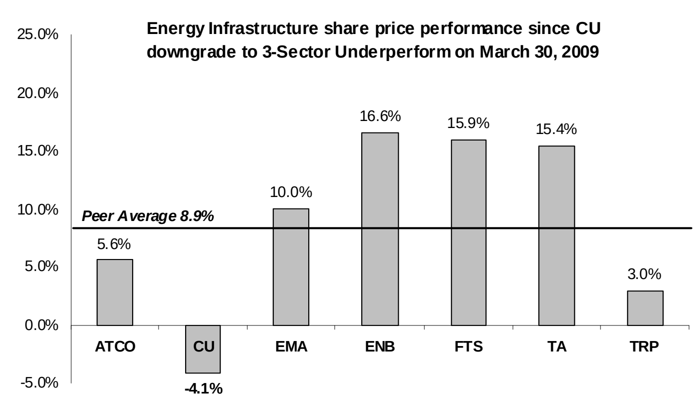
Exhibit 1 – Q2/09 EPS Recurring Breakdown

Reported EPS	**$ 0.31**
Net positive FX effect	$ (0.015)
Fortis AB flow through tax regulation	$ (0.020)
Change in quarterly allocation of amortization expense	$ (0.005)
Adjusted EPS	**$ 0.27**
Bloomberg Consensus EPS	**$ 0.27**
Adjusted EPS (from above)	$ 0.27
Tax provision difference from Scotia forecast (20%) to FTS actual (10%)	$ (0.020)
	$ 0.25
Scotia Capital EPS Estimate	**$ 0.21**

Source: Bloomberg; Scotia Capital estimates.

  - **Foreign exchange impacts:** FTS is materially but not 100% hedged in U.S. dollar debt at its corporate level. U.S. dollar interest paid on a stronger U.S. dollar increases Canadian interest expenses, partially offsetting higher U.S. dollar translated earnings. Net U.S. asset exposure of US$407 million as at June 30, 2009 was greater than U.S. debt at the corporate level by $130 million. The net YOY positive foreign exchange effect in Q2/09 was about $0.015 per share. We recently raised our Canadian dollar assumption to $0.90 (currently $0.93) so this minor foreign exchange gain is narrowing going forward. FTS is looking at doing its next corporate debt deal in U.S. dollar some time in late 2010 as other Canadian dollar corporate debt matures to tighten its foreign exchange hedge.
  - **FortisAlberta flow through tax regulation impacts:** According to FTS management that have now planned out through 2010 and 2011, FortisAlberta will typically have a zero (but not negative) tax rate going forward quarterly. FortisAlberta charges and collects tolls based on flow through tax regulation. FTS is upgrading and expanding FortisAlberta with a $300 million per year budget for 2010 and 2011 capital expenditures. This creates a new tax shield that will keep FortisAlberta's effective rate at zero. The fact that FTS reported a negative $3M tax had a $0.02 non-recurring positive impact to EPS in Q2/09 due mostly to a capitalized overhead provision no longer required.

Exhibit 2 – Energy Infrastructure Price Performance from March 30, 2009



Source: Bloomberg; Scotia Capital estimates.

- **Stock & sector valuation:** We left our 17x P/E multiple on FTS unchanged. This matches TransCanada's P/E multiple and is the highest P/E amongst energy utilities and IPPs that we follow. 2009 reported EPS should now be a little closer (after Q2/09 EPS) to 2008's $1.56 but still likely below. FTS' late Q4/08 $300M equity issue was used to strengthen FTS' balance sheet at the expense of short-term EPS. We still set our energy utility 2010E P/E multiples assuming 4.25% 10-year Canada rates (Scotia Economics now estimates 4.65% one year out vs. 3.55% today) and more normal corporate debt risk premiums (currently 50 basis points over normal levels for BBB+/A- rated equities). Rising interest rates (negative) have been offset by narrowing corporate spreads (positive) lately. FTS' exposure to its benign, green asset base over utilities with coal-fired assets is worth about 2x P/E points, in our opinion. As we raised our rating on CU last week to 2-Sector Perform from 3-Sector Underperform after CU fell 4% since March 30, 2009 compared to our Energy Infrastructure peer average rising 9% and Fortis rising 16%, we chose to cut Fortis to a 3-Sector Underperform based solely on relative valuation and targets.

- **Possible regulated allowed returns changing?** Late March 2009, the NEB agreed to allow Trans Quebec & Maritimes Pipeline Inc. (TQM, owned 50% by TRP and 50% by Gaz Metro) the right to include after-tax weighted average cost of capital (ATWACC) in its revenue requirement for 2007 and 2008. This translated into a 100 bp increase in TQM's allowed ROE. FTS' Terasen Gas and Terasen Gas Vancouver Island are also applying for a review of their current ROE formula and deemed equity through their application for 2010. FortisAlberta is also pursuing a review of its 2009 allowed ROE/capital structure. While we believe an ATWACC based formula is more realistic than historical book value ROE methods based on forecasted 10-year risk free government bonds, it has worked for 50 years. Regulators like Ontario's OEB **have already backed off adjusting anything for 2009** while stating they prefer the existing return method even though they will be reviewing other thoughts/methodologies.

Exhibit 3 – Fortis' EPS Contribution by Segment

FORTIS INC.

Segment	Business	EPS Contribution Q2/09	(%)	EPS Contribution Q2/08	(%)
Regulated Gas	Terasen Gas	$ 0.08	26%	$ 0.08	41%
Regulated Electric	FortisAlberta	$ 0.10	32%	$ 0.04	24%
	FortisBC	$ 0.04	13%	$ 0.04	24%
	Newfoundland Power	$ 0.06	21%	$ 0.06	34%
	Other Canadian *	$ 0.02	8%	$ 0.01	7%
	Caribbean **	$ 0.04	13%	$ (0.03)	-17%
Non-Regulated Operations	Fortis Hydroelectric Generation	$ 0.02	6%	$ 0.04	24%
	Fortis Properties	$ 0.05	15%	$ 0.04	24%
	Fortis Corporate	$ (0.11)	-34%	$ (0.11)	-62%
	EPS	$0.31		$0.18	
	Shares Outstanding (MM)	170.3		157.1	

Source: Company reports; Scotia Capital estimates.

- **Q2/09 Terasen Gas:** Reported $14 million in earnings for Q2/09 versus $12 million in Q2/08 was mildly positive as gas volumes **fell 20% YOY**. Residential volumes were down on warmer-than-normal weather and to a lesser extent the impact of a slower economy on fixed price customers and transportation volumes to customers sourcing their own gas. Net customer losses were 1,200 for Q2/09 (932,500 customers). Terasen Gas is comprised of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2009 ROE is 8.47% on a deemed equity of 35%, while TGVI's allowed 2009 ROE is 9.17% on deemed equity of 40%.
- **Terasen Gas Vancouver Island (TGVI)** got approval on April 1, 2008 for the construction and operation of a 1.5 Bcf/d LNG natural gas storage facility on Vancouver Island. FTS estimated a capital cost of $175 million to $200 million, with an in-service date of 2011.
- **Q2/09 FortisAlberta:** Reported earnings increased a surprising (to us) $10M YOY to $17M **primarily due to the impact of negative corporate tax rates** ($7M swing), higher customer distribution rates, and customer growth. **Energy deliveries rose a miniscule 3 GWh YOY or 0.1% YOY**. In Q3/08 a change was made to the tax strategy with regard to the AESO charges deferral account. Previously, FortisAlberta was not deducting transmission tariff payments made to the AESO which resulted in a future income tax expense recorded in 1H/08. The collection of the balance of the 2007 AESO charges deferral account also

resulted in an income tax recovery in 2009. In June 2008, the AUC determined that a review of the ROE level and adjustment mechanism was warranted and in July 2008 issued its notice of application for the 2009 Generic Cost of Capital Proceeding (GCCP). Interim customer rates for 2009 have been set using the 2007 ROE of 8.51%, pending the outcome of the GCCP already underway.

- **Q2/09 FortisBC:** Reported Q2/09 net earnings of $7 million, **flat YOY** with a negligible increase in electricity sales. An electricity rate increase of 4.6% was offset by increased energy supply costs. Allowed ROE in 2009 is 8.87% (2008 was 9.02%).
- **Q2/09 Newfoundland Power:** Earnings were **up $1 million** YOY at $11 million while electricity sales **fell 0.5% YOY** to 1,177 GWh in Q2/09. Amortization is now being allocated each quarter based on capitalized assets in service. Previous allocations were based on quarterly sales margin. Winter months have a higher expense per kWh and lower in the summer under the new regulated rate structure. The PUB gave this FTS subsidiary a 2009 allowed ROE of 8.95% (unchanged from 2008).
- **Q2/09 other canadian electric utilities**: Following the acquisition of Terasen, Fortis put Maritime Electric and FortisOntario into an "other" category. Excluding the $2 million one-time after-tax charge for an interconnection agreement-related refund in Q2/08, **earnings were flat year over year at $4 million**. FortisOntario entered into a $68 million purchase agreement in June 2009 for Great Lakes Power Distribution, which serves 12,000 customers. Maritime Electric's 2009 ROE **declined slightly** to 9.75% (on deemed equity of 40%) from 10.0%. FortisOntario's 2009 ROE **decreased materially** to 8.39% from 9.00% in 2008.

Exhibit 4 – Nature of FTS' Regulation

Nature of Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	2009
		ROE			
Terasen Gas Companies					
TGI	35	8.8	8.37	8.62	8.47
TGVI	40	9.5	9.07	9.32	9.17
FortisBC	40	9.2	8.77	9.02	8.87
FortisAlberta	37	8.93	8.51	8.75	8.51
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75 (1)
Fortis Ontario	46.7	9	9	9	8.39
		ROA			
Belize Electricity	N/A	10-15	10-15	10	10
Caribbean Utilities	N/A	15	15	9-11	9-11
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5

(1) Application pending regulatory approval

Source: Company reports.

- **Q2/09 Regulated Utilities - Caribbean:** FTS owns 59.5% of Caribbean Utilities, 70% of Belize Electricity and 100% of Fortis Turks and Caicos in this group. Excluding the $13 million impact of disallowed fuel and purchased power costs in Q2/08 and favourable exchange gains of $1 million, **earnings decreased by $2 million.** Earnings in Q2/09 were lower due to: (1) lower allowed ROA at Belize Electricity, (2) higher amortization costs, and (3) favourable impact of the movement of deferred fuel costs in Q2/08. Electricity sales **increased 6% YOY** to 293 GWh. The new T&D license for Caribbean Utilities sets 2009 customer rates using a 10% rate of return on rate base assets versus 15% allowed previously. In July, 2009 FTS spent US$6.1 million to increase its ownership in Caribbean Utilities by 2.7% to 59.5%.
- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a tough proposal by the new Belize government that would have cut 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL got 10% but the Government rejected $12.6M of retroactive costs buying necessary diesel based power from Mexico net to FTS. In Q2/08, FTS recorded a $13 million charge or $0.08/share as a result of this ruling. On July 25, 2008, BEL appealed this decision to the Supreme Court of Belize. Their ruling is expected in 2009.
- **Q2/09 Fortis Non-Regulated Generation:** Year-over-year earnings were **down $4 million** at $3 million. Materially lower energy sales (141 GWh in Q2/09 vs. 312 GWh in Q2/08) were a result of the expected expiry of FTS' power-for-water exchange agreement with OPG for the Rankine Niagara Falls generating facility that controlled 5% of the Niagara Falls water flow. The Rankine earnings contribution was $0.2 million in Q2/09 compared with $3.6 million in Q2/08 **a difference of $0.02 per share per quarter**. FTS expects its new US$53M 19 MW Vaca hydroelectric generating facility in Belize **could offset this earnings loss but only starting in 2010.** Lower electricity prices in Ontario ($22.88/MWh in Q2/09

compared to $47.55/MWh in Q2/08) and New York State weighed on generating results, offsetting a favourable $1 million foreign exchange gain.

- **Q2/09 Fortis properties:** Earnings **increased** by $1 million year over year as a higher contribution from Real Estate and lower operating costs more than offset weaker hospitality results due to lower hotel occupancy. Revenue per available room slipped to $83.15 in Q2/09, down from $87.54 in Q2/08 due to lower occupancy, particularly in Western Canada.
- **Corporate and Other:** Overall net corporate and other expenses were **flat YOY** at $18 million. Finance charges were $2 million lower year over year due to lower debt levels and interest rates. There was an unfavourable foreign exchange impact associated with the translation of U.S. dollar-denominated interest expense at the corporate level that mostly offset C$ translation gains from U.S. asset-based earnings contributions.
- **Capital expenditures:** Utility capital expenditures are now expected to **exceed $1B** in 2009 ($904M in 2008) with most growth driven by B.C. and Alberta. Over the next five years, FTS expects capital expenditures **to total $5.0B**. Major projects include:
    - **$200M** liquefied natural gas facility on Vancouver Island.
    - **US$53M** Vaca 19 MW hydroelectric facility in Belize.
    - **$161M** installation of automated meters at FortisAlberta.
    - **$139M** Okanagan Transmission Reinforcement Project at FortisBC.
- **Financial:** FTS' capital structure now stands at 58.9% debt, 7.2% preferred equity, and 33.9% common equity, **in line with FTS' targets**. FTS has $2.2B in credit facilities available (maturities do not start until 2011) with **$1.6B undrawn**. In December 2008 the Government of Newfoundland expropriated the Newfoundland assets of Abitibi, which included a hydro facility owned by Exploits River Hydro Partnership (51% owned by FTS Properties). Exploit has a $61M loan secured by assets of Exploit and is **now classified as current. This loan is non-recourse to FTS.** We are watching to see what the Newfoundland Government pays for this asset or how it deals with Fortis. The government has stated it had no interest in damaging the interests of Abitibi's JV partners in Newfoundland assets. On April 23, 2009, Abitibi announced it was challenging the Newfoundland government's decision to expropriate Abitibi's resource rights and most of its assets within the province. Abitibi is seeking $300M in direct compensation.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Enbridge Inc.	ENB	H3, S, U
Fortis Inc.	FTS	H3, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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* *Legend*

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We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

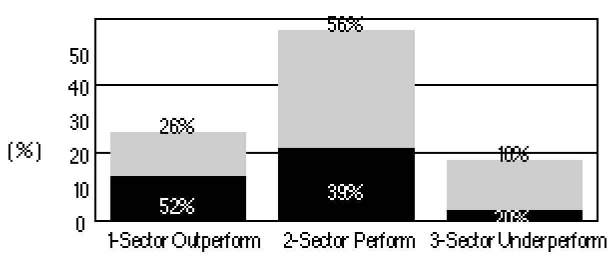
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at July 31, 2009.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Equity Research DAILY Edge

Company Comment
Friday, November 06, 2009

Fortis Inc.

(FTS-T C$25.81)

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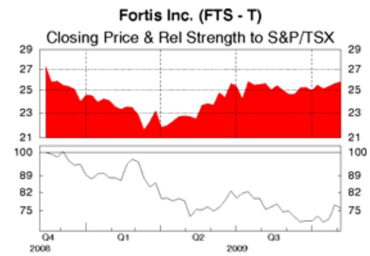
Rating: 3-Sector Underperform	**Target** 1-Yr:	C$26.50	**ROR** 1-Yr:	6.7%	**Est. NTM Div.**	C$1.04
Risk Ranking: Low	2-Yr:	C$28.50	2-Yr:	18.5%	**Div. (Current)**	C$1.04
Valuation: 16x P/E on 2010E/2011E Averaged EPS					**Yield**	4.0%

Q3/09 Adjusted EPS Matches Us, Mildly Misses Street



Source: Global Insight, Inc.

Event

- Fortis reported Q3/09 EPS of $0.21 or $0.19 ex. a one-time tax benefit and favourable non-cash FX balance sheet related translation. This was matched our estimate at $0.19 but mildly missed the Street at $0.21 ($0.19-$0.24).

Implications

- Earnings were relatively flat YOY across all segments except non-regulated generation, which fell $5M YOY to $4M due to: (1) the Rankine Niagara OPG agreement expiring Apr/09, and (2) lower power prices. Lower room rates/occupancies at FTS' Properties division were offset by newly acquired properties. We expect lower YOY room rates/occupancies and weak power prices in Q4/09, so we shaved $0.02/share from Q4/09E EPS.
- FTS' five-year, $5B capital program should allow its rate base to grow on average 6%-7%/year. After flat 2009E EPS due to FTS' equity issue (8% dilution), FTS' EPS growth should pick up again starting in 2010.
- Given the in line quarter (to our estimate), we kept our 2010E/11E EPS, 16x 2010E/11E averaged EPS P/E multiple and $26.50 one-year target.

Recommendation

- We continue to prefer higher growth Pipelines (ENB EPS expected to grow 10%/year through 2014-2015) over Energy Utilities and IPPs.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009E	$0.54 A	$0.31 A	$0.21 A	$0.48	$1.54	16.76
2010E	$0.55	$0.30	$0.20	$0.55	$1.60	16.13
2011E	$0.58	$0.32	$0.23	$0.59	$1.72	15.01

(FY-Dec.)	2007A	2008A	2009E	2010E	2011E
Adj Earnings/Share	$1.40	$1.56	$1.54	$1.60	$1.72
Cash Flow/Share	$3.56	$3.90	$3.84	$4.03	$4.23
Price/Earnings	20.7	15.8	16.7	16.2	15.0
Revenues	$2,718	$3,903	$3,935	$4,090	$4,215
EBITDA	$814	$1,048	$1,053	$1,111	$1,149
Current Ratio	0.6	0.7	0.7	0.7	0.8
EBITDA/Int. Exp	2.7	2.9	3.0	3.1	3.2

IBES Estimates	BVPS09E	$14.88	Shares O/S (M)(Basic)	170.3
CFPS 2009E: $3.86	ROE09E	10.5%	Float O/S (M)	168.5
CFPS 2010E: $4.13			Total Value ($M)	4,396
			Float Value ($M)	4,350
Next Reporting Date	Jan-10		TSX Weight	0.36%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Fixed Income Research Link

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Note: Indirect

For important disclosure information see Appendix A of this report.

Q3/09 EPS / EPS Forecasts / Stock & Sector Valuation

- **Fortis reported Q3/09 EPS** of $0.21 or $0.19 ex. a one-time tax benefit and favourable non-cash FX balance sheet related translation (Exhibit 1) that we did not adjust for. This matched our estimate at $0.19 but mildly missed the Street at $0.21 ($0.19-$0.24). Earnings were relatively flat YOY across all segments except non-regulated generation which fell $5M YOY to $4M due the Rankine Niagara agreement with OPG expiring Apr/09. Lower occupancies and room rates at FTS' Properties division were offset by new properties acquired that did not contribute in Q3/08. We expect the lower YOY room rates/occupancies and weak power prices to persist in Q4/09 as North American unemployment continues to rise and Caribbean tourism remains depressed, so we shaved $0.02/share from our Q4/09E EPS. See Exhibit 2 for Fortis' EPS contribution by segment.

Exhibit 1 – Q3/09 EPS Recurring Breakdown

Reported EPS	$	**0.21**
Net positive FX effect	$	(0.01)
Tax adjustment at Terasen	$	(0.01)
Adjusted EPS	$	**0.19**
Bloomberg Consensus EPS	$	**0.21**
Scotia Capital EPS Estimate	$	**0.19**

Source: Bloomberg; Scotia Capital estimates.

- **Stock & sector valuation:** We left our 16x P/E multiple on FTS unchanged. This is the highest P/E amongst energy utilities and IPPs that we follow as FTS has no coal-fired asset exposure. We continue to prefer higher growth Pipelines (ENB EPS expected to grow 10%/year through 2014-2015) over Energy Utilities and IPPs. FTS' five-year, $5B capital program ($1B+ expected this year) should allow its rate base to grow on average 6%-7%/year. Therefore, after flat 2009E EPS due to FTS' equity issue (8% stock dilution), FTS' 2010E/2011E EPS growth should pick up again. We set our energy utility 2010E/2011E P/E multiples assuming 4.6% 10-year Canada rates (Scotia Economics now estimates 4.7% one year out vs. 3.5% today) and more normal corporate debt risk premiums (currently 130 basis points over normal levels for A- rated pipeline/utility equities). Forecasted rising interest rates (negative) have been offset by narrowing corporate spreads (positive) lately.
- **Possible regulated allowed returns changing?** Late March 2009, the NEB agreed to allow Trans Quebec & Maritimes Pipeline Inc. (TQM, owned 50% by TRP and 50% by Gaz Metro) an after-tax weighted average cost of capital (ATWACC) in its revenue requirement for 2007 and 2008. This translated into a 100 bp increase in TQM's allowed ROE. FTS' Terasen Gas and Terasen Gas Vancouver Island are also applying for a review of their current ROE formula and deemed equity through their application for 2010. FortisAlberta is also pursuing a review of its 2009 allowed ROE/capital structure. While we believe an ATWACC based formula is more realistic than historical book value ROE methods based on forecasted 10-year risk free government bonds, it has worked for 50 years. Regulators like Ontario's OEB backed off adjusting anything for 2009 while stating they prefer the existing return method even though they will be reviewing other thoughts/methodologies. On October 8, 2009, the NEB revoked its allowed ROE formula first set in 1994 but has not yet set a new formula (and may not set a new formula if pipeline customers agree to negotiated settlements). The AUC Generic Cost of Capital decision is expected on November 10, 2009 and the OEB is expected to decide in December 2009. Canadian provincial utilities boards still use the spread over long-term Canada risk free bonds for determining ROEs, including this year. **Should they adopt the NEB's possible ATWACC approach in 2011/2012, we may nudge up our FTS, CU, EMA, and ATCO EPS.** See our October 13, 2009 comment for more details on the topic.

Segmented Q3/09 Results

- **Q3/09 Terasen Gas:** Reported a loss of $3 million in Q3/09 versus earnings of $1 million in Q3/08 as gas volumes fell 27% YOY due to lower weather-related gas consumption and a weak economy. Residential volumes were down on warmer-than-normal weather and to a lesser extent the impact of a slower economy. Net customer losses (a first for us) were 300 for Q3/09 (932,200 customers). Terasen Gas is comprised of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2009 ROE is 8.47% on a deemed equity of 35%, while TGVI's allowed 2009 ROE is 9.17% on a deemed equity of 40% (Exhibit 3).

Exhibit 2 – Fortis' EPS Contribution by Segment

FORTIS INC.

Segment		EPS Contribution Q3/09	(%)	Q3/08	(%)
Regulated Gas	Terasen Gas	$ (0.02)	-8%	$ 0.01	2%
Regulated Electric	FortisAlberta	$ 0.09	44%	$ 0.11	35%
	FortisBC	$ 0.05	22%	$ 0.05	16%
	Newfoundland Power	$ 0.04	19%	$ 0.05	16%
	Other Canadian *	$ 0.03	14%	$ 0.03	10%
	Caribbean **	$ 0.04	19%	$ 0.04	14%
Non-Regulated Operations	Fortis Hydroelectric Generation	$ 0.02	11%	$ 0.06	18%
	Fortis Properties	$ 0.05	25%	$ 0.06	18%
	Fortis Corporate	$ (0.10)	-47%	$ (0.09)	-31%
	EPS	$0.21		$0.31	

Source: Company reports; Scotia Capital estimates.

- **Terasen Gas Vancouver Island (TGVI)** got approval on April 1, 2008 for the construction and operation of a 1.5 Bcf/d LNG natural gas storage facility on Vancouver Island. FTS estimated a capital cost of $175 million to $200 million, with an in-service date of 2011.
- **Q3/09 FortisAlberta:** Reported earnings decreased $1M YOY to $16M primarily due to lower corporate income tax recoveries and higher operating expenses, partially offset by overall load and customer growth. **Energy deliveries rose 71 GWh YOY or 1.9% YOY**, due to an increase in residential, commercial, farm, and irrigation customers. Rates for 2009 reflect an interim allowed ROE of 8.51% compared to an allowed ROE of 8.75% for 2008.
- **Q3/09 FortisBC:** Reported Q3/09 net earnings of $8 million, **flat YOY** with a 3.3% increase in electricity sales due to growth in residential and general service customers. An electricity rate increase of 4.6% (effective January 1, 2009) and a further 2.2% increase in customer electricity rates (effective September 1, 2009) increased revenue $5M YOY. Allowed ROE in 2009 is 8.87% (2008 was 9.02%).
- **Q3/09 Newfoundland Power:** Earnings were **down $1 million** at $7 million YOY as electricity sales **fell 1.3% YOY** to 885 GWh in Q3/09. Amortization is now being allocated each quarter based on capitalized assets in service. Previous allocations were based on quarterly sales margin. The PUB gave this FTS subsidiary a 2009 allowed ROE of 8.95% (unchanged from 2008).
- **Q3/09 Other Canadian Electric Utilities**: Following the acquisition of Terasen, Fortis put Maritime Electric and FortisOntario into an "other" category. **Earnings were flat year over year at $5 million** with electricity sales **down 3.4%** to 514 GWh in Q3/09. In October 2009, FortisOntario completed the $75M acquisition of Great Lakes Power Distribution (subsequently

Exhibit 3 – Nature of FTS' Regulation

Nature of Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	2009
		ROE			
Terasen Gas Companies					
TGI	35	8.8	8.37	8.62	8.47
TGVI	40	9.5	9.07	9.32	9.17
FortisBC	40	9.2	8.77	9.02	8.87
FortisAlberta	37	8.93	8.51	8.75	8.51
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75
Fortis Ontario	43.3	9	9	9	8.01
		ROA			
Belize Electricity	N/A	10-15	10-15	10	10
Caribbean Utilities	N/A	15	15	9-11	9-11
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5

Source: Company reports.

renamed Algoma Power Inc.) which serves 12,000 customers in northern Ontario. Maritime Electric's 2009 ROE **declined slightly** to 9.75% (on deemed equity of 40%) from 10.0%. FortisOntario's 2009 ROE **decreased materially** to 8.01% from 9.00% in 2008.

- **Q3/09 Regulated Utilities - Caribbean:** In July, 2009 FTS spent US$6.1 million to increase its ownership in Caribbean Utilities by 2.7% to now own 59.5%. FTS also owns 70% of Belize Electricity and 100% of Fortis Turks and Caicos in this group. Excluding $1 million foreign currency translation gains in Q3/08, **earnings decreased by $1 million**, to $6 million**.** Earnings in Q3/09 were lower due to higher operating and amortization costs. Electricity sales **increased 2.6% YOY** to 312 GWh due to higher-than-normal temperatures on Grand Cayman in Q3/09 and loss of sales during Q3/08 from Hurricane Ike. The new T&D license for Caribbean Utilities sets 2009 customer rates using a 10% rate of return on rate base assets versus 15% allowed previously. Caribbean Utilities' CEO stated that he expects weak or no growth in sales through 2009 and into 2010. This led to CUC scratching its 32 MW capacity expansion solicitation.
- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a tough proposal by the new Belize government that would have cut 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL got 10% but the Government rejected $12.6M of retroactive costs buying necessary diesel-based power from Mexico net to FTS shareholders. On July 25, 2008, BEL appealed this decision to the Supreme Court of Belize. The hearing began in early October 2009, but the Belize trial judge postponed the case for a date still to be determined.
- **Q3/09 Fortis Non-Regulated Generation:** Year-over-year earnings were **down $5 million YOY** to $4 million in Q3/09 due to a loss of earnings from the expiration of FTS/OPG's power-for-water exchange agreement at Rankine, lower energy prices in Upper New York State, and decreased production in Belize. Materially lower energy sales (91 GWh in Q3/09 vs. 305 GWh in Q3/08) were the result. FTS expects its new US$53M 19 MW Vaca hydroelectric generating facility in Belize **could offset this earnings loss but only starting in 2010.** Much lower average wholesale market energy prices in Upper State New York (US$31.37/MWh in Q3/09 compared to US$77.82/MWh in Q3/08) and decreased production cut revenues by $12M YOY to $9M.
- **Q3/09 Fortis Properties:** Earnings were **flat** YOY at $9 million as a higher contribution from Real Estate offset lower hotel occupancy. Revenue per available room slipped to $89.02 in Q3/09, down from $93.64 in Q3/08 due to lower occupancy, particularly in Ontario and western Canada.
- **Corporate and other:** Overall net corporate and other expenses were **up $2 million YOY** to $17 million due to higher financing charges. Revenues were flat YOY at $7 million driven by higher inter-company interest income as a result of increased inter-company lending.
- **Capital expenditures:** Utility capital expenditures are now expected to **exceed $1B** in 2009 ($904M in 2008) with most growth driven by B.C. and Alberta utlities. Fortis continues to pursue acquisitions for profitable growth, focusing on regulated natural gas and electric utilities in the U.S. and Canada. Over the next five years, FTS expects capital expenditures **to total $5.0B, unchanged**. Major projects include:
  - **$200M** liquefied natural gas facility on Vancouver Island.
  - **US$53M** Vaca 19 MW hydroelectric facility in Belize.
  - **$161M** installation of automated meters at FortisAlberta.
  - **$139M** Okanagan Transmission Reinforcement Project at FortisBC.
- **Financial:** FTS' capital structure now stands at 59.8% debt, 7.1% preferred equity and 33.1% common equity, **in line with FTS' targets**. However, FTS is more levered than TRP (50% debt, 3% preferred equity, 3% junior sub notes and 44% common equity). FTS has $2.15B in credit facilities available (maturities do not start until 2011) with **$1.56B undrawn**. S&P confirmed FTS with an A- credit rating with a stable outlook in September 2009 citing the broad diversification of FTS' asset base. FTS stated it focuses on EPS as its final measure of performance (as do we).

SC Online Analyst Link

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* *Legend*

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Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

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Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

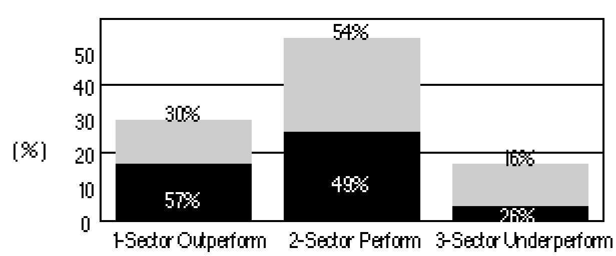
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at October 31, 2009.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer

Fortis Inc.

(FTS-T C$27.76)

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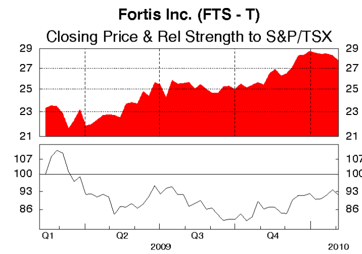
Rating: 2-Sector Perform	**Target**	1-Yr:	C$30.00	**ROR**	1-Yr:	11.8%	**Est. NTM Div.**	C$1.04
Risk Ranking: Low		2-Yr:	C$32.00		2-Yr:	22.8%	**Div. (Current)**	C$1.04
Valuation: 16.5x P/E on 2011E EPS							**Yield**	3.7%

Q4/09 EPS a Mild Miss



Source: Global Insight, Inc.

Event

- Fortis reported Q4/09 EPS of $0.48 post three one-time items, ex the announced multiple ROE/equity base adjustments totalling $0.06. The $0.48 missed us and the Street at $0.52 and $0.50 ($0.46-$0.55 range).

Implications

- The $0.04 miss vs. our estimate was due partly to the new third Belize hydro facility coming on stream now instead of in Q4/09. We had expected $0.02 in Q4/09 from this facility. Other segment earnings were relatively in line with our expectations.
- FTS' unchanged five-year $5B capital program should allow its rate base to grow an average 6%-7%/year. After flat 2009 EPS due to FTS' equity issue (8% dilution), FTS' EPS growth should pick up again starting in 2010.
- There was no change to our 2010E/2011E outlook, so we kept our 2010E/11E EPS, 16.5x 2011E EPS P/E multiple, and $30 one-year target unchanged.

Recommendation

- We upgraded FTS on Feb. 3 to 2-Sector Perform with an unchanged $30 one-year target due to a lower expected return on Capital Power (downgraded on Feb. 3 to 3-Sector Underperform on weaker power prices).

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009A	$0.54 A	$0.31 A	$0.21 A	$0.48 A	$1.54	18.62
2010E	$0.60	$0.31	$0.24	$0.55	$1.70	16.33
2011E	$0.63	$0.33	$0.26	$0.59	$1.81	15.34

(FY-Dec.)	2007A	2008A	2009A	2010E	2011E
Adj Earnings/Share	$1.40	$1.56	$1.54	$1.70	$1.81
Cash Flow/Share	$3.56	$3.90	$3.77	$4.13	$4.33
Price/Earnings	20.7	15.8	18.6	16.4	15.3
Revenues	$2,718	$3,903	$3,637	$4,175	$4,300
EBITDA	$814	$1,048	$1,064	$1,132	$1,169
Current Ratio	0.6	0.7	0.7	0.7	0.8
EBITDA/Int. Exp	2.7	2.9	3.0	3.1	3.2

IBES Estimates	**BVPS10E**	$15.42	**Shares O/S (M)(Basic)**	170.3
CFPS 2010E: $3.91	**ROE10E**	11.2%	**Float O/S (M)**	168.5
CFPS 2011E: N/A			**Total Value ($M)**	4,728
			Float Value ($M)	4,678
Next Reporting Date	Apr-10		**TSX Weight**	0.38%

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Fixed Income Research Link

SC Online Analyst Link

Note: Indirect

For important disclosure information see Appendix A of this report.

Q4/09 EPS / EPS Forecasts / Stock & Sector Valuation

- **Q4/09 EPS a mild miss:** Fortis reported Q4/09 EPS of $0.48. This number was post the adjustment of a one-time cost conversion of Whistler customer appliances from propane to natural gas, a $0.01 prior period tax adjustment and a $0.01 favourable adjustment to depreciation expense. The Q4/09 adjusted EPS of $0.48 is ex the multiple ROE/equity base adjustments that FTS received totalling $0.06 which included prior period adjustments. The $0.48 missed us and the Street at $0.52 and $0.50 ($0.46-$0.55 range). This was mainly due to the new third Belize hydro facility coming on 90 days late so it had no impact to Q4 EPS (we had expected $0.02). We had $0.07 relating to the retro ROE and equity rate base percentage regulatory decisions vs. FTS' actual amount of $0.06 reported. Other segment earnings were relatively in line with our expectations See Exhibit 1 for an EPS recurring/adjusted breakdown and Exhibit 2 for Fortis' EPS contribution by segment.

Exhibit 1 – Q4/09 EPS Recurring Breakdown

Reported EPS	**$**	**0.48**
Conversion of Whistler customer appliances	$	0.030
Prior period tax adjustment	$	(0.018)
Favourable adjustment to depreciation expense	$	(0.009)
Adjusted EPS	**$**	**0.48**
Scotia Estimate	**$**	**0.52**
Bloomberg Consensus EPS	**$**	**0.50**

Source: Bloomberg; Scotia Capital estimates.

- **Stock & sector valuation:** We left our 16.5x P/E multiple on FTS unchanged. This is at the upper end for energy utilities and IPPs that we follow as FTS has no coal-fired asset exposure and minimal spot merchant power exposure in the U.S. Northeast. **We continue to prefer higher growth Pipelines** (ENB EPS expected to grow 10%/year through 2014-2015, TRP EBITDA 10% plus/year through 2010) over Energy Utilities and IPPs. FTS' five-year, $5B capital program ($1B+ expected this year) should allow its rate base to grow an average 6%-7%/year again.

- **FTS recommendation:** FTS' 2010E/2011E EPS growth should now pick up again with no equity required in 2010 after its $250M preferred share deal done in January 2010. We set our energy utility 2011E P/E multiples assuming 4.6% 10-year Canada rates (Scotia Economics now estimates 4.8% one year out vs. 3.4% today) and more normal corporate debt risk premiums (currently 90-110 basis points over normal levels for A- rated pipeline/utility equities).

Segmented Q4/09 Results

- **Q4/09 Terasen Gas:** Reported a earnings of $48 million in Q4/09 versus earnings of $47 million in Q4/08 despite gas volumes falling 17% YOY due to lower weather-related gas consumption and a weak economy. Net customer additions were only 7,400 or less than 1%, following a loss of 300 customers in Q3/09. Total net additions for 2009 were lower YOY at 8,200 vs. 12,800 in 2008 due to a continued weakening in housing and construction markets, slowing economic growth and growth in multi-family housing. Terasen Gas is composed of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2009 ROE was increased in Q4/09 to 9.5% from 8.47% on an increased deemed equity of 40% vs. 35% previously. TGVI's allowed ROE was also increased to 10% vs. 9.17% previously on an unchanged deemed equity of 40% (Exhibit 3). **Both increases are effective July 1, 2009 through December 31, 2010.**

Exhibit 2 – Fortis' EPS Contribution by Segment

FORTIS INC.		EPS Contribution			
		Q4/09	(%)	Q4/08	(%)
Regulated Gas	Terasen Gas	$ 0.28	59%	$ 0.30	62%
Regulated Electric	FortisAlberta	$ 0.09	19%	$ 0.07	14%
	FortisBC	$ 0.05	10%	$ 0.04	9%
	Newfoundland Power	$ 0.05	10%	$ 0.05	11%
	Other Canadian *	$ 0.04	7%	$ 0.02	4%
	Caribbean **	$ 0.04	9%	$ 0.05	11%
Non-Regulated Operations	Fortis Hydroelectric Generation	$ 0.02	4%	$ 0.05	11%
	Fortis Properties	$ 0.03	6%	$ 0.03	5%
	Fortis Corporate	$ (0.11)	-23%	$ (0.13)	-26%
	EPS	$0.48		$0.48	

Source: Company reports; Scotia Capital estimates.

- **Terasen Gas Vancouver Island (TGVI)** got approval on April 1, 2008 for the construction and operation of a 1.5 Bcf/d LNG natural gas storage facility on Vancouver Island. FTS estimated a capital cost of $175 million to $200 million, with an in-service date of 2011.
- **Q4/09 FortisAlberta:** Reported earnings increased $4M YOY to $15M as an 8.6% increase in customer distribution rates was more than offset by higher amortization and finance charges associated with FortisAlberta's capex program. **Energy deliveries rose 1.5% or 61 GWh YOY**, due to an increase in residential, commercial, and farm customers, partially offset by a decrease in oilfield customers. In November 2009, the AUC approved an increase to FortisAlberta's ROE to 9% from 8.61% and boosted the allowed equity thickness to 41% from 37% for 2009/2010/2011.
- **Q4/09 FortisBC:** Reported Q4/09 net earnings of $8 million were up $1 million YOY due to a 2.3% increase in electricity sales from residential, indirect wholesale, and general service customers. An electricity rate increase of 4.6% (effective January 1, 2009) and a further 2.2% increase in customer electricity rates (effective September 1, 2009) increased revenue $3M YOY. In December 2009, the BCUC awarded an additional 103 bp to FortisBC's allowed ROE, now 9.9%, on an unchanged equity thickness.

- **Q4/09 Newfoundland Power:** Earnings were **flat YOY at $8 million**. Slightly higher YOY electricity sales (+1.7%) were offset by higher peak demand charges and higher operating expenses, Amortization is now being allocated each quarter based on capitalized assets in service. Previous allocations were based on quarterly sales margin. The PUB gave this FTS subsidiary a 2010 allowed ROE of 9%, up 5 bp from 8.95% in 2009 and 2008.
- **Q4/09 Other Canadian Electric Utilities**: Following the acquisition of Terasen, Fortis put Maritime Electric and FortisOntario into an "other" category. **Earnings were up $3M YOY to $6 million due to** a one-time prior period income tax adjustment of $3M. In October 2009, FortisOntario completed the $75M acquisition of Great Lakes Power Distribution (subsequently renamed Algoma Power Inc.), which serves 12,000 customers in northern Ontario. Algoma accounted for $8M of the $12M increase in revenues but did not contribute significantly to the bottom line ($0.1M). Excluding Algoma Power, sales volumes decreased 1% YOY in Q4/09. Maritime Electric's 2009 ROE **declined slightly** to 9.75% (on deemed equity of 40%) from 10.0%. Maritime Electric has requested a flat 9.75% ROE for 2010 and 2011. FortisOntario's 2010 "preliminary" ROE is set at 9.75%. FTS has requested the same rate apply to Algoma Power.

Exhibit 3 – Nature of FTS' Regulation

Nature of Regulation						
Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	2009	2010
		ROE				
Terasen Gas Companies						
TGI	40	8.8	8.37	8.62	8.47	9.5
TGVI	40	9.5	9.07	9.32	9.17	10
FortisBC	40	9.2	8.77	9.02	8.87	9.9
FortisAlberta	41	8.93	8.51	8.75	8.51	9
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps	9
Maritime Electric	40	10.25	10.25	10	9.75	?
Fortis Ontario	43.3	9	9	9	8.01	9.75
		ROA				
Belize Electricity	N/A	10-15	10-15	10	10	?
Caribbean Utilities	N/A	15	15	9-11	9-11	?
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5	?

Source: Company reports.

- **Q4/09 Regulated Utilities - Caribbean:** In July 2009, FTS spent US$6.1 million to increase its ownership in Caribbean Utilities by 2.7% to now own 59.5%. FTS also owns 70% of Belize Electricity and 100% of Fortis Turks and Caicos in this group. Excluding $1 million foreign currency translation gains in Q4/09, **earnings were flat YOY**, at nil**.** Electricity sales **decreased 20% YOY** to 290 GWh. Excluding the Caribbean Utilities results in Q4/08, electricity sales increased 10% YOY in Q4/09, but the YOY increase benefits from the lingering impact of Hurricane Ike in Q4/08. Caribbean Utilities' CEO stated previously that he expects weak or no growth in sales through 2009 and into 2010. This led to CUC scratching its 32 MW capacity expansion solicitation. In November 2009, the Comision Federal de Electricidad (CFE) of Mexico cancelled the guaranteed power supply contract for firm energy with Belize Electricity due to gas availability issues. The contract had been set to expire in December 2010. CFE is proposing a new 50 MW contract with Belize Electricity. We slightly discount FTS' P/E multiple to account for political/weather risks within its Caribbean operations. FTS stated it would no longer invest in Belize.
- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a tough proposal by the new Belize government that would have cut 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL got 10% but the government rejected $12.6M of retroactive costs buying necessary diesel-based power from Mexico net to FTS shareholders. On July 25, 2008, BEL appealed this decision to the Supreme Court of Belize. The hearing began in early October 2009, but the Belize trial judge postponed the case for a date still to be determined.
- **Q4/09 Fortis Non-Regulated Generation:** YOY earnings were **down $5 million** to $3 million in Q4/09 due to the expected loss of earnings from the expiration of FTS/OPG's power-for-water exchange agreement at Rankine, lower energy prices in Upper New York State, and decreased production in Belize. Materially lower energy sales (87 GWh in Q4/09 vs. 312 GWh in Q4/08) were the result.

- **Q4/09 Fortis Properties:** Earnings were **up $1 million** YOY to $5 million. Hospitality revenue increased $1 million YOY due to the contribution of the Sheraton Hotel Newfoundland, acquired in November 2008, and the Holiday Inn Select Windsor, acquired in April 2009. The benefit of these new acquisitions was partially offset by lower REVPAR of $68.87 vs. $72.86 last year.
- **Corporate and other:** Overall net corporate and other expenses were down **$1 million YOY** to $19 million due to lower operating expenses, partially offset by higher financing charges and a lower corporate tax recovery. Revenues were flat YOY at $6 million.
- **Capital expenditures:** Utility capital expenditures exceeded **$1B** in 2009. A similar spend is forecast for 2010 with most of the growth driven by B.C. and Alberta Utilities. Fortis continues to pursue acquisitions for profitable growth, focusing on regulated natural gas and electric utilities in the U.S. and Canada. Over the next five years, FTS expects capital expenditures **to total $5.0B, unchanged**. Major projects include:
  - **$200M** liquefied natural gas facility on Vancouver Island.
  - **US$53M** Vaca 19 MW hydroelectric facility in Belize.
  - **$161M** installation of automated meters at FortisAlberta.
  - **$139M** Okanagan Transmission Reinforcement Project at FortisBC.
- **Financial:** FTS' capital structure now stands at 60.2% debt, 6.9% preferred equity and 32.9% common equity, **in line with FTS' targets**. S&P confirmed FTS with an A- credit rating with a stable outlook in September 2009, citing the broad diversification of FTS' asset base. FTS stated it focuses on EPS as its final measure of performance (as do we).

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures*
Fortis Inc.	FTS	H3, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

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* *Legend*

H3 The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.

S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

U Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

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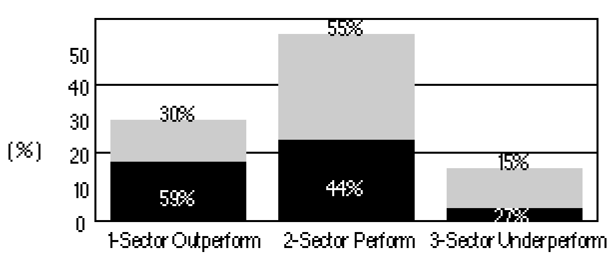

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Rating: 2-Sector Perform	**Target**	1-Yr:	C$30.00	**ROR**	1-Yr:	11.9%	**Est. NTM Div.**	C$1.12
Risk Ranking: Low		2-Yr:	C$32.00		2-Yr:	23.1%	**Div. (Current)**	C$1.12
Valuation: 16.5x P/E on 2011E EPS							**Yield**	4.0%

Key Risks to Target: Interest rates, growth

U.S. Utility M&A Heats Up

Event

- E.ON has approved the sale of its U.S. regulated utility segment for at least US$6B but has yet to name the buyer. A deal is expected to be announced this morning (Thursday, April 28, 2010).

Implications

- U.S. utilities Duke Energy, PPL, and a consortium that included Fortis were said to be the last parties at the auction. Reuters reports PPL might have been the successful bidder.
- E.ON U.S.' aggregate generation capacity is 7.5 GW:5.3 GW coal (70%) and 2.2 GW natural gas (30%).
- We do not think that Fortis would be interested in E.ON U.S.' coal fired plant assets but could be interested in its regulated natural gas generation, transmission, and distribution assets. FTS is targeting U.S. electrical utility assets in the $3B-$4B range. In 2007, FTS purchased B.C.-based Terasen Gas for $3.7B.

Recommendation

- Our sector call remains Pipelines and Energy Utilities over IPPs. Our rank order Energy Utility preference is: (1) ATCO, (2) FTS, (3) EMA, and (4) CU.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
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(FY-Dec.)	2007A	2008A	2009A	2010E	2011E
Adj Earnings/Share	$1.40	$1.56	$1.54	$1.70	$1.81
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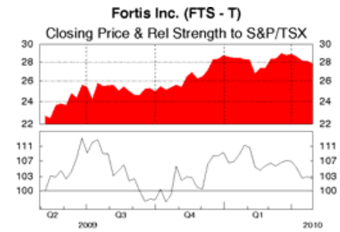
EBITDA	$814	$1,048	$1,064	$1,160	$1,212
Current Ratio	0.6	0.7	0.7	0.7	0.8
EBITDA/Int. Exp	2.7	2.9	3.0	3.1	3.2

IBES Estimates	BVPS10E	$15.48
CFPS 2010E: $4.16	ROE10E	11.2%
CFPS 2011E: $4.42		

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.
Note: Indirect



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)(Basic)	170.3
Total Value ($M)	4,736
Float O/S (M)	168.5
Float Value ($M)	4,687
TSX Weight	0.35%
Next Reporting Date	29-Apr-10

Fixed Income Research Link

SC Online Analyst Link

U.S. Utility M&A Heats Up

- **Motivated seller:** E.ON, the world's largest investor-owned utility by market value (US$68B) announced its board had approved the sale of its U.S. regulated utility segment for at least US$6B but has yet to name the buyer. E.ON previously stated its intention to sell €10B of non-core assets by the end of 2010 in order to reduce debt. U.S. utilities Duke Energy, PPL, and a consortium that including Fortis were said to be the last parties at the auction. Reuters reports PPL might have been the successful bidder. A deal is expected to be announced this morning (Thursday, April 28, 2010).
- **U.S. utility deal activity has increased in 2010.** In February, FirstEnergy Corp agreed to a $4.7B all-stock takeover of Allegheny Energy Inc. for ~6.6x EV/EBITDA. In early April, U.S. IPP's Mirant and RRI Energy agreed to a merger. See our April 13, 2010 comment for details, an excerpt on Mirant/RRI's merger valuation follows:
    - "Prior to the GenOn merger announcement, MIR and RRI traded at 5.4x and 8.0x 2011E EBITDA vs. TA and CPX at 8.2x and 11.3x. **This highlights TA's and CPX's better credit quality and greener asset base.** The EV to 2011E EBITDA for GenOn falls in between the standalone MIR and RRI multiples **and is still less than TA and CPX 2011E multiples.** If GenOn is able to realize the full $150M in synergies, the industry EV/EBITDA multiple range of 6x-8x would infer $900M to $1,200M in synergy enterprise value. This would imply a GenOn market cap of $3,840M-$4,140M based on closing prices of RRI Energy and Mirant prior to the deal announcement (Friday, April 9) vs. the current market cap of $3,434M."
- **E.ON's U.S. market segment consists of two utilities**: Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KUC):
    - **LG&E** - serves 389,000 electric customers and 314,000 natural gas customers. Total regulated generation capacity of is 3,514 MW.
    - **KU** - serves 508,000 electric customers in Kentucky and 30,000 electric customers in Virginia. Total regulated generation capacity of is 4,570 MW.

Exhibit 1 - E.ON's U.S. Midwest EBITDA Segment Results

Source: Company reports.

- **E.ON U.S.' aggregate generation capacity is 7.5 GW: 5.3 GW coal (70%) and 2.2 GW natural gas (30%).** Total generation for this segment is 30.9B kWh, virtually all coal-based: 98% coal, 1% natural gas and 1% hydro. E.ON also owns renewable generation in the U.S. (not included in the two utilities noted above), with 10 wind facilities located primarily in Texas. See Exhibit 1 for E.ON's U.S. Midwest EBITDA segment results that do not include the Texas wind assets, which are included in E.ON's Renewable segment.
- **Fortis implications:** We do not think that Fortis (FTS) would be interested in E.ON U.S.' coal fired plant assets but FTS could be interested in E.ON's U.S. natural gas, transmission, and distribution assets. In 2007, FTS purchased B.C.-based Terasen Gas for $3.7B. We hosted Fortis for an investor lunch on April 8, 2010, at which time FTS said it has been close on several U.S. utility transactions but boards of the takeover targets backed away. FTS targets U.S. electrical utility assets in the $3B-$4B range. A larger target would lead to FTS looking for a financing partner such as a pension fund involved in infrastructure. If FTS was successful in its consortium bid, we would expect FTS to issue equity as it has in the past for acquisitions of similar size, regulated assets like Terasen Gas. Subsequent to the February 2007 Terasen acquisition, FTS issued $1.152B of new equity for $1.11Bof Terasen's 2007 regulated equity, in line.

- LG&E serves 389,000 electric customers.
- LG&E serves 314,000 natural gas customers.
- Service area covers approximately 700 square miles.
- LG&E's total regulated generation capacity is 3,514 megawatts.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, H3, I, S, U

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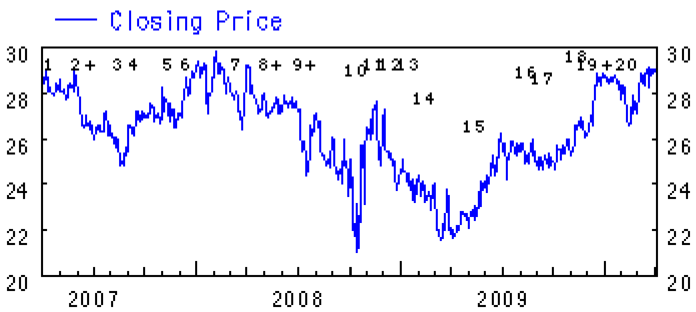

Numbers are located to the left of the lines they represent.
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Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	30-Apr-07	$28.24	* 2-Sector Perform	*$29.50
2	6-Jun-07	$27.42	2-Sector Perform	*$30.00
	14-Jun-07	$26.57	2-Sector Perform	*$29.00
	16-Jun-07	$26.96	2-Sector Perform	*$28.50
3	4-Aug-07	$26.05	* 1-Sector Outperform	$28.50
	17-Aug-07	$24.80	1-Sector Outperform	*$27.00
4	25-Sep-07	$27.17	1-Sector Outperform	*$28.50
5	3-Nov-07	$27.19	1-Sector Outperform	*$29.50
	27-Nov-07	$26.82	1-Sector Outperform	*$30.00
6	14-Dec-07	$27.84	1-Sector Outperform	*$31.00
7	29-Mar-08	$28.41	1-Sector Outperform	*$32.00
8	2-May-08	$27.28	1-Sector Outperform	*$33.00
	21-May-08	$27.68	1-Sector Outperform	*$33.50
9	1-Jul-08	$27.16	1-Sector Outperform	*$33.00
	17-Jul-08	$24.55	1-Sector Outperform	*$32.00
10	8-Oct-08	$22.25	1-Sector Outperform	*$28.00
11	1-Nov-08	$26.30	1-Sector Outperform	*$29.00
	15-Nov-08	$27.39	1-Sector Outperform	*$30.00
	18-Nov-08	$25.96	* 2-Sector Perform	$30.00
12	3-Dec-08	$25.48	Restricted	Restricted
13	8-Jan-09	$24.49	* 2-Sector Perform	*$28.50
14	6-Feb-09	$23.86	2-Sector Perform	*$28.00
15	1-May-09	$22.36	2-Sector Perform	*$27.00
16	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
17	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
18	14-Nov-09	$26.60	3-Sector Underperform	*$27.00
19	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
20	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
* represents the value(s) that has changed.				

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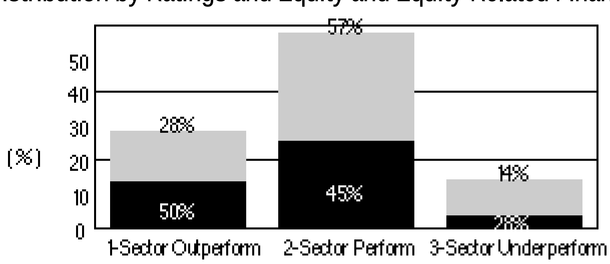

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Equity Research DAILY Edge

Company Comment

Monday, May 3, 2010

Fortis Inc.

(FTS-T C$28.05)

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Rating: 2-Sector Perform	**Target**	1-Yr:	C$30.00	**ROR**	1-Yr:	10.9%	**Est. NTM Div.**	C$1.12
Risk Ranking: Low		2-Yr:	C$32.00		2-Yr:	22.1%	**Div. (Current)**	C$1.12
Valuation: 16.5x P/E on 2011E EPS							**Yield**	4.0%
Key Risks to Target: Interest rates, growth								

Q1/10 EPS Relatively in Line

Event

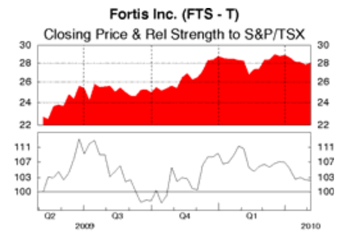
- Fortis reported Q1/10 EPS of $0.58, slightly missing our estimate at $0.60, but matching the Street at $0.58 ($0.55-$0.60). There was a delay starting up a Belize Hydro dam while Q1/10 rainfall there was below normal.

Implications

- The new Belize hydro facility finally started in March 2010 but Q1/10 rainfall was below normal. This cost $0.01-$0.02/share vs. our expectations. Our outlook on FTS' 2010E-14E $5B of capital expenditures along with its 6% organic rate base/EPS/dividend growth is unchanged. FTS stated in its release that it continues to look for acquisition growth opportunities.
- FTS has been targeting U.S. electrical utility assets in the US$3B-$4B range. It appears FTS' consortium came in second in the bid for E.ON's U.S. regulated utilities, won by PPL for US$6.7B.
- There was no change to our 2011E outlook, so we kept our 2011E EPS, 16.5x 2011E P/E multiple and $30 one-year target unchanged.

Recommendation

- We continue to like FTS for its highly regulated, mostly transmission and distribution asset base with mostly regulated and unregulated hydro generation.



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)(Basic)	170.3
Total Value ($M)	4,777
Float O/S (M)	168.5
Float Value ($M)	4,727
TSX Weight	0.35%
Next Reporting Date	Jul-10

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009A	$0.54 A	$0.31 A	$0.21 A	$0.48 A	$1.54	18.62
2010E	$0.58 A	$0.31	$0.24	$0.55	$1.68	16.70
2011E	$0.63	$0.33	$0.26	$0.59	$1.81	15.50

(FY-Dec.)	2007A	2008A	2009A	2010E	2011E
Adj Earnings/Share	$1.40	$1.56	$1.54	$1.68	$1.81
Cash Flow/Share	$3.56	$3.90	$3.77	$4.22	$4.50
Price/Earnings	20.7	15.8	18.6	16.7	15.5
Revenues	$2,718	$3,903	$3,637	$3,960	$4,155
EBITDA	$814	$1,048	$1,064	$1,156	$1,212
Current Ratio	0.6	0.7	0.7	0.7	0.8
EBITDA/Int. Exp	2.7	2.9	3.0	3.1	3.2

IBES Estimates	BVPS10E	$15.45
CFPS 2010E: $4.16	ROE10E	11.1%
CFPS 2011E: $4.42		

Pertinent Revisions

	New	Old
EPS10E	$1.68	$1.70

Fixed Income Research Link

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Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Q1/10 EPS/EPS Forecasts/Stock & Sector Valuation

- **Q1/10 EPS a slight miss, matches Street:** Fortis reported Q1/10 EPS of $0.58, slightly missing our estimate at $0.60 but matching the Street at $0.58 ($0.55-$0.60). The new Belize hydro facility finally started in March 2010 costing $0.01-$0.02/share vs. our expectations due to a minor start-up delay and dry weather. See Exhibit 1 for Fortis' EPS contribution by

Exhibit 1 - Fortis' EPS Contribution by Segment

FORTIS INC.	Segment	Q1/10 EPS Contribution	(%)	Q1/09 EPS Contribution	(%)
Regulated Gas	Terasen Gas	$ 0.43	73%	$ 0.34	63%
Regulated Electric	FortisAlberta	$ 0.08	14%	$ 0.07	13%
Regulated Electric	FortisBC	$ 0.08	14%	$ 0.08	15%
Regulated Electric	Newfoundland Power	$ 0.04	7%	$ 0.04	7%
Regulated Electric	Other Canadian *	$ 0.03	5%	$ 0.03	5%
Regulated Electric	Caribbean **	$ 0.02	4%	$ 0.04	7%
Non-Regulated Operations	Fortis Hydroelectric Generation	$ 0.01	2%	$ 0.04	7%
Non-Regulated Operations	Fortis Properties	$ 0.01	2%	$ 0.01	2%
	Fortis Corporate	$ (0.12)	-21%	$ (0.10)	-18%
	EPS	$0.58		$0.54	

Source: Company reports; Scotia Capital estimates.

segment.

- **Stock & sector valuation:** We left our 16.5x P/E multiple on FTS unchanged as our interest rate and S&P/TSX P/E outlook is unchanged. Our outlook on FTS' 2010E-14E $5B of capital expenditures is also unchanged as is our 6% organic rate base/EPS/dividend growth expectation for Fortis. Our 16.5x FTS 2011E P/E multiple is at the upper end for energy utilities and IPPs that we follow as FTS has: (1) no coal-fired asset exposure, and (2) minimal spot merchant power exposure in the U.S. Northeast with green hydro generation. **We continue to prefer Energy Utilities over IPPs** but the gap has narrowed given the recent uptick in forward Alberta power prices. 2010 Alberta forward power prices have moved to the upper $50's/MWh with 2011 AB forward prices **rising 6% to $47.50**/MWh since the start of April 2010.
- **FTS recommendation:** We continue to expect FTS' 2010E/2011E EPS growth to now pick up again. Equity required in 2010 was taken care of with a $250M preferred share deal done in January 2010. We set our energy utility 2011E P/E multiples assuming 4.6% 10-year Canada rates (Scotia Economics now estimates 4.8% one year out vs. 3.65% today) and more normal corporate debt risk premiums (currently 90-110 basis points over normal levels for A-rated pipeline/utility equities).
- **FTS acquisition targets:** This week, PPL prevailed over Fortis' consortium in the E.ON U.S. regulated utility acquisition by PPL for US$6.7B. PPL does not expect to realize any cost savings synergies, but was motivated to acquire assets that were less leveraged to wholesale power markets vs. its legacy asset portfolio. News reports had circulated that Duke Energy and a consortium including Fortis had also been bidding on E.ON's U.S. segment. E.ON was a motivated seller, previously stating its intention to sell €10B of non-core assets by the end of 2010 in order to reduce debt. The sale of E.ON's U.S. segment to PPL marks the third large U.S. utility deal so far in 2010. In February, FirstEnergy Corp agreed to a $4.7B all-

stock takeover of Allegheny Energy Inc. for ~6.6x EV/EBITDA. In early April, U.S. IPP's Mirant and RRI Energy agreed to a merger of equals. **We expect Fortis to continue to look for a $3B-$4B regulated utility acquisition, likely in the U.S.**

Exhibit 2 - Nature of FTS' Regulation

Nature of Regulation						
Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	2009 (1)	2010
		ROE				
Terasen Gas Companies						
TGI	40	8.8	8.37	8.62	8.47 / 9.50	9.5
TGVI	40	9.5	9.07	9.32	9.17 / 10.0	10
FortisBC	40	9.2	8.77	9.02	8.87	9.9
FortisAlberta	41	8.93	8.51	8.75	9	9
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps	9 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75	9.75
Fortis Ontario	43.3	9	9	9	8.01	8.01
		ROA				
Belize Electricity	N/A	10-15	10-15	10	10	?
Caribbean Utilities	N/A	15	15	9-11	9-11	7.75-9.75
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5	17.5

(1) Pre-July 2009 / Effective July 1, 2009

Source: Company reports.

Segmented Q1/10 Results

- **Q1/10 Terasen Gas:** Reported earnings of $73 million in Q1/10 versus earnings of $58 million in Q1/09 despite gas volumes falling 19% YOY due to lower weather-related gas consumption and a weak industrial economy. This was due to materially higher allowed ROEs. Net customer additions were 1,566 compared to 2,256 in Q1/09 due to a continued weakening in housing and construction markets, slowing economic growth, growth in multi-family housing. Terasen Gas is comprised of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2010 ROE is 9.5% on a deemed equity of 40%, versus 35% in 2009. TGVI's allowed ROE for 2010 is 10% on an unchanged deemed equity of 40% (Exhibit 2).
- **Terasen Gas Vancouver Island (TGVI)** got approval on April 1, 2008 for the construction and operation of a 1.5 Bcf/d LNG natural gas storage facility on Vancouver Island. FTS estimates a capital cost of $175 million to $200 million, with an in-service date of 2011.
- **Q1/10 FortisAlberta:** Reported earnings increased $2M YOY to $14M due to a 7.5% increase in customer distribution rates and customer growth. **Power deliveries fell 1% or 43 GWh YOY**, due to lower consumption based on mild temperatures. In November 2009, the AUC approved a material increase to FortisAlberta's ROE to 9% from 8.61% and materially boosted the allowed equity thickness to 41% from 37% for 2009/2010/2011.
- **Q1/10 FortisBC:** Reported Q1/10 net earnings of $14 million in line with Q1/09 was due to low demand due to warm weather, offset by residential and general service customer growth. An electricity rate increase of 6% (effective January 1, 2010) offset a 9.2% drop in electricity sales to keep revenue of $72M unchanged YOY. In December 2009, the BCUC awarded an additional 103 bp to FortisBC's allowed 2010 ROE, now 9.9%, on an unchanged equity thickness of 41%.
- **Q1/10 Newfoundland Power:** Earnings were **up $1M YOY to $7 million** due to 1.8% higher YOY electricity sales. Q1/10 revenue increased 5% YOY due to a 3.5% increase in electricity rates. The PUB gave this FTS subsidiary a 2010 allowed ROE of 9%, up only 5 bp from 8.95% in 2009 and 2008.
- **Q1/10 other Canadian electric utilities**: Following the acquisition of Terasen, Fortis put Maritime Electric and FortisOntario into an "other" category. **Earnings were flat at $5M YOY**. Electricity sales were up 2.6% based on strong sales at Algoma Power offset by warmer temperatures, conservation initiatives, and the economic downturn. Excluding Algoma Power, sales volumes decreased 6.2% YOY in Q1/10. Maritime Electric's 2010 ROE is 9.75% on deemed equity of 40%. Maritime Electric has requested a flat 9.75% ROE for 2010 and 2011. FortisOntario's 2010 ROE is 8.01%. Algoma Power's 2010 ROE is tentatively set at 9.75%, but is still subject to regulatory approval.
- **Q1/10 regulated utilities - Caribbean:** FTS owns 59.5% of Caribbean Utilities, 70% of Belize Electricity and 100% of Fortis Turks and Caicos in this group. Q1/10, **earnings were down 33% YOY**, to $4M**.** Electricity sales **increased 4% YOY** to 256 GWh based on

increased air conditioning load, customer growth, and a strong winter tourist season. Caribbean Utilities' CEO stated previously that he expects weak or no growth in sales through 2009 and into 2010. This led to CUC scratching its 32 MW capacity expansion solicitation. In November 2009, the Comision Federal de Electricidad (CFE) of Mexico cancelled the guaranteed power supply contract for firm energy with Belize Electricity due to gas availability issues. The contract had been set to expire in December 2010. CFE is proposing a new 50 MW contract with Belize Electricity. We slightly discount FTS' P/E multiple to account for political/weather risks within its Caribbean operations. FTS stated it would no longer invest in Belize.

- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a tough proposal by the new Belize government that would have cut 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL got 10% but the Government rejected $12.6M of retroactive costs buying necessary to make power from Mexico net to FTS shareholders. On July 25, 2008, BEL appealed this decision to the Supreme Court of Belize. The hearing began in early October 2009, but the Belize trial judge postponed the case for a date still to be determined.
- **Q1/10 Fortis non-regulated generation:** YOY earnings were **down $4M** to $2M in Q1/10 due to the expected loss of earnings from the expiration of FTS/OPG's power-for-water exchange agreement at Rankine. Materially lower energy sales (64 GWh in Q1/10 vs. 257 GWh in Q1/09) were the result. The contribution from the new Vaca dam was negligible as it started late in the quarter.
- **Q1/10 Fortis properties:** Earnings were **flat at $2M** YOY. Hospitality revenue increased $1 million YOY due to the contribution of the Holiday Inn Select Windsor, acquired in April 2009 and properties in Atlantic Canada. The earnings benefit of these new acquisitions was offset by lower REVPAR of $62.93/room vs. $64.40/room last year.
- **Corporate and other:** Overall net corporate and other expenses were up **$4M YOY** to $21 million due to higher financing charges and higher preference share dividends. Revenues were flat YOY at $7 million. In January 2010, FTS completed a $250M five-year fixed rate reset preference share offering with the proceeds being used to pay down debt and fund working capital and capex for TGI.
- **Capital expenditures:** Utility capital expenditures are still expected to exceed **$1B** in 2010 with most of the growth driven by B.C. and Alberta Utilities. Fortis continues to pursue mostly U.S. acquisitions focusing on regulated natural gas and electric utilities. Over the next five years, FTS expects capital expenditures **to total $5.0B, unchanged**. Major projects include:
  - **$200M** liquefied natural gas facility on Vancouver Island.
  - **US$53M** Vaca 19 MW hydroelectric facility in Belize (now finished).
  - **$161M** installation of automated meters at FortisAlberta.
  - **$139M** Okanagan Transmission Reinforcement Project at FortisBC.
- **Financial:** FTS' capital structure now stands at 57.5% debt, 9.4% preferred equity and 33.1% common equity, **in line with FTS' targets**. S&P confirmed FTS with an A- credit rating with a stable outlook in September 2009 citing the broad diversification of FTS' asset base. FTS stated it focuses on EPS as its final measure of performance (as do we).

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Fortis Inc.	FTS	G, H3, I, S, U

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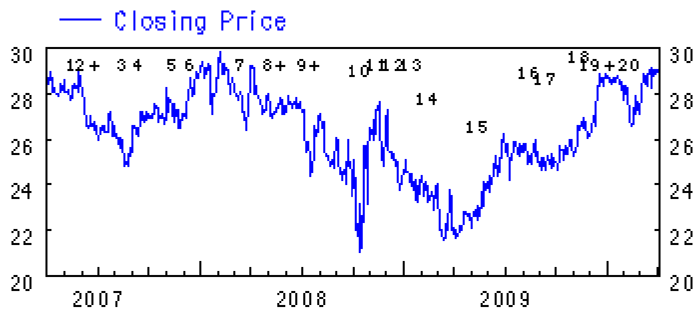

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Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	1-May-07	$28.58	* 2-Sector Perform	*$29.50
2	6-Jun-07	$27.42	2-Sector Perform	*$30.00
	14-Jun-07	$26.57	2-Sector Perform	*$29.00
	16-Jun-07	$26.96	2-Sector Perform	*$28.50
3	4-Aug-07	$26.05	* 1-Sector Outperform	$28.50
	17-Aug-07	$24.80	1-Sector Outperform	*$27.00
4	25-Sep-07	$27.17	1-Sector Outperform	*$28.50
5	3-Nov-07	$27.19	1-Sector Outperform	*$29.50
	27-Nov-07	$26.82	1-Sector Outperform	*$30.00
6	14-Dec-07	$27.84	1-Sector Outperform	*$31.00
7	29-Mar-08	$28.41	1-Sector Outperform	*$32.00
8	2-May-08	$27.28	1-Sector Outperform	*$33.00
	21-May-08	$27.68	1-Sector Outperform	*$33.50
9	1-Jul-08	$27.16	1-Sector Outperform	*$33.00
	17-Jul-08	$24.55	1-Sector Outperform	*$32.00
10	8-Oct-08	$22.25	1-Sector Outperform	*$28.00
11	1-Nov-08	$26.30	1-Sector Outperform	*$29.00
	15-Nov-08	$27.39	1-Sector Outperform	*$30.00
	18-Nov-08	$25.96	* 2-Sector Perform	$30.00
12	3-Dec-08	$25.48	Restricted	Restricted
13	8-Jan-09	$24.49	* 2-Sector Perform	*$28.50
14	6-Feb-09	$23.86	2-Sector Perform	*$28.00
15	1-May-09	$22.36	2-Sector Perform	*$27.00
16	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
17	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
18	14-Nov-09	$26.60	3-Sector Underperform	*$27.00
19	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
20	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
* represents the value(s) that has changed.				

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The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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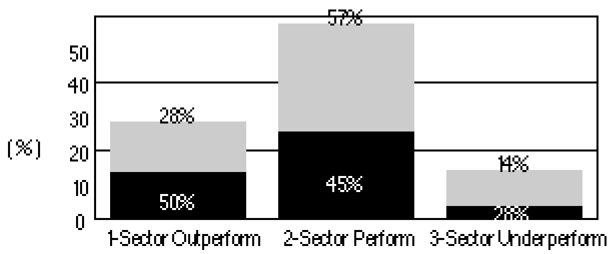

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Fortis Inc.

(FTS-T C$28.84)

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Rating: 2-Sector Perform	**Target** 1-Yr:	C$30.00	**ROR** 1-Yr:	7.9%	**Est. NTM Div.**	C$1.12
Risk Ranking: Low	2-Yr:	C$32.00	2-Yr:	18.7%	**Div. (Current)**	C$1.12
Valuation: 16.5x P/E on 2011E EPS					**Yield**	3.9%

Key Risks to Target: Interest rates, growth

Q2/10 EPS in Line

Event

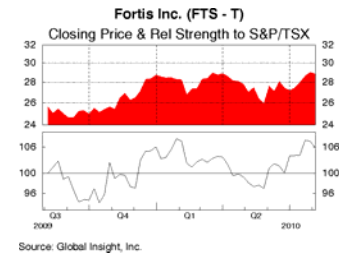
- Fortis reported Q2/10 EPS of $0.32, $0.01 above our $0.31 estimate but matching the Street average at $0.32 (range $0.30-$0.34). The Q2/10 segmented EPS results yielded no surprises.

Implications

- Q2/10 EPS and contributions by segment were exceptionally in line. After a review, we were a bit more cautious on FTS Properties results that came in flat (slight positive) but were not aware of the larger Belize Corporate tax (slight negative).
- FTS' 2010E-14E $5B of mostly regulated budgeted capital expenditures is unchanged along with its 6% organic rate base/EPS/dividend growth. FTS continues to look for acquisition growth opportunities in mostly the U.S., targeting regulated U.S. electrical utility assets.
- There was no change to our 2011E EPS outlook, so we kept our 2011E EPS, 16.5x 2011E P/E multiple and $30 one-year target unchanged.

Recommendation

- We continue to like FTS for its highly regulated, low carbon footprint transmission and distribution asset base but currently prefer ATCO amongst FTS' Energy Utility peers.



Capitalization	
Shares O/S (M)(Basic)	172.9
Total Value ($M)	4,985
Float O/S (M)	171.2
Float Value ($M)	4,938
TSX Weight	0.38%
Next Reporting Date	Nov-10

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009A	$0.54 A	$0.31 A	$0.21 A	$0.48 A	$1.54	18.62
2010E	$0.58 A	$0.32 A	$0.24	$0.55	$1.69	17.07
2011E	$0.63	$0.33	$0.26	$0.59	$1.81	15.93

(FY-Dec.)	2007A	2008A	2009A	2010E	2011E
Adj Earnings/Share	$1.40	$1.56	$1.54	$1.69	$1.81
Cash Flow/Share	$3.56	$3.90	$3.77	$4.23	$4.50
Price/Earnings	20.7	15.8	18.6	17.0	15.9
Revenues	$2,718	$3,903	$3,637	$3,970	$4,155
EBITDA	$814	$1,048	$1,064	$1,158	$1,212
Current Ratio	0.6	0.7	0.7	0.7	0.8
EBITDA/Int. Exp	2.7	2.9	3.0	3.1	3.2

IBES Estimates		
CFPS 2010E: $4.14	BVPS10E	$15.47
CFPS 2011E: $4.41	ROE10E	11.2%

Pertinent Revisions

	New	Old
EPS10E	$1.69	$1.68

Fixed Income Research Link

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Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Q2/10 EPS/EPS Forecasts/Stock & Sector Valuation

- **Q2/10 EPS in line:** Fortis reported Q2/10 EPS of $0.32, $0.01 above our $0.31 estimate but matching the Street at $0.32 (range $0.30-$0.34). The Q2/10 segmented EPS results yielded no surprises. The slight variations to our assumptions offset (flat Properties results were a slight positive to us offset by a larger Belize corporate tax, a slight negative). See Exhibit 1 for Fortis' EPS contribution by segment.

Exhibit 1 - Fortis' EPS Contribution by Segment

FORTIS INC.

		EPS Contribution			
		Q2/10	(%)	Q2/09	(%)
Regulated Gas	Terasen Gas	$ 0.10	31%	$ 0.08	26%
Regulated Electric	FortisAlberta	$ 0.10	31%	$ 0.10	32%
	FortisBC	$ 0.05	15%	$ 0.04	13%
	Newfoundland Power	$ 0.06	20%	$ 0.06	21%
	Other Canadian *	$ 0.02	7%	$ 0.02	8%
	Caribbean **	$ 0.04	13%	$ 0.04	13%
Non-Regulated Operations	Fortis Hydroelectric Generation	$ 0.02	5%	$ 0.02	6%
	Fortis Properties	$ 0.05	15%	$ 0.05	15%
	Fortis Corporate	$ (0.12)	-36%	$ (0.11)	-34%
	EPS	$0.32		$0.31	

Source: Company reports; Scotia Capital estimates.

- **Stock & sector valuation:** We left our 16.5x P/E multiple and one-year target on FTS unchanged. Our outlook on FTS' 2010E-14E $5B of capital expenditures is also unchanged as is our 6% organic rate base/EPS/dividend growth expectation for Fortis. Our 16.5x FTS 2011E P/E multiple is at the upper end for energy utilities and IPPs that we follow as FTS has: (1) no coal-fired asset exposure, and (2) minimal spot merchant power exposure in the U.S. Northeast with green hydro generation. **We continue to prefer Energy Utilities over IPPs**.
- **FTS recommendation:** We continue to expect FTS' 2010E/2011E EPS growth to now pick up again at 6%/year or so. Equity required in 2010 was taken care of with a $250M preferred share deal done in January 2010. We set our energy utility 2011E P/E multiples assuming 4.6% 10-year Canada rates (Scotia Economics now estimates 3.95% 15 months out versus vs. 3.18% actual today) and normal corporate debt risk premiums (currently 90-110 basis points over normal levels for A- rated pipeline/utility equities).
- **FTS acquisition targets:** Last quarter, PPL prevailed over Fortis' consortium bid on the E.ON U.S. regulated utility acquisition by PPL for US$6.7B. News reports had circulated that Duke Energy and a consortium including Fortis had also been bidding on E.ON's U.S. segment. **We expect Fortis to continue to look for a $3B-$4B regulated utility acquisition, likely in the U.S.** Fortis stated in its release that it is looking at Canadian and Caribbean assets as well for potential acquisition targets.

Segmented Q2/10 Results

- **Q2/10 Terasen Gas:** Reported earnings of $17M in Q2/10 versus earnings of $14M in Q2/09 due to: (1) 17% higher gas volumes as a result of cooler weather and (2) increased delivery rates (effective January 1, 2010). Net customer additions were 1,829 compared to 1,068 in Q2/09 due to increased building activity, while customer disconnections were lower YOY due to cooler weather. Terasen Gas is comprised of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2010 ROE is 9.5% on a deemed equity of 40%, versus 35% in 2009. TGVI's allowed ROE for 2010 is 10% on an unchanged deemed equity of 40% (Exhibit 2).
- **Terasen Gas Vancouver Island (TGVI)** got approval on April 1, 2008 for the construction and operation of a 1.5 Bcf/d LNG natural gas storage facility on Vancouver Island. FTS estimated a capital cost of $175 million to $200 million, with an in-service date of 2011.

Exhibit 2 - Nature of FTS' Regulation

Nature of Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	2009 (1)	2010
		ROE				
Terasen Gas Companies						
TGI	40	8.8	8.37	8.62	8.47 / 9.50	9.5
TGVI	40	9.5	9.07	9.32	9.17 / 10.0	10
FortisBC	40	9.2	8.77	9.02	8.87	9.9
FortisAlberta	41	8.93	8.51	8.75	9	9
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps	9 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75	9.75
Fortis Ontario	40	9	9	9	8.01	8.01
		ROA				
Belize Electricity	N/A	10-15	10-15	10	10	?
Caribbean Utilities	N/A	15	15	9-11	9-11	7.75-9.75
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5	17.5

(1) Pre-July 2009 / Effective July 1, 2009

Source: Company reports.

- **Q2/10 FortisAlberta:** Reported earnings were flat YOY at $17M due to a 7.5% increase in customer distribution rates and customer growth off set by lower corporate tax recoveries. **Power deliveries fell 1% or 41 GWh YOY**, due to lower consumption based on mild temperatures, partially offset by a 20,000 increase in new customers YOY. In November 2009, the AUC approved a material increase to FortisAlberta's ROE to 9% from 8.61% and materially boosted the allowed equity thickness to 41% from 37% for 2009/2010/2011.
- **Q2/10 FortisBC:** Reported Q2/10 net earnings of $8M were up $1M from Q1/09 due to a 6% increase in customer electricity rates effective January 1, 2010. This was partially offset by a 0.7% drop in electricity sales. In December 2009, the BCUC awarded an additional 103 bps to FortisBC's allowed 2010 ROE, now 9.9%, on an unchanged equity thickness of 41%.
- **Q2/10 Newfoundland Power:** Earnings were **flat YOY at $11M** due to 3.6% higher YOY electricity sales offset by a gain on sale of property in Q2/09. Q2/10 revenue increased 6% YOY due to a 3.5% increase in electricity rates. The PUB gave this FTS subsidiary a 2010 allowed ROE of 9%, up only 5 bp from 8.95% in 2009 and 2008.
- **Q2/10 Other Canadian Electric Utilities**: Following the acquisition of Terasen, Fortis put Maritime Electric and FortisOntario into an "other" category. **Earnings were flat at $4M YOY**. Electricity sales were up 11% based on strong sales at Algoma Power and warmer temperatures in Ontario. Excluding Algoma Power, sales volumes increased 2.9% YOY in Q2/10. Maritime Electric's 2010 ROE is 9.75% on deemed equity of 40%. Maritime Electric has requested a flat 9.75% ROE for 2010 and 2011. FortisOntario's 2010 ROE is 8.01%. Algoma Power's 2010 ROE is tentatively set at 9.85% (effective July 1, 2010), but is still subject to regulatory approval.
- **Q2/10 Regulated Utilities - Caribbean:** FTS owns 59.5% of Caribbean Utilities, 70% of Belize Electricity, and 100% of Fortis Turks and Caicos in this group. Q2/10, **earnings were flat YOY** at $7M**.** Electricity sales **increased 6% YOY** to 307 GWh based on increased air conditioning load, customer growth, improving tourism activity, and record peak loads achieved in June 2010 at Caribbean Utilities (102 MW) and Fortis Turks and Caicos (30 MW). Caribbean Utilities' CEO stated previously that he expects weak or no growth in sales through 2009 and into 2010. This led to CUC scratching its 32 MW capacity expansion solicitation. In November 2009, the Comision Federal de Electricidad (CFE) of Mexico

cancelled the guaranteed power supply contract for firm energy with Belize Electricity due to gas availability issues. The contract had been set to expire in December 2010. CFE is proposing a new 50 MW contract with Belize Electricity. We slightly discount FTS' P/E multiple to account for political/weather risks within its Caribbean operations. FTS stated it would no longer invest in Belize.

- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a tough proposal by the new Belize government that would have cut 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL got 10% but the Government rejected $12.6M of retroactive costs buying necessary to make power from Mexico net to FTS shareholders. On July 25, 2008, BEL appealed this decision to the Supreme Court of Belize. The hearing began in early October 2009, but the Belize trial judge postponed the case for a date still to be determined. In June 2010 the Supreme Court of Belize issued an order prohibiting the PUC from carrying out any rate-setting review proceedings or changing any rates for Belize Electricity until further order of the Supreme Court.
- **Q2/10 Fortis Non-Regulated Generation:** YOY earnings were **flat at $3M** in Q2/10 due to the expected loss of earnings from the expiration of FTS/OPG's power-for-water exchange agreement at Rankine offset by higher production in Belize. Energy sales were down 36% YOY to 90 GWh due to the expiration of water rights at Rankine, lower production in upstate New York due to low rainfall, partially offset by the new Vaca hydroelectric generating facility that was commissioned in March 2010. The new Vaca dam produced 16 GWh in Q2/10 and 20 GWh in 1H/10 during the dry season.
- **Q2/10 Fortis Properties:** Earnings were **flat at $8M** YOY. Hospitality revenue increased $2M YOY due a 2.6% increase in average room rates partially offset by a 1.8% decrease in hotel occupancy, mainly in western Canada. In Q2/10 RevPR increased 0.8% to $83.77/room.
- **Corporate and other:** Overall net corporate and other expenses were up **$2M YOY** to $20M due to higher financing charges, higher preference share dividends, and higher business development costs. Revenues were up $2M YOY to $9M. In January 2010, FTS completed a $250M five-year fixed rate reset preference share offering with the proceeds being used to pay down debt and fund working capital and capex for TGI.
- **Capital expenditures:** Utility capital expenditures are still expected to exceed **$1B** in 2010 with most of the growth driven by B.C. and Alberta Utilities. Fortis continues to pursue mostly U.S. acquisitions focusing on regulated natural gas and electric utilities. Over the next five years, FTS expects capital expenditures **to total $5.0B, unchanged** with 71% in Regulated Electric Utilities (mainly FortisAlberta and FortisBC), 27% in Regulated Utilities, and 2% in non-regulated operations. Major projects include:
  - **$200M** liquefied natural gas facility on Vancouver Island.
  - **$141M** installation of automated meters at FortisAlberta (cost estimate revised down from $155M forecast in Q4/09).
  - **$139M** Okanagan Transmission Reinforcement Project at FortisBC.
- **Financial:** FTS' capital structure now stands at 57.7% debt, 9.3% preferred equity and 33 % common equity, **in line with FTS' targets**. In May 2010 S&P confirmed FTS with an A-credit rating with a stable outlook. In June 2010 DBRS confirmed FTS with a BBB(high) but changed the trend to positive from stable citing broad diversification of FTS' asset base. FTS stated it focuses on EPS as its final measure of performance (as do we).

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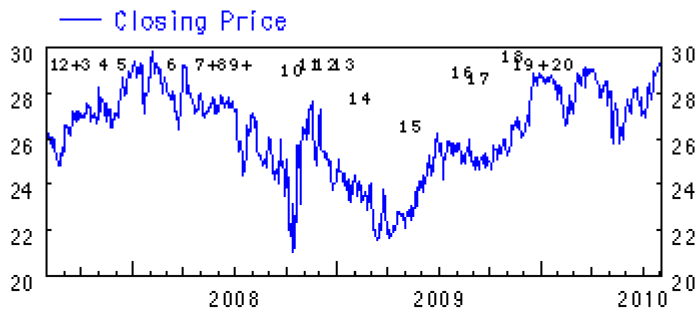
U Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



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Fortis Inc.				
#	**Date**	**Closing Price**	**Rating**	**Target-1YR**
1	5-Aug-07	$26.05	* 1-Sector Outperform	*$28.50
	17-Aug-07	$24.80	1-Sector Outperform	*$27.00
2	23-Sep-07	$27.00	Obscured	Obscured
	24-Sep-07	$27.05	* 1-Sector Outperform	*$27.00
	25-Sep-07	$27.17	1-Sector Outperform	*$28.50
	30-Sep-07	$27.05	Obscured	Obscured
3	1-Oct-07	$27.00	* 1-Sector Outperform	*$28.50
4	3-Nov-07	$27.19	1-Sector Outperform	*$29.50
	27-Nov-07	$26.82	1-Sector Outperform	*$30.00
5	14-Dec-07	$27.84	1-Sector Outperform	*$31.00
6	29-Mar-08	$28.41	1-Sector Outperform	*$32.00
7	2-May-08	$27.28	1-Sector Outperform	*$33.00
	21-May-08	$27.68	1-Sector Outperform	*$33.50
8	8-Jun-08	$27.79	Obscured	Obscured
	9-Jun-08	$27.50	* 1-Sector Outperform	*$33.50
9	1-Jul-08	$27.16	1-Sector Outperform	*$33.00
	17-Jul-08	$24.55	1-Sector Outperform	*$32.00
10	8-Oct-08	$22.25	1-Sector Outperform	*$28.00
11	1-Nov-08	$26.30	1-Sector Outperform	*$29.00
	15-Nov-08	$27.39	1-Sector Outperform	*$30.00
	18-Nov-08	$25.96	* 2-Sector Perform	$30.00
12	3-Dec-08	$25.48	Restricted	Restricted
13	8-Jan-09	$24.49	* 2-Sector Perform	*$28.50
14	6-Feb-09	$23.86	2-Sector Perform	*$28.00
15	1-May-09	$22.36	2-Sector Perform	*$27.00
16	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
17	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
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Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

The rating assigned to each security covered in this report is based on the Scotia Capital research analyst's 12-month view on the security. Analysts may sometimes express to traders, salespeople and certain clients their shorter-term views on these securities that differ from their 12-month view due to several factors, including but not limited to the inherent volatility of the marketplace.

Ratings

1-Sector Outperform
The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

2-Sector Perform
The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

3-Sector Underperform
The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.
Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

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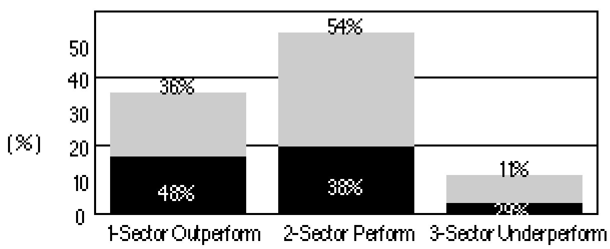
Distribution by Ratings and Equity and Equity-Related Financings*



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* As at July 31, 2010.

Source: Scotia Capital.

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Fortis Inc.

(FTS-T C$29.13)

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Rating: 2-Sector Perform	**Target** 1-Yr:	C$30.00	**ROR** 1-Yr:	6.8%	**Est. NTM Div.**	C$1.12
Risk Ranking: Low	2-Yr:	C$32.00	2-Yr:	17.5%	**Div. (Current)**	C$1.12
Valuation: 16.5x P/E on 2011E EPS					**Yield**	3.8%
Key Risks to Target: Interest rates, growth						

$451M Incremental Waneta Hydro Expansion

Event

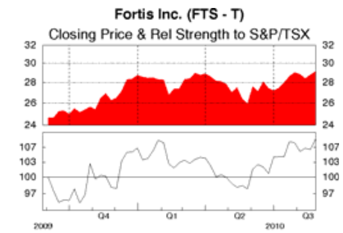
- Fortis announced it has partnered with Columbia Power Corporation & Columbia Basin Trust (CBC/CBT, 100% owned by the B.C. government) to construct a $900M 335 MW hydro facility, the Waneta Expansion.

Implications

- Fortis will own 51% of the Waneta Expansion, expected to come into service in spring 2015. Although non-regulated, the risk of this project is reduced through fixed energy and capacity entitlements. 101 MW of the capacity will be sold to BC Hydro under a long-term PPA with the remaining 234 MW sold to FortisBC.
- FTS' 2010E-14E capital expenditures increase $0.5B to $5.5B with an unchanged 6% organic rate base/EPS/dividend growth. FTS continues to look for acquisition growth opportunities in mostly the U.S., targeting regulated U.S. electrical utility assets.
- Our 2011E EPS, 16.5x 2011E P/E multiple, and $30 one-year target are unchanged for now.

Recommendation

- We continue to like FTS for its highly regulated, low carbon footprint transmission, and distribution asset base, but currently marginally prefer ATCO (1-SO) amongst FTS' Energy Utility peers.



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)(Basic)	172.9
Total Value ($M)	5,035
Float O/S (M)	171.2
Float Value ($M)	4,987
TSX Weight	0.38%
Next Reporting Date	Nov-10

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2008A	$0.58 A	$0.19 A	$0.31 A	$0.48 A	$1.56	15.76
2009A	$0.54 A	$0.31 A	$0.21 A	$0.48 A	$1.54	18.62
2010E	$0.58 A	$0.32 A	$0.24	$0.55	$1.69	17.24
2011E	$0.63	$0.33	$0.26	$0.59	$1.81	16.09

(FY-Dec.)	2007A	2008A	2009A	2010E	2011E
Adj Earnings/Share	$1.40	$1.56	$1.54	$1.69	$1.81
Cash Flow/Share	$3.56	$3.90	$3.77	$4.23	$4.50
Price/Earnings	20.7	15.8	18.6	17.2	16.1
Revenues	$2,718	$3,903	$3,637	$3,970	$4,155
EBITDA	$814	$1,048	$1,064	$1,158	$1,212
Current Ratio	0.6	0.7	0.7	0.7	0.8
EBITDA/Int. Exp	2.7	2.9	3.0	3.1	3.2

IBES Estimates	**BVPS10E**	$15.47
CFPS 2010E: $4.15	**ROE10E**	11.2%
CFPS 2011E: $4.41		

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Fixed Income Research Link

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
ATCO Ltd.	ACO.X	H3, S
Fortis Inc.	FTS	G, H3, I, S, U

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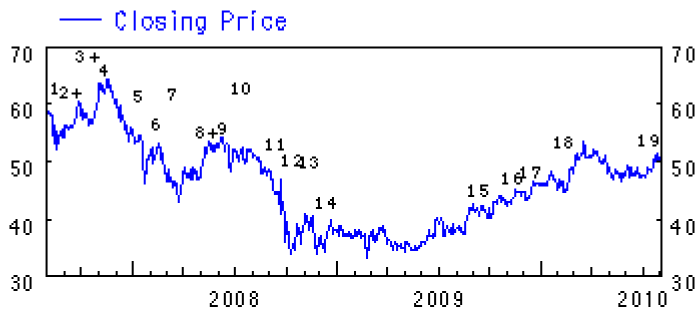

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ATCO Ltd.				
#	Date	Closing Price	Rating	Target-1YR
1	27-Aug-07	$55.71	* 3-Sector Underperform	*$48.00
2	23-Sep-07	$59.36	Obscured	Obscured
	24-Sep-07	$59.85	* 3-Sector Underperform	*$48.00
	25-Sep-07	$59.81	3-Sector Underperform	*$53.00
	30-Sep-07	$58.09	Obscured	Obscured
3	1-Oct-07	$57.73	* 3-Sector Underperform	*$53.00
	30-Oct-07	$60.61	3-Sector Underperform	*$56.00
4	27-Nov-07	$60.00	3-Sector Underperform	*$58.00
5	18-Jan-08	$50.33	* 2-Sector Perform	$58.00
6	24-Feb-08	$49.70	2-Sector Perform	*$54.00
7	29-Mar-08	$46.03	2-Sector Perform	*$56.00
8	1-May-08	$48.30	2-Sector Perform	*$57.50
	21-May-08	$51.70	2-Sector Perform	*$60.00
9	8-Jun-08	$54.01	Obscured	Obscured
	9-Jun-08	$53.26	* 2-Sector Perform	*$60.00
10	17-Jul-08	$49.51	2-Sector Perform	*$57.00
11	17-Sep-08	$43.13	2-Sector Perform	*$55.00
12	8-Oct-08	$34.00	2-Sector Perform	*$48.00
13	15-Nov-08	$40.42	2-Sector Perform	*$49.00
14	7-Dec-08	$35.25	Obscured	Obscured
	8-Dec-08	$34.27	* 2-Sector Perform	*$49.00
15	18-Sep-09	$41.86	2-Sector Perform	*$48.50
16	3-Nov-09	$43.00	2-Sector Perform	*$49.50
17	15-Dec-09	$45.74	2-Sector Perform	*$54.00
18	19-Feb-10	$48.23	2-Sector Perform	*$55.00
19	22-Jul-10	$49.99	* 1-Sector Outperform	$55.00
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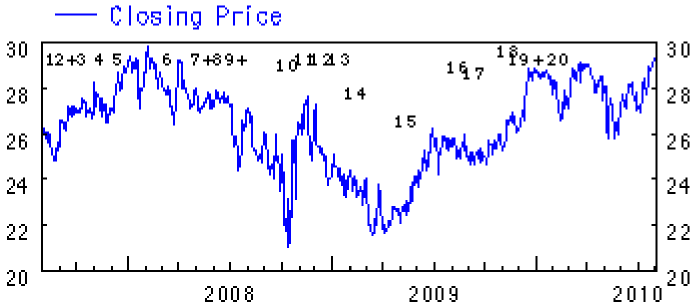

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Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	27-Aug-07	$25.65	* 1-Sector Outperform	*$27.00
2	23-Sep-07	$27.00	Obscured	Obscured
	24-Sep-07	$27.05	* 1-Sector Outperform	*$27.00
	25-Sep-07	$27.17	1-Sector Outperform	*$28.50
	30-Sep-07	$27.05	Obscured	Obscured
3	1-Oct-07	$27.00	* 1-Sector Outperform	*$28.50
4	3-Nov-07	$27.19	1-Sector Outperform	*$29.50
	27-Nov-07	$26.82	1-Sector Outperform	*$30.00
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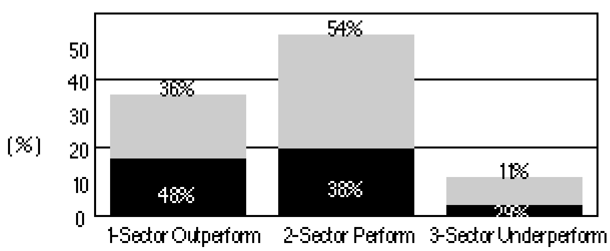

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Rating: 2-Sector Perform	**Target** 1-Yr:	C$34.50	**ROR** 1-Yr:	7.1%	**Est. NTM Div.**	C$1.12
Risk Ranking: Low	2-Yr:	C$36.50	2-Yr:	16.5%	**Div. (Current)**	C$1.12
Valuation: 18.5x P/E on 2011E/2012E averaged EPS					**Yield**	3.4%

Key Risks to Target: Interest rates, growth

Q3/10 Recurring EPS Slightly Above (?)

Event

- Fortis reported Q3/10 EPS of $0.26 or about $0.25 recurring slightly beat our estimate and the Street at $0.24, but strong Belize hydro may have been above normal levels and a $1M business tax deferral could have helped.

Implications

- Small Q3/10 one-time items were $0.01 in hurricane recovery costs and a $0.02 BCUC-approved cost reversal of a Whistler customer appliance conversion program. Somewhat non-recurring were a new $1M deferral of Belize business taxes now allowed in rates and strong Belize Hydro results (35 GWh in Q3/10 out of 80 GWh annualized) due to good rain so FTS' slight beat does not change our EPS forecasts.
- FTS' 2011E-15E capital budget is unchanged at $5.5B post FTS' Waneta B.C. Hydro expansion announcement. FTS has guided to 6%/year organic EPS/dividend growth, not updated in its release.
- We kept our EPS forecasts but moved up our FTS P/E to 18x from 17x on 2011E/2012E that takes our $32.50 one-year target to $34.50/share.

Recommendation

- Given the strong price outperformance by FTS (and EMA) lately and sharply higher oil prices that tend to favour ATCO and Canadian Utilities, our unchanged ranking is: ATCO/CU/FTS/EMA.

Fortis Inc. (FTS - T)
Closing Price & Rel Strength to S&P/TSX

Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)(Basic)	173.6
Total Value ($M)	5,773
Float O/S (M)	171.7
Float Value ($M)	5,710
TSX Weight	0.39%
Next Reporting Date	05-Nov-10

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2009A	$0.54 A	$0.31 A	$0.21 A	$0.48 A	$1.54	18.62
2010E	$0.58 A	$0.32 A	$0.26 A	$0.55	$1.71	19.45
2011E	$0.62	$0.33	$0.26	$0.59	$1.80	18.48
2012E					$1.90	17.51

(FY-Dec.)	2008A	2009A	2010E	2011E	2012E
Adj Earnings/Share	$1.56	$1.54	$1.71	$1.80	$1.90
Cash Flow/Share	$3.90	$3.77	$4.25	$4.49	$4.75
Price/Earnings	15.8	18.6	19.5	18.4	17.5
Revenues	$3,903	$3,637	$3,985	$4,150	$4,325
EBITDA	$1,048	$1,064	$1,161	$1,211	$1,262
Current Ratio	0.7	0.7	0.7	0.8	0.8
EBITDA/Int. Exp	2.9	3.0	3.1	3.2	3.3

IBES Estimates	BVPS10E	$15.48
CFPS 2010E: $4.15	ROE10E	11.3%
CFPS 2011E: $4.41		

Pertinent Revisions

	New	Old
Target:		
1-Yr	$34.50	$32.50
2-Yr	$36.50	$34.50
EPS10E	$1.71	$1.69
EPS12E	$1.90	N/A

New Valuation:
18.5x P/E on 2011E/2012E averaged EPS

Old Valuation:
17.5x P/E on 2011E/2012E averaged EPS

Fixed Income Research Link

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Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Q3/10 EPS/EPS Forecasts/Stock & Sector Valuation

- **Q3/10 EPS appears to be slight beat:** Fortis reported Q3/10 EPS of $0.26 or about $0.25 recurring, appears to have slightly beat us and the Street at $0.24. Q3/10 one-time items were $0.01 per share in recovery costs at Nfld Power from Hurricane Igor and a $0.02 per share BCUC-approved cost reversal of a customer appliance conversion program. Also, a new deferral of $1M of Belize business taxes due to newly approved future recovery in rates and strong Belize Hydro results due to plentiful rain (35G GWh in Q3/10 out of 80 GWh annualized) are debatably the not so recurring reasons for the slight beat so there will be no change to our EPS forecasts. See Exhibit 1 for Fortis' EPS contribution by segment.

Exhibit 1 - Fortis' EPS Contribution by Segment

FORTIS INC.

		EPS Contribution						
		Q3/10		(%)	Q3/09		(%)
Regulated Gas	Terasen Gas	$	(0.03)	-11%	$	(0.02)	-8%
Regulated Electric	FortisAlberta	$	0.11	42%	$	0.09	42%
Regulated Electric	FortisBC	$	0.06	24%	$	0.05	25%
Regulated Electric	Newfoundland Power	$	0.05	18%	$	0.04	19%
Regulated Electric	Other Canadian *	$	0.03	11%	$	0.03	14%
Regulated Electric	Caribbean **	$	0.05	18%	$	0.04	19%
Non-Regulated Operations	Fortis Hydroelectric Generation	$	0.05	20%	$	0.02	11%
Non-Regulated Operations	Fortis Properties	$	0.05	20%	$	0.05	25%
	Fortis Corporate	$	(0.11)	-42%	$	(0.10)	-47%
	EPS	$0.26			$0.21		

Source: Company reports; Scotia Capital estimates.

- **Stock & sector valuation:** We went to overweight Energy Utilities in early September 2010, from Market Weight as North American economies show fresh signs of easing taking interest rates down with them. We then raised our Energy Utility P/E multiples by 1x across the board (ATCO, CU, EMA, FTS) **and are raising them again 1x taking FTS' P/E to 18x from 17x** in a related note due to: (1) TSX P/E multiple up 1x since early September, (2) QE2 effects lowering U.S. interest rates, and (3) the continue materially higher valuations for energy infrastructure income trusts and L.P.'s. FTS' 2010E-14E $5.5B of capital expenditures supports its 6% organic annual EPS rate. **We continue to prefer Energy Utilities over IPPs**.
- **FTS acquisition targets:** Three quarters ago, PPL won over a consortium including Fortis bid to buy E.ON's U.S. regulated utility assets for US$6.7B. **Fortis' CEO continues to guide to looking at $3B-$4B regulated utility acquisitions, likely in the U.S.** We respect FTS' track record for making value added acquisitions but do not put any premium in our FTS P/E multiple or earnings until we see what transpires, if anything.

Segmented Q3/10 Results

- **Q3/10 Terasen Gas:** Reported a loss of $5M in Q3/10 versus a loss of $3M in Q3/09 due to: (1) higher labour and planned maintenance costs, and (2) lower capitalized overhead costs as a result of a Negotiated Settlement Agreement (NSA). These increased costs were partially offset by a one-time BCUIC approved recovery of Q4/09 cost overruns re the conversion of Whistler-based customer appliances from propane to natural gas. Net customer additions were strong at 3,460 YTD vs. 743 YOY. Terasen Gas is comprised of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2010 ROE is 9.5% on a deemed equity of 40%, versus 35% in 2009. TGVI's allowed ROE for 2010 is 10% on a deemed equity of 40% (Exhibit 2).

Exhibit 2 - Nature of FTS' Regulation

Nature of Regulation							
Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%) 2006	2007	2008	2009 (1)	2010
		ROE				
Terasen Gas Companies						
TGI	40	8.8	8.37	8.62	8.47 / 9.50	9.5
TGVI	40	9.5	9.07	9.32	9.17 / 10.0	10
FortisBC	40	9.2	8.77	9.02	8.87	9.9
FortisAlberta	41	8.93	8.51	8.75	9	9
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps	9 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75	9.75
Fortis Ontario	40	9	9	9	8.01	8.01
		ROA				
Belize Electricity	N/A	10-15	10-15	10	10	?
Caribbean Utilities	N/A	15	15	9-11	9-11	7.75-9.75
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5	17.5

(1) Pre-July 2009 / Effective July 1, 2009

Source: Company reports.

- **Q3/10 FortisAlberta:** Reported earnings were up $4M YOY to $19M due to AUC's previous approval (November 2009) of a material increase to FortisAlberta's ROE to 9% from 8.61% and allowed equity thickness to 41% from 37% for 2009/2010/2011. **Power deliveries fell 1% YOY**, due to lower industrial consumption from mild temperatures, partially offset by an increase in the number of residential and commercial customers.
- **Q3/10 FortisBC:** Reported Q3/10 net earnings of $11M were up $2M from Q3/09 due to a 6% increase in customer electricity rates effective January 1, 2010, partially offset by a 0.7% drop in electricity sales. In December 2009, the BCUC awarded an additional 103 bp to FortisBC's allowed 2010 ROE, now 9.9%, on an unchanged equity thickness of 41%.
- **Q3/10 Newfoundland Power:** Earnings were **up $1M YOY to $8M largely** due to 3.5% higher YOY electricity sales. The PUB gave this original FTS subsidiary a 2010 allowed ROE of 9%, up only 5 bp from 8.95% in 2009 and 2008.
- **Q3/10 Other Canadian Electric Utilities**: Maritime Electric and FortisOntario are in this "other" category. **Earnings were flat at $5M YOY**. Electricity sales were up 13% based on strong sales at Algoma Power and warmer summer temperatures in Ontario and PEI. Excluding Algoma Power, sales volumes increased 5.8% YOY in Q3/10. Maritime Electric's 2010 and 2011 ROE is 9.75% on deemed equity of 40%. FortisOntario's 2010 ROE is only 8.01% while Algoma Power's 2010 ROE is tentatively set at 9.85% (effective July 1, 2010), subject to regulatory approval.
- **Q3/10 Regulated Utilities - Caribbean:** This group has 59.5% of Caribbean Utilities, 70% of Belize Electricity, and 100% of Fortis Turks and Caicos. Q3/10 **earnings rose $1M YOY** to $8M on a **2% sales increase YOY** to 318 GWh. Higher air conditioning load, customer growth, improving tourism activity, and record peak loads at Fortis Turks and Caicos (July 31 MW) were cited.
- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a Belize government cut to 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL eventually got 10% but the Government denied $12.6M of retroactive diesel costs incurred for Belize power production net to FTS shareholders. The appeal hearing began in early October 2009, but the Belize trial judge postponed the case for a date still to be determined. In June 2010, the Supreme Court of Belize issued an order prohibiting the PUC from carrying out any rate-setting review proceedings or changing any rates for Belize Electricity

until further order of the Supreme Court. The case was heard in October 2010, and closing arguments are slated for December 2010.

- **Q3/10 Fortis Non-Regulated Generation:** YOY earnings were **up a strong $5M YOY to $9M** in Q3/10 due to higher hydro production in Belize that led to 35 GWh of production in Q3/10 (out of 80 GWh annualized). Energy sales were up 38% YOY.
- **Q3/10 Fortis Properties:** Earnings were **flat at $9M** YOY as both hospitality and real estate revenues stayed flat YOY. In Q3/10, RevPR increased 0.6% to $89.02/room.
- **Corporate and other:** Overall net corporate and other expenses were up **$2M YOY** to $19M due to higher preferred share dividends, partially offset by lower finance charges as higher-interest paying debt that was retired. In April 2010, Terasen redeemed its 8% $125M Capital Securities.
- **Strong capital expenditures:** Utility capital expenditures will be **$1B+** in 2010, mostly in B.C. and Alberta. FTS expects 2010-14 capital expenditures to total $5.5B, unchanged post the Waneta Dam announcement with 71% in Regulated Electric Utilities (mainly FortisAlberta and FortisBC), 27% in other Regulated Utilities, and 2% in non-regulated operations. Some of the larger projects include:
  - **$200M** liquefied natural gas facility on Vancouver Island for 2011.
  - **$141M** installation of automated meters at FortisAlberta **$139M** Okanagan Transmission Reinforcement Project at FortisBC.
- **Financial:** FTS' capital structure at 9/30/10 is 58.2% debt, 9.2% preferred equity, and 32.6% common equity, **in line with FTS' targets**. In May 2010, S&P confirmed FTS with an A-credit rating with a stable outlook. In June 2010, DBRS confirmed FTS with a BBB (high) but changed the trend to positive from stable citing broad diversification of FTS' asset base. In October/10, DBRS raised FTS' credit rating to A- Stable. FTS stated it focuses on EPS as its final measure of financial performance (as we do).
- **Waneta expansion:** Fortis has partnered with Columbia Power Corporation & Columbia Basin Trust (CBC/CBT, 100% owned by the B.C. government) to construct a $900M 335 MW hydro facility, the Waneta Expansion, for 51% of the Waneta Expansion to enter service in 2015. Although non-regulated, the risk of this hydro project is reduced through fixed energy and capacity entitlements. 101 MW of the capacity will be sold to BC Hydro under a long-term PPA with the remaining 234 MW sold to FortisBC.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
ATCO Ltd.	ACO.X	H3, S
Fortis Inc.	FTS	G, H3, I, S, U

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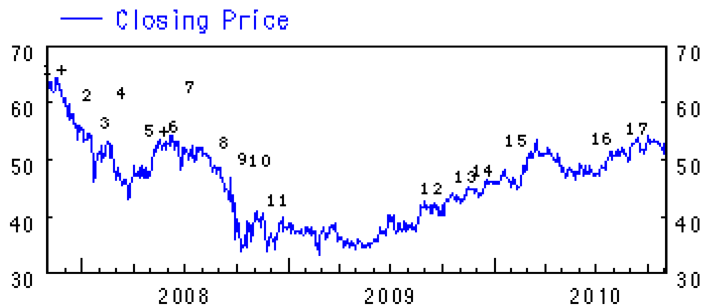

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ATCO Ltd.				
#	Date	Closing Price	Rating	Target-1YR
1	6-Nov-07	$62.96	* 3-Sector Underperform	*$56.00
	27-Nov-07	$60.00	3-Sector Underperform	*$58.00
2	18-Jan-08	$50.33	* 2-Sector Perform	$58.00
3	24-Feb-08	$49.70	2-Sector Perform	*$54.00
4	29-Mar-08	$46.03	2-Sector Perform	*$56.00
5	1-May-08	$48.30	2-Sector Perform	*$57.50
	21-May-08	$51.70	2-Sector Perform	*$60.00
6	8-Jun-08	$54.01	Obscured	Obscured
	9-Jun-08	$53.26	* 2-Sector Perform	*$60.00
7	17-Jul-08	$49.51	2-Sector Perform	*$57.00
8	17-Sep-08	$43.13	2-Sector Perform	*$55.00
9	8-Oct-08	$34.00	2-Sector Perform	*$48.00
10	15-Nov-08	$40.42	2-Sector Perform	*$49.00
11	7-Dec-08	$35.25	Obscured	Obscured
	8-Dec-08	$34.27	* 2-Sector Perform	*$49.00
12	18-Sep-09	$41.86	2-Sector Perform	*$48.50
13	3-Nov-09	$43.00	2-Sector Perform	*$49.50
14	15-Dec-09	$45.74	2-Sector Perform	*$54.00
15	19-Feb-10	$48.23	2-Sector Perform	*$55.00
16	22-Jul-10	$49.99	* 1-Sector Outperform	$55.00
17	2-Sep-10	$52.35	1-Sector Outperform	*$62.00
* represents the value(s) that has changed.				

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Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	6-Nov-07	$27.68	* 1-Sector Outperform	*$29.50
	27-Nov-07	$26.82	1-Sector Outperform	*$30.00
2	14-Dec-07	$27.84	1-Sector Outperform	*$31.00
3	29-Mar-08	$28.41	1-Sector Outperform	*$32.00
4	2-May-08	$27.28	1-Sector Outperform	*$33.00
	21-May-08	$27.68	1-Sector Outperform	*$33.50
5	8-Jun-08	$27.79	Obscured	Obscured
	9-Jun-08	$27.50	* 1-Sector Outperform	*$33.50
6	1-Jul-08	$27.16	1-Sector Outperform	*$33.00
	17-Jul-08	$24.55	1-Sector Outperform	*$32.00
7	8-Oct-08	$22.25	1-Sector Outperform	*$28.00
8	1-Nov-08	$26.30	1-Sector Outperform	*$29.00
	15-Nov-08	$27.39	1-Sector Outperform	*$30.00
	18-Nov-08	$25.96	* 2-Sector Perform	$30.00
9	3-Dec-08	$25.48	Restricted	Restricted
10	8-Jan-09	$24.49	* 2-Sector Perform	*$28.50
11	6-Feb-09	$23.86	2-Sector Perform	*$28.00
12	1-May-09	$22.36	2-Sector Perform	*$27.00
13	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
14	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
15	14-Nov-09	$26.60	3-Sector Underperform	*$27.00
16	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
17	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
18	2-Sep-10	$30.06	2-Sector Perform	*$32.50
* represents the value(s) that has changed.				

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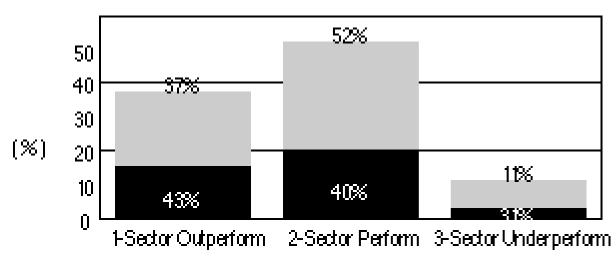

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(FTS-T C$33.81)

Fortis Inc.

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Rating: 3-Sector Underperform	**Target**	1-Yr:	C$34.50	**ROR**	1-Yr:	5.5%	**Est. NTM Div.**	C$1.16
Risk Ranking: Low		2-Yr:	C$36.00		2-Yr:	13.3%	**Div. (Current)**	C$1.16
Valuation: 10.25x EV/EBITDA on 2012E EBITDA							**Yield**	3.4%

Key Risks to Target: Interest rates, growth

Q4/10 Recurring EPS Mildly Misses

Event

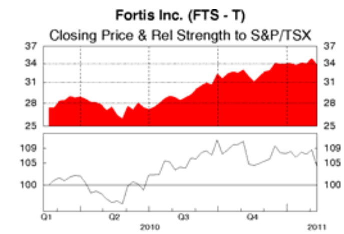
- Fortis reported Q4/10 EPS of $0.49 that looked recurring, missing our estimate at $0.55 and the Street at $0.51 ($0.47-$0.55). Fortis also increased its dividend 3.6% to $1.16 annualized, slightly behind our $1.18 estimate.

Implications

- Q4/10 EPS mild miss was due to (1) poor Belize Electricity results due to regulatory challenges ($1.5M in 2010 vs. $10M expected) and related legal fees, (2) lower-than-average temperatures at FTS's Caribbean operations, and (3) higher-than-expected Q4 O&M costs.
- FTS' 2011E-2015E capital budget is unchanged at $5.5B. FTS has guided to 6%/year organic EPS/dividend growth, not updated in its release. Most 2011 regulatory allowed ROE levels remain flat with 2010.
- We cut 2011E/2012E EPS by $0.04/$0.05 for lower Belize earnings and flatter Real Estate. FTS' guided 6%/year EPS accretion implies 2011/2012 EPS of $1.74/$1.84 based on $1.64 recurring 2010 EPS vs. our estimate, now at $1.76/$1.85. Our one-year FTS target has dropped $0.50/share to $33.50; our recommendation has also been lowered to 3-Sector Underperform.

Recommendation

- We cut FTS to 3-SU from 2-SP. Our current rank energy utilities order is ATCO, Emera, Canadian Utilities, and then Fortis.



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	173.6
Total Value ($M)	5,869
Float O/S (M)	171.7
Float Value ($M)	5,805
TSX Weight	0.37%
Next Reporting Date	Feb-11

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2009A	$0.54 A	$0.31 A	$0.21 A	$0.48 A	$1.54	18.62
2010A	$0.58 A	$0.32 A	$0.26 A	$0.49 A	$1.65	20.59
2011E	$0.62	$0.32	$0.25	$0.57	$1.76	19.21
2012E					$1.85	18.28

(FY-Dec.)	2008A	2009A	2010A	2011E	2012E
Adj Earnings/Share	$1.56	$1.54	$1.65	$1.76	$1.85
Cash Flow/Share	$3.90	$3.77	$4.08	$4.38	$4.70
Price/Earnings	15.8	18.6	20.6	19.2	18.3
Revenues	$3,903	$3,637	$3,664	$4,050	$4,275
EBITDA	$1,048	$1,064	$1,150	$1,203	$1,275
Current Ratio	0.7	0.7	0.8	0.8	0.8
EBITDA/Int. Exp	2.9	3.0	3.3	3.4	3.5

IBES Estimates	BVPS11E	N/A
CFPS 2011E: $4.47	ROE11E	N/A
CFPS 2012E: N/A		

Pertinent Revisions

	New	Old
Rating:	3-SU	2-SP
Target:		
1-Yr	$34.50	$35.00
2-Yr	$36.00	$36.50
EPS11E	$1.76	$1.80
EPS12E	$1.85	$1.90

Fixed Income Research Link

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Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Q4/10 EPS – 2011E/2012E EPS Forecasts – Stock & Sector Valuation

- **Fortis reported Q4/10 EPS** of $0.49 that appears to be recurring, moderately missing our estimate at $0.55 and mildly missing the Street at $0.51 ($0.47-$0.55). Fortis also increased its dividend per share 3.6% to $1.16 annualized, slightly behind our $1.18 estimate. The Q4/10 EPS miss vs. our expectations was due to (1) poorer-than-expected performance at Belize Electricity due to regulatory challenges (contributed only $1.5M in 2010 vs. $10M expected) and associated legal fees, (2) lower-than-average temperatures at FTS's Caribbean operations, (3) higher-than-expected O&M costs due to a heavier allocation in Q4 vs. other quarters, and (4) a 170 bp decrease in occupancy rate at FTS' Real Estate division. See Exhibit 1 for Fortis' EPS contribution by segment.

Exhibit 1 - Fortis' EPS Contribution by Segment

FORTIS INC.		EPS Contribution Q4/10	(%)	EPS Contribution Q4/09	(%)
Regulated Gas	Terasen Gas	$ 0.26	53%	$ 0.28	59%
Regulated Electric	FortisAlberta	$ 0.10	20%	$ 0.09	19%
	FortisBC	$ 0.06	12%	$ 0.05	10%
	Newfoundland Power	$ 0.05	11%	$ 0.05	10%
	Other Canadian *	$ 0.03	6%	$ 0.04	9%
	Caribbean **	$ 0.03	6%	$ 0.04	9%
Non-Regulated Operations	Fortis Hydroelectric Generation	$ 0.03	6%	$ 0.01	2%
	Fortis Properties	$ 0.04	8%	$ 0.03	6%
	Fortis Corporate	$ (0.10)	-21%	$ (0.11)	-23%
	EPS	$0.49		$0.48	

Source: Company reports; Scotia Capital estimates.

- **2011E/2012E EPS forecasts lower:** Belize Electricity continues to underperform vs. FTS' expectations, contributing only $1.5M in 2010 vs. $10M expected (underperformance on a per share basis = $0.04). FTS stated the poor financial performance was due to "regulatory challenges [that] continue to impede the utility's ability to earn a fair and reasonable return." We cut $0.04/$0.05 per share from 2011E/2012E for lower-than-expected Belize earnings as well as some other minor adjustments. FTS' guided 6%/year EPS accretion would imply 2011/2012 EPS of $1.74/$1.84 using 2010 recurring EPS of $1.64 (reported = $1.65) as the base year, vs. our estimate, now at $1.76 and $1.85. Our one-year FTS target has dropped $0.50/share to $33.50.
- **Sector valuation:** We cut our energy utilities recommendation from market weight in mid-December 2010 to underweight in late January 2011. This cut was due to better-than-expected U.S. and Canadian economic data and 2011-2012 GDP and interest rate forecasts. Long 10-year government bond interest rates have already backed up 80 and 130 basis points in Canada and the U.S., respectively, from their October 2010 bottoms. Our economists now forecast 4% 10-year Canada rates by Q4/12. We use 3.6% forecast 10-year Canada rates to help set our Q1/11 one-year out stock price targets.
- **FTS acquisition targets unchanged:** Last year, PPL won over a consortium that included Fortis' bid to buy E.ON's U.S. regulated utility assets for US$6.7B. **Fortis' CEO previously**

guided to looking at \$3B-\$4B regulated utility acquisitions, likely in the U.S. In its Q4/10 release, FTS stated it **continues to pursue acquisitions** of regulated electric and natural gas utilities in the United States and Canada. We respect FTS' track record for making value added acquisitions but **do not put any premium in our FTS P/E multiple or earnings** until we see what transpires, if anything.

Exhibit 2 - Nature of FTS' Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%)					
		2006	2007	2008	2009 (1)	2010	2011
		ROE					
Terasen Gas Companies							
TGI	40	8.8	8.37	8.62	8.47 / 9.50	9.5	9.5
TGVI	40	9.5	9.07	9.32	9.17 / 10.0	10	10
FortisBC	40	9.2	8.77	9.02	8.87	9.9	9.9
FortisAlberta	41	8.93	8.51	8.75	9	9	9 (2)
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps	9 +/- 50 bps	8.38 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75	9.75	9.75
Fortis Ontario	40	9	9	9	8.01	8.01	8.01
		ROA					
Belize Electricity	N/A	10-15	10-15	10	10	?	?
Caribbean Utilities	N/A	15	15	9-11	9-11	7.75-9.75	?
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5	17.5	?

(1) Pre-July 2009 / Effective July 1, 2009
(2) 2011 on an interim basis

Source: Company reports.

Segmented Q4/10 Results

- **Q4/10 Terasen Gas:** Reported earnings of \$45M in Q4/10 were down 6% YOY due to: (1) higher operating expenses as 2010 expenses were more heavily weighted in Q4/10 and (2) increased amortization rates as a result of higher capital investment and higher rates resulting from a recent regulator-approved study. These increased costs were partially offset by higher delivery rates, a \$5M after-tax provision take in Q4/09, and lower finance charges due to lower borrowings. Net customer additions were 9,400 in 2010 vs. 8,200 in 2009. Terasen Gas is comprised of TGI (i.e., Vancouver), TGVI (i.e., Vancouver Island), and TGWI (i.e., Whistler area). TGI's allowed 2011 ROE is 9.5% on a deemed equity of 40%, **flat YOY.** TGVI's allowed ROE for 2011 is 10% on a deemed equity of 40% (see Exhibit 2), also **flat YOY.**
- **Q4/10 FortisAlberta:** Reported earnings were up \$2M YOY to \$17M due to AUC's previous approval (November 2009) of a material increase to FortisAlberta's ROE to 9% from 8.61% and allowed equity thickness to 41% from 37% for 2009/2010/2011. **Power deliveries rose 3% YOY**, due to increased oil and gas activities driving an increased customer base and higher deliveries.
- **Q4/10 FortisBC:** Reported Q4/10 net earnings of \$10M were up \$2M from Q4/09 due to a 6% increase in customer electricity rates effective January 1, 2010, partially offset by a 1.4% drop in electricity sales. In December 2009, the BCUC awarded an additional 103 bp to FortisBC's allowed 2010 ROE, to 9.9%, on an unchanged equity thickness of 41%, **both unchanged for 2011.**
- **Q4/10 Newfoundland Power:** Earnings were **up \$1M YOY to \$9M largely** due to 1% higher YOY electricity sales and a slightly higher 2010 allowed ROE of 9%, up 31 bp from

8.69% in 2009 and 8.95% in 2008. **Nfld Power's 2011 ROE is set at only 8.38% for 2011 by way of automatic adjustment formula.**

- **Q4/10 Other Canadian Electric Utilities**: Maritime Electric and FortisOntario are in this "other" category. Earnings were down $2M YOY to $5M but **up $3M YOY on a recurring basis**. Increased YOY recurring earnings were driven by a $0.8M earnings contribution from Algoma Power ($nil in Q4/09) and lower finance charges on lower borrowing at a lower average rate. Partially offsetting were 0.7% lower electricity sales due to warmer temperatures. Maritime Electric's 2010 and 2011 ROE is 9.75% on deemed equity of 40%. FortisOntario's 2010 and 2011 ROE is at only 8.01%. The OEB approved Algoma Power's 2011 ROE at 9.85% on 40% deemed equity.
- **Q4/10 Regulated Utilities – Caribbean:** This group owns 59.5% of Caribbean Utilities, 70% of Belize Electricity, and 100% of Fortis Turks and Caicos. Q4/10 **earnings fell $2M YOY** to $5M on a **7% sales decrease YOY** to 270 GWh mainly due to lower average temperatures, $0.5M unfavourable foreign exchange, a depreciation change in Q4/09, and increased legal fees relating to continuing regulatory challenges. See EPS forecast section above for our 2011E/2012E EPS implications.
- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a Belize government cut to 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL eventually got 10% but the Government denied $12.6M of retroactive diesel costs incurred for Belize power production net to FTS shareholders. The appeal hearing began in early October 2009, but the Belize trial judge postponed the case for a date still to be determined. In June 2010, the Supreme Court of Belize issued an order prohibiting the PUC from carrying out any rate-setting review proceedings or changing any rates for Belize Electricity until further order of the Supreme Court. The case was heard in October 2010 and closing arguments completed December 2010. A court decision is expected in Q1/11.
- **Q4/10 Fortis Non-Regulated Generation:** YOY earnings were **up $3M YOY to $5M** in Q4/10 due to higher hydro production in and higher prices per MWh in Upper New York State and Ontario.
- **Q4/10 Fortis Properties:** Earnings were up $2M YOY due to lower effective taxes and rent/RevPAR increases that for now more than offset a 170 bp dip in occupancy rates and increased finance charges.
- **Corporate and other:** Overall net corporate and other expenses were down **$1M YOY** to $18M due to higher preferred share dividends that were more than offset by lower finance charges on higher-interest-paying debt that was retired. In April 2010, Terasen redeemed its 8% $125M Capital Securities.
- **Unchanged strong capital expenditures:** Utility capital expenditures will be **$1.2B** in 2011, mostly in B.C. and Alberta. FTS expects 2010-2014 capital expenditures to total $5.5B, unchanged post the Waneta Dam announcement. **Some of the larger projects include:**
  - **$900M** 335 MW Waneta Expansion hydro facility in B.C., of which FTS owns 51%, partnering with Columbia Power Corporation & Columbia Basin Trust (CBC/CBT, 100% owned by the B.C. government). Although non-regulated, the risk of this hydro project is reduced through fixed energy and capacity entitlements. 101 MW of the capacity will be sold to BC Hydro under a long-term PPA with the remaining 234 MW sold to FortisBC. Construction began in fall 2010 and is expected to come into service in 2015.
  - **$210M** (was $200M) liquefied natural gas facility on Vancouver Island, expected to be completed in Q2/11 and in service by late 2011.
  - **$126M** (was $141M) installation of automated meters at FortisAlberta, expected to be completed by the end of Mar. 2011.
  - **$106M** (was $139M) Okanagan Transmission Reinforcement Project at FortisBC, completion expected mid-2011
  - **$110M** Customer Care Enhancement Project at Terasen Gas, expected to be completed in early 2012 (FTS has previously stated Jan. 2012).

- **Financial:** FTS' capital structure at Dec. 31/10 is 58.4% debt, 9.0% preferred equity, and 32.6% common equity, **in line with FTS' targets** and relatively unchanged from Q3/10. In May 2010, S&P confirmed FTS with an A- credit rating with a stable outlook. In June 2010, DBRS confirmed FTS with a BBB (high) but changed the trend to positive from stable citing broad diversification of FTS' asset base. In October 2010, DBRS raised FTS' credit rating to A- Stable. FTS stated it focuses on EPS as its final measure of financial performance.

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Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
ATCO Ltd.	ACO.X	S
Emera Incorporated	EMA	D23, G, I, S, U
Fortis Inc.	FTS	G, I, S, U

I, Sam Kanes, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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* *Legend*

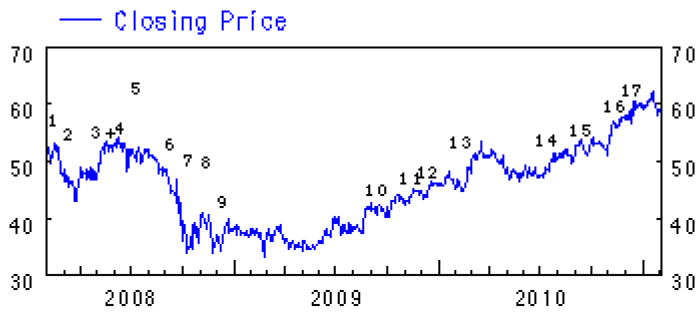
D23 Sylvia Chrominska, Group Head of Global Human Resources and Communications for The Bank of Nova Scotia, is on the Board of Directors of Emera Inc.

G Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.

I Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.

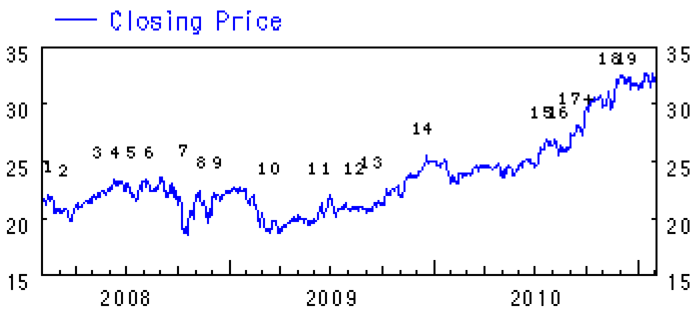
S Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

U Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



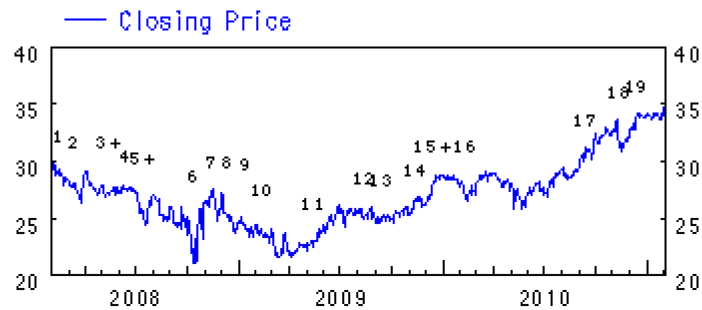
Numbers are located to the left of the lines they represent.
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

ATCO Ltd.				
#	Date	Closing Price	Rating	Target-1YR
1	11-Feb-08	$51.25	* 2-Sector Perform	*$58.00
	24-Feb-08	$49.70	2-Sector Perform	*$54.00
2	29-Mar-08	$46.03	2-Sector Perform	*$56.00
3	1-May-08	$48.30	2-Sector Perform	*$57.50
	21-May-08	$51.70	2-Sector Perform	*$60.00
4	8-Jun-08	$54.01	Obscured	Obscured
	9-Jun-08	$53.26	* 2-Sector Perform	*$60.00
5	17-Jul-08	$49.51	2-Sector Perform	*$57.00
6	17-Sep-08	$43.13	2-Sector Perform	*$55.00
7	8-Oct-08	$34.00	2-Sector Perform	*$48.00
8	15-Nov-08	$40.42	2-Sector Perform	*$49.00
9	7-Dec-08	$35.25	Obscured	Obscured
	8-Dec-08	$34.27	* 2-Sector Perform	*$49.00
10	18-Sep-09	$41.86	2-Sector Perform	*$48.50
11	3-Nov-09	$43.00	2-Sector Perform	*$49.50
12	15-Dec-09	$45.74	2-Sector Perform	*$54.00
13	19-Feb-10	$48.23	2-Sector Perform	*$55.00
14	22-Jul-10	$49.99	* 1-Sector Outperform	$55.00
15	2-Sep-10	$52.35	1-Sector Outperform	*$62.00
16	6-Nov-10	$56.00	1-Sector Outperform	*$66.50
17	4-Dec-10	$57.38	1-Sector Outperform	*$68.50
* represents the value(s) that has changed.				



Numbers are located to the left of the lines they represent.
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Emera Incorporated				
#	Date	Closing Price	Rating	Target-1YR
1	11-Feb-08	$22.00	* 2-Sector Perform	*$23.00
2	29-Mar-08	$20.84	2-Sector Perform	*$23.50
3	21-May-08	$22.35	2-Sector Perform	*$24.00
4	8-Jun-08	$23.40	Obscured	Obscured
	9-Jun-08	$23.06	* 2-Sector Perform	*$24.00
5	17-Jul-08	$21.60	2-Sector Perform	*$23.00
6	2-Aug-08	$23.36	2-Sector Perform	*$24.50
7	8-Oct-08	$19.04	* 3-Sector Underperform	*$21.00
8	8-Nov-08	$22.02	3-Sector Underperform	*$22.00
	15-Nov-08	$21.49	3-Sector Underperform	*$23.00
9	7-Dec-08	$21.64	Obscured	Obscured
	8-Dec-08	$22.00	* 3-Sector Underperform	*$23.00
10	28-Mar-09	$18.81	* 2-Sector Perform	*$22.00
11	27-Jun-09	$21.86	2-Sector Perform	*$23.00
12	8-Aug-09	$21.01	2-Sector Perform	*$23.50
13	26-Sep-09	$21.17	2-Sector Perform	*$24.50
14	15-Dec-09	$24.91	2-Sector Perform	*$26.00
15	22-Jul-10	$26.65	* 3-Sector Underperform	$26.00
16	7-Aug-10	$26.50	3-Sector Underperform	*$26.50
17	2-Sep-10	$27.14	3-Sector Underperform	*$28.50
	28-Sep-10	$29.11	3-Sector Underperform	*$29.25
18	6-Nov-10	$30.07	* 2-Sector Perform	*$31.75
	19-Nov-10	$31.13	2-Sector Perform	*$33.50
19	4-Dec-10	$32.40	2-Sector Perform	*$35.00
* represents the value(s) that has changed.				



Numbers are located to the left of the lines they represent.
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.

#	Date	Closing Price	Rating	Target-1YR
1	11-Feb-08	$29.10	* 1-Sector Outperform	*$31.00
2	29-Mar-08	$28.41	1-Sector Outperform	*$32.00
3	2-May-08	$27.28	1-Sector Outperform	*$33.00
	21-May-08	$27.68	1-Sector Outperform	*$33.50
4	8-Jun-08	$27.79	Obscured	Obscured
	9-Jun-08	$27.50	* 1-Sector Outperform	*$33.50
5	1-Jul-08	$27.16	1-Sector Outperform	*$33.00
	17-Jul-08	$24.55	1-Sector Outperform	*$32.00
6	8-Oct-08	$22.25	1-Sector Outperform	*$28.00
7	1-Nov-08	$26.30	1-Sector Outperform	*$29.00
	15-Nov-08	$27.39	1-Sector Outperform	*$30.00
	18-Nov-08	$25.96	* 2-Sector Perform	$30.00
8	3-Dec-08	$25.48	Restricted	Restricted
9	8-Jan-09	$24.49	* 2-Sector Perform	*$28.50
10	6-Feb-09	$23.86	2-Sector Perform	*$28.00
11	1-May-09	$22.36	2-Sector Perform	*$27.00
12	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
13	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
14	14-Nov-09	$26.60	3-Sector Underperform	*$27.00
15	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
16	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
17	2-Sep-10	$30.06	2-Sector Perform	*$32.50
18	6-Nov-10	$33.26	2-Sector Perform	*$34.50
19	4-Dec-10	$32.81	2-Sector Perform	*$35.00

* represents the value(s) that has changed.

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We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

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The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

2-Sector Perform
The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

3-Sector Underperform
The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Other Ratings
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Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
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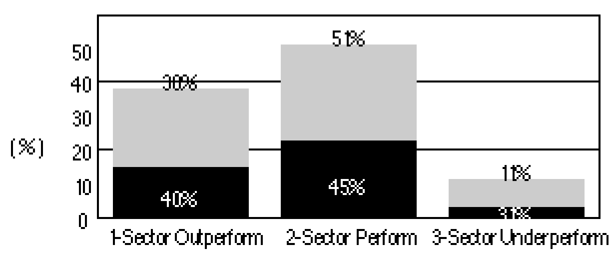

- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

* As at January 31, 2011.

Source: Scotia Capital.

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Equity Research DAILY Edge

Company Comment
Thursday, March 31, 2011

(FTS-T C$32.86)

Fortis Inc.

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Rating: 3-Sector Underperform	**Target**	1-Yr:	C$34.50	**ROR**	1-Yr:	8.5%	**Est. NTM Div.**	C$1.16
Risk Ranking: Low		2-Yr:	C$36.00		2-Yr:	16.6%	**Div. (Current)**	C$1.16
Valuation: 10.25x EV/EBITDA on 2012E EBITDA							**Yield**	3.5%

Key Risks to Target: Interest rates, growth

Fortis Luncheon Highlights - Consistent

Event

- We hosted Fortis for an investor lunch yesterday. The investment message was overall consistent with unchanged $5.5B of capital expenditures and a 6% organic rate base/EPS/dividend growth intact.

Implications

- Future 6%/year EPS/dividend growth will be mostly driven by FTS' growing rate base. 80% of the growth will be in Western Canada.
- On potential acquisitions, FTS continues to target mostly U.S. electric utilities that are $1B-$5B in enterprise value. These U.S. utilities tend to have higher regulated equity thickness (45%-50% versus 40% in Canada) and ROE returns (10%-10.5% versus 9%-9.5% in Canada).
- FTS' Belize shareholder issues continue and an appeal is likely but Belize assets only generate 2.5% of earnings. On March 15, FTS announced the Supreme Court of Belize dismissed FTS' appeal.

Recommendation

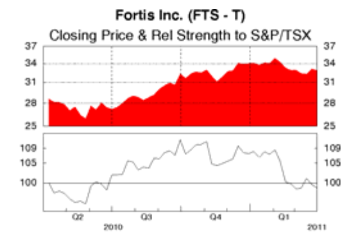
- We like FTS' low risk and steady growth proposition but view FTS' stock price as high at 20x P/E for 6% EPS growth. EMA dividend is 60 bp higher while TRP's is 80 bp higher with better EPS growth.

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2009A	$0.54 A	$0.31 A	$0.21 A	$0.48 A	$1.54	18.62
2010A	$0.58 A	$0.32 A	$0.26 A	$0.49 A	$1.65	20.59
2011E	$0.62	$0.32	$0.25	$0.57	$1.76	18.67
2012E					$1.85	17.76

(FY-Dec.)	2008A	2009A	2010A	2011E	2012E
Adj Earnings/Share	$1.56	$1.54	$1.65	$1.76	$1.85
Cash Flow/Share	$3.90	$3.77	$4.08	$4.38	$4.70
Price/Earnings	15.8	18.6	20.6	18.7	17.8
Revenues	$3,903	$3,637	$3,664	$4,050	$4,275
EBITDA	$1,048	$1,064	$1,150	$1,203	$1,275
Current Ratio	0.7	0.7	0.8	0.8	0.8
EBITDA/Int. Exp	2.9	3.0	3.3	3.4	3.5

IBES Estimates	BVPS11E	N/A
EPS 2011E: $1.75	ROE11E	N/A
EPS 2012E: $1.83		

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.
Note: Indirect



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	173.6
Total Value ($M)	5,704
Float O/S (M)	171.7
Float Value ($M)	5,642
TSX Weight	0.35%
Next Reporting Date	Apr-11

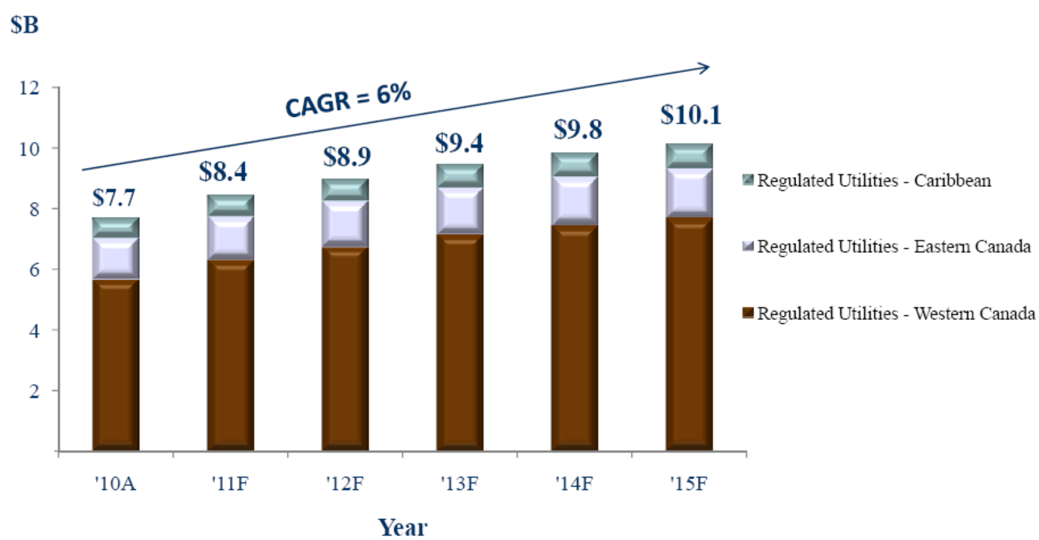
Fixed Income Research Link

SC Online Analyst Link

Investor Meeting Highlights

- **Steady 6%/yr dividend growth:** Fortis has grown its dividends per share at 9.3% since 1972 and currently pays out 68% of its earnings with an unofficial 60%-70% targeted range. FTS's payout ratio was closer to 50% prior to buying Terasen Gas so that is why FTS' forecast EPS growth rate will likely match its dividend growth rate going forward. In 2011 FTS inferred its 2011dividend payout will drop to ~65%. FTS' rate base at a 6% CAGR through 2015 will take overall regulated asset rate bases from $7.7B to $10.1B in 2015 (see Exhibit 1). Rate base growth is expected to be mainly driven by growth in FTS' Western Canada division (80%). FTS forecasts its 2011 capex spending at a steady $1.2B, of which $800M comes from Western Canada, including $210M on an LNG Storage Facility on Vancouver Island, expected to be completed in May 2011. The LNG Storage Facility is regulated with a 40% equity thickness and 10% allowed ROE. FTS stated the likelihood of some fixed asset investment in the Kitimat LNG terminal as highly unlikely but observed that buying the Pacific Northern Gas Pipeline would be more logical but currently too expensive.

Exhibit 1 - Mid-Year Rate Base Projections



Source: Company reports.

- **Belize update: FTS continues to have problems in Belize** following the 2008 Annual Tariff Review Proceeding that disallowed FTS a valid increase in rates to pay for valid fuel costs incurred to make power on behalf of Belize residents. On March 15, FTS announced the Supreme Court of Belize dismissed FTS' appeal. There are two more courts to appeal to if FTS chooses (Belize Appeals Court and then a Caribbean court based in Trinidad). FTS does not expect any resolution prospect until the final appeal is made. FTS noted its **Belize assets are relatively immaterial** at less than 2% of total assets while Belize earnings are ~2.5% overall.
- **On potential acquisitions, FTS continues to target mostly U.S. electric utilities** (lack of Canadian regulated targets) that are $1B-$5B in enterprise value. Traditionally, the U.S. electric utility industry benefits from higher equity thickness (45%-50% or 52%-53% with generation) and ROE returns (10%-10.5%) relative to Canada. These relatively higher returns (vs. Canada) are partially/mostly offset by a greater regulatory lag on rate hike request approvals. This can vary greatly among the 50 states so FTS is careful when assessing targets as the regulatory construct can be the greatest investment variable. Also, FTS does not

believe in paying more than 30% premium over regulated book values as at that level, most takeovers of regulated assets would not be accretive.

- **On wind:** FTS is not a supporter of investing in wind development/acquisitions as FTS had a bad experience with an Alberta wind farm (Crowley) in the past. FTS also does not like wind power's reliance on government tax incentives but would consider wind developments/acquisitions within a regulatory rate base as EMA has in N.S.
- **On Waneta:** FTS gave more colour on its pro-forma investment (51% of $900M) in the Waneta dam for 2015. FTS hopes to earn 12%-13% ROE on a 35%-40% equity thickness to compensate for taking financing and construction cost risks.

SC Online Analyst Link

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
ATCO Ltd.	ACO.X	S
Emera Incorporated	EMA	D23, G, I, S, U
Fortis Inc.	FTS	G, I, S, U
TransCanada Corporation	TRP	G, I, S, U

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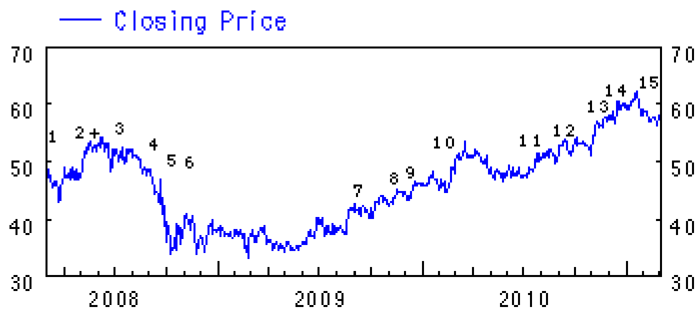

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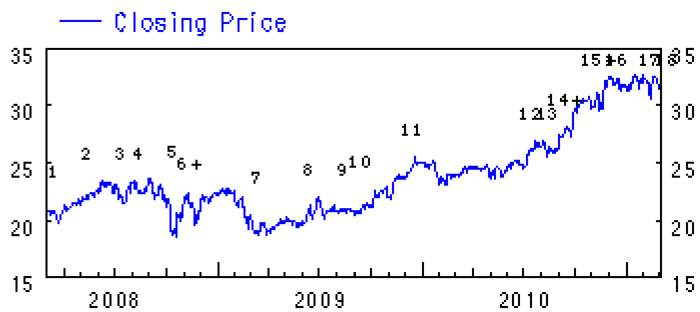
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

ATCO Ltd.				
#	Date	Closing Price	Rating	Target-1YR
1	31-Mar-08	$47.62	* 2-Sector Perform	*$56.00
2	1-May-08	$48.30	2-Sector Perform	*$57.50
	21-May-08	$51.70	2-Sector Perform	*$60.00
3	17-Jul-08	$49.51	2-Sector Perform	*$57.00
4	17-Sep-08	$43.13	2-Sector Perform	*$55.00
5	8-Oct-08	$34.00	2-Sector Perform	*$48.00
6	17-Nov-08	$40.48	2-Sector Perform	*$49.00
7	18-Sep-09	$41.86	2-Sector Perform	*$48.50
8	3-Nov-09	$43.00	2-Sector Perform	*$49.50
9	15-Dec-09	$45.74	2-Sector Perform	*$54.00
10	19-Feb-10	$48.23	2-Sector Perform	*$55.00
11	22-Jul-10	$49.99	* 1-Sector Outperform	$55.00
12	2-Sep-10	$52.35	1-Sector Outperform	*$62.00
13	8-Nov-10	$56.95	1-Sector Outperform	*$66.50
14	6-Dec-10	$58.05	1-Sector Outperform	*$68.50
15	25-Feb-11	$57.31	1-Sector Outperform	*$70.00
* represents the value(s) that has changed.				



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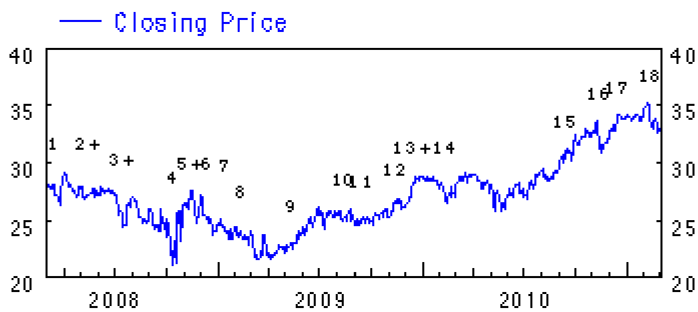
Emera Incorporated				
#	Date	Closing Price	Rating	Target-1YR
1	31-Mar-08	$21.04	* 2-Sector Perform	*$23.50
2	21-May-08	$22.35	2-Sector Perform	*$24.00
3	17-Jul-08	$21.60	2-Sector Perform	*$23.00
4	5-Aug-08	$22.71	2-Sector Perform	*$24.50
5	8-Oct-08	$19.04	* 3-Sector Underperform	*$21.00
6	10-Nov-08	$21.53	3-Sector Underperform	*$22.00
	17-Nov-08	$21.50	3-Sector Underperform	*$23.00
7	30-Mar-09	$18.79	* 2-Sector Perform	*$22.00
8	29-Jun-09	$22.05	2-Sector Perform	*$23.00
9	10-Aug-09	$20.94	2-Sector Perform	*$23.50
10	28-Sep-09	$21.35	2-Sector Perform	*$24.50
11	15-Dec-09	$24.91	2-Sector Perform	*$26.00
12	22-Jul-10	$26.65	* 3-Sector Underperform	$26.00
13	9-Aug-10	$26.25	3-Sector Underperform	*$26.50
14	2-Sep-10	$27.14	3-Sector Underperform	*$28.50
	28-Sep-10	$29.11	3-Sector Underperform	*$29.25
15	8-Nov-10	$30.87	* 2-Sector Perform	*$31.75



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	19-Nov-10	$31.13	2-Sector Perform	*$33.50
16	6-Dec-10	$32.39	2-Sector Perform	*$35.00
17	25-Feb-11	$31.57	Restricted	Restricted
18	17-Mar-11	$31.03	* 2-Sector Perform	*$35.00
* represents the value(s) that has changed.				

Fortis Inc.

#	Date	Closing Price	Rating	Target-1YR
1	31-Mar-08	$29.21	* 1-Sector Outperform	*$32.00
2	2-May-08	$27.28	1-Sector Outperform	*$33.00
	21-May-08	$27.68	1-Sector Outperform	*$33.50
3	2-Jul-08	$27.23	1-Sector Outperform	*$33.00
	17-Jul-08	$24.55	1-Sector Outperform	*$32.00
4	8-Oct-08	$22.25	1-Sector Outperform	*$28.00
5	3-Nov-08	$26.42	1-Sector Outperform	*$29.00
	17-Nov-08	$27.58	1-Sector Outperform	*$30.00
	18-Nov-08	$25.96	* 2-Sector Perform	$30.00
6	3-Dec-08	$25.48	Restricted	Restricted
7	8-Jan-09	$24.49	* 2-Sector Perform	*$28.50
8	6-Feb-09	$23.86	2-Sector Perform	*$28.00
9	1-May-09	$22.36	2-Sector Perform	*$27.00
10	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
11	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
12	16-Nov-09	$26.55	3-Sector Underperform	*$27.00
13	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
14	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
15	2-Sep-10	$30.06	2-Sector Perform	*$32.50
16	8-Nov-10	$33.60	2-Sector Perform	*$34.50
17	6-Dec-10	$33.25	2-Sector Perform	*$35.00
18	11-Feb-11	$33.20	* 3-Sector Underperform	*$34.50
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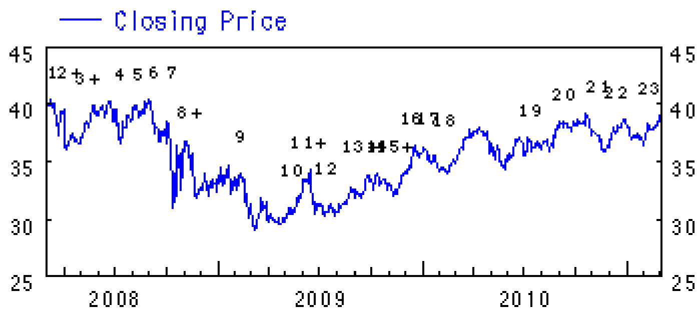

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TransCanada Corporation				
#	Date	Closing Price	Rating	Target-1YR
1	31-Mar-08	$39.55	* 1-Sector Outperform	*$48.00
2	2-Apr-08	$36.30	1-Sector Outperform	*$47.00
	18-Apr-08	$36.73	1-Sector Outperform	*$46.00
3	6-May-08	$37.90	Restricted	Restricted
	14-May-08	$38.17	* 1-Sector Outperform	*$46.00
	21-May-08	$39.60	1-Sector Outperform	*$48.00
4	17-Jul-08	$38.04	1-Sector Outperform	*$46.00
5	1-Aug-08	$39.49	1-Sector Outperform	*$48.00
6	18-Sep-08	$36.67	1-Sector Outperform	*$47.00
7	8-Oct-08	$35.65	1-Sector Outperform	*$42.00
8	17-Nov-08	$34.53	1-Sector Outperform	*$44.00
	18-Nov-08	$32.85	Restricted	Restricted
	26-Nov-08	$32.55	* 1-Sector Outperform	*$44.00
9	4-Feb-09	$33.17	1-Sector Outperform	*$43.00
10	4-May-09	$30.30	1-Sector Outperform	*$42.00
11	17-Jun-09	$31.37	Restricted	Restricted
	25-Jun-09	$31.30	* 1-Sector Outperform	*$41.00
12	31-Jul-09	$30.64	1-Sector Outperform	*$40.00
13	23-Sep-09	$33.66	Obscured	Obscured
	25-Sep-09	$33.73	* 1-Sector Outperform	*$40.00
14	13-Oct-09	$33.30	1-Sector Outperform	*$41.00
15	5-Nov-09	$32.75	1-Sector Outperform	*$40.50
	19-Nov-09	$33.00	1-Sector Outperform	*$40.00
16	15-Dec-09	$35.98	1-Sector Outperform	*$44.00
17	5-Jan-10	$35.96	1-Sector Outperform	*$45.00
18	3-Feb-10	$34.52	1-Sector Outperform	*$44.00
19	30-Jul-10	$36.33	1-Sector Outperform	*$42.00
20	2-Sep-10	$38.49	1-Sector Outperform	*$47.00
21	4-Nov-10	$37.36	1-Sector Outperform	*$46.00
22	6-Dec-10	$37.60	1-Sector Outperform	*$49.00
23	16-Feb-11	$37.85	1-Sector Outperform	*$48.00
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The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
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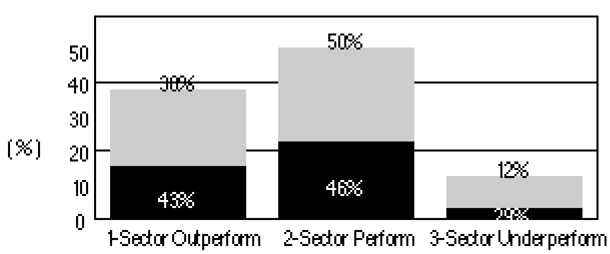

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(FTS-T C$32.21)

Fortis Inc.

Sam Kanes, CA, CFA - 416-863-7798
(Scotia Capital Inc. - Canada)
sam_kanes@scotiacapital.com

Rating: 3-Sector Underperform	**Target**	1-Yr:	C$34.50	**ROR**	1-Yr:	10.7%	**Est. NTM Div.**	C$1.16
Risk Ranking: Low		2-Yr:	C$36.00		2-Yr:	19.0%	**Div. (Current)**	C$1.16
Valuation: 10.25x EV/EBITDA on 2012E EBITDA, implies 2012E P/E of 18.6x							**Yield**	3.6%

Key Risks to Target: Interest rates, growth

Q1/11 EPS Mildly Beats Our Estimates/Street

Event

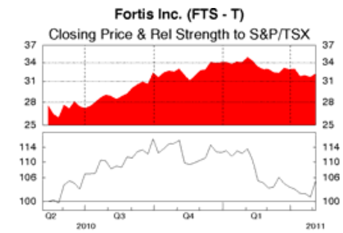
- FTS reported Q1/11 EPS of $0.67/sh or $0.65 recurring that mildly beat our estimate and the Street at $0.62 ($0.59-$0.64). FTS' electric utilities and strong demand benefitted from colder YOY conditions in W. Cda.

Implications

- Q1/11 EPS was mild beat at $0.65 adjusted. This offset Q4/10's mild miss on lower temperatures at FTS's Caribbean operations and higher-than-expected Q4 O&M costs. Strong Q1/11 electric utilities earnings of $53M were up $13M YOY on higher rate bases, cooler weather, and strong demand.
- FTS' 2011E-15E capital budget remains unchanged at $5.5B as does its 6%/year organic EPS/dividend growth. Most 2011 regulatory allowed ROE levels remain flat with 2010.
- We decided to maintain all our 2011/12 EPS forecasts and valuation parameters.

Recommendation

- Our current rank energy utilities/IPP/Pipe order is TRP and ATCO (1-SO), Emera, CPX, CU and Enbridge, followed by Fortis. Relative stock performances have however, tightened this group considerably with Q1/11 FTS stock price performance the poorest in the group.



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	175.0
Total Value ($M)	5,637
Float O/S (M)	173.0
Float Value ($M)	5,572
TSX Weight	0.36%
Next Reporting Date	Aug-11

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2009A	$0.54 A	$0.31 A	$0.21 A	$0.48 A	$1.54	18.62
2010A	$0.58 A	$0.32 A	$0.26 A	$0.49 A	$1.65	20.59
2011E	$0.67 A	$0.31	$0.23	$0.55	$1.76	18.30
2012E					$1.85	17.41

(FY-Dec.)	2008A	2009A	2010A	2011E	2012E
Adj Earnings/Share	$1.56	$1.54	$1.65	$1.76	$1.85
Cash Flow/Share	$3.90	$3.75	$4.08	$4.40	$4.68
Price/Earnings	15.8	18.6	20.6	18.3	17.4
Revenues	$3,903	$3,637	$3,664	$4,050	$4,275
EBITDA	$1,048	$1,064	$1,150	$1,215	$1,276
Current Ratio	0.7	0.7	0.8	0.8	0.8
EBITDA/Int. Exp	2.9	3.0	3.3	3.4	3.5

IBES Estimates	BVPS11E	16.01
EPS 2011E: $1.75	ROE11E	11.2%
EPS 2012E: $1.83		

Pertinent Revisions

	New	Old

New Valuation:
10.25x EV/EBITDA on 2012E EBITDA, implies 2012E P/E of 18.6x
Old Valuation:
10.25x EV/EBITDA on 2012E EBITDA

Fixed Income Research Link

SC Online Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Note: Indirect

Equity Research DAILY Edge

Q1/11 EPS/2011E/2012E EPS Forecasts/Stock & Sector Valuation

- **Fortis reported Q1/11 EPS** of $0.67 ($0.58 in Q1/10), recurring at $0.65, moderately beating our estimate at $0.62 and the Street at $0.62 rounded ($0.59-$0.64). The mild Q1/11 EPS beat vs. our expectations was due to FortisBC Electric's and FortisAlberta's higher energy sales due partly to colder weather. The timing of revenue recognition in Q1/10 vs. Q1/11 was also a factor as well as higher Belize non-regulated hydroelectric generation. See Exhibit 1 for Fortis' EPS contribution by segment.

Exhibit 1 - Fortis' EPS Contribution by Segment

FORTIS INC.

		EPS Contribution			
		Q1/11	(%)	Q1/10	(%)
Regulated Gas	FortisBC	$ 0.43	65%	$ 0.43	64%
Regulated Electric	FortisAlberta	$ 0.12	18%	$ 0.08	12%
	FortisBC	$ 0.11	16%	$ 0.08	12%
	Newfoundland Power	$ 0.04	6%	$ 0.04	6%
	Other Canadian (1)	$ 0.03	5%	$ 0.03	4%
	Caribbean (2)	$ 0.02	3%	$ 0.02	3%
Non-Regulated Operations	Fortis Generation	$ 0.02	3%	$ 0.01	2%
	Fortis Properties	$ 0.01	1%	$ 0.01	2%
	Fortis Corporate	$ (0.11)	-17%	$ (0.12)	-18%
	EPS	$0.67		$0.58	
	Shares Outstanding (MM)	175.0		171.6	

Source: Company reports; Scotia Capital estimates.

- **2011E/2012E EPS forecasts unchanged:** We conservatively decided to maintain all our 2011/12 EPS estimates and valuation parameters as is. Fortis beat our expectations after adjusting for non-recurring items partially due to colder weather. Therefore we left our 2011E/2012E EPS unchanged at $1.76/$1.85.
- **Sector valuation:** We cut our energy utilities recommendation from market weight in mid-December 2010 to underweight in late January 2011 due to better-than-expected U.S. and Canadian economic data, higher 2011-12 GDP and higher interest rate forecasts. Long 10-year government bond interest rates had backed up 80 and 130 basis points in Canada and the U.S., respectively from their October 2010 bottoms. While our economists still forecast 4% 10-year Canada rates by Q4/12, we use 3.6% forecast 10-year Canada rates to help set our Q1/11 one-year-out stock price targets versus 3.1% as of yesterday. Our bias is to move up to market weight again at the moment due to softer U.S. and Canadian economic growth data.
- **FTS US acquisition targets unchanged:** Last year, PPL won over a consortium that included Fortis' bid to buy E.ON's U.S. regulated utility assets for US$6.7B. **Fortis' CEO previously guided to looking at US$3B-$4B regulated utility acquisitions.** In its Q1/11 release, FTS stated it **continues to pursue acquisitions** of regulated electric and natural gas utilities in the United States and Canada. We respect FTS' track record for making value added acquisitions but **do not put any premium in our FTS P/E multiple or earnings** until we see what transpires, if anything.

Exhibit 2 - Nature of FTS' Regulation

Nature of Regulation

Regulated Utility	Allowed Common Equity (%)	Allowed Returns (%)					
		2006	2007	2008	2009 (1)	2010	2011
		ROE					
Terasen Gas Companies							
TGI	40	8.8	8.37	8.62	8.47 / 9.50	9.5	9.5
TGVI	40	9.5	9.07	9.32	9.17 / 10.0	10	10
FortisBC	40	9.2	8.77	9.02	8.87	9.9	9.9
FortisAlberta	41	8.93	8.51	8.75	9	9	9
Newfoundland Power	45	9.24 +/- 50 bps	8.6 +/- 50 bps	8.95 +/- 50 bps	8.95 +/- 50 bps	9 +/- 50 bps	8.38 +/- 50 bps
Maritime Electric	40	10.25	10.25	10	9.75	9.75	9.75
Fortis Ontario	40	9	9	9	8.01	8.01	8.01
		ROA					
Belize Electricity	N/A	10-15	10-15	10	10	?	?
Caribbean Utilities	N/A	15	15	9-11	9-11	7.75-9.75	?
Fortis Turks and Caicos	N/A	17.5	17.5	17.5	17.5	17.5	?

(1) Pre-July 2009 / Effective July 1, 2009
(2) 2011 on an interim basis

Source: Company reports.

Segmented Q1/11 Results

- **Q1/11 FortisBC Energy Companies (former Terasen Gas):** Reported earnings of $76M in Q1/11 were up 4% YOY due to: (1) higher rate base from continuous investment in utility capital assets, (2) lower earnings in Q1/10 from the timing of recording Q1/10 profits in Q3/10, and (3) lower depreciation expense due to retirement of some plant assets in late 2010. There was also unfavourable timing of increase in operating expenses, driven by higher labour costs. Net customer additions decreased 12% YOY to 1,373 in Q1/11 vs. 1,566 in Q1/10. FortisBC (former TerasenGas) is comprised of FEI (former TGI) (i.e., Vancouver), FEVI (former TGVI) (i.e., Vancouver Island), and FEWI (former TGWI) (i.e., Whistler area). FEI's allowed 2011 ROE is 9.5% on a deemed equity of 40%, **flat YOY.** FEVI's allowed ROE for 2011 is 10% on a deemed equity of 40% (see Exhibit 2), also **flat YOY.**
- **Q1/11 FortisAlberta:** Reported earnings were up $7M YOY to $21M due to (1) continued investment into utility capital assets and higher energy deliveries, (2) one time $1M gain on the sale of property ($0.01/share non recurring), and (3) the timing of revenue recording in Q1/10. **Power deliveries rose 7% YOY to 4,402 GWh**, due to increased oil & gas activities driving an increased customer base and higher deliveries with cooler winter temperatures. The client base increased by 10,800 QOQ. **Revenue for Q1/10** included only a 7.5% interim customer rate increase, **while Q1/11 revenues reflect the final approved 20.1% impact of the 2010 rate increase.**
- **Q1/11 FortisBC Electric:** Reported Q1/11 net earnings of $19M were up $5M from Q1/10 due to (1) a 10.4% increase in electricity sales, (2) 6.6% increase in customer electricity rates effective January 1, 2011, and (3) higher cost of capital, 2.9% increase in rate base as of September 1, 2010 (flow through of increased power costs). FortisBC's allowed 2011 ROE is 9.9%, **on an unchanged equity thickness of 40%, flat YOY.**
- **Q1/11 Newfoundland Power:** Earnings were **flat YOY.** Electricity sales went up by 2% YOY, offset by a lower ROE in 2011 (2010's 9% vs. 2011's 8.38%), higher maintenance, and labour costs.

- **Q1/11 Other Canadian Electric Utilities**: Maritime Electric and FortisOntario are in this "other" category. Earnings were **up $1M YOY to $6M**. Increased YOY earnings were driven by increased allowed ROE at Algoma Power to 9.85% from 8.57%. Electric sales increased by 3.5% due to colder weather. Maritime Electric's 2010 and 2011 ROE is 9.75% on deemed equity of 40%. FortisOntario OEB Canadian Niagara Power's 2010 and 2011 ROE is at only 8.01%.
- **Q1/11 Regulated Utilities - Caribbean:** This group owns 59.5% of Caribbean Utilities, 70% of Belize Electricity, and 100% of Fortis Turks and Caicos. Q1/11 **earnings were flat YOY** at $4M. Earnings from slightly higher Grand Cayman electricity sales ($1M increase form $256M YOY) were fully offset by higher provision for Belize Electricity bad debts and high interest expenses on regulatory liabilities.
- **Belize Electricity ("BEL") 2008/2009 rate application:** On June 30, 2008, Fortis rejected a Belize government cut to 70.1%-owned BEL's regulated return to 8.5% from 12%. BEL eventually got 10% but the Government denied $12.6M of retroactive diesel costs incurred for Belize power production net to FTS shareholders. The appeal hearing began in early October 2009, but the Belize trial judge postponed the case for a date still to be determined. In June 2010 the Supreme Court of Belize issued an order prohibiting the PUC from carrying out any rate-setting review proceedings or changing any rates for Belize Electricity until further order of the Supreme Court. The case was heard in October 2010 and closing arguments completed December 2010. **In March 2011, the Supreme Court of Belize dismissed the Belize Electricity's appeal.** Currently Fortis is in the process of filing an appeal and has filed an application to restrain the regulator from any rate action, pending the hearing of the appeal.
- **Q1/11 Fortis Non-Regulated Generation:** YOY earnings were **up $1M YOY to $3M** in Q1/11 due to higher hydro production in Belize.
- **Q1/11 Fortis Properties:** Earnings **decreased by $1M YOY** to $1M due to a lower average occupancy rate of 94.3% (Q1/10 rate 95.8%) and higher amortization costs because of the higher investments in Hospitality and Real Estate Divisions. The loss was partially offset by $0.5M gain resulting from the sale of the Viking Mall in Newfoundland.
- **Corporate and other expenses:** Overall net corporate and other expenses were down **$1M YOY** to $20M due to lower operating expenses, and lower finance charges related to $125M 8% Capital Securities, redeemed April 2010, offset by higher preference share dividends due to the issuance of First Preference Shares, Series H in January 2010.
- **Unchanged strong capital expenditures:** Expected utility capital expenditures remain at **$1.2B** in 2011, mostly in B.C. and Alberta. FTS expects 2011-15 capital expenditures will be $5.5B, unchanged, with 63% to be incurred at the regulated electric utilities, 20% at the regulated gas utilities, and 17% at the non regulated operations. **Some of the larger projects include:**
    - **$900M** 335 MW Waneta Expansion hydro facility in B.C. of which FTS owns 51%, partnering with Columbia Power Corporation & Columbia Basin Trust (CBC/CBT, 100% owned by the B.C. government). Although non-regulated, the risk of this hydro project is reduced through fixed energy and capacity entitlements. 101 MW of the capacity will be sold to BC Hydro under a long-term PPA with the remaining 234 MW sold to FortisBC. Construction began in fall/10 and is expected to come into service in spring 2015.
    - **$214M** (was $210M) liquefied natural gas facility on Vancouver Island, expected to be completed in the next several weeks and in service by January 2012.
    - **$126M** installation of automated meters at FortisAlberta was substantially completed as of March 2011.
    - **$106M** Okanagan Transmission Reinforcement Project at FortisBC, completion expected mid-2011.
    - **$110M** Customer Care Enhancement Project at FortisBC, expected to be completed by January 2012.
    - **$50M** 12-store office building in St. John's Newfoundland is expected to be completed in 2013. The project is subject to municipal government approval.

- **Financial:** FTS' capital structure at 3/31/11 is 57.5% debt, 9.0% preferred equity, and 33.5% common equity, **in line with FTS' targets except for certain debt at Belize Electricity and the Exploits River Hydro Partnership,** and relatively unchanged from Q4/10. In May 2010 S&P confirmed FTS with an A- credit rating with a stable outlook. In October/10, DBRS raised FTS' credit rating to A (low) Stable. FTS stated it focuses on EPS as its final measure of financial performance.

SC Online Analyst Link

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Canadian Utilities Limited	CU	B33, I, S, U
Capital Power Corporation	CPX	G, I, T, U
Emera Incorporated	EMA	D23, G, I, S, U
Enbridge Inc.	ENB	G, I, S, U
Fortis Inc.	FTS	G, I, S, U
TransCanada Corporation	TRP	G, I, S, U

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I Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.

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Ratings

1-Sector Outperform

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

2-Sector Perform

The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

3-Sector Underperform

The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Other Ratings

Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

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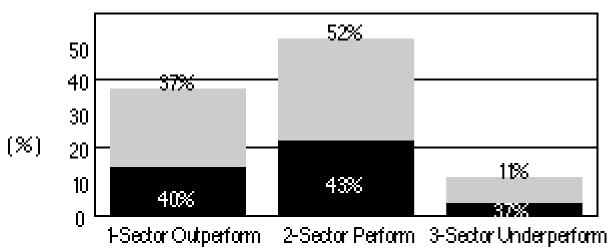

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Equity Research DAILY Edge

Company Comment
Friday, November 4, 2011

(FTS-T C$34.06)

Fortis Inc.

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Rating: 2-Sector Perform	**Target** 1-Yr:	C$35.00	**ROR** 1-Yr:	6.2%	**Est. NTM Div.**	C$1.18
Risk Ranking: Low	2-Yr:	C$36.00	2-Yr:	12.6%	**Div. (Current)**	C$1.16
Valuation: 7.0% 2012E Free Cash Yield and 11.3x 2012E EV/EBITDA					**Yield**	3.4%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

Regulated Reliability

Event

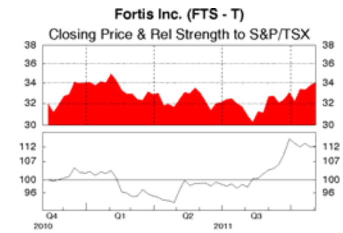
- FTS reported Q3/11 results. Adjusted EPS was $0.25 (prior year $0.26), in line with our estimate of $0.24.

Implications

- The Q3 result demonstrates that business risk at FTS has declined since the relatively rocky events of the summer (Belize, Vermont). With the reduction in earnings from Caribbean and unregulated businesses, and growth in regulated Canadian utility, almost 90% of future earnings are expected to derive from low-volatility and mostly regulated sources.
- Any remaining risk relates primarily to changes in allowed Canadian returns for regulated utilities. We see potential for modest reductions, but are hopeful there will be no major adjustments.
- Acquisitions of U.S. utilities are still possible despite challenges in Vermont this past summer. Like other Canadian infrastructure, FTS maintains its cost of capital advantage and potential for accretive deals.

Recommendation

- Though earnings were in line and there are no changes to our estimates, the company's improved risk profile may attract a modestly higher valuation. We are raising our one-year target price by $1 to $35 and remain comfortable recommending investors hold the stock at these levels.



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	186.9
Total Value ($M)	6,367
Float O/S (M)	185.5
Float Value ($M)	6,318
TSX Weight	0.43%
Next Reporting Date	Feb-12

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	$0.58 A	$0.32 A	$0.26 A	$0.49 A	$1.65	20.59
2011E	$0.67 A	$0.33 A	$0.25 A	$0.45	$1.70	20.04
2012E	$0.69	$0.30	$0.24	$0.52	$1.75	19.46
2013E	$0.73	$0.33	$0.28	$0.46	$1.80	18.92

(FY-Dec.)	2009A	2010A	2011E	2012E	2013E
Free Cash Flow/Share	$1.86	$2.00	$2.36	$2.47	$2.58
Price/Earnings	18.8	20.6	20.1	19.5	18.9
EV/EBITDA	10.8	11.2	11.0	11.2	10.9
Payout Ratio	56%	56%	49%	49%	49%
EBITDA	$1,067	$1,150	$1,220	$1,258	$1,289
Debt/EBITDA	5.5	5.2	5.1	5.3	5.2
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.57	0.58	0.57
Enterprise Value	$11,503	$12,859	$13,372	$13,977	$14,000

IBES Estimates
EPS 2011E: $1.70
EPS 2012E: $1.78

Pertinent Revisions

	New	Old
Target:		
1-Yr	$35.00	$34.00
2-Yr	$36.00	$35.00

New Valuation:
7.0% 2012E Free Cash Yield and 11.3x 2012E EV/EBITDA

Old Valuation:
7.3% 2012E Free Cash Yield and 11.1x 2012E EV/EBITDA

ScotiaView Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

I, Matthew Akman, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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* *Legend*

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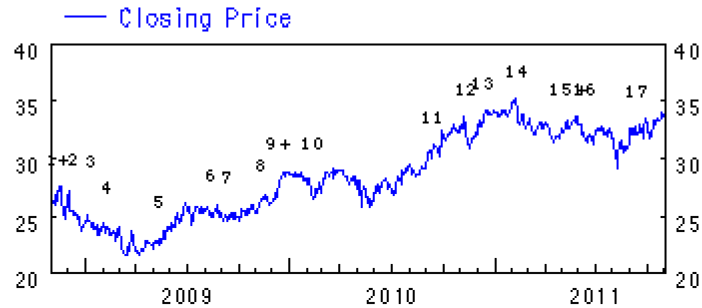
U Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.



Numbers are located to the left of the lines they represent.
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	**Date**	**Closing Price**	**Rating**	**Target-1YR**
1	3-Nov-08	$26.42	* 1-Sector Outperform	*$29.00
	17-Nov-08	$27.58	1-Sector Outperform	*$30.00
	18-Nov-08	$25.96	* 2-Sector Perform	$30.00
2	3-Dec-08	$25.48	Restricted	Restricted
3	8-Jan-09	$24.49	* 2-Sector Perform	*$28.50
4	6-Feb-09	$23.86	2-Sector Perform	*$28.00
5	1-May-09	$22.36	2-Sector Perform	*$27.00
6	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
7	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
8	16-Nov-09	$26.55	3-Sector Underperform	*$27.00
9	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
10	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
11	2-Sep-10	$30.06	2-Sector Perform	*$32.50
12	8-Nov-10	$33.60	2-Sector Perform	*$34.50
13	6-Dec-10	$33.25	2-Sector Perform	*$35.00
14	11-Feb-11	$33.20	* 3-Sector Underperform	*$34.50
15	19-May-11	$33.09	* 8-Coverage Suspended	N/A
	31-May-11	$33.01	Restricted	Restricted
16	16-Jun-11	$31.97	* 8-Coverage Suspended	*N/A
17	19-Sep-11	$32.30	* 2-Sector Perform	*$34.00
* represents the value(s) that has changed.				

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Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

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Ratings

1-Sector Outperform
The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

2-Sector Perform
The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

3-Sector Underperform
The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.
Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

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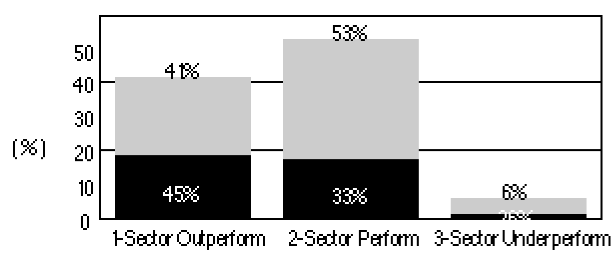
Distribution by Ratings and Equity and Equity-Related Financings*



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* As at October 31, 2011.

Source: Scotia Capital.

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(FTS-T C$32.58)

Fortis Inc.

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Rusty Wong, CA - 416-863-5915
(Scotia Capital Inc. - Canada)

Rating: 2-Sector Perform	**Target**	1-Yr:	C$34.00	**ROR**	1-Yr:	8.0%
Risk Ranking: Low		2-Yr:	C$35.00		2-Yr:	14.7%

Valuation: 7.2% 2012E Free Cash Yield and 11.2x 2012E EV/EBITDA

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

Est. NTM Div.	C$1.18
Div. (Current)	C$1.16
Yield	3.6%

NEB 2012 Benchmark ROE Drags New Lows

Event

- The National Energy Board (NEB) yesterday released a 7.58% 2012 benchmark ROE for certain long-haul pipelines.

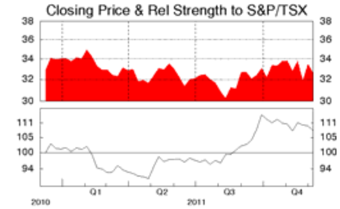
Implications

- The NEB benchmark does not apply to FTS (nor even to most Canadian pipelines any more) but establishes challenging optics going into the 2012 B.C. Utilities Commission (BCUC) hearing on cost of capital.
- As we wrote last week, the allowed ROE in B.C. is susceptible to a reduction as it sits at 9.5% - 10.15% depending on the asset.
- The NEB benchmark is only one data point and we are not suggesting the BCUC is going to 7.58%. Ontario's ROE is above 9% and comparable U.S. utility investments attract similar returns.
- Nevertheless, consumer advocates will no doubt highlight the NEB benchmark during the hearing process and it could influence the BCUC's decision.

Recommendation

- As highlighted in our Dec. 1 comment, FTS faces a risk to 2013 earnings. Our estimate reflects a 100 basis point reduction in the B.C. allowed ROE (every 100 basis points is about $0.11 in EPS). The stock could remain in a rut pending resolution of the matter.

Fortis Inc. (FTS - T)
Closing Price & Rel Strength to S&P/TSX



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	186.9
Total Value ($M)	6,090
Float O/S (M)	185.5
Float Value ($M)	6,044
TSX Weight	0.42%
Next Reporting Date	Feb-12

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	$0.58 A	$0.32 A	$0.26 A	$0.49 A	$1.65	20.59
2011E	$0.67 A	$0.33 A	$0.25 A	$0.45	$1.70	19.16
2012E	$0.71	$0.32	$0.26	$0.46	$1.75	18.62
2013E	$0.69	$0.31	$0.25	$0.44	$1.70	19.16

(FY-Dec.)	2009A	2010A	2011E	2012E	2013E
Free Cash Flow/Share	$1.86	$2.00	$2.36	$2.46	$2.48
Price/Earnings	18.8	20.6	19.2	18.7	19.2
EV/EBITDA	10.8	11.2	10.8	11.0	11.0
Payout Ratio	56%	56%	49%	49%	51%
EBITDA	$1,067	$1,150	$1,220	$1,258	$1,265
Debt/EBITDA	5.5	5.2	5.1	5.3	5.3
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.57	0.58	0.57
Enterprise Value	$11,503	$12,859	$13,139	$13,777	$13,884

IBES Estimates
EPS 2011E: $1.71
EPS 2012E: $1.77

ScotiaView Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

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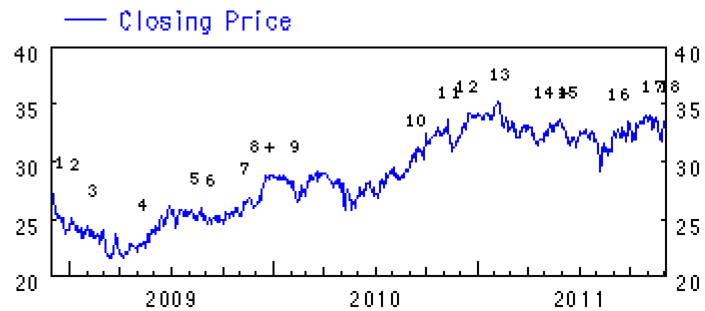

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Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.				
#	**Date**	**Closing Price**	**Rating**	**Target-1YR**
1	5-Dec-08	$25.43	Restricted	Restricted
2	8-Jan-09	$24.49	* 2-Sector Perform	*$28.50
3	6-Feb-09	$23.86	2-Sector Perform	*$28.00
4	1-May-09	$22.36	2-Sector Perform	*$27.00
5	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
6	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
7	16-Nov-09	$26.55	3-Sector Underperform	*$27.00
8	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
9	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
10	2-Sep-10	$30.06	2-Sector Perform	*$32.50
11	8-Nov-10	$33.60	2-Sector Perform	*$34.50
12	6-Dec-10	$33.25	2-Sector Perform	*$35.00
13	11-Feb-11	$33.20	* 3-Sector Underperform	*$34.50
14	19-May-11	$33.09	* 8-Coverage Suspended	N/A
	31-May-11	$33.01	Restricted	Restricted
15	16-Jun-11	$31.97	* 8-Coverage Suspended	*N/A
16	19-Sep-11	$32.30	* 2-Sector Perform	*$34.00
17	4-Nov-11	$33.68	2-Sector Perform	*$35.00
18	1-Dec-11	$32.95	2-Sector Perform	*$34.00
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2-Sector Perform
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3-Sector Underperform
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Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.
Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

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Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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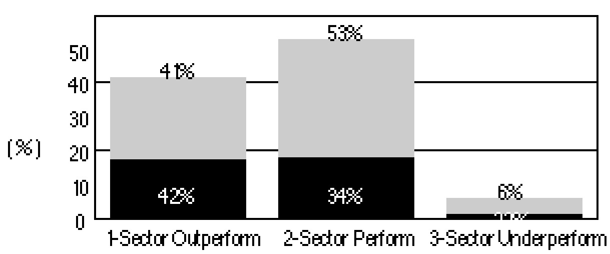

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Fortis Inc.

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Rating: 2-Sector Perform	**Target** 1-Yr:	C$34.00	**ROR** 1-Yr:	3.9%	**Est. NTM Div.**	C$1.20
Risk Ranking: Low	2-Yr:	C$35.00	2-Yr:	10.4%	**Div. (Current)**	C$1.20
					Yield	3.5%

Valuation: 7.3% 2013E Free Cash Yield and 11.3x 2013E EV/EBITDA

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

Churning Through a Soft Patch

Event

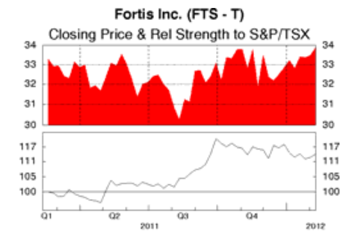
- FTS reported Q4/11 EPS of $0.46 vs. $0.49 in Q4/10 (our est. - $0.45).

Implications

- Though full-year earnings were up, FTS growth is at least for now not what it used to be. Normalized 2011 EPS was $1.69 vs. $1.65 in 2010.
- The soft patch may continue for another year or two due to several factors including downward pressure on allowed ROEs, weak economic conditions in the Caribbean, and dilution from the 2011 equity issue.
- In particular, we remain concerned about the B.C. cost of capital review. The utilities commission has provided no update on a schedule but has stated an intention to hold a hearing "early in 2012."
- Goods news is regulated utility investments continue at a rapid pace, with a $1.3B capital budget for this year. Given balance sheet strength due to recent equity issuance, growth should offset ROE compression.

Recommendation

- Holding FTS shares may not hurt in 2012, but we see little potential for near-term capital appreciation. Despite an attractive investment program, the B.C. ROE proceeding casts uncertainty over earnings growth prospects and the stock is not cheap (free cash yield of 7.3% vs. group at 8.7%). We maintain our 2-SP rating and $34 one-year target.



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	188.8
Total Value ($M)	6,399
Float O/S (M)	187.4
Float Value ($M)	6,351
TSX Weight	0.43%
Next Reporting Date	May-12

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	$0.58 A	$0.32 A	$0.26 A	$0.49 A	$1.65	20.63
2011A	$0.67 A	$0.33 A	$0.25 A	$0.46 A	$1.69	19.73
2012E	$0.69	$0.30	$0.22	$0.54	$1.75	19.39
2013E	$0.68	$0.29	$0.21	$0.52	$1.70	19.98

(FY-Dec.)	2009A	2010A	2011A	2012E	2013E
Free Cash Flow/Share	$1.86	$2.00	$2.24	$2.46	$2.48
Price/Earnings	18.8	20.6	19.7	19.4	20.0
EV/EBITDA	10.8	11.2	11.0	11.4	11.2
Payout Ratio	56%	56%	52%	49%	50%
EBITDA	$1,067	$1,150	$1,185	$1,240	$1,269
Debt/EBITDA	5.5	5.2	5.0	5.4	5.3
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.55	0.57	0.57
Enterprise Value	$11,503	$12,859	$13,035	$14,081	$14,264

IBES Estimates
EPS 2012E: $1.77
EPS 2013E: N/A

Pertinent Revisions

New Old

New Valuation:
7.3% 2013E Free Cash Yield and 11.3x 2013E EV/EBITDA

Old Valuation:
7.2% 2012E Free Cash Yield and 11.2x 2012E EV/EBITDA

ScotiaView Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotiabank GBM estimates.

Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement ($M)	2010A	2011A	2012E	2013E
BC Gas	$129	$139	$138	$125
Newfoundland Power (Electric)	$35	$34	$33	$34
Alberta & BC Utilities (Electric)	$110	$123	$129	$132
Other Canadian (Electric)	$19	$22	$22	$23
Caribbean Electric	$23	$20	$24	$24
Fortis Generation	$19	$18	$21	$21
Fortis Properties	$26	$23	$28	$30
Corporate and Other	($78)	($72)	($64)	($64)
Earnings to Common S/H - Adjusted	**$285**	**$307**	**$332**	**$326**
Unusual items	$0	$11	$0	$0
Earnings to Common S/H - Reported	$285	$318	$332	$326
EBITDA	$1,150	$1,185	$1,240	$1,269
Shares Outstanding - Basic	173	182	190	192
EPS to Common S/H - Reported	$1.65	$1.75	$1.75	$1.70
EPS to Common S/H - Adjusted	**$1.65**	**$1.69**	**$1.75**	**$1.70**

Cash Flow Statement ($M)	2010A	2011A	2012E	2013E
Earnings	$285	$318	$332	$326
Depreciation and Amortization	$410	$419	$467	$490
Other	$39	$70	$69	$68
Cash Flow from Operations	$734	$807	$868	$885
Changes in non-cash Working Capital	$49	$98	$0	$0
Cash from Operating Activities	**$783**	**$905**	**$868**	**$885**
Total Capex	($1,073)	($1,174)	($1,291)	($732)
Other & Asset Sales	$82	$49	$0	$0
Cash Used in Investing Activities	**($991)**	**($1,125)**	**($1,291)**	**($732)**
Dividends - common/pref shares	($244)	($151)	($253)	($265)
Other Financing Activities	$476	$352	$750	$75
Cash Used in Financing Activities	**$232**	**$201**	**$497**	**($190)**
Foreign Currency Translation	$0	$0	$0	$0
Change in cash and cash equivalents	$24	($19)	$74	($38)
Cash and cash equivalents, beginning of year	$85	$108	$89	$163
Cash and cash equivalents, end of year	**$109**	**$89**	**$163**	**$125**

Balance Sheet ($M)	2010A	2011A	2012E	2013E
Cash	$109	$89	$163	$125
Other Current Assets	$1,095	$1,031	$1,031	$1,031
PP&E	$9,593	$10,266	$11,723	$12,168
Intangibles	$324	$341	$341	$341
Goodwill	$1,553	$1,557	$1,557	$1,557
Other Assets	$229	$278	$227	$177
Total Assets	**$12,903**	**$13,562**	**$15,042**	**$15,399**
Short-term debt	$414	$159	$159	$159
Other Current Liabilities	$1,103	$1,161	$1,772	$1,954
Long-term debt and convertible debentures	$5,609	$5,785	$6,485	$6,510
Other Liabilities	$1,560	$1,668	$1,708	$1,747
Total Liabilities	**$8,686**	**$8,773**	**$10,124**	**$10,370**
Preferred shares	$912	$912	$912	$912
Common equity	$3,305	$3,877	$4,006	$4,117
Total Shareholders' Equity	**$4,217**	**$4,789**	**$4,918**	**$5,029**
Total Liabilities and Shareholders' Equity	**$12,903**	**$13,562**	**$15,042**	**$15,399**

Source: Company reports; Scotiabank GBM estimates.

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

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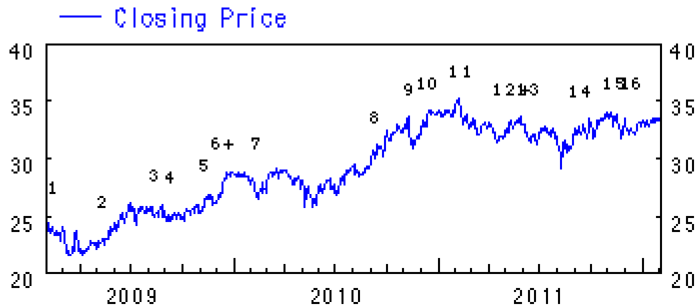

Numbers are located to the left of the lines they represent.
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Fortis Inc.

#	Date	Closing Price	Rating	Target-1YR
1	9-Feb-09	$24.15	* 2-Sector Perform	*$28.00
2	1-May-09	$22.36	2-Sector Perform	*$27.00
3	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
4	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
5	16-Nov-09	$26.55	3-Sector Underperform	*$27.00
6	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
7	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
8	2-Sep-10	$30.06	2-Sector Perform	*$32.50
9	8-Nov-10	$33.60	2-Sector Perform	*$34.50
10	6-Dec-10	$33.25	2-Sector Perform	*$35.00
11	11-Feb-11	$33.20	* 3-Sector Underperform	*$34.50
12	19-May-11	$33.09	* 8-Coverage Suspended	N/A
	31-May-11	$33.01	Restricted	Restricted
13	16-Jun-11	$31.97	* 8-Coverage Suspended	*N/A
14	19-Sep-11	$32.30	* 2-Sector Perform	*$34.00
15	4-Nov-11	$33.68	2-Sector Perform	*$35.00
16	1-Dec-11	$32.95	2-Sector Perform	*$34.00

* represents the value(s) that has changed.

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Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

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1-Sector Outperform
The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

2-Sector Perform
The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

3-Sector Underperform
The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

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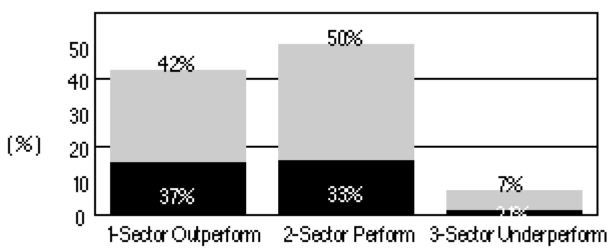

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* As at January 31, 2012.

Source: Scotiabank GBM.

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(FTS-T C$32.38)

Fortis Inc.

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Rating: 2-Sector Perform	**Target** 1-Yr:	C$34.00	**ROR** 1-Yr:	8.7%	**Est. NTM Div.**	C$1.20
Risk Ranking: Low	2-Yr:	C$35.00	2-Yr:	15.5%	**Div. (Current)**	C$1.20

Valuation: 7.3% 2013E Free Cash Yield and 11.3x 2013E EV/EBITDA

Yield 3.7%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

CH Energy - It's a Start

Event

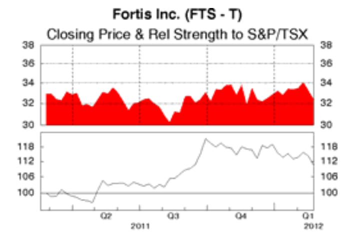
- FTS announced an agreement to acquire CH Energy Group (CHG-NYSE) for US$1.5B in cash and assumed debt.

Implications

- The CH Energy acquisition, in our view, is a logical starting point for FTS in its quest for U.S. utility growth. The asset is consistent with the FTS geography, business profile, and risk profile.
- However, the transaction is not in itself a means to any end. We see the proposed valuation as relatively high in comparison to recent historical utility acquisitions by Canadian companies. Furthermore, there are regulatory and other risks in the year-long closing process.
- In the medium term, further growth opportunities may arise from the deal. CH is growing at about 5%, and contiguous regulated utilities may come for sale as European conglomerates shed non-core assets.

Recommendation

- The deal's short-term value remains uncertain due to transaction price and regulatory uncertainty. Meanwhile, earnings growth will likely be modest considering the potential for erosion of allowed ROEs in British Columbia. For these reasons, we still see the stock as range-bound in 2012 and maintain our 2-SP rating and $34 one-year price target.



Source: Global Insight, Inc.

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Float Value ($M)	6,068
TSX Weight	0.41%
Next Reporting Date	May-12

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	$0.58 A	$0.32 A	$0.26 A	$0.49 A	$1.65	20.63
2011A	$0.67 A	$0.33 A	$0.25 A	$0.46 A	$1.69	19.73
2012E	$0.69	$0.30	$0.22	$0.54	$1.75	18.53
2013E	$0.68	$0.29	$0.21	$0.52	$1.70	19.09

(FY-Dec.)	2009A	2010A	2011A	2012E	2013E
Free Cash Flow/Share	$1.86	$2.00	$2.24	$2.46	$2.48
Price/Earnings	18.8	20.6	19.7	18.5	19.1
EV/EBITDA	10.8	11.2	11.0	11.1	11.0
Payout Ratio	56%	56%	52%	49%	50%
EBITDA	$1,067	$1,150	$1,185	$1,240	$1,269
Debt/EBITDA	5.5	5.2	5.0	5.4	5.3
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.55	0.57	0.57
Enterprise Value	$11,503	$12,859	$13,035	$13,794	$13,973

IBES Estimates
EPS 2012E: $1.74
EPS 2013E: $1.80

ScotiaView Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotiabank GBM estimates.

CH Energy - It's a Start

- Acquiring an almost fully regulated distribution utility in rural and small-town New York sounds like a dull prospect. Unless, of course, your business is running regulated distribution utilities in rural areas and small towns. And so, for FTS, the proposed US$1.5B acquisition of CH Energy Group is not dull. On the contrary, it is the potential start of a broader U.S. growth initiative.
- The acquisition appears logical for FTS due to its consistency with the existing business. FTS had its start in running northeast electrical utilities with no generation assets, and CH Energy fits this bill with about 80% of its customers in electrical service and the rest in natural gas service. The target company fits the FTS low-risk profile, as it takes no commodity price risk and maintains variance accounts for potential expenditures on items like environmental remediation and pension benefits.
- But CH Energy is not in itself a means to an end for FTS because it is not meaningfully accretive at the proposed transaction price. Our preliminary analysis suggests FTS is proposing to pay about 1.5x closing rate base, 20.6x P/E, and 10.4x EBITDA[1]. These acquisition multiples sit toward the high end of the range for recent utility acquisitions by Canadian companies.

Exhibit 1 - Recent Utility Acquisitions by Canadian Companies

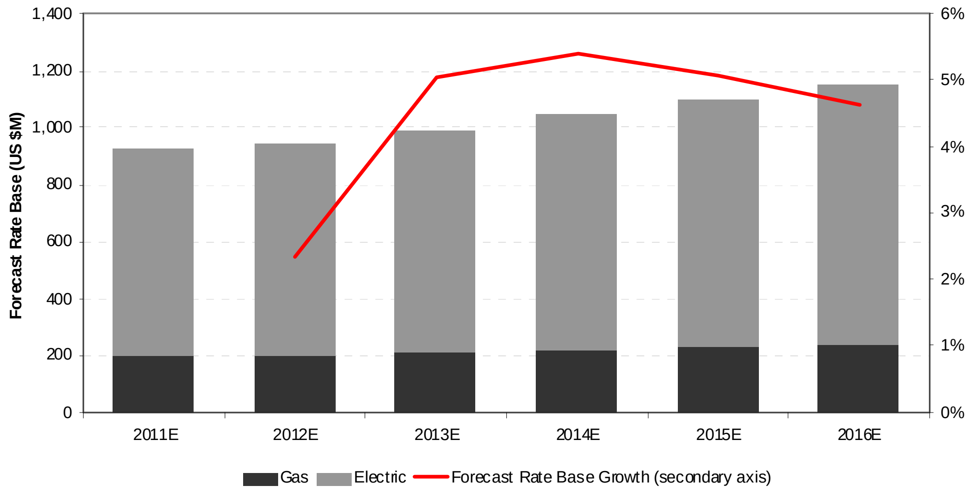
Announced Date	Target	Acquirer	EV ($M)	Rate Base	Rate Base Multiple	Regulated Book Equity Multiple	Effective ROE
6/23/2011	Central Vermont Public Service	Gaz Metro	US$702	US$426	1.6x	2.1x	4.4%
2/21/2012	CH Energy Group	Fortis	US$1,443	US$957	1.5x	2.1x	4.9%
9/15/2003	Aquila Canada	Fortis	C$1,394	C$943	1.5x	2.2x	4.4%
2/26/2007	Terasen Inc. (B.C. Gas)	Fortis	C$3,700	C$3,000	1.2x	1.7x	5.1%
10/5/2011	Bristol Water (70% interest)	Capstone	C$432	C$354	1.2x	1.6x	6.2%
7/7/2011	Western Australia Gas Networks (WestNet)	ATCO	A$1,000	A$840	1.2x	1.5x	7.1%
12/9/2010	Granite State Electric Co. & EnergyNorth Natural Gas Inc.	Algonquin	US$285	US$251	1.1x	1.2x	7.7%
5/13/2011	Midwest Natural Gas Utilities (Atmos Energy)	Algonquin	US$124	US$112	1.1x	1.4x	6.8%

Source: Company reports; Scotiabank GBM estimates.

- There is no way for FTS to make up the premium, as there are no meaningful synergies available in the FTS decentralized operating model. Moreover, there is still some chance FTS has to raise its bid and/or that there is some rate reduction or mitigation required in the regulatory approval process. Finally, we believe appropriate long-term financing involves \$400M-\$500M of new equity. As a result, there are no changes to our 2013 EPS estimates (deal forecast to close in 1H/13).
- Companies can add shareholder value in the acquisition of regulated utilities even when they pay sizeable premiums, but generally only if there is significant organic growth. FTS grows EPS building utility assets at book value because its cost of capital is generally below the regulated returns (10% in the case of CH Energy). That is how FTS added value in the acquisition of Aquila, which was done at 1.6x rate base. The target in this case does not have the double-digit organic growth profile of Aquila, but it is not absent organic growth either. It appears the rate base grows at about 5%/year.

[1] *P/E based on trailing 2011 adjusted EPS as disclosed by CHG and EV/EBITDA from a CHG press release.*

Exhibit 2 - Central Hudson Gas & Electric Projected Rate Base Growth



Source: Company reports; Scotiabank GBM estimates.

- Contiguous acquisitions are another potential area for value-add going forward. The large utility owners in NY State (other than ConEd) are National Grid and Iberdrola, both of whom have been sellers of small non-core utility assets in recent years as they struggle with European operations and sub-par returns. On this basis, opportunities may emerge for FTS. Having said that, it appears the U.S. Northeast is still core to both European utility conglomerates - National Grid has 6.4 m customers and Iberdrola has 2.4 m customers in the region (not to mention transmission assets).
- The proposed CH Energy Group acquisition is a logical starting point for FTS in its U.S. acquisition strategy. Still, we see the stock as range-bound in 2012 for several reasons. The deal is not meaningfully accretive on its own and the regulatory approval process is lengthy and uncertain. Meanwhile, earnings growth will likely be modest considering the potential for erosion of allowed ROEs in British Columbia.
- We suggest monitoring progress on the CH Energy acquisition and potential follow-on transactions that may add shareholder value. FTS is a skilled operator and CH Energy could be the start of a more lucrative acquisition trend. However, there is no urgency to aggressively acquire FTS shares now in our opinion. Our 2-Sector Perform rating and $34 one-year target price are unchanged following the acquisition announcement.

Exhibit 3 - Fortis Inc. Financial Statement Summary (Excludes impact of CH Group Acquisition)

Income Statement ($M)	2010A	2011A	2012E	2013E
BC Gas	$129	$139	$138	$125
Newfoundland Power (Electric)	$35	$34	$33	$34
Alberta & BC Utilities (Electric)	$110	$123	$129	$132
Other Canadian (Electric)	$19	$22	$22	$23
Caribbean Electric	$23	$20	$24	$24
Fortis Generation	$19	$18	$21	$21
Fortis Properties	$26	$23	$28	$30
Corporate and Other	($78)	($72)	($64)	($64)
Earnings to Common S/H - Adjusted	**$285**	**$307**	**$332**	**$326**
Unusual items	$0	$11	$0	$0
Earnings to Common S/H - Reported	$285	$318	$332	$326
EBITDA	$1,150	$1,185	$1,240	$1,269
Shares Outstanding - Basic	173	182	190	192
EPS to Common S/H - Reported	$1.65	$1.75	$1.75	$1.70
EPS to Common S/H - Adjusted	**$1.65**	**$1.69**	**$1.75**	**$1.70**

Cash Flow Statement ($M)	2010A	2011A	2012E	2013E
Earnings	$285	$318	$332	$326
Depreciation and Amortization	$410	$419	$467	$490
Other	$39	$70	$69	$68
Cash Flow from Operations	$734	$807	$868	$885
Changes in non-cash Working Capital	$49	$98	$0	$0
Cash from Operating Activities	**$783**	**$905**	**$868**	**$885**
Total Capex	($1,073)	($1,174)	($1,291)	($732)
Other & Asset Sales	$82	$49	$0	$0
Cash Used in Investing Activities	**($991)**	**($1,125)**	**($1,291)**	**($732)**
Dividends - common/pref shares	($244)	($151)	($253)	($265)
Other Financing Activities	$476	$352	$750	$75
Cash Used in Financing Activities	**$232**	**$201**	**$497**	**($190)**
Foreign Currency Translation	$0	$0	$0	$0
Change in cash and cash equivalents	$24	($19)	$74	($38)
Cash and cash equivalents, beginning of year	$85	$108	$89	$163
Cash and cash equivalents, end of year	**$109**	**$89**	**$163**	**$125**

Balance Sheet ($M)	2010A	2011A	2012E	2013E
Cash	$109	$89	$163	$125
Other Current Assets	$1,095	$1,031	$1,031	$1,031
PP&E	$9,593	$10,266	$11,723	$12,168
Intangibles	$324	$341	$341	$341
Goodwill	$1,553	$1,557	$1,557	$1,557
Other Assets	$229	$278	$227	$177
Total Assets	**$12,903**	**$13,562**	**$15,042**	**$15,399**
Short-term debt	$414	$159	$159	$159
Other Current Liabilities	$1,103	$1,161	$1,772	$1,954
Long-term debt and convertible debentures	$5,609	$5,785	$6,485	$6,510
Other Liabilities	$1,560	$1,668	$1,708	$1,747
Total Liabilities	**$8,686**	**$8,773**	**$10,124**	**$10,370**
Preferred shares	$912	$912	$912	$912
Common equity	$3,305	$3,877	$4,006	$4,117
Total Shareholders' Equity	**$4,217**	**$4,789**	**$4,918**	**$5,029**
Total Liabilities and Shareholders' Equity	**$12,903**	**$13,562**	**$15,042**	**$15,399**

Source: Company reports; Scotiabank GBM estimates.

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Algonquin Power & Utilities Corp.	AQN	G, I, S, U
ATCO Ltd.	ACO.X	S
Capstone Infrastructure Corporation	CSE	G, I, T, U
Fortis Inc.	FTS	G, I, S, U

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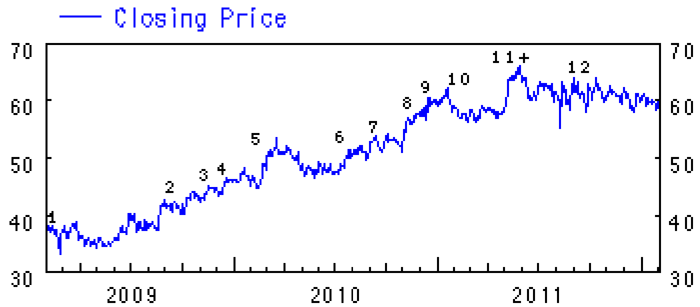
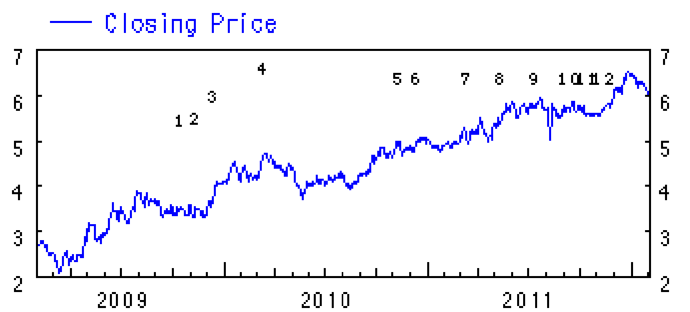


Numbers are located to the left of the lines they represent.
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

ATCO Ltd.				
#	Date	Closing Price	Rating	Target-1YR
1	23-Feb-09	$33.26	* 2-Sector Perform	*$49.00
2	18-Sep-09	$41.86	2-Sector Perform	*$48.50
3	3-Nov-09	$43.00	2-Sector Perform	*$49.50
4	15-Dec-09	$45.74	2-Sector Perform	*$54.00
5	19-Feb-10	$48.23	2-Sector Perform	*$55.00
6	22-Jul-10	$49.99	* 1-Sector Outperform	$55.00
7	2-Sep-10	$52.35	1-Sector Outperform	*$62.00
8	8-Nov-10	$56.95	1-Sector Outperform	*$66.50
9	6-Dec-10	$58.05	1-Sector Outperform	*$68.50
10	25-Feb-11	$57.31	1-Sector Outperform	*$70.00
11	13-May-11	$64.37	1-Sector Outperform	*$73.00
	19-May-11	$63.83	* 8-Coverage Suspended	N/A
12	19-Sep-11	$61.20	* 2-Sector Perform	*$66.00
* represents the value(s) that has changed.				



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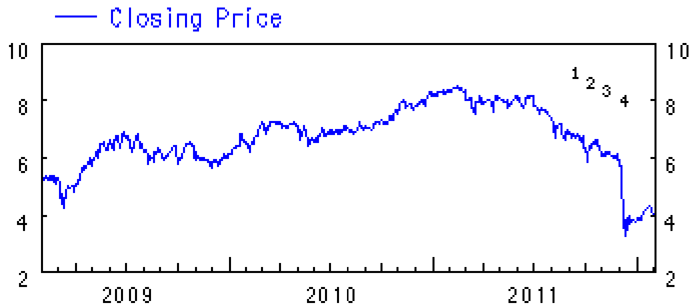
Numbers indicated with a plus sign (+) have more than one target or rating change in the given month.

Algonquin Power & Utilities Corp.				
#	Date	Closing Price	Rating	Target-1YR
1	30-Oct-09	$3.58	* 3-Sector Underperform	*$3.75
2	11-Nov-09	$3.52	Restricted	Restricted
3	4-Dec-09	$3.67	* 2-Sector Perform	*$3.75
4	8-Mar-10	$4.51	2-Sector Perform	*$4.50
5	15-Nov-10	$4.73	2-Sector Perform	*$5.00
6	13-Dec-10	$4.92	2-Sector Perform	*$5.50
7	7-Mar-11	$5.24	* 1-Sector Outperform	*$5.75
8	3-May-11	$5.35	1-Sector Outperform	*$6.00
9	26-Jul-11	$5.73	* 8-Coverage Suspended	N/A
10	19-Sep-11	$5.85	* 1-Sector Outperform	*$7.00
11	7-Oct-11	$5.61	Restricted	Restricted
12	15-Nov-11	$5.77	* 1-Sector Outperform	*$7.00
* represents the value(s) that has changed.				



Capstone Infrastructure Corporation				
#	Date	Closing Price	Rating	Target-1YR
1	19-Sep-11	$6.75	* 2-Sector Perform	*$7.25
2	25-Oct-11	$6.25	Restricted	Restricted
3	16-Nov-11	$6.06	* 2-Sector Perform	*$6.75
4	7-Dec-11	$3.96	* 1-Sector Outperform	*$5.50
* represents the value(s) that has changed.				

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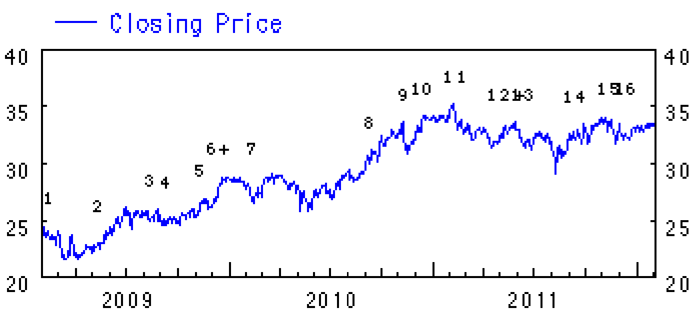

Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	23-Feb-09	$22.90	* 2-Sector Perform	*$28.00
2	1-May-09	$22.36	2-Sector Perform	*$27.00
3	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
4	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
5	16-Nov-09	$26.55	3-Sector Underperform	*$27.00
6	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
7	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
8	2-Sep-10	$30.06	2-Sector Perform	*$32.50
9	8-Nov-10	$33.60	2-Sector Perform	*$34.50
10	6-Dec-10	$33.25	2-Sector Perform	*$35.00
11	11-Feb-11	$33.20	* 3-Sector Underperform	*$34.50
12	19-May-11	$33.09	* 8-Coverage Suspended	N/A
	31-May-11	$33.01	Restricted	Restricted
13	16-Jun-11	$31.97	* 8-Coverage Suspended	*N/A
14	19-Sep-11	$32.30	* 2-Sector Perform	*$34.00
15	4-Nov-11	$33.68	2-Sector Perform	*$35.00
16	1-Dec-11	$32.95	2-Sector Perform	*$34.00
* represents the value(s) that has changed.				

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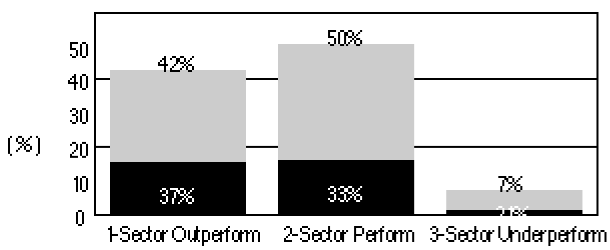

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* As at January 31, 2012.

Source: Scotiabank GBM.

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(FTS-T C$34.55)

Fortis Inc.

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Rating: 2-Sector Perform	**Target** 1-Yr:	C$34.00	**ROR** 1-Yr:	1.9%	**Est. NTM Div.**	C$1.21
Risk Ranking: Low	2-Yr:	C$35.00	2-Yr:	8.3%	**Div. (Current)**	C$1.20
Valuation: 7.1% 2013E Free Cash Yield and 11.7x 2013E EV/EBITDA					**Yield**	3.5%

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

Grinding Through a Soft Spot

Event

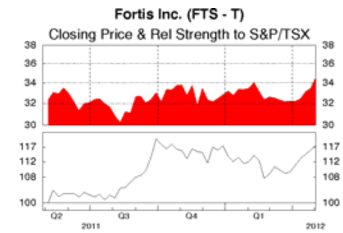
- FTS reported adjusted Q1/12 EPS of $0.66 vs. our estimate of $0.69 and $0.67 in Q1/11.

Implications

- The Q1 report reinforces our view that FTS is going through a low-growth phase. While ratebase has grown, reductions in achieved returns are offsetting at this time.
- That trend probably continues through 2013 due to our forecast decline in allowed ROE in B.C. The BCUC has now commenced a proceeding that should conclude this year for Jan. 1, 2013 rates. We are assuming a 100 basis point reduction in allowed returns.
- Going forward from there, continued utility asset expansion and, to a lesser extent, the CH Energy acquisition (scheduled to close early next year) should bring some earnings growth back into the company. We are introducing a 2014 EPS estimate of $1.85.

Recommendation

- FTS is not cheap (20x P/E and free cash yield of 7.4%) and growth will likely remain slow for now. However, downside is limited as most of the key risks such as Belize have dissipated and earnings momentum should change in 2014. On this basis, we maintain our Sector Perform rating.



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	189.3
Total Value ($M)	6,540
Float O/S (M)	187.8
Float Value ($M)	6,488
TSX Weight	0.44%
Next Reporting Date	Jul-12

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2011A	$0.67 A	$0.33 A	$0.25 A	$0.46 A	$1.69	19.73
2012E	$0.66 A	$0.32	$0.23	$0.54	$1.75	19.78
2013E	$0.75	$0.31	$0.24	$0.45	$1.75	19.78
2014E	$0.75	$0.30	$0.25	$0.55	$1.85	18.71

(FY-Dec.)	2010A	2011A	2012E	2013E	2014E
Free Cash Flow/Share	$2.00	$2.24	$2.39	$2.56	$2.64
Price/Earnings	20.6	19.7	19.8	19.8	18.7
EV/EBITDA	11.2	11.2	11.6	11.7	11.2
Payout Ratio	56%	52%	50%	49%	49%
EBITDA	$1,150	$1,185	$1,261	$1,416	$1,517
Debt/EBITDA	5.2	5.0	5.5	5.6	5.3
Tot. Debt/(Tot.Dbt+Eq.)	0.59	0.55	0.59	0.59	0.59
Enterprise Value	$12,917	$13,278	$14,634	$16,636	$16,944

IBES Estimates
EPS 2012E: $1.75
EPS 2013E: $1.81

Pertinent Revisions

	New	Old
EPS13E	$1.75	$1.70
EPS14E	$1.85	N/A

New Valuation:
7.1% 2013E Free Cash Yield and 11.7x 2013E EV/EBITDA

Old Valuation:
7.3% 2013E Free Cash Yield and 11.3x 2013E EV/EBITDA

ScotiaView Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotiabank GBM estimates.

Exhibit 1 - Fortis Inc. Financial Statement Summary

Income Statement ($M)	2011A	2012E	2013E	2014E
BC Gas	$139	$138	$125	$131
Newfoundland Power (Electric)	$34	$33	$35	$36
Alberta & BC Utilities (Electric)	$123	$129	$132	$141
Other Canadian (Electric)	$22	$23	$25	$28
Caribbean Electric	$20	$22	$24	$27
CH Energy			$30	$54
Fortis Generation	$18	$21	$21	$23
Fortis Properties	$23	$28	$30	$33
Corporate and Other	($72)	($64)	($65)	($65)
Earnings to Common S/H - Adjusted	**$307**	**$332**	**$358**	**$407**
Unusual items	$11	($4)	$0	$0
Earnings to Common S/H - Reported	$318	$328	$358	$407
EBITDA	$1,185	$1,261	$1,416	$1,517
Avg. Shares Outstanding - Basic	182	190	209	221
EPS to Common S/H - Reported	$1.75	$1.73	$1.75	$1.85
EPS to Common S/H - Adjusted	**$1.69**	**$1.75**	**$1.75**	**$1.85**

Cash Flow Statement ($M)	2011A	2012E	2013E	2014E
Earnings	$318	$328	$358	$407
Depreciation and Amortization	$419	$490	$568	$587
Other	$69	$57	$73	$79
Cash Flow from Operations	$806	$874	$998	$1,073
Changes in non-cash Working Capital	$98	$0	$0	$0
Cash from Operating Activities	**$904**	**$874**	**$998**	**$1,073**
Total Capex	($1,174)	($1,291)	($1,744)	($972)
Other & Asset Sales	$49	$18	$0	$0
Cash Used in Investing Activities	**($1,125)**	**($1,273)**	**($1,744)**	**($972)**
Dividends - common/pref shares	($151)	($253)	($286)	($311)
Other Financing Activities	$350	$641	$1,040	$180
Cash Used in Financing Activities	**$199**	**$388**	**$754**	**($131)**
Foreign Currency Translation	$0	$0	$0	$0
Change in cash and cash equivalents	($22)	($11)	$9	($30)
Cash and cash equivalents, beginning of year	$109	$87	$76	$85
Cash and cash equivalents, end of year	**$87**	**$76**	**$85**	**$55**

Balance Sheet ($M)	2011A	2012E	2013E	2014E
Cash	$87	$76	$85	$55
Other Current Assets	$1,031	$990	$990	$990
PP&E	$10,266	$12,312	$15,097	$15,771
Intangibles	$341	$324	$324	$324
Goodwill	$1,557	$1,563	$1,563	$1,563
Other Assets	$278	$156	$104	$52
Total Assets	**$13,560**	**$15,421**	**$18,163**	**$18,754**
Short-term debt	$159	$41	$41	$41
Other Current Liabilities	$1,159	$1,659	$2,755	$3,021
Long-term debt and convertible debentures	$5,785	$6,867	$7,867	$8,017
Other Liabilities	$1,668	$2,003	$2,046	$2,095
Total Liabilities	**$8,771**	**$10,570**	**$12,709**	**$13,174**
Preferred shares	$912	$912	$912	$912
Common equity	$3,877	$3,940	$4,542	$4,668
Total Shareholders' Equity	**$4,789**	**$4,852**	**$5,454**	**$5,580**
Total Liabilities and Shareholders' Equity	**$13,560**	**$15,421**	**$18,163**	**$18,754**

Source: Company reports; Scotiabank GBM estimates.

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

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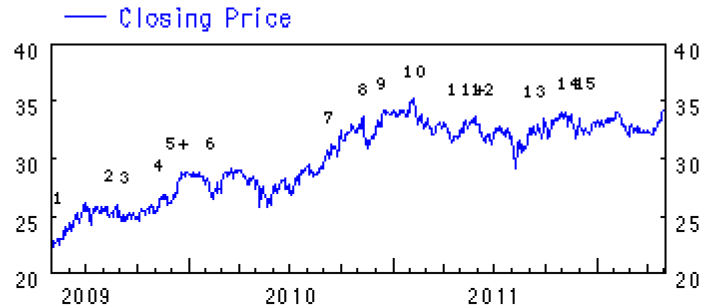

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Fortis Inc.

#	Date	Closing Price	Rating	Target-1YR
1	4-May-09	$22.85	* 2-Sector Perform	*$27.00
2	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
3	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
4	16-Nov-09	$26.55	3-Sector Underperform	*$27.00
5	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
6	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
7	2-Sep-10	$30.06	2-Sector Perform	*$32.50
8	8-Nov-10	$33.60	2-Sector Perform	*$34.50
9	6-Dec-10	$33.25	2-Sector Perform	*$35.00
10	11-Feb-11	$33.20	* 3-Sector Underperform	*$34.50
11	19-May-11	$33.09	* 8-Coverage Suspended	N/A
	31-May-11	$33.01	Restricted	Restricted
12	16-Jun-11	$31.97	* 8-Coverage Suspended	*N/A
13	19-Sep-11	$32.30	* 2-Sector Perform	*$34.00
14	4-Nov-11	$33.68	2-Sector Perform	*$35.00
15	1-Dec-11	$32.95	2-Sector Perform	*$34.00

* represents the value(s) that has changed.

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Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

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Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

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Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
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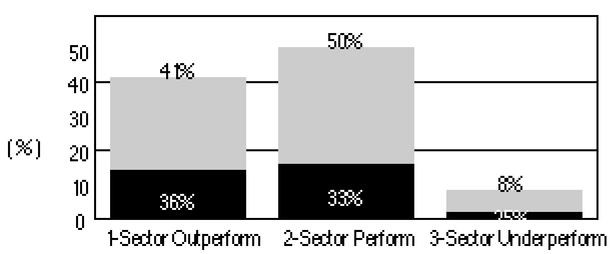

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* As at April 30, 2012.

Source: Scotiabank GBM.

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Equity Research DAILY Edge

Company Comment
Thursday, December 1, 2011

Fortis Inc.

(FTS-T C$33.51)

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(Scotia Capital Inc. - Canada)

Rating: 2-Sector Perform	**Target**	1-Yr:	C$34.00	**ROR**	1-Yr:	5.0%
Risk Ranking: Low		2-Yr:	C$35.00		2-Yr:	11.5%

Valuation: 7.2% 2012E Free Cash Yield and 11.2x 2012E EV/EBITDA

Key Risks to Target: Interest rates; Rate base growth; Regulated ROE; Acquisitions; Regulatory

Est. NTM Div.	C$1.18
Div. (Current)	C$1.16
Yield	3.5%

BC to Review Regulated Returns

Event

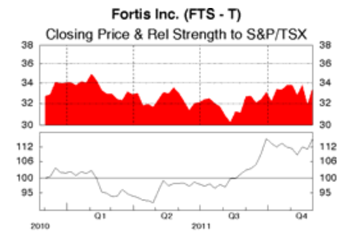
- The B.C. Utilities Commission (BCUC) announced it will initiate a generic cost of capital proceeding in early 2012.

Implications

- The BCUC last reviewed cost of capital in early 2009. Given that government bond yields and credit spreads have come in significantly since that time, and given that the BCUC unilaterally initiated the proceeding, we have to assume allowed returns are going lower.
- Fortis is the only utility we cover with material exposure to allowed returns on equity in B.C. Allowed ROEs are 9.5%-10%. With about $1.9B of 2013E regulated equity in the province, every 100 basis point reduction in allowed ROE decreases 2013E EPS by about $0.10.
- We are therefore reducing our 2013E EPS estimate by $0.10 and our one-year target price by $1 to $34. In a separate regulatory proceeding, the Alberta Utilities Commission is due to decide soon on a new generic ROE. Our estimates assume it is reduced to 8.5% from 9%.

Recommendation

- It will be hard for FTS shares to move up given new uncertainty around allowed returns in a core jurisdiction. We maintain our 2-SP rating and would only accumulate aggressively closer to $30.



Source: Global Insight, Inc.

Capitalization	
Shares O/S (M)	186.9
Total Value ($M)	6,264
Float O/S (M)	185.5
Float Value ($M)	6,216
TSX Weight	0.45%
Next Reporting Date	Feb-12

Qtly Adj EPS (Basic)	Q1	Q2	Q3	Q4	Year	P/E
2010A	$0.58 A	$0.32 A	$0.26 A	$0.49 A	$1.65	20.59
2011E	$0.67 A	$0.33 A	$0.25 A	$0.45	$1.70	19.71
2012E	$0.71	$0.32	$0.26	$0.46	$1.75	19.15
2013E	$0.69	$0.31	$0.25	$0.44	$1.70	19.71

(FY-Dec.)	2009A	2010A	2011E	2012E	2013E
Free Cash Flow/Share	$1.86	$2.00	$2.36	$2.46	$2.48
Price/Earnings	18.8	20.6	19.8	19.2	19.8
EV/EBITDA	10.8	11.2	10.9	11.1	11.1
Payout Ratio	56%	56%	49%	49%	51%
EBITDA	$1,067	$1,150	$1,220	$1,258	$1,265
Debt/EBITDA	5.5	5.2	5.1	5.3	5.3
Tot. Debt/(Tot.Dbt+Eq.)	0.61	0.59	0.57	0.58	0.57
Enterprise Value	$11,503	$12,859	$13,292	$13,935	$14,044

IBES Estimates
EPS 2011E: $1.71
EPS 2012E: $1.77

Pertinent Revisions

	New	Old
Target:		
1-Yr	$34.00	$35.00
2-Yr	$35.00	$36.00
EPS13E	$1.70	$1.80

New Valuation:
7.2% 2012E Free Cash Yield and 11.2x 2012E EV/EBITDA

Old Valuation:
7.0% 2012E Free Cash Yield and 11.3x 2012E EV/EBITDA

ScotiaView Analyst Link

Historical price multiple calculations use FYE prices. Source: Reuters; Company reports; Scotia Capital estimates.

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
Fortis Inc.	FTS	G, I, S, U

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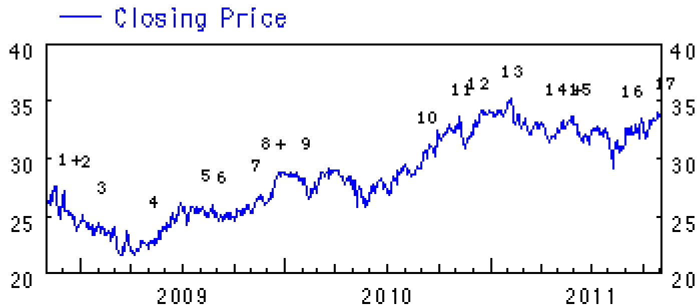

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Fortis Inc.				
#	Date	Closing Price	Rating	Target-1YR
1	1-Dec-08	$27.28	* 2-Sector Perform	*$30.00
	3-Dec-08	$25.48	Restricted	Restricted
2	8-Jan-09	$24.49	* 2-Sector Perform	*$28.50
3	6-Feb-09	$23.86	2-Sector Perform	*$28.00
4	1-May-09	$22.36	2-Sector Perform	*$27.00
5	6-Aug-09	$25.75	* 3-Sector Underperform	$27.00
6	18-Sep-09	$24.90	3-Sector Underperform	*$26.50
7	16-Nov-09	$26.55	3-Sector Underperform	*$27.00
8	15-Dec-09	$28.30	3-Sector Underperform	*$29.00
	18-Dec-09	$28.61	3-Sector Underperform	*$30.00
9	3-Feb-10	$28.26	* 2-Sector Perform	$30.00
10	2-Sep-10	$30.06	2-Sector Perform	*$32.50
11	8-Nov-10	$33.60	2-Sector Perform	*$34.50
12	6-Dec-10	$33.25	2-Sector Perform	*$35.00
13	11-Feb-11	$33.20	* 3-Sector Underperform	*$34.50
14	19-May-11	$33.09	* 8-Coverage Suspended	N/A
	31-May-11	$33.01	Restricted	Restricted
15	16-Jun-11	$31.97	* 8-Coverage Suspended	*N/A
16	19-Sep-11	$32.30	* 2-Sector Perform	*$34.00
17	4-Nov-11	$33.68	2-Sector Perform	*$35.00

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Medium
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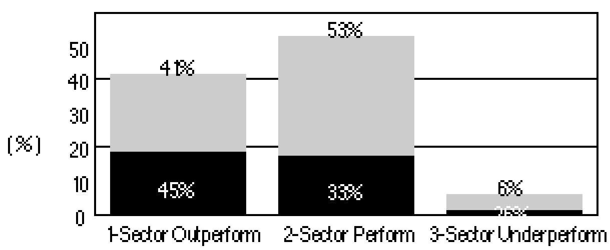

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TD Newcrest
The Equity Division of TD Securities

Action Notes

February 8, 2006
Equity Research

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Fortis Inc.

(FTS-T) C$22.96

Pipelines, Power & Utilities

Recommendation:	**HOLD**
Prior:	*REDUCE*
12-Month Target Price:	**C$23.00**
	Unchanged
12-Month Total Return:	**3.0%**

Market Data (C$)	
Current Price	$22.96
52-Wk Range	$17.25-$25.64
Mkt Cap (f.d.)($mm)	$2,369.5
Dividend per Share	$0.64
Dividend Yield	2.8%
Avg. Daily Trading Vol. (3mths)	177060

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	103.2
Float Shares (mm)	103.2
Net Debt/Tot Cap	58.7%
BVPS (basic)	$11.76
ROE	10.7%

Estimates (C$)

Year	2004A	2005A	2006E	2007E
EPS (basic)	1.06	1.19	1.21	1.33
EPS (basic)(old)	1.06	1.18	1.19	1.28
EPS (f.d.)	1.00	1.11	1.19	1.30
EPS (f.d.)(old)	1.00	1.11	1.13	1.24
CFPS (basic)	2.61	3.07	2.82	3.00
DI	0.54	0.59	0.68	0.80

Valuations

Year	2004A	2005A	2006E	2007E
P/E (f.d.)	23.0x	20.7x	19.3x	17.7x
P/CFPS (basic)	8.8x	7.5x	8.1x	7.7x
P/DI	42.5x	38.9x	33.8x	28.7x

All figures in C$, unless otherwise specified.

Fourth Quarter In-Line with Expectations

Event

Fortis reported EPS of $0.21 (f.d.) or adjusted operating EPS of $0.23 in-line with our $0.23 estimate and Q4/04 operating EPS of $0.22, but fell short of the $0.28 consensus estimate.

Impact

Mildly Positive. We have adjusted our EPS forecasts slightly to reflect new information provided in the quarter and assumed higher overearnings at the utilities; our EPS forecasts increase $0.06 to $1.19 and $1.30 for 2006 and 2007 respectively.

Details

Regulated Utilities – Canadian earnings of $15.2 million declined 29% from Q4/05. The majority of the decrease was due to lower contributions from FortisAlberta and FortisBC, although contributions from the other segments declined as well (Exhibit 1). Higher finance charges and an approximate $3 mm revenue deferral related to the full year accounted for the bulk of the difference.

Regulated Utilities – Caribbean earnings of $4.8 million increased from $0.5 million in Q4/05. Earnings from Belize were positively affected by an 11% rate increase (effective July 2005) and gain on Euro denominated debt partially offset by the strength in the Canadian vs. U.S. dollar. Caribbean Utilities' earnings increased to $2.8 million and the company expects sales to reach pre-Hurricane Ivan levels by April 2006.

Non-regulated Fortis Generation earnings increased 102% to $9.5 million. The primary reason for the large increase was the continued strength in Ontario and upper New York wholesale power prices. Ontario wholesale prices increased to $71.46/MWh Q4/05 vs. $50.80/MWh in Q4/04 and upper New York wholesale prices increased to US$70.94/MWh vs. US$46.75/MWh in Q4/04.

Non-regulated Fortis Properties segmented earnings were relatively flat at $2.9 million. Increased revenues from three hotels acquired in February 2005 and the expansion of Delta St. John's were offset by increased operating expenses, amortization and financing charges.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising electric utilities in Atlantic Canada, Ontario, western Canada, Belize and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the United States.

Please see the final pages of this document for important disclosure information.

Corporate expenses increased to $7.8 million in Q4/05. The increase was primarily a result of lower inter-company interest revenue partially offset by financing costs, which were lower in Q4/05 mainly as a result of the repayment of a short-term bridge facility in March 2005.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q4/05	Q4/04	YOY Change	YOY % Change
Newfoundland Power	$ 2.9	$ 3.3	$ (0.4)	-12%
Maritime Electric	1.7	1.8	(0.1)	-6%
FortisOntario	0.7	0.9	(0.2)	-22%
FortisAlberta	4.2	7.5	(3.3)	-44%
FortisBC	5.7	7.9	(2.2)	-28%
Regulated Utilities - Canadian	15.2	21.4	(6.2)	-29%
Belize Electricity	2.0	1.6	0.4	25%
Caribbean Utilities - Equity Income	2.8	(1.1)	3.9	
Regulated Utilities - Caribbean	4.8	0.5	4.3	860%
Total Regulated Utilities	**20.0**	**21.9**	**(1.9)**	**-9%**
Non-regulated Fortis Generation	**9.5**	**4.7**	**4.8**	**102%**
Non-regulated Fortis Properties	**2.9**	**2.8**	**0.1**	**4%**
Corporate	**(7.8)**	**(7.2)**	**(0.6)**	**8%**
Operating Earnings	**24.6**	**22.2**	**2.4**	**11%**
Adjustments	(2.3)	(1.0)	(1.3)	130%
Reported Earnings	**22.3**	**21.2**	**1.1**	**5%**
Average Shares Outstanding - Basic (mm)	103.1	95.5	7.7	8%
Average Shares Outstanding - Diluted (mm)	125.8	119.7	6.0	5%
Operating EPS (basic)	$ 0.24	$ 0.23	$ 0.01	3%
Reported EPS (basic)	$ 0.22	$ 0.22	$ -	0%
Operating EPS (f.d)	$ 0.23	$ 0.22	$ 0.01	4%
Reported EPS (f.d)	$ 0.21	$ 0.21	$ -	0%

Note that we adjusted Q4/05 earnings to normalize for a $0.4 mm insurance gain on the disposition of assets, $1.1 mm write down of Rankine assets, $0.8 of restructuring charges relating to Western Utilities and $0.8 mm of early retirement costs of which $0.5 mm relates to FortisOntario and the remainder relates to Fortis Generation. Q4/04 earnings were adjusted to back out a $3.7 mm FortisBC gain from the refinement of the process to estimate unbilled usage and $4.7 mm relating to the costs incurred by Caribbean Utilities due to Hurricane Ivan.

Source: Company reports, TD Newcrest.

Valuation

Fortis is trading at 19.3x price-to-forward earnings, a slight discount to the average 20.2x for the sector. We view this discount as warranted due to the lower profitability and relatively higher risk associated with its unregulated and non-Canadian operations.

Justification of Target Price

Our $23.00 target price is predicated on our 2007 financial estimates as follows: 1) 50% relative earnings yield of 133% (vs. historical average of 133%), 2) 25% relative dividend yield of 81% (vs. historical average of 82%), and 3) 25% P/B of 1.8x (vs. historical average of 1.4x). Our target price implies a 3.5% dividend yield and a price-to-earnings ratio of 17.7 times, compared to historical averages of 4.7% and 13.8 times, respectively. We believe that Fortis will continue to trade at a discount to the sector due to its lower profitability and above-average regulatory risk.

Key Risks to Target Price

1) higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) materially different power prices in Ontario versus our forecast.

Investment Conclusion

While 2006 EPS growth will be challenged if power prices in Ontario don't recover from the soft start in January, growth should rebound in 2007 if regulated ROEs recover from historical lows in 2006 and the ascent of the Canadian dollar versus the US dollar decelerates. Over the next few years, Fortis will need to make an accretive acquisition to offset the loss in earnings contribution from the 75 MW Rankine dam in 2009, which has been a major growth driver for the company over the past few years. Absent an accretive acquisition, Fortis' share price lacks visible catalysts, and therefore we see little potential for share price appreciation. Conversely, we see few negative catalysts for the stock over the next year. In our view, our expectation that the shares will move sideways within a narrow band close to our target price warrants an upgrade in rating to a HOLD.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	14

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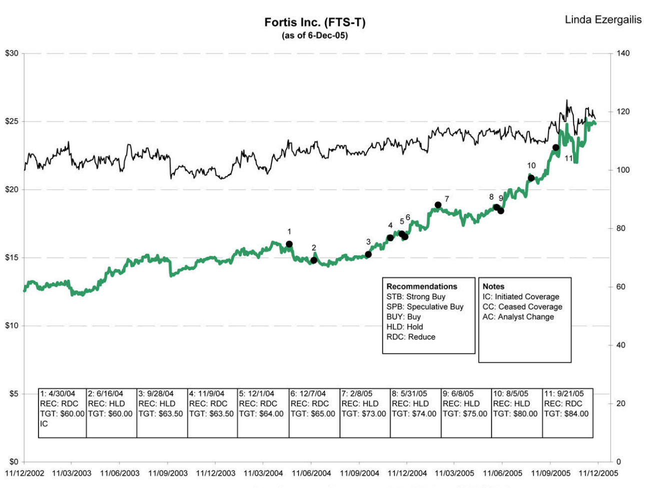

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Pipelines, Power & Utilities

Recommendation:	**HOLD**
	Unchanged
12-Month Target Price:	**C$22.00**
	Unchanged
12-Month Total Return:	**5.7%**

Market Data (C$)	
Current Price	$21.42
52-Wk Range	$17.81-$25.64
Mkt Cap (f.d.)($mm)	$2,214.8
Dividend per Share	$0.64
Dividend Yield	3.0%
Avg. Daily Trading Vol. (3mths)	296211

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	103.4
Float Shares (mm)	103.4
Net Debt/Tot Cap	58.0%
BVPS (basic)	$11.97
ROE	10.7%

Estimates (C$)

Year	2004A	2005A	2006E	2007E
EPS (basic)	1.06	1.19	1.21	1.33
EPS (f.d.)	1.00	1.11	1.19	1.30
CFPS (basic)	2.61	3.07	2.82	3.00
DI	0.54	0.59	0.68	0.80

Valuations

Year	2004A	2005A	2006E	2007E
P/E (f.d.)	21.4x	19.3x	18.0x	16.5x
P/CFPS (basic)	8.2x	7.0x	7.6x	7.1x
P/DI	39.7x	36.3x	31.5x	26.8x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$21.42

First Quarter In-Line With Expectations

Event

Fortis reported Q1/06 EPS (f.d) of $0.34, in-line with our estimate and $0.04 higher than Q1/05 operating EPS of $0.30 (Exhibit 1).

Impact

Neutral. Q1/06 was a solid quarter and in-line with our expectations.

Details

Regulated Utilities - Canadian earnings were $35.1 million in Q1/06 vs. $33.0 million in Q1/05, an increase of 6%. Strong rate base growth in FortisBC and FortisAlberta more than offset a lower contribution from Newfoundland Power, which declined primarily as a result of a change in the company's revenue recognition policy. Newfoundland Power's lower earnings are mainly timing related and on an annual basis are expected to be comparable with 2005.

Regulated Utilities - Caribbean earnings were $3.2 million, a decrease of 9% from Q1/05. Increased earnings from Belize Electricity, mainly as a result of an 11% increase in electricity rates, effective July 1, 2005, and a 5% increase in electricity sales were more than offset by a decreased contribution from Caribbean Utilities. The expensing of previously deferred fuel costs impacted Caribbean Utilities' earnings. Caribbean Utilities now is regularly achieving generation and sales levels realized prior to Hurricane Ivan; however, given the Cayman Islands' focus on post-hurricane rebuilding, not much progress has been made on its license renewal.

Fortis Generation earnings increased 159% to $5.4 million in Q1/06 from $2.1 million in Q1/05, after adjusting for a $7.9 million after-tax gain on the settlement of contractual matters with Ontario Power Generation. Revenue for the quarter increased mainly as a result of the Chalillo hydro facility, which commenced operations in September 2005 and full quarter contribution of the Dolgeville plant in Upper New York State, which was out of service for much of Q1/05. Operating expenses declined year-over-year mainly due to the Rankine Generating Station ceasing operations due to the Niagara Exchange Agreement, which assigns FortisOntario's Niagara River water rights to Ontario Power Generation. Interest charges and corporate taxes also declined during the quarter. Partially offsetting these items was the impact of lower average wholesale energy prices in Ontario, which averaged $50.98 in the

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising electric utilities in Atlantic Canada, Ontario, western Canada, Belize and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the United States.

quarter vs. $55.99 in Q1/05.

Fortis Properties earnings were flat year-over-year at $1.5 million. Increased hospitality revenue brought on by the full quarter contribution of three Greenwood Inn Hotels (vs. two months in Q1/05) and increased revenue at the Delta Brunswick was offset chiefly by increased operating expenses. In addition, Q1/05 hospitality earnings were positively impacted by a large conference and the Scott Tournament of Hearts curling championship, which strengthened hotel demand in the St. John's, Newfoundland area.

Corporate expenses declined slightly to $8.5 million for the quarter. Lower inter-company interest revenue was offset by decreased finance charges and unrealized foreign exchange losses.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q1/06	Q1/05	YOY Change	YOY % Change
Newfoundland Power	$ 10.7	$ 13.0	$ (2.3)	-18%
Maritime Electric	2.1	2.1	(0.1)	-3%
FortisOntario	1.0	1.1	(0.1)	-10%
FortisAlberta	9.5	7.8	1.6	21%
FortisBC	11.9	8.9	2.9	32%
Regulated Utilities - Canadian	35.1	33.0	2.1	6%
Belize Electricity	1.5	1.0	0.5	50%
Caribbean Utilities - Equity Income	1.6	2.5	(0.9)	-36%
Regulated Utilities - Caribbean	3.2	3.5	(0.3)	-9%
Total Regulated Utilities	**38.2**	**36.4**	**1.8**	**5%**
Non-regulated Fortis Generation (1)	**5.4**	**2.1**	**3.3**	**159%**
Non-regulated Fortis Properties	**1.5**	**1.5**	**(0.0)**	**-2%**
Corporate	**(8.5)**	**(8.7)**	**0.2**	**-3%**
Operating Earnings	**36.6**	**31.3**	**5.3**	**17%**
Adjustments (1)	-	7.9	(7.9)	-100%
Reported Earnings	**36.6**	**39.2**	**(2.6)**	**-7%**
Average Shares Outstanding - Basic (mm)	103.3	98.0	5.3	5%
Average Shares Outstanding - Diluted (mm)	120.6	120.4	0.2	0%
Operating EPS (basic)	$ 0.35	$ 0.32	$ 0.04	11%
Reported EPS (basic)	$ 0.35	$ 0.40	$ (0.05)	-11%
Operating EPS (f.d)	**$ 0.34**	**$ 0.30**	**$ 0.04**	**15%**
Reported EPS (f.d)	$ 0.34	$ 0.36	$ (0.02)	-6%

Note: (1) Q1/05 reported earnings include a $7.9 million after-tax gain relating to the settlement of contractual matters with Ontario Power Generation.

Source: Company reports, TD Newcrest.

Exhibit 2. Financial Outlook ($millions unless otherwise stated)

	1999	2000	2001	2002	2003	2004	2005	2006E	2007E
Regulated Utilities - Canadian	$32.9	$31.4	$40.3	$44.6	$54.6	$76.1	$95.3	$98.6	$109.8
Regulated Utilities - Caribbean	3.5	8.6	10.7	11.8	17.2	12.7	18.3	17.9	19.3
Fortis Generation	0.0	0.0	6.7	4.6	(0.5)	12.8	22.7	25.8	26.2
Properties	1.7	3.0	6.2	9.3	11.0	11.8	14.1	16.1	15.4
Corporate	(9.4)	(11.6)	(13.7)	(7.0)	(8.7)	(23.3)	(29.7)	(31.8)	(31.7)
Operating Earnings	**28.7**	**31.4**	**50.1**	**63.3**	**73.6**	**90.1**	**120.8**	**126.7**	**138.9**
Non-recurring, Unusual, Discontinued Items	0.5	5.4	3.5	0.0	0.0	0.8	16.4	0.0	0.0
Reported Earnings	29.2	36.8	53.6	63.3	73.6	90.9	137.1	126.7	138.9

Source: Company reports, TD Newcrest.

Valuation

Fortis is trading at 17.5 times price-to-forward earnings, a slight discount to the average 18.3 times for the sector. We view this discount as warranted due to the lower profitability and relatively higher risk associated with its unregulated and non-Canadian operations.

Exhibit 3. Peer Group Valuation

Symbol	Exch.	Curr. Price	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2005A	EPS 2006E	EPS 2007E	P/E 2005A	P/E 2006E	P/E 2007E	P/E Forward	12-Month Target	Total Return
FTS	T	$21.42	$2,210.5	$0.64	3.0%	11.76	1.8	$1.11	$1.19	$1.30	21.5x	18.0x	16.5x	17.8x	$22.00	5.7%
ACO/NV/X	T	$34.05	$2,046.1	$0.82	2.4%	23.02	1.5	$2.46	$2.59	$2.72	16.6x	13.2x	12.5x	12.9x		
CU/NV	T	$36.98	$4,779.0	$1.14	3.1%	17.52	2.1	$2.08	$2.13	$2.25	21.1x	17.4x	16.4x	17.4x		
EMA	T	$19.00	$2,091.9	$0.89	4.7%	12.41	1.5	$0.99	$1.12	$1.15	20.7x	17.0x	16.5x	17.0x	$19.00	4.7%
ENB	T, N	$33.24	$11,341.5	$1.15	3.5%	12.29	2.7	$1.55	$1.63	$1.74	23.2x	20.4x	19.1x	19.9x	$36.00	11.8%
TA, TAC	T, N	$23.65	$4,720.5	$1.00	4.2%	12.72	1.9	$0.88	$1.03	$1.36	28.8x	23.0x	17.4x	20.6x	$20.00	-11.2%
TRP	T, N	$32.70	$15,938.0	$1.28	3.9%	15.25	2.1	$1.72	$1.79	$1.95	21.2x	18.3x	16.8x	17.9x	$38.00	20.1%
Average					3.7%		2.0				22.8x	19.0x	17.1x	18.4x		

Note: Averages exclude Atco. All EPS forecasts are TD Newcrest estimates, with the exception of Atco and Canadian Utilities (consensus estimates).

Source: Bloomberg, TD Newcrest.

Justification of Target Price

Our $22.00 target price is predicated on our 2007 financial estimates as follows: 1) 50% relative earnings yield of 131% (vs. historical average of 133%), 2) 25% relative dividend yield of 81% (vs. historical average of 82%), and 3) 25% P/B of 1.7 times (vs. historical average of 1.4x). Our target price implies a 3.6% dividend yield and a price-to-earnings ratio of 16.9 times, compared to historical averages of 4.7% and 13.8 times, respectively. We believe that Fortis will continue to trade at a discount to the sector due to its lower profitability and above-average regulatory risk.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) materially different power prices in Ontario versus our forecast.

Investment Conclusion

Higher rate base growth in Alberta should mitigate the effect of low regulated ROEs, strength in the Canadian dollar and soft Ontario power prices, during 2006. Over the next few years, Fortis will need to make an accretive acquisition, in what we view as a very competitive environment, to offset the loss in earnings contribution from the 75 MW Rankine dam in 2009, which has been a growth driver for the company in the past. Absent an accretive acquisition, we see limited visible catalysts, either positive or negative, for the stock over the next year and expect the shares will move sideways within a narrow band close to our target price. We reiterate our HOLD rating.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	14

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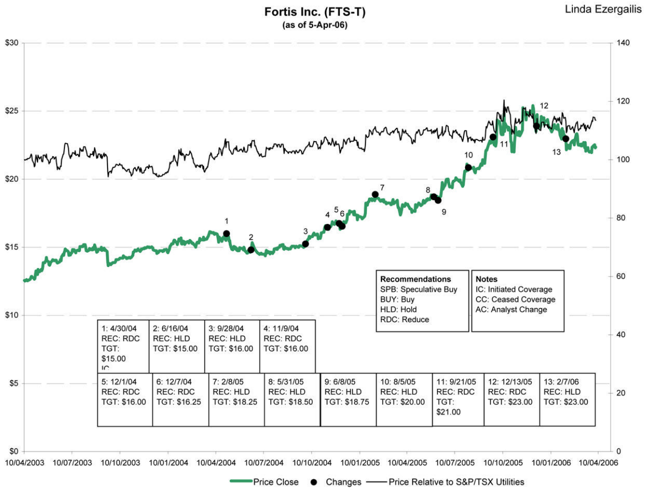

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Buy: 49 %, Speculative Buy: 4 %, Hold: 43 %, Reduce: 4 %. Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Buy: 43%, Speculative Buy: 45% ; Hold: 39%, Reduce: 50%.

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Research Ratings

BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Directorships and Advisory Relationships

Analyst Certification

Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Disclaimer

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Pipelines, Power & Utilities

Recommendation: **HOLD**
Unchanged

12-Month Target Price: **C$22.00**
Unchanged

12-Month Total Return: **0.6%**

Market Data (C$)	
Current Price	$22.51
52-Wk Range	$20.32-$25.64
Mkt Cap (f.d.)($mm)	$2,721.5
Dividend per Share	$0.64
Dividend Yield	2.8%
Avg. Daily Trading Vol. (3mths)	240129

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	120.9
Float Shares (mm)	103.6
Net Debt/Tot Cap	58.8%
BVPS (basic)	$12.18
ROE	10.7%

Estimates (C$)

Year	2004A	2005A	2006E	2007E
EPS (basic)	1.06	1.19	1.25	1.37
EPS (basic)(old)	1.06	1.19	1.21	1.33
EPS (f.d.)	1.00	1.11	1.22	1.33
EPS (f.d.)(old)	1.00	1.11	1.19	1.30
CFPS (basic)	2.61	3.07	2.87	3.06
DI	0.54	0.59	0.68	0.80

Valuations

Year	2004A	2005A	2006E	2007E
P/E (f.d.)	22.5x	20.3x	18.5x	16.9x
P/CFPS (basic)	8.6x	7.3x	7.8x	7.4x
P/DI	41.7x	38.2x	33.1x	28.1x

All figures in C$, unless otherwise specified.

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Fortis Inc.

(FTS-T) C$22.51

Focus Shifts to Acquisitions; Q2/06 In-Line with Expectations

Event

Fortis reported EPS of $0.35. Normalized Q2/06 EPS of $0.32 increased $0.05 year-over-year and was in-line with both our $0.31 estimate and the recent consensus of $0.33.

Impact

Neutral.

We have adjusted our estimates primarily to reflect slightly higher overearnings from FortisAlberta and higher revenues from Belize Electricity.

Details

Regulated Utilities – Canadian Q2/06 earnings of $25.4 mln declined $1.0 mln year-over-year primarily as a result of 1) timing due to a change in revenue recognition policy at Newfoundland Power, and 2) FortisBC being affected by the implementation of the new PBR mechanism as well as higher amortization costs and finance charges (Exhibit 1). Conversely, FortisAlberta achieving higher earnings due to electricity sales growth and lower corporate income taxes, partially offset by lower electricity rates as a result of the 2006/2007 Negotiated Settlement Agreement.

Regulated Utilities – Caribbean earnings grew $0.6 mln to $4.4 mln benefiting from a new four-year tariff agreement at Belize Electricity effective, July 1, 2005, which resulted in an 11 percent increase in electricity rates, partially offset by the weakening of the US dollar against the Canadian dollar. The effects of Hurricane Ivan appear to be largely behind Caribbean Utilities. Customer numbers at Caribbean Utilities surpassed pre-Hurricane Ivan levels in June 2006, and owned generating capacity reached 120 MW by the end of July 2006 compared to 123 MW prior to the hurricane.

Fortis Generation earnings of $6.0 mln almost doubled year-over-year due to higher production, lower finance charges and operating costs, partially offset by $2.4 mln lower revenue from milder weather causing wholesale energy prices in Ontario to drop to $45.32/MWh versus $60.24/MWh in Q2/05. Hydro production increased in Belize as a result of higher rainfall levels and the operation of the Chalillo dam. In Upper New York State, the Dolgeville plant was operating whereas in Q2/05 it was not operational due to flooding. The Dolgeville plant is expected to be out of commission for most of Q3/06 due to another flooding incident late in Q2/06.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising electric utilities in Atlantic Canada, Ontario, western Canada, Belize and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the United States.

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Fortis Properties earnings of $5.0 mln were essentially flat year-over-year. Revenues increased due to expanded operations, although operating expenses and finance charges grew apace. During Q2/06, the expansions of the Holiday Inn hotels in Sarnia and Kitchener-Waterloo were completed, as well as the 57,000 square-foot expansion of the Blue Cross Centre in Moncton. Discussions with management indicate that Days Inn Sydney was sold as a result of an unsolicited high offer for the hotel. Other than periodically considering unsolicited high offers for its assets, the company remains in acquisition mode.

Corporate expenses of $6.7 mln improved $2.6 mln year-over-year primarily as a result of a Q2/05 $1.2 mln foreign exchange loss swinging to a $1.9 mln gain in Q2/06. These gains and losses are related to foreign currency exchange rate fluctuations associated with unhedged US dollar-denominated Corporate long-term debt.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q2/06	Q2/05	YOY Change	YOY % Change
Newfoundland Power (2)	$ 8.0	$ 10.1	$ (2.1)	-21%
Maritime Electric	2.2	2.3	(0.1)	-4%
FortisOntario	0.5	0.9	(0.4)	-44%
FortisAlberta (2)	11.3	7.8	3.5	45%
FortisBC	3.4	5.4	(2.0)	-37%
Regulated Utilities - Canadian	25.4	26.4	(1.0)	-4%
Belize Electricity	2.3	1.9	0.5	24%
Caribbean Utilities - Equity Income (2)	2.1	2.0	0.1	5%
Regulated Utilities - Caribbean	4.4	3.9	0.6	14%
Total Regulated Utilities	**29.8**	**30.3**	**(0.5)**	**-2%**
Non-regulated Fortis Generation (1)	**6.0**	**3.2**	**2.8**	**86%**
Non-regulated Fortis Properties (1)	**5.0**	**4.9**	**0.2**	**3%**
Corporate (2)	**(6.7)**	**(9.3)**	**2.6**	**-28%**
Operating Earnings	**34.1**	**29.1**	**5.1**	**17%**
Adjustments (1,2)	3.8	9.2	(5.4)	-58%
Reported Earnings	**37.9**	**38.2**	**(0.3)**	**-1%**
Average Shares Outstanding - Basic (mm)	103.4	102.9	0.5	1%
Average Shares Outstanding - Diluted (mm)	120.7	125.3	-4.6	-4%
Operating EPS (basic)	$ 0.33	$ 0.28	$ 0.05	17%
Reported EPS (basic)	$ 0.37	$ 0.37	$ (0.00)	-1%
Operating EPS (f.d)	**$ 0.32**	**$ 0.27**	**$ 0.05**	**19%**
Reported EPS (f.d)	$ 0.35	$ 0.34	$ 0.01	3%

Note: (1) Q2/06 reported earnings have been normalized for a) $1.6 mln Gain on Sale of Days Inn Sydney, b) $1.5 mln One-time impact of reduction in tax rates on future income tax balances, and c) $0.7 mln insurance recovery related to the Dolgeville power plant in Upper New York State as a result of the 2005 flood. (2) Q2/05 earnings have been adjusted for a) $7.0 mln income tax adjustment at FortisAlberta, b) $1.4 mln tax settlement in Newfoundland Power, c) $1.1 mln change in Caribbean Utilities unbilled revenue, and d) $0.35 mln write-off of acquisition costs related to prior periods. Source: Company Reports, TD Newcrest.

Outlook

We perceived a positive outlook for acquisition opportunities in our discussions with management. Now that a significant number of regulatory processes and the integration of the western Canadian utilities have been completed, Fortis can focus its attention on acquisitions.

Fortis indicated that it will pursue acquisitions of utilities in Canada, the Caribbean and the United States. Within its non-regulated businesses, it is looking to grow hydroelectric generation, hotels, and real estate. **While the acquisition arena remains very competitive, we believe Fortis' asset base and competencies position the company well within its core businesses and geographies.**

Valuation

Fortis is trading at 17.6 times price-to-forward earnings, a slight discount to the average 18.7 times for the sector. We view this discount as warranted due to the lower profitability and relatively higher risk associated with its unregulated and non-Canadian operations.

Justification of Target Price

Our $22.00 target price is predicated on our 2007 financial estimates as follows: 1) 50% relative earnings yield of 134% (vs. historical average of 133%), 2) 25% relative dividend yield of 80% (vs. historical average of 82%), and 3) 25% P/B of 1.7 times (vs. historical average of 1.4x). Our target price implies a 3.6% dividend yield and a price-to-earnings ratio of 16.5 times, compared to historical averages of 4.7% and 13.8 times, respectively. We believe that Fortis will continue to trade at a discount to the sector due to its lower profitability and Caribbean sovereign risk.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) materially different power prices in Ontario versus our forecast.

Investment Conclusion

Higher rate base growth in Alberta is mitigating the effect of low regulated ROEs, strength in the Canadian dollar, and soft Ontario power prices during 2006, in our view. Over the next few years, We believe that Fortis will need to make an accretive acquisition to offset the loss in earnings contribution from the 75 MW Rankine dam in 2009, which has been a growth driver for the company in prior years. Absent an accretive acquisition, we see limited visible company-specific catalysts, either positive or negative, over the next year. We reiterate our HOLD rating.

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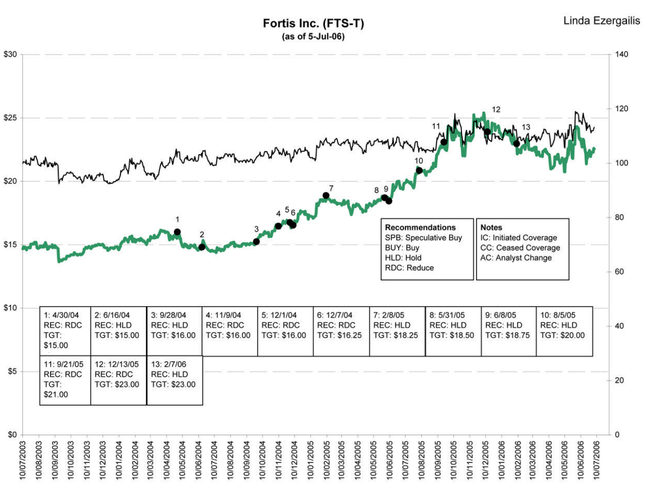

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

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TD Newcrest
The Equity Division of TD Securities

Action Notes

August 29, 2006
Equity Research

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Pipelines, Power & Utilities

Recommendation:	**HOLD**
	Unchanged
12-Month Target Price:	**C$22.00**
	Unchanged
12-Month Total Return:	**-4.7%**

Market Data (C$)	
Current Price	$23.76
52-Wk Range	$20.36-$25.64
Mkt Cap (f.d.)($mm)	$2,872.6
Dividend per Share	$0.64
Dividend Yield	2.7%
Avg. Daily Trading Vol. (3mths)	229361

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	120.9
Float Shares (mm)	103.6
Net Debt/Tot Cap	58.8%
BVPS (basic)	$12.18
ROE	10.7%

Estimates (C$)

Year	2004A	2005A	2006E	2007E
EPS (basic)	1.06	1.19	1.26	1.40
EPS (basic)(old)	1.06	1.19	1.25	1.37
EPS (f.d.)	1.00	1.11	1.23	1.36
EPS (f.d.)(old)	1.00	1.11	1.22	1.33
CFPS (basic)	2.61	3.07	2.89	3.03
DI	0.54	0.59	0.68	0.80

Valuations

Year	2004A	2005A	2006E	2007E
P/E (f.d.)	23.8x	21.4x	19.3x	17.5x
P/CFPS (basic)	9.1x	7.7x	8.2x	7.8x
P/DI	44.0x	40.3x	34.9x	29.7x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$23.76

Fortis Acquires Two Electric Utilities in the Turks and Caicos

Event

Fortis Inc. acquired two Turks and Caicos electric utilities, P.P.C. Ltd. and Atlantic Equipment and Power Ltd., from T.C. Energy Holdings.

Impact

Neutral. Based on our estimates the acquisition of the two utilities will be immediately accretive to earnings. As such, we have updated our financial model and our 2006 earnings estimate (f.d.) increases to $1.23 and our 2007 earnings estimate (f.d.) increases to $1.36 from $1.22 and $1.33 respectively.

Details

- The aggregate purchase price of the acquisition was US$90 million, including US$20 million of assumed debt, and was financed through Fortis' existing short-term credit line. We expect more permanent financing to be put in place in 2007.
- The Turks and Caicos utilities are regulated under a traditional return on rate base approach. As at June 30, 2006 the rate base was US$50 million on which Fortis earns a 17.5% return less interest costs. The regulated rate of return has been in effect since 1986 and is slated to remain in effect until 2036.
- The two utilities serve almost 80% of the electricity customers in the Turks and Caicos and are the sole providers of electricity to Providenciales, North Caicos, Middle Caicos and South Caicos pursuant to 50-year licenses that expire in 2036.
- Turks and Caicos is expected to experience high growth in the future and management estimates that sales will increase at least 30% in the next five years. Increased sales should help offset any cost creep.
- The electric utilities also have a combined diesel-fired generating capacity of 35 MW and meet a peak demand of approximately 20 MW.

Outlook

This latest acquisition reaffirms our expectation that Fortis will pursue acquisitions of utilities in Canada, the Caribbean and the United States. Within its non-regulated businesses, we believe it is looking to grow hydroelectric generation, hotels, and real estate. While the acquisition arena remains very competitive, we believe Fortis' asset base and competencies position the company well within its core businesses and geographies.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising electric utilities in Atlantic Canada, Ontario, western Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the United States.

Please see the final pages of this document for important disclosure information.

Valuation

Fortis is trading at 18.1 times price-to-forward earnings, a slight discount to the average 18.7 times for the sector. We view this discount as warranted due to the lower profitability and relatively higher risk associated with its unregulated and non-Canadian operations.

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS			P/E			EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2005A	2006E	2007E	2005A	2006E	2007E	For. E	Forward
FTS	$23.76	103.4	$2,456	$0.64	2.7%	$11.97	2.0	$1.11	$1.23	$1.36	21.5x	19.3x	17.5x	1.32	18.1x
ACO.X	$41.05	59.6	$2,447	$0.82	2.0%	$23.43	1.8	$2.38	$2.79	$2.82	17.2x	14.7x	14.6x	2.81	14.6x
CU	$39.63	126.1	$4,997	$1.16	2.9%	$18.11	2.2	$2.07	$2.31	$2.31	21.2x	17.2x	17.2x	2.31	17.2x
EMA	$19.85	110.4	$2,191	$0.89	4.5%	$12.48	1.6	$0.99	$1.18	$1.21	20.7x	16.8x	16.4x	1.20	16.5x
ENB	$36.82	339.3	$12,493	$1.15	3.1%	$12.65	2.9	$1.55	$1.69	$1.76	23.2x	21.8x	20.9x	1.74	21.2x
TA	$24.49	199.6	$4,888	$1.00	4.1%	$12.72	1.9	$0.88	$0.93	$1.33	28.8x	26.3x	18.4x	1.19	20.5x
TRP	$35.71	487.8	$17,419	$1.28	3.6%	$15.76	2.3	$1.72	$1.79	$1.95	21.2x	20.0x	18.3x	1.90	18.8x
					3.5%		2.1x				22.8x	20.2x	18.1x		18.7x

Note: Averages exclude ATCO. All EPS forecasts are TD Newcrest estimates, with the exception of ATCO and Canadian Utilities (consensus estimates).

Source: Bloomberg, TD Newcrest.

Justification of Target Price

Our $22.00 target price is predicated on our 2007 financial estimates as follows: 1) 50% relative earnings yield of 137% (vs. historical average of 133%), 2) 25% relative dividend yield of 81% (vs. historical average of 82%), and 3) 25% P/B of 1.7 times (vs. historical average of 1.4x). Our target price implies a 3.6% dividend yield and a price-to-earnings ratio of 16.2 times, compared to historical averages of 4.7% and 13.8 times, respectively. We believe that Fortis will continue to trade at a discount to the sector due to its lower profitability and Caribbean sovereign risk.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) materially different power prices in Ontario versus our forecast.

Investment Conclusion

We view this investment as neutral due to its potential contribution, however the transaction increases Fortis' risk profile due to the additional sovereign risk associated with assets located in the Turks and Caicos.

Higher rate base growth in Alberta is mitigating the effect of low regulated ROEs, strength in the Canadian dollar, and soft Ontario power prices during 2006, in our view. Over the next few years, we believe that Fortis will need to make a significant accretive acquisition to offset the loss in earnings contribution from the 75 MW Rankine dam in 2009, which has been a growth driver for the company in prior years. Absent a significant accretive acquisition, we see limited visible company-specific catalysts, either positive or negative, over the next year. We reiterate our HOLD rating.

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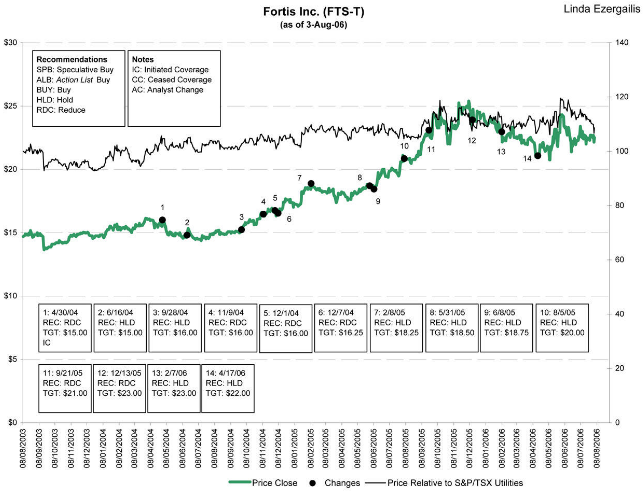
22. The subject company provided transportation and accommodation during the visit of the material operations.



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Action List Buy: 11%, Buy: 41 %, Speculative Buy: 4 %, Hold: 39 %, Reduce: 6 %. Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Action List Buy: 42% Buy: 47%, Speculative Buy: 55% ; Hold: 42%, Reduce: 35%.

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Research Ratings

ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

REDUCE: The stock's total return is expected to be negative over the next 12 months.

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TD Newcrest
The Equity Division of TD Securities

Action Notes

November 1, 2006
Equity Research

Pipelines, Power & Utilities

Recommendation:	**HOLD**
	Unchanged
12-Month Target Price:	**C$25.00↑**
Prior:	*C$24.00*
12-Month Total Return:	**0.0%**

Market Data (C$)

Current Price	$25.65
52-Wk Range	$20.36-$25.64
Mkt Cap (f.d.)($mm)	$3,101.1
Dividend per Share	$0.64
Dividend Yield	2.5%
Avg. Daily Trading Vol. (3mths)	213882

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	120.9
Float Shares (mm)	103.6
Net Debt/Tot Cap	58.1%
BVPS (basic)	$12.37
ROE	10.7%

Estimates (C$)

Year	2005A	2006E	2007E	2008E
EPS (basic)	1.19	1.39	1.45	1.49
EPS (f.d.)	1.11	1.34	1.41	1.44
EPS (f.d.)(old)	1.11	1.23	1.32	1.39
CFPS (basic)	3.07	3.01	3.16	3.24
DI	0.59	0.67	0.78	0.85

Valuations

Year	2005A	2006E	2007E	2008E
P/E (f.d.)	23.1x	19.1x	18.2x	17.8x
P/CFPS (basic)	8.4x	8.5x	8.1x	7.9x
P/DI	43.5x	38.3x	32.9x	30.2x

All figures in C$, unless otherwise specified.

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Fortis Inc.

(FTS-T) C$25.65

Strong FortisAlberta Earnings Benefit Q3/06

Event

Fortis reported Q3/06 EPS (f.d) of $0.36, which was above our estimate of $0.32, recent consensus of $0.31 and Q3/05 normalized EPS (f.d.) of $0.32.

Impact

Positive. We have increased our financial forecasts primarily to reflect 1) higher rate base growth and overearnings in FortisAlberta, 2) higher contributions from Belize Electricity and BECOL, and 3) slightly higher growth in Fortis Properties. Our target price increases a dollar to $25.00 commensurate with our higher financial forecasts.

Details

Regulated Utilities – Canadian Q3/06 earnings of $25.3 million represented an increase of $4.5 million year-over-year (Exhibit 1). The increased earnings were mainly attributable to 1) a lower effective income tax rate in FortisAlberta, 2) increased electricity rates and sales growth coupled with lower operating expenses in FortisBC, and 3) an increase in FortisOntario's electricity distribution rates effective May 1, 2006 combined with lower operating expenses.

Regulated Utilities – Caribbean earnings increased 24% to $7.7 million. The increase was primarily a result of the one-month contribution from the Turks and Caicos Utilities, which were acquired August 28, 2006 and were immediately accretive to earnings. Lower finance charges at Belize Electricity also positively affected earnings.

Fortis Generation earnings of $7.8 million were in-line year-over-year. Increased hydroelectric production at the Mollejon and Chalillo facilities in Belize and decreased finance charges were offset by lower realized wholesale energy prices in Ontario. Energy prices in Ontario averaged $46.59/MWh during the quarter versus $85.91/MWh in Q3/05. In Upper New York the Dolgeville plant resumed operations late Q3/06 after experiencing a flood in June 2006, we note that the facility was out of service Q3/05 due to a flood in January 2005.

Fortis Properties earnings increased 29% year-over-year to $6.3 million. The expansions of the Holiday Inn Sarnia, Holiday Inn Kitchener-Waterloo and the Blue Cross Centre contributed to the higher earnings as well as a lower

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising electric utilities in Atlantic Canada, Ontario, western Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the United States.

average corporate income tax rate.

Corporate expenses of $8.3 million were more than double Q3/05 levels. Financing charges and operating expenses increased year-over-year coupled with lower inter-company interest revenue. We also note that Q3/05 corporate expenses included a $3.1 million after tax unrealized foreign currency translation gain associated with unhedged US dollar-denominated debt.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q3/06	Q3/05	YOY Change	YOY % Change
FortisAlberta	$12.3	$9.3	$3.0	32%
FortisBC	5.7	4.6	1.1	24%
Newfoundland Power	2.6	3.4	(0.8)	-24%
Maritime Electric	3.1	3.0	0.1	3%
FortisOntario[1]	1.6	0.5	1.1	220%
Regulated Utilities - Canadian	25.3	20.8	4.5	22%
Belize Electricity	3.8	3.2	0.6	19%
Caribbean Utilities - Equity Income	3.2	3.0	0.2	7%
Turks and Caicos	0.7	-	0.7	
Regulated Utilities - Caribbean	7.7	6.2	1.5	24%
Total Regulated Utilities	**33.0**	**27.0**	**6.0**	**22%**
Non-regulated Fortis Generation	**7.8**	**7.8**	**-**	**0%**
Non-regulated Fortis Properties	**6.3**	**4.9**	**1.4**	**29%**
Corporate	**(8.3)**	**(3.9)**	**(4.4)**	**113%**
Operating Earnings	**38.8**	**35.8**	**3.0**	**8%**
Adjustments[1]	-	1.6	(1.6)	-100%
Reported Earnings	**38.8**	**37.4**	**1.4**	**4%**
Average Shares Outstanding - Basic (mm)	103.6	103.0	0.6	1%
Average Shares Outstanding - Diluted (mm)	120.9	125.5	-4.7	-4%
Operating EPS (basic)	$0.37	$0.35	$0.03	8%
Reported EPS (basic)	$0.37	$0.36	$0.01	3%
Operating EPS (f.d)	**$0.36**	**$0.32**	**$0.04**	**12%**
Reported EPS (f.d)	$0.36	$0.33	$0.03	8%

Note: 1) FortisOntario's Q3/05 earnings have been normalized to exclude a $1.6 million recovery of taxes relating to prior periods.

Source: Company Reports, TD Newcrest.

Valuation

Fortis is trading at 18.3 times price-to-forward earnings, a slight discount to the average 18.7 times for the sector (Exhibit 2). We believe that Fortis should trade at a discount to the sector due to the lower profitability and relatively higher risk associated with its unregulated and non-Canadian operations.

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2005A	2006E	2007E	2008E	2005A	2006E	2007E	2008E	For. E	Forward
FTS	$25.65	103.7	$2,660	$0.76	3.0%	$12.37	2.1	$1.11	$1.34	$1.41	$1.44	21.5x	19.1x	18.2x	17.8x	1.40	18.3x
ACO.X	$41.41	58.9	$2,439	$0.82	2.0%	$23.73	1.7	$2.36	$3.20	$2.85	$2.92	17.4x	12.9x	14.5x	14.2x	2.91	14.2x
CU	$42.10	125.3	$5,275	$1.16	2.8%	$17.89	2.4	$2.03	$2.54	$2.39	$2.49	21.7x	16.6x	17.6x	16.9x	2.42	17.4x
EMA	$21.34	110.4	$2,356	$0.89	4.2%	$12.48	1.7	$0.99	$1.18	$1.21	$1.29	20.7x	18.1x	17.6x	16.5x	1.21	17.7x
ENB	$37.76	339.3	$12,812	$1.15	3.0%	$12.65	3.0	$1.55	$1.69	$1.71	$1.82	23.2x	22.4x	22.1x	20.7x	1.70	22.2x
TA	$23.57	201.1	$4,740	$1.00	4.2%	$12.90	1.8	$0.88	$0.96	$1.36	$1.50	28.8x	24.6x	17.3x	15.8x	1.29	18.2x
TRP	$36.34	488.4	$17,748	$1.28	3.5%	$16.99	2.1	$1.72	$1.83	$1.98	$2.06	21.2x	19.9x	18.4x	17.6x	1.95	18.6x
					3.4%		2.2x					22.8x	20.1x	18.5x	17.6x		18.7x

Note: Averages exclude ATCO Ltd.

Source: Company Reports, Bloomberg, TD Newcrest.

Justification of Target Price

Our $25.00 price target is predicated on 25% of our 2007 & 75% of our 2008 financial estimates as follows: 1) 50% relative earnings yield of 140% (vs. historical average of 137%), 2) 25% relative dividend yield of 81% (vs. historical average of 82%), and 3) 25% P/B of 1.7 times (vs. historical average of 1.4x). Our target price implies a 3.3% dividend yield and a price-to-earnings ratio of 17.5 times, compared to historical averages of 4.7% and 13.8 times, respectively. We believe that Fortis should trade at a discount to the sector due to its lower profitability and Caribbean sovereign risk.

Key Risks to Target Price – Overall Risk Rating: LOW

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) materially different power prices in Ontario versus our forecast.

Investment Conclusion

Higher rate base growth and overearnings in Alberta are mitigating the effect of low regulated ROEs, strength in the Canadian dollar, and soft Ontario power prices during 2006 and Alberta utility earnings should continue to be strong in 2007, in our view. Over the next few years, we believe that Fortis will need to make a significant accretive acquisition to offset the loss in earnings contribution from the 75 MW Rankine dam in 2009, which has been a growth driver for the company in prior years. Absent a significant accretive acquisition, we see limited visible company-specific catalysts, either positive or negative, over the next year. We reiterate our HOLD rating.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	2, 4, 14

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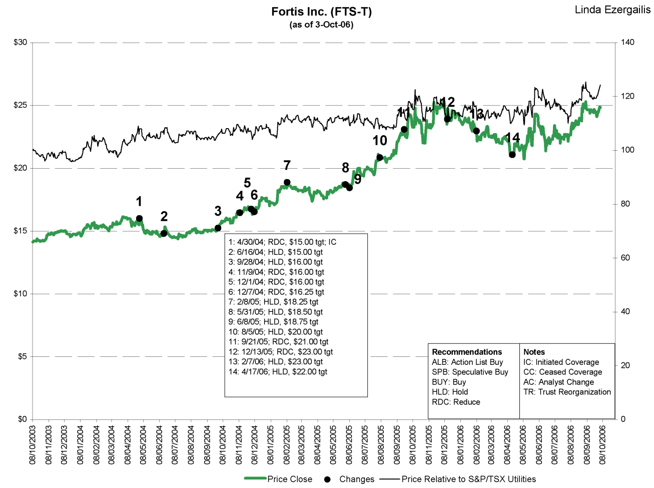

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Research Ratings
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BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low, Medium, High, Speculative.

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Action Notes

November 8, 2006
Equity Research

Pipelines, Power & Utilities

Recommendation:	**REDUCE↓**
Prior:	*HOLD*
12-Month Target Price:	**C$25.00**
	Unchanged
12-Month Total Return:	**-3.8%**

Market Data (C$)	
Current Price	$26.64
52-Wk Range	$20.36-$27.50
Mkt Cap (f.d.)($mm)	$3,220.8
Dividend per Share	$0.64
Dividend Yield	2.4%
Avg. Daily Trading Vol. (3mths)	230027

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	120.9
Float Shares (mm)	103.6
Net Debt/Tot Cap	58.1%
BVPS (basic)	$12.37
ROE	10.7%

Estimates (C$)

Year	2005A	2006E	2007E	2008E
EPS (basic)	1.19	1.40	1.47	1.49
EPS (f.d.)	1.11	1.35	1.43	1.44
EPS (f.d.)(old)	1.11	1.34	1.41	1.44
CFPS (basic)	3.07	3.02	3.15	3.19
DI	0.59	0.67	0.78	0.85

Valuations

Year	2005A	2006E	2007E	2008E
P/E (f.d.)	24.0x	19.7x	18.6x	18.5x
P/CFPS (basic)	8.7x	8.8x	8.5x	8.4x
P/DI	45.2x	39.8x	34.2x	31.3x

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$26.64

Increased Interest in Caribbean Utilities; Downgrading to Reduce

Event

Fortis has acquired 4.1 million shares, approximately 16 percent, of Caribbean Utilities (CUC) for US$11.89 per share under a private agreement with International Power. This brings Fortis' ownership to 54 percent, and our searches indicate no other large single shareholder at this point. Fortis issued a private placement of US$40 million unsecured subordinated convertible debentures maturing November 7, 2016 and bearing a 5.5% annual interest rate.

Impact

Neutral

- **Accretion of this Transaction Substantially Offset by Assumed 2007 Equity Offering:** We estimate that the acquisition when substantially financed by this debenture adds just over two cents a share to EPS. We assume that the debt rating agencies will treat this new capital as debt, and therefore incorporate a 2007 equity offering to ensure debt-to-capital doesn't creep too far above 60 percent. The dilution from this additional equity offsets the accretion of the higher ownership in CUC to our 2008E EPS, which remains unchanged.
- **Caribbean Operations Now Generate Almost One-Third of Fortis' Earnings:** We estimate that approximately 30% of Fortis' 2007 earnings will be generated in Belize, Cayman Islands, and Turks and Caicos. While we consider these to be high quality businesses for the region, we still view Caribbean assets as having a higher sovereign, foreign exchange, and operating risk than Fortis' Canadian businesses. We note that Fortis has recently been trading at 18.8x price-to-forward earnings and CUC has recently been trading at about 13x, and while some of that CUC discount can be attributed to lower liquidity, we believe much of that is in fact related to sovereign and operating risk.

Outlook

In the long-term, Fortis may buy out the remaining shareholders of CUC, but we believe that in the near term the priority will be to negotiate a new CUC license with the Cayman Island government. The current license expires in January, 2011.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising electric utilities in Atlantic Canada, Ontario, western Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the United States.

Valuation

Fortis is trading at 18.8 times price-to-forward earnings, in line with the sector average of 18.8 times (Exhibit 1). We believe that Fortis should trade at a discount to the sector due to the lower profitability and relatively higher risk associated with its unregulated and non-Canadian operations.

Exhibit 1. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2005A	2006E	2007E	2008E	2005A	2006E	2007E	2008E	For. E	Forward
FTS	$26.64	103.7	$2,763	$0.76	2.9%	$12.37	2.2	$1.11	$1.35	$1.43	$1.44	21.5x	19.7x	18.6x	18.5x	1.42	18.8x
ACO.X	$40.66	58.9	$2,395	$0.82	2.0%	$23.73	1.7	$2.36	$3.20	$2.85	$2.92	17.4x	12.7x	14.3x	13.9x	2.90	14.0x
CU	$40.53	125.3	$5,078	$1.16	2.9%	$17.89	2.3	$2.03	$2.54	$2.39	$2.49	21.7x	16.0x	17.0x	16.3x	2.41	16.8x
EMA	$21.51	110.4	$2,375	$0.89	4.1%	$12.48	1.7	$0.99	$1.18	$1.21	$1.29	20.7x	18.2x	17.8x	16.7x	1.21	17.8x
ENB	$38.96	339.2	$13,215	$1.15	3.0%	$13.08	3.0	$1.55	$1.72	$1.72	$1.82	23.2x	22.7x	22.7x	21.4x	1.72	22.7x
TA	$23.57	201.1	$4,740	$1.00	4.2%	$12.90	1.8	$0.88	$0.96	$1.36	$1.50	28.8x	24.6x	17.3x	15.8x	1.30	18.1x
TRP	$36.90	488.4	$18,022	$1.28	3.5%	$16.99	2.2	$1.72	$1.83	$1.98	$2.06	21.2x	20.2x	18.6x	17.9x	1.96	18.8x
					3.4%		2.2x					22.8x	20.2x	18.7x	17.7x		18.8x

Note: Averages exclude ATCO Ltd.

Source: Company Reports, Bloomberg, TD Newcrest.

Justification of Target Price

Our $25.00 price target is predicated on 25% of our 2007 & 75% of our 2008 financial estimates as follows: 1) 50% relative earnings yield of 140% (vs. historical average of 137%), 2) 25% relative dividend yield of 81% (vs. historical average of 82%), and 3) 25% P/B of 1.7 times (vs. historical average of 1.4x). Our target price implies a 3.3% dividend yield and a price-to-earnings ratio of 17.4 times, compared to historical averages of 4.7% and 13.8 times, respectively.

Key Risks to Target Price – Overall Risk Rating: LOW

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) materially different power prices in Ontario versus our forecast.

Investment Conclusion

We view this incremental acquisition of CUC equity as overall neutral, as modest accretion is offset by a higher risk profile. We expect that the recent strength in Fortis' shares is largely a result of funds flow into pipeline, power and utility corporations subsequent to the government's announcement of its intentions to implement a new tax on publicly traded trusts. Fortis could continue to benefit from this trust tax dynamic in the near term, however, we think the price is starting to look rich both on an absolute basis as well as relative to other names in the sector given the company's risk profile. We therefore are compelled to downgrade Fortis to a REDUCE.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	2, 4, 14

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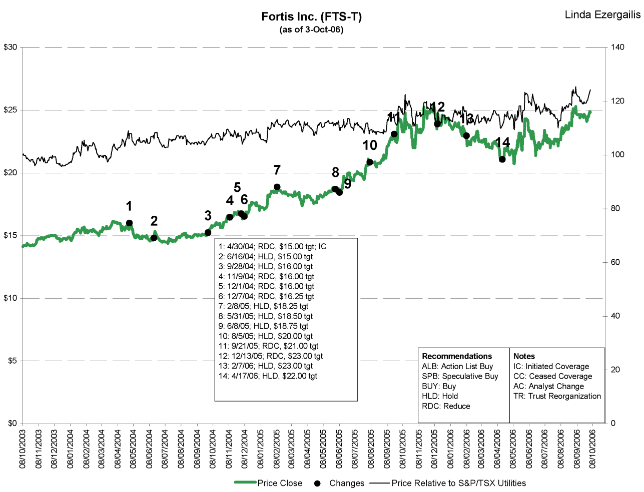

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock’s total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock’s total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock’s total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (12% of coverage universe), Medium (29%), High (54%), Speculative (5%).

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Pipelines, Power & Utilities

Recommendation:	**REDUCE**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$26.00↑**
Prior:	*C$25.00*
12-Month Total Return:	**-5.1%**

Market Data (C$)	
Current Price	$28.06
52-Wk Range	$20.36-$30.00
Mkt Cap (f.d.)($mm)	$3,538.4
Dividend per Share	$0.64
Dividend Yield	2.3%
Avg. Daily Trading Vol. (3mths)	264293

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	126.1
Float Shares (mm)	108.8
Net Debt/Tot Cap	58.1%
BVPS (basic)	$12.37
ROE	10.7%

Estimates (C$)

Year	2005A	2006E	2007E	2008E
EPS (basic)	1.19	1.37	1.46	1.51
EPS (f.d.)	1.11	1.32	1.44	1.47
EPS (f.d.)(old)	1.11	1.35	1.43	1.44
CFPS (basic)	3.07	2.99	3.11	3.22
DI	0.59	0.67	0.78	0.85

EPS (f.d.) Quarterly Estimates (C$)

Year	2005A	2006E	2007E	2008E
Q1	0.30	0.34	--	--
Q2	0.27	0.32	--	--
Q3	0.32	0.36	--	--
Q4	0.23	0.30	--	--

Valuations

Year	2005A	2006E	2007E	2008E
P/E (f.d.)	25.3x	21.3x	19.5x	19.1x
P/CFPS (basic)	9.1x	9.4x	9.0x	8.7x
P/DI	47.6x	41.9x	36.0x	33.0x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$28.06

Resuming Coverage Upon Completion of Equity Offering

Event

Fortis announced an equity offering of 5.17 million shares priced at $29.00 for gross proceeds of $149,930,000, which closed on January 18, 2006. The net proceeds will be used to repay indebtedness incurred from recent acquisitions, to support the capital expenditure program of the western utilities, and for general corporate purposes.

Impact

Neutral. We are adjusting our EPS estimates primarily to reflect a higher issue price and an earlier than expected equity offering (we had assumed this would occur mid-year). In addition, our Ontario power prices have been adjusting to reflect the recent weaker power prices. Our 2006E EPS drops three cents to $1.32, our 2007E EPS increases a cent to $1.44 and our 2008E EPS increases three cents to $1.47.

On January 9, 2007 we rolled forward our corporation target prices in the sector by three months to derive values based on our 2008 financial forecasts. This resulted in an average 3.5 percent increase in target prices. Similarly, our Fortis target price now increases 4 percent to $26.00.

Valuation

Fortis is trading at 19.4 times price-to-forward earnings, above the sector average of 18.2 times (Exhibit 1). We believe that Fortis should trade at a discount to the sector due to the lower profitability and relatively higher risk associated with its unregulated and non-Canadian operations.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising electric utilities in Atlantic Canada, Ontario, western Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.

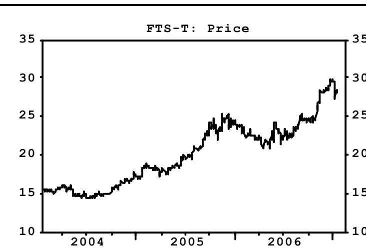

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Exhibit 1. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2005A	2006E	2007E	2008E	2005A	2006E	2007E	2008E	For. E	Forward
FTS	$28.06	108.8	$3,053	$0.76	2.7%	$12.37	2.3	$1.11	$1.32	$1.44	$1.47	17.4x	21.2x	19.5x	19.0x	$1.44	19.4x
ACO.X	$46.50	58.9	$2,737	$0.82	1.8%	$23.73	2.0	$2.36	$3.17	$2.86	$2.99	17.4x	14.7x	16.3x	15.6x	$2.87	16.2x
CU	$42.09	125.3	$5,273	$1.16	2.8%	$17.89	2.4	$2.03	$2.53	$2.39	$2.52	21.7x	16.7x	17.6x	16.7x	$2.39	17.6x
EMA	$22.56	110.8	$2,500	$0.89	3.9%	$12.45	1.8	$0.99	$1.15	$1.22	$1.30	20.7x	19.6x	18.5x	17.4x	$1.22	18.4x
TA	$26.68	201.1	$5,365	$1.00	3.7%	$12.90	2.1	$0.88	$1.00	$1.60	$1.75	28.8x	26.6x	16.6x	15.3x	$1.61	16.6x
TRP	$38.98	488.4	$19,038	$1.28	3.3%	$16.99	2.3	$1.72	$1.83	$2.05	$2.16	21.1x	21.3x	19.0x	18.0x	$2.05	19.0x
					3.3%		2.3x					21.9x	21.1x	18.3x	17.3x		18.2x

Note: Averages exclude ATCO Ltd.
Source: Company Reports, Bloomberg, TD Newcrest.

Justification of Target Price

Our $26.00 price target is predicated on our 2008 financial estimates as follows: 1) 50% relative earnings yield of 138% (vs. historical average of 137%), 2) 25% relative dividend yield of 80% (vs. historical average of 82%), and 3) 25% P/B of 1.7 times (vs. historical average of 1.4x). Our target price implies a 3.3% dividend yield and a price-to-earnings ratio of 17.7 times, compared to historical averages of 4.7% and 13.8 times, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) materially different power prices in Ontario versus our forecast.

Investment Conclusion

We think Fortis' valuation looks rich at these levels, especially now that its Caribbean operations now generate almost one-third of Fortis' earnings. For Caribbean Utilities, which is publicly traded, the higher sovereign, foreign exchange and operating risk has translated into a 5 to 6x price-to-earnings multiple discount versus the Canadian sector recently, and we have reflected this Caribbean discount in deriving our Fortis target price.

In addition to not reflecting the risk inherent its Caribbean operations, we believe Fortis' current share price incorporates an expectation of continued growth that we feel will be impossible to deliver absent a significant accretive transaction. In 2007, Fortis is facing lackluster Ontario power prices and all-time low Canadian regulated ROEs. In 2009, Fortis loses the water rights associated with its 75 MW Ontario Rankine hydro plant, which is a very profitable asset.

Given the relatively rich valuation and the high risk we see of disappointing the markets with muted growth over the next few years, we are maintaining our REDUCE rating.

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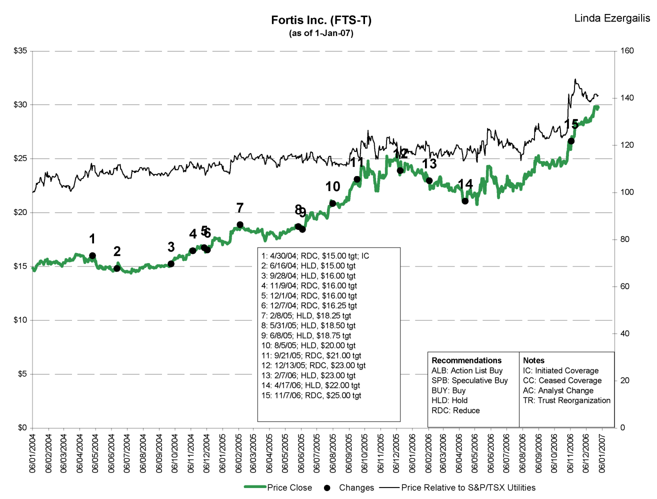

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock’s total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock’s total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock’s total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (12% of coverage universe), Medium (29%), High (54%), Speculative (5%).
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Action Notes

Pipelines, Power & Utilities

Recommendation:	**HOLD↑**
Prior:	*REDUCE*
Risk:	**LOW**
12-Month Target Price:	**C$26.00** *Unchanged*
12-Month Total Return:	**1.0%**

Market Data (C$)	
Current Price	$26.50
52-Wk Range	$20.36-$30.00
Mkt Cap (f.d.)($mm)	$3,368.2
Dividend per Share	$0.76
Dividend Yield	2.9%
Avg. Daily Trading Vol. (3mths)	243865

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	127.1
Float Shares (mm)	109.3
Net Debt/Tot Cap	66.7%
BVPS (basic)	$12.25
ROE	11.5%

Estimates (C$)

Year	2005A	2006A	2007E	2008E
EPS (basic)	1.19	1.38	1.45	1.51
EPS (f.d.)	1.11	1.33	1.44	1.47
EPS (f.d.)(old)	1.11	1.32	1.44	1.47
CFPS (basic)	3.07	2.89	3.29	3.50
DI	0.59	0.67	0.82	0.86
DI (old)	0.59	0.67	0.78	0.85

EPS (f.d.) Quarterly Estimates (C$)

Year	2005A	2006A	2007E	2008E
Q1	0.30	0.34	0.37	--
Q2	0.27	0.32	--	--
Q3	0.32	0.36	--	--
Q4	0.23	0.32	--	--

Valuations

Year	2005A	2006A	2007E	2008E
P/E (f.d.)	23.9x	19.9x	18.4x	18.0x
P/CFPS (basic)	8.6x	9.2x	8.1x	7.6x
P/DI	44.9x	39.6x	32.3x	30.8x

All figures in C$, unless otherwise specified.

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Fortis Inc.

(FTS-T) C$26.50

FortisAlberta Tax Measures Benefit Q4/06

Event

- Fortis reported Q4/06 EPS (f.d) of $0.32, which was above our estimate of $0.30, recent consensus of $0.26 and Q4/05 normalized EPS (f.d.) of $0.23.
- The Board increased the quarterly dividend by 10.5% to $0.21 per share. This was the level of increase we were expecting but it came earlier in the year than we were forecasting, based on the timing of prior dividend increases.

Impact

Mildly Positive. We have updated our financial model, although at this time our overall earnings forecasts remain unchanged. We have increased our 2007E and 2008E dividend forecasts by $0.04 and $0.01 respectively to reflect the earlier than expected dividend increase in 2007 as well as a payout ratio more in line with the sector in 2008.

Details

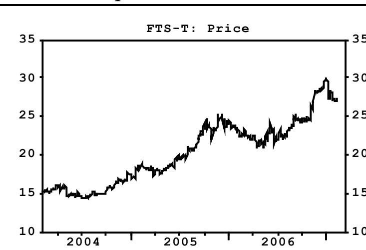
Regulated Utilities – Canadian Q4/06 earnings increased $11.7 million to $26.9 million (Exhibit 1). The majority of the increase was a result of increased Newfoundland Power earnings due to a change in revenue recognition policy, and FortisAlberta earnings, which almost doubled, due to lower corporate income taxes and incremental earnings on a higher rate base.

Regulated Utilities – Caribbean earnings increased $3.6 million to $8.4 million. The increase was primarily a result of a full quarter contribution from Fortis Turks and Caicos, lower finance charges and higher electricity sales at Belize Electricity.

Fortis Generation earnings declined $2.7 million year-over-year to $6.8 million. The decline was primarily a result of lower Ontario energy prices and a lower contracted energy sales price in Belize. Theses declines were partially offset by lower operating expenses and income taxes. Energy prices in Ontario averaged $42.69/MWh during the quarter versus $71.46/MWh in Q4/05, which negatively affected revenues by approximately $4.6 million.

Fortis Properties earnings declined slightly year-over-year to $2.8 million. Incremental contributions from the four hotels acquired November 2006 and

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising electric utilities in Atlantic Canada, Ontario, western Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



expanded existing properties were more than offset by higher amortization and financing charges.

Corporate expenses increased 41% to $11.0 million during Q4/06. The increase was mainly a result of dividends on preference shares issued September 2006 as well as increased financing charges.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q4/06	Q4/05	YOY Change	YOY % Change
FortisAlberta	$8.3	$4.2	$4.1	98%
FortisBC	6.4	5.7	0.7	12%
Newfoundland Power	8.8	2.9	5.9	203%
Maritime Electric	2.4	1.7	0.7	41%
FortisOntario[4]	1.0	0.7	0.3	43%
Regulated Utilities - Canadian	26.9	15.2	11.7	77%
Belize Electricity	2.8	2.0	0.8	40%
Caribbean Utilities - Equity Income	2.8	2.8	-	0%
Fortis Turks and Caicos	2.8	-	2.8	n.a.
Regulated Utilities - Caribbean	8.4	4.8	3.6	75%
Total Regulated Utilities	**35.3**	**20.0**	**15.3**	**77%**
Non-regulated Fortis Generation[1, 2, 4]	**6.8**	**9.5**	**(2.7)**	**-28%**
Non-regulated Fortis Properties	**2.8**	**2.9**	**(0.1)**	**-3%**
Corporate[3]	**(11.0)**	**(7.8)**	**(3.2)**	**41%**
Operating Earnings	**33.9**	**24.6**	**9.3**	**38%**
Adjustments	-	(2.3)	2.3	n.a.
Reported Earnings	**33.9**	**22.3**	**11.6**	**52%**
Average Shares Outstanding - Basic (mm)	104.0	103.1	0.8	1%
Average Shares Outstanding - Diluted (mm)	122.0	125.8	(3.8)	-3%
Operating EPS (basic)	$0.33	$0.24	$0.09	36%
Reported EPS (basic)	$0.33	$0.22	$0.11	48%
Operating EPS (f.d)	**$0.32**	**$0.23**	**$0.09**	**39%**
Reported EPS (f.d)	$0.32	$0.21	$0.11	52%

Note that we adjusted Q4/05 earnings to normalize for: 1) $0.4 mm insurance gain on the disposition of assets, 2) $1.1 mm write down of Rankine assets, 3) $0.8 mm of restructuring charges relating to Western Utilities, and 4) $0.8 mm of early retirement costs of which $0.5 mm relates to FortisOntario and the remainder relates to Fortis Generation.
Source: Company Reports, TD Newcrest.

Outlook

Rate Base Growth Should Offset Lower ROEs in 2007: Fortis expects to invest over $2.6 billion in its utilities over the next five years, $600 million of which is planned for 2007. FortisAlberta and FortisBC appear to have the strongest growth outlooks, driven by the need to enhance electrical system reliability and meet strong customer demand. In fact, management expects each of the western utilities' rate bases to grow approximately 30% over the next two years. This growth should more than offset the effects of lower regulated 2007 ROEs, in our view (Exhibit 2). We note however, that Newfoundland Power earnings are expected to decline modestly as a result of a lower ROE in 2007.

Exhibit 2. Regulated ROEs

Regulated Utility	2007	2006	Change
FortisAlberta	8.51%	8.93%	-0.42%
FortisBC	8.77%	9.20%	-0.43%
Newfoundland Power	8.60%	9.24%	-0.64%
Maritime Electric	10.25%	10.25%	0.00%
FortisOntario	9.00%	9.00%	0.00%

Source: Company Reports, TD Newcrest.

Future Acquisitions Possible: Management continues to be acquisitive, looking for utilities and non-regulated businesses (such as real estate and power generation) in Canada, the Caribbean and the United States.

Valuation

Exhibit 3. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2005A	2006E	2007E	2008E	2005A	2006E	2007E	2008E	For. E	Forward
FTS	$26.50	109.3	$2,896	$0.76	2.9%	$12.25	2.2	$1.11	$1.33	$1.44	$1.47	17.4x	19.9x	18.4x	18.0x	$1.45	18.3x
ACO.X	$47.62	58.9	$2,803	$0.88	1.8%	$23.73	2.0	$2.36	$3.17	$2.86	$2.99	17.4x	15.0x	16.7x	15.9x	$2.87	16.6x
CU	$44.27	125.3	$5,547	$1.22	2.8%	$17.89	2.5	$2.03	$2.53	$2.39	$2.52	21.7x	17.5x	18.5x	17.6x	$2.40	18.4x
EMA	$21.42	110.8	$2,373	$0.89	4.2%	$12.45	1.7	$0.99	$1.15	$1.22	$1.30	20.7x	18.7x	17.6x	16.5x	$1.22	17.5x
ENB	$38.26	355.0	$13,582	$1.23	3.2%	$13.18	2.9	$1.55	$1.73	$1.73	$1.82	16.4x	22.1x	22.1x	21.0x	$1.74	22.0x
TA	$24.38	202.4	$4,935	$1.00	4.1%	$12.06	2.0	$0.88	$1.09	$1.30	$1.56	28.8x	22.4x	18.8x	15.6x	$1.33	18.4x
Avg.					3.4%		2.3x					21.0x	20.2x	19.1x	17.8x		19.0x

Note: Averages exclude ATCO Ltd.
Source: Company Reports, Bloomberg, TD Newcrest.

Justification of Target Price

Our $26.00 price target is predicated on our 2008 financial estimates as follows: 1) 50% relative earnings yield of 138% (vs. historical average of 137%), 2) 25% relative dividend yield of 81% (vs. historical average of 82%), and 3) 25% P/B of 1.8 times (vs. historical average of 1.4x). Our target price implies a 3.3% dividend yield and a price-to-earnings ratio of 17.7 times, compared to historical averages of 4.7% and 13.8 times, respectively. We believe Fortis should trade at a modest discount to the sector, reflective of its higher proportionate risk related to its Caribbean operations. Based on Caribbean Utilities' historical trading pattern, we believe utilities domiciled in the Caribbean should be assigned an approximate six times price-to-earnings multiple discount versus the Canadian sector.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) materially different power prices in Ontario versus our forecast.

Investment Conclusion

In 2007, Fortis is facing lackluster Ontario power prices and all-time low Canadian regulated ROEs. Over the next few years, we believe that Fortis will need to undertake a significant accretive acquisition or large high-return capital project to offset the loss in earnings contribution from the 75 MW Rankine dam in 2009, which is a very profitable asset. The recent pullback in Fortis shares warrants an upgrade to a HOLD. We expect the shares to move sideways given the lack of visible catalysts, and think Fortis is fully valued at these levels, especially now that by our calculations its Caribbean operations generate almost one-third of earnings.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	2, 4, 14

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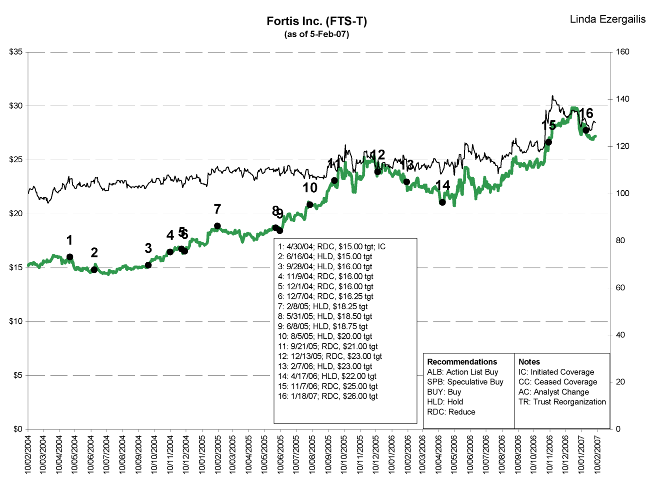

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Pipelines, Power & Utilities

Recommendation:	**HOLD**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$29.00↑**
Prior:	*C$26.00*
12-Month Total Return:	**10.1%**

Market Data (C$)	
Current Price	$27.10
52-Wk Range	$20.36-$30.00
Mkt Cap (f.d.)($mm)	$3,444.4
Dividend per Share	$0.84
Dividend Yield	3.1%
Avg. Daily Trading Vol. (3mths)	360499

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	127.1
Float Shares (mm)	109.3
Net Debt/Tot Cap	66.7%
BVPS (basic)	$12.25
ROE	11.5%

Estimates (C$)

Year	2005A	2006A	2007E	2008E
EPS (basic)	1.19	1.38	1.43	1.58
EPS (basic)(old)	1.19	1.38	1.47	1.51
EPS (f.d.)	1.11	1.33	1.42	1.55
EPS (f.d.)(old)	1.11	1.33	1.44	1.47
CFPS (basic)	3.07	2.89	3.41	3.76
DI	0.59	0.67	0.82	0.92

EPS (f.d.) Quarterly Estimates (C$)

Year	2005A	2006A	2007E	2008E
Q1	0.30	0.34	0.36	--
Q2	0.27	0.32	--	--
Q3	0.32	0.36	--	--
Q4	0.23	0.32	--	--

Valuations

Year	2005A	2006A	2007E	2008E
P/E (f.d.)	24.4x	20.4x	19.1x	17.5x
P/CFPS (basic)	8.8x	9.4x	7.9x	7.2x
P/DI	45.9x	40.4x	33.0x	29.5x

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Fortis Inc.

(FTS-T) C$27.10

Resuming Coverage: $3.7 billion Terasen Acquisition a Positive

Event

On February 26, 2007, Fortis announced its intention to acquire Terasen Inc. from Kinder Morgan for $3.7 billion. In conjunction, an equity offering of 38.5 million Subscription Receipts priced at $26.00 for gross proceeds of $1.0 billion was also announced. The offering, including the over-allotment option of an additional 5.8 million Subscription Receipts for a total of 44.3 million Receipts, closed on March 15, 2007. The Subscription Receipts will automatically be exchanged on a one-for-one basis for common shares upon closing of the Terasen acquisition, expected no later than Q3/07.

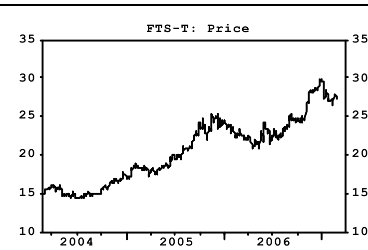
Impact

Positive. Accretive: We have updated our financial forecasts to include this acquisition, and we estimate that it will be $0.02 dilutive to 2007E EPS and $0.08 accretive to 2008E EPS. We note that the dilution in 2007 is a result of the seasonal nature of Terasen's business, in which approximately 50% of earnings have in recent history occurred in the first quarter. Our three-dollar increase in target price primarily reflects our increased forecasts and to a lesser extent valuation expansion from our view of a decreased company risk profile, discussed in detail below.

Price Reflects High Quality Business: At 1.7x equity value to equity rate base we believe the acquisition price is reflective of a high quality, well run business with a positive growth outlook. The acquisition also positions Fortis to possibly become a consolidator in the Northwest or expand further into gas distribution.

Decreased Risk Profile: The introduction of mature Canadian gas distribution operations provides Fortis with a more economically diverse portfolio of assets. Post closing, 87% of Fortis' earnings will be derived from relatively low risk Canadian regulated operations, which lessens the company's reliance on earnings from relatively higher risk Caribbean operations, in our view. We note that Fortis has a proven history of successfully integrating large acquisitions having successfully integrated the former Aquila assets, acquired for $1.5 billion, in 2004.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Details

Terasen Inc. is primarily a regulated B.C. gas distribution utility providing service to 95% of the customers in the province. It consists of four companies: 1) Terasen Gas, 2) Terasen Gas Vancouver Island, 3) Terasen Gas (Whistler) and 4) a 30% interest in CustomerWorks LP, a non-regulated, shared service business. Overall, Terasen has $3.6 billion in assets and an aggregate rate base of almost $3.0 billion. We believe the rate base, which serves a high growth Western Canadian economy, can achieve organic growth averaging 2% per year. Longer term, we believe some synergies could be achieved with Fortis' existing electric utilities in the region.

Outlook

Our Fortis forecasts and estimated contribution from Fortis Gas BC (Terasen), which assume the transaction closes at the end of May 2007, are outlined in Exhibits 1-3.

Exhibit 1. Fortis Inc.: Segmented Income Statement ($mm, except per-share amounts)

	2003	2004	2005	2006	2007E	2008E	2008E (%)
Fortis Gas BC (Terasen)	-	-	-	-	42.9	93.1	38%
FortisAlberta	-	18.6	29.1	41.4	41.6	41.2	17%
FortisBC	-	14.0	24.6	27.4	28.7	33.5	14%
Newfoundland Power	29.5	31.1	29.3	30.1	29.8	30.7	13%
Maritime Electric	8.3	8.2	9.1	9.8	9.7	9.7	4%
Fortis Ontario	16.8	4.2	3.2	4.0	4.6	4.6	2%
Regulated Utilities - Canadian	**54.6**	**76.1**	**95.3**	**112.7**	**157.3**	**212.8**	**87%**
Belize Electricity	6.3	7.2	8.0	10.4	10.6	10.9	4%
Caribbean Utilities	10.5	5.5	10.3	9.7	15.7	16.2	7%
Turks & Caicos	-	-	-	3.5	8.6	9.6	4%
Regulated Utilities - Caribbean	**16.8**	**12.7**	**18.3**	**23.6**	**34.9**	**36.6**	**15%**
Total Regulated Utilities	**71.3**	**88.8**	**113.6**	**136.3**	**192.2**	**249.4**	**102%**
Non-regulated Fortis Generation	-	12.8	22.7	26.0	29.5	31.3	13%
Non-regulated Properties	11.0	11.8	14.1	15.6	17.4	17.7	7%
Corporate	(8.7)	(23.3)	(29.7)	(34.5)	(46.1)	(53.3)	-22%
Operating Earnings	**73.6**	**90.1**	**120.8**	**143.4**	**193.1**	**245.0**	**100%**
Non-recurring, Unusual, Discontinued Items	-	0.8	16.4	3.8	-	-	0%
Reported Earnings	**73.6**	**90.9**	**137.1**	**147.2**	**193.1**	**245.0**	**100%**
EPS diluted - Operating	**$1.03**	**$1.00**	**$1.11**	**$1.33**	**$1.42**	**$1.55**	

Source: Company Reports, TD Newcrest.

Exhibit 2. Fortis Gas BC (Terasen): Segmented Income Statement ($mm)

	2007E	2008E
Terasen Gas	38.8	83.6
Terasen Gas Vancouver Island	10.7	22.1
Terasen Gas (Whistler)	0.3	1.1
Natural Gas Distribution Regulated Earnings	**49.8**	**106.9**
CustomerWorks LP	1.3	2.5
Interest Expense on Terasen Inc. Debt	(8.1)	(16.3)
Fortis Gas BC (Terasen) Earnings	**42.9**	**93.1**

Source: Company Reports, TD Newcrest.

Exhibit 3. Fortis Gas BC (Terasen): Full Year Regulated Rate Base and Earnings ($mm)

	Terasen Gas		Terasen Gas Vancouver Island		Terasen Gas (Whistler)	
	2007E	2008E	2007E	2008E	2007E	2008E
Total Capitalization	2,474.0	2,523.5	482.0	504.3	16.5	27.9
Common Equity (%)	35%	35%	40%	40%	40%	40%
Common Equity	865.9	883.2	192.8	201.7	6.6	11.2
Regulated ROE (%)	8.37%	9.27%	9.07%	9.97%	9.07%	9.97%
Overearnings (b.p.)	60	20	100	25	100	25
Achieved ROE (%)	8.97%	9.47%	10.07%	10.22%	10.07%	10.22%
Rate Base Earnings	**77.7**	**83.6**	**19.4**	**20.6**	**0.7**	**1.1**
Class B Instruments Avg. Outstanding Balance	-	-	45.0	35.0	-	-
Interest Rate	-	-	7%	7%	-	-
Effective Tax Rate	-	-	34%	34%	-	-
RDDA Class B Instrument Interest for Fortis	**-**	**-**	**1.9**	**1.5**	**-**	**-**
Earnings for Fortis	**77.7**	**83.6**	**21.3**	**22.1**	**0.7**	**1.1**

Note: 2007E earnings represent full year contribution rather than the estimated 7-month contribution to Fortis.
Source: Company Reports, TD Newcrest.

Valuation

Exhibit 4. Peer Group Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2005A	EPS 2006A	EPS 2007E	EPS 2008E	P/E 2005A	P/E 2006E	P/E 2007E	P/E 2008E	EPS For. E	P/E Forward
FTS	$27.10	109.3	$2,962	$0.84	3.1%	$12.25	2.2	$1.11	$1.33	$1.42	$1.55	17.4x	20.4x	19.1x	17.5x	$1.45	18.7x
ACO.X	$44.82	58.5	$2,620	$0.88	2.0%	$24.50	1.8	$2.36	$3.19	$3.11	$3.21	17.4x	14.0x	14.4x	14.0x	$3.13	14.3x
CU	$42.40	125.4	$5,316	$1.22	2.9%	$18.54	2.3	$2.03	$2.55	$2.42	$2.53	21.7x	16.6x	17.5x	16.8x	$2.44	17.4x
EMA	$20.16	110.9	$2,236	$0.89	4.4%	$12.69	1.6	$0.99	$1.08	$1.14	$1.24	20.7x	18.7x	17.7x	16.3x	$1.16	17.4x
ENB	$37.40	355.0	$13,277	$1.23	3.3%	$13.18	2.8	$1.55	$1.73	$1.73	$1.82	16.4x	21.6x	21.6x	20.6x	$1.75	21.4x
TA	$24.10	202.4	$4,878	$1.00	4.1%	$12.06	2.0	$0.88	$1.09	$1.28	$1.50	28.8x	22.1x	18.8x	16.1x	$1.32	18.2x
TRP	$38.38	536.3	$20,583	$1.36	3.5%	$15.77	2.4	$1.72	$1.87	$1.99	$2.13	21.1x	20.5x	19.2x	18.0x	$2.02	19.0x
Avg.					3.6%		2.2x					21.0x	20.0x	19.0x	17.5x		18.7x

Note: Averages exclude ATCO Ltd.
Source: Company Reports, Bloomberg, TD Newcrest.

Justification of Target Price

Our $29.00 price target is predicated on our 2008 financial estimates as follows: 1) 50% relative earnings yield of 130% (vs. historical average of 137%), 2) 25% relative dividend yield of 77% (vs. historical average of 82%), and 3) 25% P/B of 1.6 times (vs. historical average of 1.4x). Our target price implies a 3.2% dividend yield and a price-to-earnings ratio of 18.7 times, compared to historical averages of 4.7% and 13.8 times, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

We view the Terasen acquisition as a positive event for Fortis. The accretive nature of the transaction not only increases Fortis' earning outlook but should also help offset the loss in earnings contribution from the 75 MW Rankine dam in 2009. The acquisition also increases Fortis' share of regulated Canadian earnings, which decreases its reliance on relatively higher risk Caribbean earnings. In addition to the announced Terasen acquisition, in the past year Fortis has increased its interest is Caribbean Utilities and acquired a Turks & Caicos utility; however, moving forward, we believe acquisition activity will be muted as we expect management's focus will be on the integration of the Terasen assets.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1, 2, 4, 14

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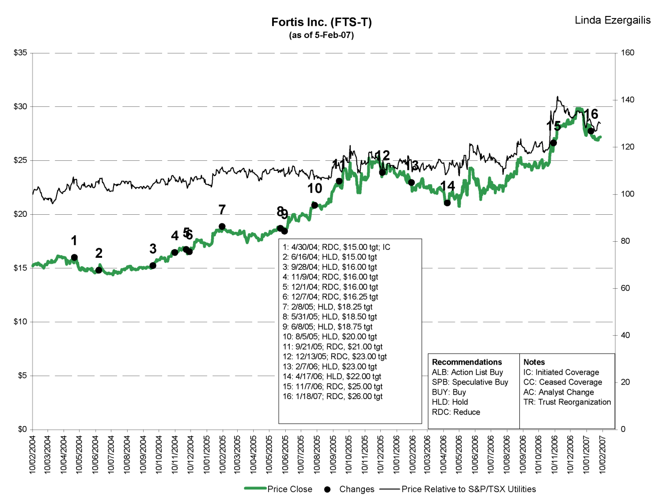

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Research Ratings
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BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

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Pipelines, Power & Utilities

Recommendation:	**HOLD** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$29.00** *Unchanged*
12-Month Total Return:	**6.3%**

Market Data (C$)	
Current Price	$28.08
52-Wk Range	$20.36-$30.00
Mkt Cap (f.d.)($mm)	$3,560.5
Dividend per Share	$0.84
Dividend Yield	3.0%
Avg. Daily Trading Vol. (3mths)	539464

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	126.8
Float Shares (mm)	109.6
Net Debt/Tot Cap	63.1%
BVPS (basic)	$13.08
ROE	11.5%

Estimates (C$)

Year	2005A	2006A	2007E	2008E
EPS (basic)	1.19	1.38	1.43	1.59
EPS (f.d.)	1.11	1.33	1.34	1.55
EPS (f.d.)(old)	1.11	1.33	1.42	1.55
CFPS (basic)	3.07	2.89	3.41	3.75
DI	0.59	0.67	0.82	0.92

EPS (f.d.) Quarterly Estimates (C$)

Year	2005A	2006A	2007E	2008E
Q1	0.30	0.34	0.36	--
Q2	0.27	0.32	0.28	--
Q3	0.32	0.36	--	--
Q4	0.23	0.32	--	--

Valuations

Year	2005A	2006A	2007E	2008E
P/E (f.d.)	25.3x	21.1x	21.0x	18.1x
P/CFPS (basic)	9.1x	9.7x	8.2x	7.5x
P/DI	47.6x	41.9x	34.2x	30.5x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$28.08

Q1 In-Line; Terasen Gas Acquisition on Track

Event

Fortis reported normalized Q1/07 EPS (f.d) of $0.36, which was in-line with our estimate and above Q1/06 EPS of $0.34.

Impact

Neutral. We have updated our financial model, with the biggest change being the inclusion of subscription receipts in our 2007E diluted EPS calculation.

Details

Regulated Utilities – Canadian Q1/07 earnings increased $2.9 million to $38.0 million (Exhibit 1). The increase was primarily a result of a $2.4 million increase in FortisAlberta earnings, which benefited from a $4.1 million corporate tax recovery as well as electric sales growth.

Regulated Utilities – Caribbean normalized earnings more than doubled to $6.5 million. The increase was primarily a result of a full quarter contribution from Fortis Turks and Caicos, acquired August 2006, and decreased finance charges and higher electricity sales growth in Belize Electricity.

Fortis Generation earnings increased $1.9 million year-over-year to $7.3 million. The increase was primarily a result of a 63% increase in Belize hydroelectric production due to higher rainfall and the operation of the Chalillo dam. A 3% increase in Ontario average electricity prices to $52.61/MWh also positively affected earnings.

Fortis Properties earnings increased 20% year-over-year to $1.8 million. The increase was mainly a result of the four hotels purchased in western Canada in Q1/07, partially offset by higher finance and amortization expenses.

Corporate expenses increased $1.2 million to $9.7 million during the quarter mainly as a result of increased financing charges and dividends on preference shares issued September 2006.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.

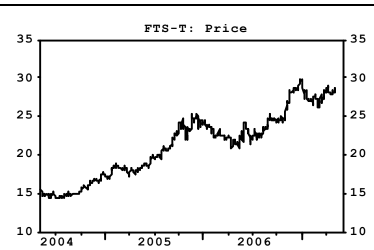

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Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q1/07	Q1/06	YOY Change	YOY % Change
FortisAlberta	$11.9	$9.5	$2.4	25%
FortisBC	11.7	11.8	(0.1)	-1%
Newfoundland Power	10.5	10.7	(0.2)	-2%
Maritime Electric	2.6	2.1	0.5	24%
FortisOntario	1.3	1.0	0.3	30%
Regulated Utilities - Canadian	38.0	35.1	2.9	8%
Belize Electricity	2.7	1.5	1.2	80%
Caribbean Utilities[1]	2.0	1.6	0.4	25%
Fortis Turks and Caicos	1.8	-	1.8	n.a.
Regulated Utilities - Caribbean	6.5	3.1	3.4	110%
Total Regulated Utilities	**44.5**	**38.2**	**6.3**	**16%**
Non-regulated Fortis Generation	**7.3**	**5.4**	**1.9**	**35%**
Non-regulated Fortis Properties	**1.8**	**1.5**	**0.3**	**20%**
Corporate	**(9.7)**	**(8.5)**	**(1.2)**	**14%**
Operating Earnings	**43.9**	**36.6**	**7.3**	**20%**
Adjustments	(2.4)	-	(2.4)	n.a.
Reported Earnings	**41.5**	**36.6**	**4.9**	**13%**
Operating EPS (basic)	$0.40	$0.35	$0.05	14%
Reported EPS (basic)	$0.38	$0.35	$0.03	9%
Operating EPS (f.d)	**$0.36**	**$0.34**	**$0.02**	**6%**
Reported EPS (f.d)	$0.35	$0.34	$0.01	3%

Note: 1) Q1/07 Caribbean Utilities earnings have been adjusted for a $2.4 million asset disposal charge.
Source: Company Reports, TD Newcrest.

Outlook

$3.7 billion Terasen Gas Acquisition Expected to Close in Q2/07: The BC regulator approved the acquisition on April 30th, and now the only remaining large closing condition is the separation of Kinder Morgan's Canadian petroleum business from Terasen Inc. On April 27, Inter Pipeline announced it expects to close its acquisition of Kinder Morgan's Corridor oil sands pipeline by mid-May, which suggests to us that Fortis' acquisition of Terasen Gas could close shortly thereafter. For a more in-depth analysis of Fortis' acquisition of Terasen Gas please see our March 15, 2007 Action Note titled "***Resuming Coverage: $3.7 billion Terasen Acquisition a Positive***".

Strong Regulated Rate Base Growth Expected: Fortis expects electric utility capital expenditures of $2.8 billion over the next five years, which it believes will translate into its electric utility capital assets growing at an average rate of 7-8%. The majority of this growth is expected to be driven by the western Canadian and Caribbean utilities. Assuming the Terasen Gas acquisition closes, the company believes an additional $1.0 billion would be spent over the next five years on its gas utility assets.

A Brief Pause in Acquisition Activity: In the near future we expect Fortis will be focused on the integration of Terasen Gas. However, beyond that we expect Fortis will continue to be acquisitive in its existing geographies and businesses. In our view, the acquisition of Terasen Gas positions Fortis to possibly become a consolidator in the Northwest and also provides the company with a platform for growth in gas distribution.

Valuation

Exhibit 3. Peer Group Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2005A	EPS 2006A	EPS 2007E	EPS 2008E	P/E 2005A	P/E 2006A	P/E 2007E	P/E 2008E	EPS For. E	P/E Forward
FTS	$28.08	109.6	$3,078	$0.84	3.0%	$13.08	2.1	$1.11	$1.33	$1.34	$1.55	17.4x	21.0x	21.0x	18.1x	$1.41	19.9x
ACO.X	$51.40	58.3	$2,997	$0.88	1.7%	$25.65	2.0	$2.36	$3.19	$3.45	$3.35	17.4x	16.1x	14.9x	15.3x	$3.42	15.0x
CU	$47.50	125.4	$5,957	$1.22	2.6%	$19.33	2.5	$2.03	$2.55	$2.63	$2.59	21.7x	18.6x	18.1x	18.3x	$2.62	18.2x
EMA	$21.71	111.1	$2,412	$0.89	4.1%	$12.78	1.7	$0.99	$1.08	$1.15	$1.25	20.7x	20.0x	18.9x	17.4x	$1.18	18.3x
ENB	$37.28	355.0	$13,234	$1.23	3.3%	$14.84	2.5	$1.55	$1.73	$1.76	$1.82	16.4x	21.6x	21.2x	20.5x	$1.78	20.9x
TA	$26.62	202.7	$5,396	$1.00	3.8%	$10.80	2.5	$0.88	$1.09	$1.28	$1.50	28.8x	24.5x	20.8x	17.8x	$1.35	19.7x
TRP	$40.00	534.7	$21,388	$1.36	3.4%	$17.49	2.3	$1.72	$1.87	$2.03	$2.17	21.1x	21.4x	19.7x	18.4x	$2.08	19.3x
Avg.					3.4%		2.3x					21.0x	21.2x	19.9x	18.4x		19.4x

Note: Averages exclude ATCO due to its holding company nature.
Source: Bloomberg, TD Newcrest.

Justification of Target Price

Our $29.00 price target is predicated on our 2008 financial estimates as follows: 1) 50% relative earnings yield of 130% (vs. historical average of 137%), 2) 25% relative dividend yield of 77% (vs. historical average of 82%), and 3) 25% P/B of 1.6 times (vs. historical average of 1.4x). Our target price implies a 3.2% dividend yield and a price-to-earnings ratio of 18.7 times, compared to historical averages of 4.7% and 13.8 times, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

In 2007, we expect high regulated rate base growth and FortisAlberta tax planning to mitigate the effects of historically low regulated ROEs and strength in the Canadian dollar. We view the pending Terasen Gas acquisition as positive not only due to its accretive nature but also because it should help offset the loss in earnings contribution from the 75 MW Rankine dam in 2009. Terasen Gas will also increase Fortis' share of high quality regulated Canadian earnings, which decreases its reliance on relatively higher risk Caribbean earnings. At current levels we view Fortis as fairly valued and recommend investors HOLD Fortis.

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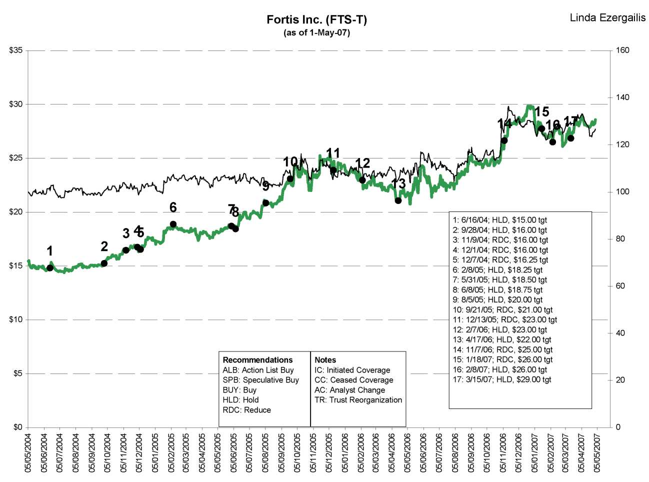

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BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
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Pipelines, Power & Utilities

Recommendation:	**HOLD** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$28.00** *Unchanged*
12-Month Total Return:	**10.7%**

Market Data (C$)

Current Price	$26.05
52-Wk Range	$22.15-$30.00
Mkt Cap (f.d.)($mm)	$4,428.5
Dividend per Share	$0.84
Dividend Yield	3.2%
Avg. Daily Trading Vol. (3mths)	461963

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	170.0
Float Shares (mm)	154.1
Net Debt/Tot Cap	62.4%
BVPS (basic)	$16.54
ROE	11.5%

Estimates (C$)

Year	2006A	2007E	2008E	2009E
EPS (basic)	1.38	1.45	1.59	1.61
EPS (basic)(old)	1.38	1.43	1.59	1.65
EPS (f.d.)	1.33	1.37	1.56	1.59
EPS (f.d.)(old)	1.33	1.34	1.58	1.65
CFPS (basic)	2.89	3.42	3.75	3.88
DI	0.67	0.82	0.92	1.00

EPS (f.d.) Quarterly Estimates (C$)

Year	2006A	2007E	2008E	2009E
Q1	0.34	0.36	--	--
Q2	0.32	0.27	--	--
Q3	0.36	0.29	--	--
Q4	0.32	--	--	--

Valuations

Year	2006A	2007E	2008E	2009E
P/E (f.d.)	19.6x	19.0x	16.7x	16.4x
P/CFPS (basic)	9.0x	7.6x	6.9x	6.7x
P/DI	38.9x	31.8x	28.3x	26.1x

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Fortis Inc.

(FTS-T) C$26.05

Q2/07 In-Line; Focus Remains on Integrating Terasen Gas

Event

Fortis reported Q2/07 EPS (f.d.) of $0.27, in-line with our $0.28 estimate and down slightly versus normalized Q2/06 EPS of $0.32.

Impact

Neutral.

Details

Regulated Electric Utilities – Canadian Q2/07 earnings increased $8.6 million year-over-year to $34 million.

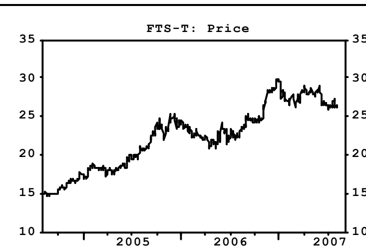
- **FortisAlberta** contributed the bulk of the increase with earnings of $15.5 million, a $4.2 million increase over Q2/06. The majority of the increase was due to higher revenues from customer growth, increased energy deliveries, and a 0.7 percent increase in distribution rates in Q1/07.
- **FortisBC** earnings were up $3.1 million to $6.5 million, nearly doubling year-over-year. This was mainly attributed to a 3.3 percent hike in electricity rates in 2007, higher electricity sales, and lower energy supply costs, partially offset by increased operating expenses, amortization, and finance charges.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings were higher year-over-year, increasing by $1.3 million to $4 million. This was primarily due to a 3.35 percent increase in basic electricity rates at Maritime Electric in Q3/06, and an increase in distribution rates at FortisOntario, effective May 1, 2007.

Regulated Gas Utilities (Terasen) reported $1.6 million in earnings since acquired by Fortis May 17, 2007. For more details about Terasen Gas, please see our Fortis Action Note dated March 15, 2007, titled *"Resuming Coverage: $3.7 Billion Terasen Acquisition a Positive"*.

Regulated Utilities – Caribbean earnings increased $3.2 million to $7.6 million in the quarter, largely driven by higher contribution from Fortis Turks and Caicos (acquired August 2006), together with electricity sales growth and lower finance charges at Belize Electricity. Partially offsetting the increase were higher operating expenses and amortization costs in Caribbean Utilities.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Fortis Generation earnings of $4.9 million declined 18 percent primarily as a result of decreased rainfall in Belize, central Newfoundland and Upper New York State.

Fortis Properties earnings of $6 million increased $1 million year-over-year. The increase was mainly due to contributions from the four hotels in western Canada acquired in November 2006, and was partially offset by higher operating expenses brought on by expansion and general inflationary cost increases. On August 1, 2007, Fortis also completed the acquisition of Delta Regina.

Corporate expenses increased $5.9 million to $12.6 million largely due to increased finance charges, especially those related to the Terasen acquisition ($4.9 million).

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q2/07	Q2/06	YOY Change	YOY % Change
FortisAlberta	$15.5	$11.3	$4.2	37%
FortisBC	6.5	3.4	3.1	91%
Newfoundland Power	8.0	8.0	-	0%
Other Canadian	4.0	2.7	1.3	48%
Regulated Electric Utilities - Canadian	34.0	25.4	8.6	34%
Regulated Gas Utilities - Canadian[1]	1.6	-	1.6	n.a.
Regulated Utilities - Caribbean	7.6	4.4	3.2	73%
Total Regulated Utilities	**43.2**	**29.8**	**13.4**	**45%**
Non-regulated Fortis Generation[2]	**4.9**	**6.0**	**(1.1)**	**-18%**
Non-regulated Fortis Properties[3]	**6.0**	**5.0**	**1.0**	**20%**
Corporate	**(12.6)**	**(6.7)**	**(5.9)**	**88%**
Operating Earnings	**41.5**	**34.1**	**7.4**	**22%**
Adjustments	-	3.8	(3.8)	n.a.
Reported Earnings	**41.5**	**37.9**	**3.6**	**9%**
Operating EPS (basic)	$0.31	$0.33	($0.02)	-6%
Reported EPS (basic)	$0.31	$0.37	($0.06)	-15%
Operating EPS (f.d)	**$0.27**	**$0.32**	**($0.05)**	**-15%**
Reported EPS (f.d)	$0.27	$0.35	($0.08)	-23%

Notes:
1) Q2/07 Terasen Gas earnings are from May 17, 2007
2) Q2/06 excludes a one-time $1.2 million pre-tax (0.7 million after-tax) gain on insurance related to the Dolgeville plant in NY
3) Q2/06 excludes a $1.6 million after-tax (2.1 million pre-tax) gain on the sale of Days Inn Sydney hotel, and a $1.5 milion one-time impact of reduction in tax rates on future income tax balances

Source: Company Reports, TD Newcrest.

Outlook

Fortis' pending regulatory initiatives include the following:

- **Newfoundland Power** has submitted its 2008 General Rate Application (GRA) to the regulator requesting an overall average increase to current electricity rates of approximately 5.3 percent, effective January 1, 2008. Among other items, the utility is requesting a change in the ROE formula to be similar to that which is used in other Canadian jurisdictions, as well as an increase in ROE to 10 percent (versus 8.6 percent in 2007). A hearing is expected during fall 2007. At this point our current financial forcasts do not incorporate these requested changes.
- **FortisAlberta** filed its 2008/2009 Distribution Access Tariff Application to the regulator, for the purpose of increasing base distribution rates by 8.5 percent, effective January 1, 2008 and by 9.0 percent, effective

January 1, 2009. The requested rate increases are primarily to fund significant investments in electrical infrastructure in order to meet customer growth and improve system reliability.

- **Maritime Electric** will be applying for a rate base change with the Island Regulatory and Appeals Commission (IRAC) in the fall of 2007 with the intention of setting rates for 2008.
- **Belize Electricity** is appealing the Public Utilities Commission's final decision on its Annual Tariff Review Application over a number of items that include power costs, commercial loss targets, and penalties associate with reliability targets. If a favourable outcome does not materialize for Belize, legal action may be taken through court proceedings to settle the matter. We believe that if the hearing and/or litigation is adjourned without a positive result, it could negatively affect 2007 earnings by approximately $1 million.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2006A	2007E	2008E	2009E	2006A	2007E	2008E	2009E	For. E	Forward
FTS	$26.05	154.1	$4,014	$0.84	3.2%	$16.54	1.6	$1.33	$1.37	$1.56	$1.59	19.5x	19.0x	16.7x	16.4x	$1.48	17.6x
ACO.X	$58.04	58.2	$3,378	$0.88	1.5%	$26.13	2.2	$3.19	$3.65	$3.50	$3.73	18.2x	15.9x	16.6x	15.6x	$3.57	16.3x
CU	$47.33	125.4	$5,935	$1.26	2.7%	$19.58	2.4	$2.55	$2.73	$2.63	$2.87	18.5x	17.3x	18.0x	16.5x	$2.67	17.7x
EMA	$20.56	111.2	$2,286	$0.91	4.4%	$12.24	1.7	$1.08	$1.15	$1.25	$1.27	19.0x	17.9x	16.5x	16.2x	$1.21	17.0x
ENB	$36.00	356.2	$12,823	$1.23	3.4%	$14.32	2.5	$1.73	$1.75	$1.94	$2.13	20.8x	20.6x	18.6x	16.9x	$1.86	19.4x
TA	$29.10	202.8	$5,901	$1.00	3.4%	$10.79	2.7	$1.09	$1.28	$1.67	$1.67	26.7x	22.7x	17.4x	17.4x	$1.51	19.3x
TRP	$37.25	536.3	$19,977	$1.36	3.7%	$17.41	2.1	$1.87	$2.03	$2.28	$2.34	19.9x	18.3x	16.3x	15.9x	$2.18	17.1x
Avg.					3.5%		2.2x					20.8x	19.3x	17.3x	16.6x		18.0x

Note: Averages exclude ATCO due to its holding company nature.

Source: Bloomberg, TD Newcrest.

Justification of Target Price

Our $28.00 target price is predicated on 50% of our 2008 & 50% of our 2009 financial estimates as follows: 1) 50% relative earnings yield of 122% (vs. historical average of 132%), 2) 25% relative dividend yield of 75% (vs. historical average of 80%), and 3) 25% P/B of 1.5 times (vs. historical average of 1.5x). Our target price implies a 3.4% dividend yield and a price-to-earnings ratio of 17.8x, compared to historical averages of 4.7% and 13.8x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

In the second quarter, Fortis benefited from western Canadian utility rate base growth and Alberta tax planning, partially offset by a seasonally weak period for the gas utility. We expect these factors will also drive Q3/07 results. Over the next year, Fortis will likely be focused on integrating the recent Terasen acquisition, as the addition of gas distribution doubles the company's investment in regulated utilities. Once the integration is complete, we expect Fortis will ramp up its efforts to acquire regulated gas and electric utilities in Canada, the Caribbean, and the United States. The acquisition of Terasen makes Fortis the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding for low-risk blue-chip portfolios.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1, 2, 4, 14

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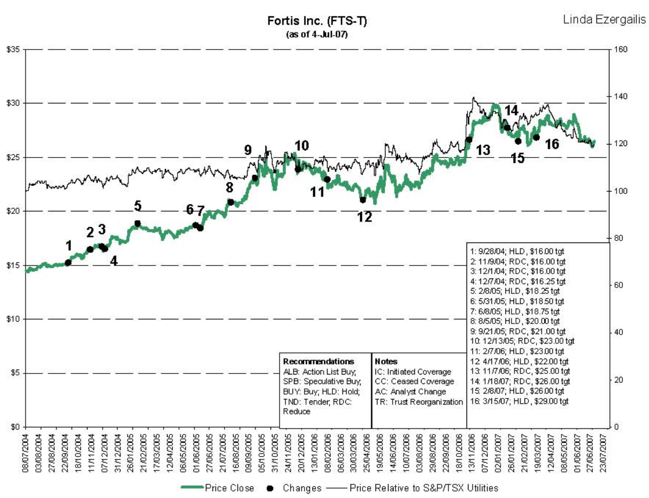

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TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
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Pipelines, Power & Utilities

Recommendation:	**BUY↑**
Prior:	*HOLD*
Risk:	**LOW**
12-Month Target Price:	**C$28.00**
	Unchanged
12-Month Total Return:	**14.6%**

Market Data (C$)	
Current Price	$25.17
52-Wk Range	$23.53-$30.00
Mkt Cap (f.d.)($mm)	$4,278.9
Dividend per Share	$0.84
Dividend Yield	3.3%
Avg. Daily Trading Vol. (3mths)	434720

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	170.0
Float Shares (mm)	154.1
Net Debt/Tot Cap	62.4%
BVPS (basic)	$16.54
ROE	11.5%

Estimates (C$)

Year	2006A	2007E	2008E	2009E
EPS (basic)	1.38	1.45	1.59	1.61
EPS (f.d.)	1.33	1.37	1.56	1.59
CFPS (basic)	2.89	3.42	3.75	3.88
DI	0.67	0.82	0.92	1.00

EPS (f.d.) Quarterly Estimates (C$)

Year	2006A	2007E	2008E	2009E
Q1	0.34	0.36	--	--
Q2	0.32	0.27	--	--
Q3	0.36	0.29	--	--
Q4	0.32	--	--	--

Valuations

Year	2006A	2007E	2008E	2009E
P/E (f.d.)	18.9x	18.4x	16.1x	15.8x
P/CFPS (basic)	8.7x	7.4x	6.7x	6.5x
P/DI	37.6x	30.7x	27.4x	25.2x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$25.17

Upgrading to BUY Due to Recent Share Price Decline

Event

Fortis has underperformed the sector this year-to-date, declining in value almost 16 percent versus a sector average decline of just under 5 percent. To date this month of August 2007, pipeline, power and utility corporations as a whole have pulled back in sympathy with the broader markets and Fortis has been no exception to this dynamic.

Impact

Positive. We view Fortis' valuation as more compelling at these lower levels. It has recently been trading at 16.9x price-to-forward earnings, a discount to the 17.6x sector average and below the 17.8x implied by our Fortis target price.

There has been no change to our fundamental outlook for Fortis. We forecast an EPS CAGR of 6 percent to the end of 2009 from 2006, and an accelerated dividend CAGR of 14 percent over this same period. We expect Fortis' dividend growth will be driven by an increase in payout ratio to just over 60 percent in 2009 from slightly under 50 percent in 2006, which will be more in-line with the payout ratios of comparable corporations.

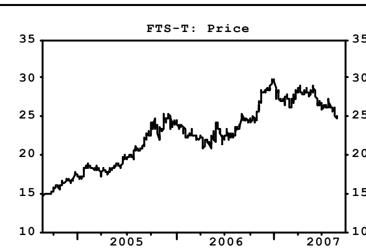
Given the stability of Fortis' core businesses, especially with the addition of Terasen Gas, we view the company as a very low-risk investment. By 2009, almost three-quarters of the company's earnings prior to corporate expenses will be derived from Canadian electric and gas utilities, by our calculations. When this low-risk is combined with the company's strong dividend growth, we believe Fortis has defensive appeal in a volatile market environment.

Outlook

Over the next year, Fortis will likely be focused on integrating the recent Terasen acquisition, as the addition of gas distribution doubles the company's investment in regulated utilities. Once the integration is complete, we expect Fortis will ramp up its efforts to acquire regulated gas and electric utilities near or within the current regions in which it operates.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

Valuation

Exhibit 1. Peer Group Valuation.

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2006A	2007E	2008E	2009E	2006A	2007E	2008E	2009E	For. E	Forward
FTS	$25.17	154.1	$3,879	$0.84	3.3%	$16.54	1.5	$1.33	$1.37	$1.56	$1.59	18.9x	18.4x	16.2x	15.9x	$1.49	16.9x
ACO.X	$54.99	58.2	$3,200	$0.88	1.6%	$26.13	2.1	$3.19	$3.65	$3.50	$3.73	17.2x	15.0x	15.7x	14.7x	$3.56	15.5x
CU	$47.70	125.4	$5,982	$1.26	2.6%	$19.58	2.4	$2.55	$2.73	$2.63	$2.87	18.7x	17.5x	18.1x	16.6x	$2.67	17.9x
EMA	$19.78	111.2	$2,200	$0.91	4.6%	$12.24	1.6	$1.08	$1.15	$1.25	$1.27	18.3x	17.2x	15.9x	15.6x	$1.21	16.3x
ENB	$35.04	356.2	$12,481	$1.23	3.5%	$14.32	2.4	$1.73	$1.75	$1.94	$2.13	20.3x	20.0x	18.1x	16.5x	$1.87	18.7x
TA	$29.07	202.8	$5,895	$1.00	3.4%	$10.79	2.7	$1.09	$1.28	$1.67	$1.67	26.7x	22.7x	17.4x	17.4x	$1.53	19.0x
TRP	$36.79	536.3	$19,730	$1.36	3.7%	$17.41	2.1	$1.87	$2.03	$2.28	$2.34	19.7x	18.1x	16.1x	15.7x	$2.19	16.8x
Avg.					3.5%		2.1x					20.4x	19.0x	17.0x	16.3x		17.6x

Note: Averages exclude ATCO due to its holding company nature.

Source: Bloomberg, TD Newcrest.

Justification of Target Price

Our $28.00 target price is predicated on 50% of our 2008 & 50% of our 2009 financial estimates as follows: 1) 50% relative earnings yield of 122% (vs. historical average of 132%), 2) 25% relative dividend yield of 75% (vs. historical average of 80%), and 3) 25% P/B of 1.5 times (vs. historical average of 1.5x). Our target price implies a 3.4% dividend yield and a price-to-earnings ratio of 17.8x, compared to historical averages of 4.7% and 13.8x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

We expect Fortis to benefit from Alberta tax planning in the near term and strong western Canadian utility rate base growth over the longer term. Management's continued focus on accretive acquisitions will likely continue after the integration of Terasen Gas is complete, which should translate into continued above-utility average growth for the company.

We believe the pull-back in the share price presents an excellent opportunity to buy the largest investor-owned gas and electric distribution utility in Canada, as we view Fortis to be a core holding for low-risk blue-chip portfolios.

TD Newcrest Equity Research Disclosures

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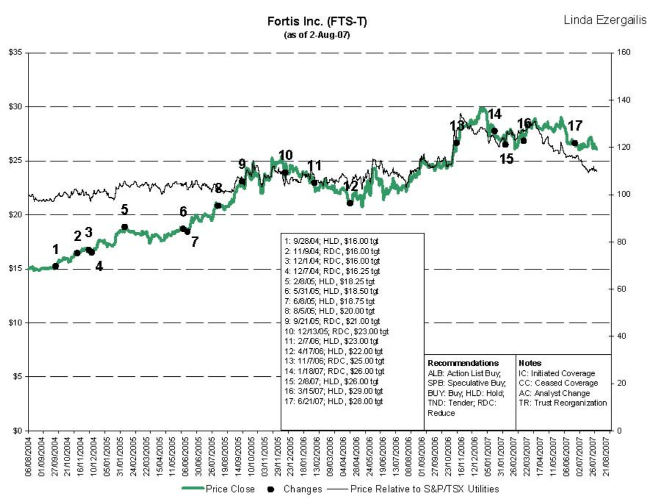

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (12% of coverage universe), Medium (29%), High (54%), Speculative (5%).
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Each analyst of TD Securities Inc. whose name appears on page 1 of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

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Pipelines, Power & Utilities

Recommendation:	**HOLD↓**
Prior:	*BUY*
Risk:	**LOW**
12-Month Target Price:	**C$28.00** *Unchanged*
12-Month Total Return:	**6.8%**

Market Data (C$)

Current Price	$27.00
52-Wk Range	$24.12-$30.00
Mkt Cap (f.d.)($mm)	$4,590.0
Dividend per Share	$0.84
Dividend Yield	3.1%
Avg. Daily Trading Vol. (3mths)	331959

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	170.0
Float Shares (mm)	154.1
Net Debt/Tot Cap	62.4%
BVPS (basic)	$16.54
ROE	11.5%

Estimates (C$)

Year	2006A	2007E	2008E	2009E
EPS (basic)	1.38	1.45	1.59	1.61
EPS (f.d.)	1.33	1.37	1.56	1.59
CFPS (basic)	2.89	3.42	3.75	3.88
DI	0.67	0.82	0.92	1.00

EPS (f.d.) Quarterly Estimates (C$)

Year	2006A	2007E	2008E	2009E
Q1	0.34	0.36	--	--
Q2	0.32	0.27	--	--
Q3	0.36	0.23	--	--
Q4	0.32	--	--	--

Valuations

Year	2006A	2007E	2008E	2009E
P/E (f.d.)	20.3x	19.7x	17.3x	17.0x
P/CFPS (basic)	9.3x	7.9x	7.2x	7.0x
P/DI	40.3x	32.9x	29.3x	27.0x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$27.00

Downgrading to HOLD Based on Valuation

Event

We are downgrading Fortis to HOLD from Buy due to price appreciation. Since upgrading Fortis on August 24, 2007 it has outperformed the sector increasing in value almost 7% versus the sector average increase of only 3%. We note that Fortis is expected to release its Q3/07 results on November 2, 2007. For an in-depth view of our quarterly expectations, please see our Q3/07 Preview and Sector Update bulletin, published in parallel with this note.

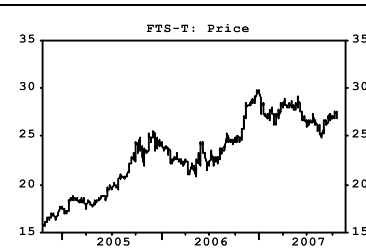
Impact

Neutral with Respect to Fundamentals – Downgrade is a Function of Share Price Appreciation. We view the units as more fairly valued and expect them to generate returns in line with similarly rated stocks in our coverage universe.

There has been no change to our fundamental outlook for Fortis. We forecast an EPS CAGR of 6 percent to the end of 2009 from 2006, and an accelerated dividend CAGR of 14 percent over this same period. We expect Fortis' dividend growth will be driven by an increase in payout ratio to just over 60 percent in 2009 from slightly under 50 percent in 2006, which will be more in-line with the payout ratios of comparable corporations.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

Valuation

Exhibit 1. Peer Group Valuation.

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2006A	EPS 2007E	EPS 2008E	EPS 2009E	P/E 2006A	P/E 2007E	P/E 2008E	P/E 2009E	EPS For. E	P/E Forward
FTS	$27.00	154.1	$4,161	$0.84	3.1%	$16.54	1.6	$1.33	$1.37	$1.56	$1.59	20.2x	19.7x	17.3x	17.0x	$1.52	17.8x
ACO.X	$57.08	58.2	$3,322	$0.88	1.5%	$26.13	2.2	$3.19	$3.66	$3.51	$3.74	17.9x	15.6x	16.2x	15.2x	$3.54	16.1x
CU	$48.50	125.4	$6,082	$1.26	2.6%	$19.58	2.5	$2.55	$2.74	$2.64	$2.88	19.0x	17.7x	18.4x	16.8x	$2.66	18.2x
EMA	$19.51	111.2	$2,170	$0.91	4.7%	$12.24	1.6	$1.08	$1.15	$1.25	$1.27	18.0x	17.0x	15.5x	15.3x	$1.23	15.8x
ENB	$37.00	356.2	$13,179	$1.23	3.3%	$14.32	2.6	$1.73	$1.74	$1.94	$2.16	21.4x	21.2x	19.1x	17.1x	$1.90	19.5x
TA	$30.92	202.8	$6,271	$1.00	3.2%	$10.79	2.9	$1.09	$1.28	$1.68	$1.68	28.4x	24.2x	18.4x	18.4x	$1.60	19.4x
TRP	$37.17	536.3	$19,934	$1.36	3.7%	$17.41	2.1	$1.87	$2.03	$2.29	$2.35	19.9x	18.3x	16.3x	15.8x	$2.24	16.6x
Avg.					3.4%		2.2x					21.2x	19.7x	17.5x	16.8x		17.9x

Source: Bloomberg, TD Newcrest.

Justification of Target Price

Our $28.00 target price is predicated on 50% of our 2008 & 50% of our 2009 financial estimates as follows: 1) 50% relative earnings yield of 122% (vs. historical average of 132%), 2) 25% relative dividend yield of 75% (vs. historical average of 80%), and 3) 25% P/B of 1.5 times (vs. historical average of 1.5x). Our target price implies a 3.4% dividend yield and a price-to-earnings ratio of 17.8x, compared to historical averages of 4.7% and 13.8x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

Over the next year, Fortis will likely be focused on integrating the recent Terasen Gas acquisition, as the addition of gas distribution doubles the company's investment in regulated utilities. Once the integration is complete, we expect Fortis will ramp up its efforts to acquire regulated gas and electric utilities in Canada, the Caribbean, and the United States. The acquisition of Terasen makes Fortis the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding for low-risk blue-chip portfolios. However, given the recent price appreciation we are compelled to downgrade Fortis to a HOLD from Buy.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1, 2, 4, 13, 14

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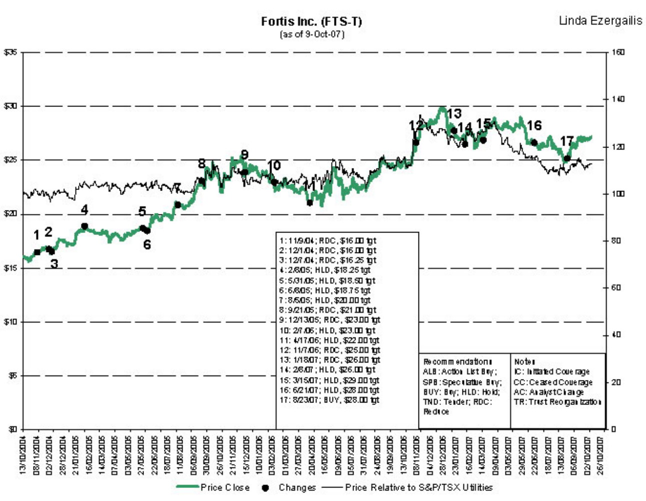

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (11% of coverage universe), Medium (35%), High (50%), Speculative (5%).

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TD Newcrest
The Equity Division of TD Securities

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Pipelines, Power & Utilities

Recommendation:	**HOLD** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$28.00** *Unchanged*
12-Month Total Return:	**6.1%**

Market Data (C$)	
Current Price	$27.19
52-Wk Range	$24.50-$30.00
Mkt Cap (f.d.)($mm)	$4,630.5
Dividend per Share	$0.84
Dividend Yield	3.1%
Avg. Daily Trading Vol. (3mths)	311911

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	170.3
Float Shares (mm)	154.9
Net Debt/Tot Cap	63.1%
BVPS (basic)	$16.47
ROE	11.5%

Estimates (C$)

Year	2006A	2007E	2008E	2009E
EPS (basic)	1.38	1.38	1.57	1.59
EPS (basic)(old)	1.38	1.45	1.59	1.61
EPS (f.d.)	1.33	1.31	1.54	1.57
EPS (f.d.)(old)	1.33	1.37	1.56	1.59
CFPS (basic)	2.89	3.35	3.73	3.86
DI	0.67	0.82	0.92	1.00

EPS (f.d.) Quarterly Estimates (C$)

Year	2006A	2007E	2008E	2009E
Q1	0.34	0.36	--	--
Q2	0.32	0.27	--	--
Q3	0.36	0.20	--	--
Q4	0.32	0.44	--	--

Valuations

Year	2006A	2007E	2008E	2009E
P/E (f.d.)	20.4x	20.8x	17.7x	17.3x
P/CFPS (basic)	9.4x	8.1x	7.3x	7.0x
P/DI	40.6x	33.2x	29.6x	27.2x

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Fortis Inc.

(FTS-T) C$27.19

Gas Utility Shifts Seasonality of Fortis Earnings

Event

Fortis reported Q3/07 EPS (f.d.) of $0.20, below our $0.23 estimate and Q3/06 EPS (f.d.) of $0.36.

Impact

Neutral.

Details

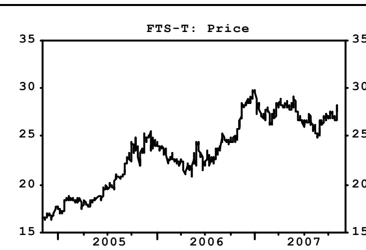
Regulated Electric Utilities – Canadian Q3/07 earnings increased $2.7 million year-over-year to $28.0 million.

- **FortisAlberta** contribution increased $2.4 million to $14.7 million in the quarter largely due to higher revenues from customer growth, a 0.7% hike in distribution rates on January 1, 2007, and higher corporate income tax recoveries.
- **FortisBC** earnings were $6.2 million in the quarter, $0.5 million higher than Q3/06. A 3.3% increase in electricity rates on January 1, 2007 and higher electricity sales were the main drivers of the increase. Partially offsetting the results were higher operating expenses, amortization, and finance charges.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings decreased $0.3 million year-over-year to $4.4 million as a result of lower electricity sales at FortisOntario and higher operating and amortization costs.

Regulated Gas Utilities (Terasen) experienced a loss of $3.7 million due largely to the seasonality of the business, as the majority of its earnings are generated in the first and fourth quarters of the year. Acquired by Fortis during Q2/07, Q3/07 earnings were comparable to previous third quarter results.

Regulated Utilities – Caribbean earnings totaled $9.8 million, $2.1 million higher year-over-year. The increase was due to a full quarter contribution at Turks and Caicos (acquired on August 28, 2006) and an increased investment in Caribbean Utilities. Partially offsetting the increase was Belize Electricity, which experienced increased operating expenses from higher employee related costs, and amortization costs from investment in capital assets. Note

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



that the segment incurred a $0.8 million foreign exchange loss due to the appreciating Canadian dollar.

Fortis Generation earnings of $5.0 million were $2.8 million lower than the comparable period in 2006. The decline was mainly due to decreased production as a result of lower rainfall in most of the operating regions.

Fortis Properties reported $8.0 million in earnings, $1.7 million higher than Q3/06 results. The increase was primarily due to growth in western Canadian hospitality operations and increased revenue from the expanded Ontario hotels. Partially offsetting the increase were higher operating costs associated with growth in western Canada and increased finance charges.

Corporate expenses increased to $16.3 million, up $8.0 million year-over-year largely due to a $10.4 million finance charge associated with the Terasen acquisition, increased operating expenses from the inclusion of Terasen holding company and CWLP operating costs, and preference share dividends.

Exhibit 1. Segmented Earnings Analysis (mm)

	Q3/07	Q3/06	YOY Change	YOY % Change
FortisAlberta	$14.7	$12.3	$2.4	20%
FortisBC	6.2	5.7	0.5	9%
Newfoundland Power	2.7	2.6	0.1	4%
Other Canadian	4.4	4.7	(0.3)	-6%
Regulated Electric Utilities - Canadian	28.0	25.3	2.7	11%
Regulated Gas Utilities - Canadian	(3.7)	-	(3.7)	n.a.
Regulated Utilities - Caribbean	9.8	7.7	2.1	27%
Total Regulated Utilities	**34.1**	**33.0**	**1.1**	**3%**
Non-regulated Fortis Generation	**5.0**	**7.8**	**(2.8)**	**-36%**
Non-regulated Fortis Properties	**8.0**	**6.3**	**1.7**	**27%**
Corporate	**(16.3)**	**(8.3)**	**(8.0)**	**96%**
Operating Earnings	**30.8**	**38.8**	**(8.0)**	**-21%**
Adjustments	-	-	-	**n.a.**
Reported Earnings	**30.8**	**38.8**	**(8.0)**	**-21%**
Average Shares Outstanding - Basic (mm)	154.5	103.1	51.4	50%
Average Shares Outstanding - Diluted (mm)	170.3	125.8	44.5	35%
Operating EPS (basic)	$0.20	$0.37	($0.17)	-46%
Reported EPS (basic)	$0.20	$0.37	($0.17)	-46%
Operating EPS (f.d)	**$0.20**	**$0.36**	**($0.16)**	**-45%**
Reported EPS (f.d)	$0.20	$0.36	($0.16)	-45%

Source: Company Reports, TD Newcrest.

Outlook

Fortis' regulatory updates include the following:

- **FortisAlberta** recently filed a Negotiated Settlement Agreement with its regulator regarding its 2008 and 2009 revenue requirement. The filing is requesting a 6.7% distribution rate increase in 2008 and a 7.3% rate increase in 2009 primarily to fund capital expenditures to meet the demand of its customers.
- **FortisBC** filed a preliminary 2008 Revenue Requirements Application on October 1, 2007. The application is requesting a 4.0% increase in customer electricity rates, effective January 1, 2008. The requested rate increase is mainly to support an extensive capital investments program and higher purchased power costs from increased customer growth and electricity demand.
- **Newfoundland Power** filed a revision to its 2008 General Rate Application with its regulator on October 11, 2007. The filing requested a 2.8% average increase in electricity rates, down from its original proposal of 5.3%, effective January 1, 2008. This reduction is mainly due to recent negotiations between Newfoundland Power and the Consumer Advocate. In addition, an allowed 2008 ROE of 8.95% was agreed upon.

Terasen Integration A Priority: Over the next year, Fortis will likely be focused on integrating the recent Terasen acquisition, as the addition of gas distribution doubles the company's investment in regulated utilities.

Once the integration is complete, we expect Fortis will ramp up its efforts to acquire regulated gas and electric utilities near or within the current regions in which it operates.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2006A	2007E	2008E	2009E	2006A	2007E	2008E	2009E	For. E	Forward
FTS	$27.19	154.9	$4,212	$0.84	3.1%	$16.47	1.7	$1.33	$1.31	$1.54	$1.57	20.4x	20.8x	17.7x	17.4x	$1.50	18.1x
ACO.X	$63.55	58.0	$3,686	$0.88	1.4%	$26.50	2.4	$3.19	$3.81	$3.76	$3.81	19.9x	16.7x	16.9x	16.7x	$3.77	16.9x
CU	$53.66	125.4	$6,729	$1.26	2.3%	$19.75	2.7	$2.55	$2.80	$2.77	$2.92	21.0x	19.2x	19.4x	18.4x	$2.77	19.4x
EMA	$19.86	111.3	$2,210	$0.91	4.6%	$11.98	1.7	$1.08	$1.23	$1.24	$1.29	18.3x	16.1x	16.0x	15.4x	$1.24	16.0x
ENB	$40.41	356.2	$14,394	$1.23	3.0%	$14.32	2.8	$1.73	$1.74	$1.95	$2.21	23.4x	23.2x	20.8x	18.3x	$1.91	21.1x
TA	$33.55	202.2	$6,784	$1.00	3.0%	$10.83	3.1	$1.09	$1.28	$1.67	$1.67	30.8x	26.2x	20.1x	20.1x	$1.61	20.9x
TRP	$40.06	537.8	$21,544	$1.36	3.4%	$17.64	2.3	$1.87	$2.06	$2.29	$2.34	21.4x	19.4x	17.5x	17.1x	$2.25	17.8x
Avg.					3.2%		2.4x					22.6x	20.8x	18.6x	17.8x		18.9x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $28.00 target price is predicated on 25% of our 2008 & 75% of our 2009 financial estimates as follows: 1) 50% relative earnings yield of 121% (vs. historical average of 132%), 2) 25% relative dividend yield of 76% (vs. historical average of 80%), and 3) 25% P/B of 1.5 times (vs. historical average of 1.5x). Our target price implies a 3.5% dividend yield and a price-to-earnings ratio of 17.9x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

The quarter highlighted continued strength in western Canadian electric utilities, although we view the third quarter results neutrally as the spotlight continues to center on the integration of the Terasen Gas acquisition. We expect Q4/07 results to grow due to the seasonally strong gas utilities contribution. With the addition of Terasen, Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding for low-risk blue-chip portfolios. At current levels we view Fortis as fairly valued and recommend a HOLD rating.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1, 2, 4, 13, 14

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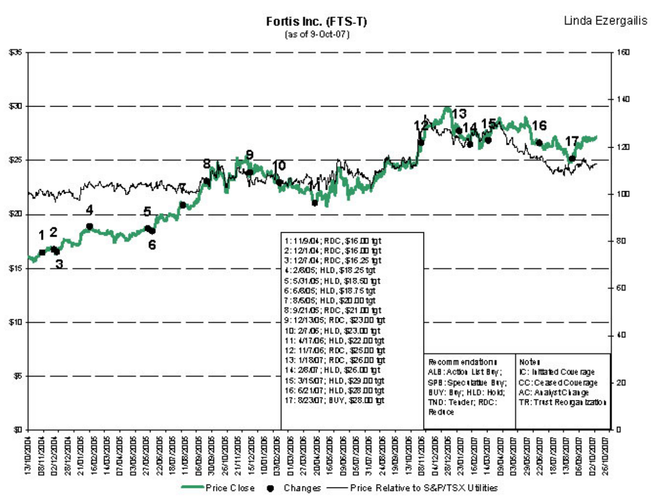
22. The subject company provided transportation and accommodation during the visit of the material operations.



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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (13% of coverage universe), Medium (34%), High (49%), Speculative (5%).

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TD Newcrest
The Equity Division of TD Securities

Action Notes

February 8, 2008
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Pipelines, Power & Utilities

Recommendation:	**HOLD** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$28.00** *Unchanged*
12-Month Total Return:	**-0.8%**

Market Data (C$)

Current Price	$29.24
52-Wk Range	$24.50-$29.89
Mkt Cap (f.d.)($mm)	$4,988.3
Dividend per Share	$1.00
Dividend Yield	3.4%
Avg. Daily Trading Vol. (3mths)	408640

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	170.6
Float Shares (mm)	156.6
Net Debt/Tot Cap	63.3%
BVPS (basic)	$16.61
ROE	9.3%

Estimates (C$)

Year	2006A	2007A	2008E	2009E
EPS (basic)	1.38	1.37	1.42	1.53
EPS (basic)(old)	1.38	1.37	1.48	1.58
EPS (f.d.)	1.33	1.28	1.41	1.50
EPS (f.d.)(old)	1.33	1.31	1.46	1.56
CFPS (basic)	2.89	3.56	3.66	3.87
DI	0.67	0.82	1.00	1.08

EPS (f.d.) Quarterly Estimates (C$)

Year	2006A	2007A	2008E	2009E
Q1	0.34	0.36	0.49	--
Q2	0.32	0.27	--	--
Q3	0.36	0.20	--	--
Q4	0.32	0.45	--	--

Valuations

Year	2006A	2007A	2008E	2009E
P/E (f.d.)	22.0x	22.8x	20.7x	19.5x
P/CFPS (basic)	10.1x	8.2x	8.0x	7.6x
P/DI	43.6x	35.7x	29.2x	27.1x

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Fortis Inc.

(FTS-T) C$29.24

Terasen Gas Acquisition Drives Strong Year-Over-Year Growth

Event

Fortis reported normalized Q4/07 EPS (f.d.) of $0.45, largely in-line with our $0.43 estimate and above Q4/06 EPS (f.d.) of $0.32.

Impact

Neutral. We have updated our financial forecasts, primarily to reflect slightly higher corporate costs.

Details

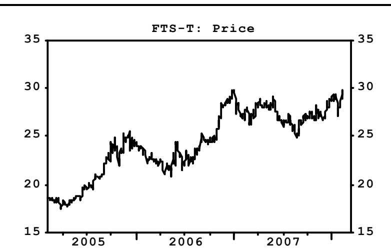
Regulated Gas Utilities (Terasen), acquired by Fortis during Q2/07, recorded normalized income of $45 million. We note that Terasen is a seasonal business, with the majority of its earnings generated in the first and fourth quarters of the year. Terasen Q4/07 earnings were consistent with Fortis' expectations and to previous fourth quarter results.

Regulated Electric Utilities – Canadian Q4/07 earnings declined $2 million year-over-year to $25 million.

- **FortisAlberta** contribution declined $3 million to $6 million largely due to higher operating, amortization and financing costs.
- **FortisBC** earnings increased slightly to $7 million. A 3.3% increase in electricity rates was the main driver of the increase, which more than offset higher operating expenses and lower electricity sales.
- **Newfoundland Power** earnings of $9 million were comparable year-over-year as higher electricity sales were offset by lower electricity rates.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of $3 million were comparable year-over-year. A $2 million refund related to an interconnection arrangement at FortisOntario was largely offset by higher amortization and finance charges.

Regulated Utilities – Caribbean earnings totaled $9 million, $1 million higher year-over-year. The increase was mainly due an increased investment in Caribbean Utilities, which more than offset lower Caribbean Utilities earnings and a $1 million unfavourable impact due to the strengthening Canadian dollar.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Fortis Generation earnings of $7 million were in-line with the comparable period in 2006. Lower energy production due to lower rainfall in most operating regions was offset by higher Ontario power prices and lower operating expenses.

Fortis Properties reported $4 million of normalized earnings, $1 million higher than Q4/06 results. The increase was primarily due to growth in western Canadian hospitality operations.

Corporate expenses increased to $18 million, up $7 million year-over-year largely due to $10 million of finance charges associated with the Terasen acquisition.

Exhibit 1. Segmented Earnings Analysis ($mm)

	Q4/07	Q4/06	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1]	$45	$0	$45	n.a.
FortisAlberta	6	9	(3)	-33%
FortisBC	7	6	1	17%
Newfoundland Power	9	9	-	0%
Other Canadian	3	3	-	0%
Regulated Electric Utilities - Canadian	25	27	(2)	-7%
Regulated Utilities - Caribbean	9	8	1	13%
Total Regulated Utilities	**79**	**35**	**44**	**126%**
Non-regulated Fortis Generation	**7**	**7**	**-**	**0%**
Non-regulated Fortis Properties[2]	**4**	**3**	**1**	**33%**
Corporate[3]	**(18)**	**(11)**	**(7)**	**64%**
Operating Earnings	**72**	**34**	**38**	**112%**
Adjustments	8	-	8	**n.a.**
Reported Earnings	**80**	**34**	**46**	**134%**
Operating EPS (basic)	$0.46	$0.33	$0.13	41%
Reported EPS (basic)	$0.51	$0.33	$0.18	56%
Operating EPS (f.d)	**$0.45**	**$0.32**	**$0.13**	**42%**
Reported EPS (f.d)	$0.49	$0.32	$0.18	55%

Note: Reported earnings have been normalized to reflect the following:
1) $7.0 million gain on the sale of surplus land in Q4/07.
2) Charges to future tax expense of $4 million in Properties due to the reduction of future income tax asset balances.
3) Reduction in tax recovery of $4 million in Corporate as a result of purchase price allocation tax adjustments and the impact of lower enacted future income tax rates on future income tax assets.

Source: Company Reports, TD Newcrest.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2006A	2007E	2008E	2009E	2006A	2007E	2008E	2009E	For. E	Forward
ACO.X	$51.01	58.0	$2,959	$0.94	1.8%	$26.50	1.9	$3.19	$3.73	$3.58	$3.74	16.0x	13.7x	14.2x	13.6x	$3.60	14.2x
CU	$47.62	125.4	$5,972	$1.33	2.8%	$19.75	2.4	$2.55	$2.72	$2.60	$2.85	18.7x	17.5x	18.3x	16.7x	$2.63	18.1x
EMA	$21.57	111.3	$2,401	$0.95	4.4%	$11.98	1.8	$1.08	$1.23	$1.23	$1.29	19.9x	17.5x	17.5x	16.7x	$1.24	17.4x
ENB	$39.71	359.1	$14,260	$1.32	3.3%	$14.42	2.8	$1.73	$1.67	$1.89	$2.26	23.0x	23.8x	21.0x	17.6x	$1.93	20.6x
FTS	$29.24	156.6	$4,579	$1.00	3.4%	$16.61	1.8	$1.33	$1.28	$1.41	$1.50	21.9x	22.8x	20.7x	19.5x	$1.42	20.6x
TA	$32.24	200.2	$6,454	$1.08	3.3%	$11.48	2.8	$1.09	$1.27	$1.57	$1.75	29.6x	25.5x	20.5x	18.4x	$1.59	20.3x
TRP	$39.24	542.0	$21,268	$1.44	3.7%	$18.12	2.2	$1.87	$2.08	$2.18	$2.27	21.0x	18.9x	18.0x	17.3x	$2.19	17.9x
Avg.					3.5%		2.3x					22.4x	21.0x	19.3x	17.7x		19.2x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $28.00 target price is predicated on our 2009 financial estimates as follows: 1) 50% relative earnings yield of 116% (vs. historical average of 132%), 2) 25% relative dividend yield of 84% (vs. historical average of 80%), and 3) 25% P/B of 1.5 times (vs. historical average of 1.5x). Our target price implies a 3.9% dividend yield and a price-to-earnings ratio of 18.7x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions that do not create shareholder value, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

The recently acquired Terasen Gas made a strong contribution to Fortis' Q4/07 EPS. Now that the integration of the gas utility has progressed substantially, we expect Fortis will ramp up its efforts to acquire regulated gas and electric utilities in Canada, the Caribbean, and the United States. The acquisition of Terasen makes Fortis the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding for low-risk blue-chip portfolios.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1, 2, 4, 13, 14

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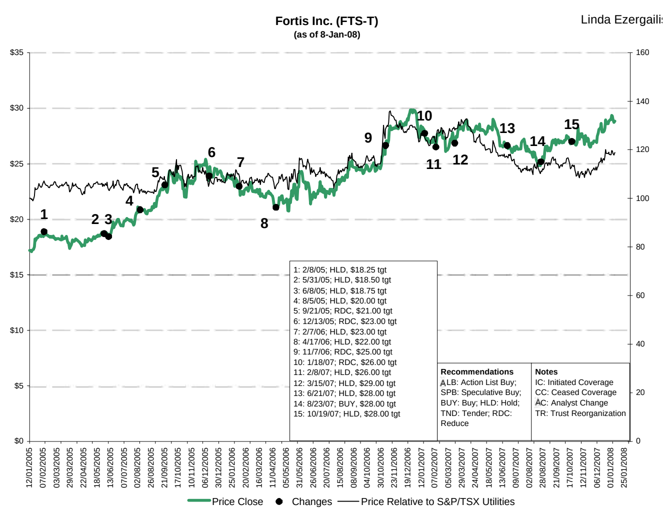

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (12% of coverage universe), Medium (34%), High (49%), Speculative (5%).

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Pipelines, Power & Utilities

Recommendation:	**HOLD** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$29.00** *Unchanged*
12-Month Total Return:	**7.2%**

Market Data (C$)	
Current Price	$27.99
52-Wk Range	$24.50-$29.94
Mkt Cap (f.d.)($mm)	$4,822.7
Dividend per Share	$1.00
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	425665

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	172.3
Float Shares (mm)	156.8
Net Debt/Tot Cap	62.8%
BVPS (basic)	$17.05
ROE	9.3%

Estimates (C$)

Year	2007A	2008E	2009E	2010E
EPS (basic)	1.37	1.45	1.52	1.56
EPS (basic)(old)	1.37	1.42	1.53	--
EPS (f.d.)	1.28	1.43	1.50	1.54
EPS (f.d.)(old)	1.28	1.41	1.50	--
CFPS (basic)	3.56	3.68	3.86	3.86
DI	0.82	1.00	1.08	1.14

EPS (f.d.) Quarterly Estimates (C$)

Year	2007A	2008E	2009E	2010E
Q1	0.36	0.55	--	--
Q2	0.27	0.30	--	--
Q3	0.20	--	--	--
Q4	0.45	--	--	--

Valuations

Year	2007A	2008E	2009E	2010E
P/E (f.d.)	21.9x	19.6x	18.7x	18.2x
P/CFPS (basic)	7.9x	7.6x	7.3x	7.3x
P/DI	34.1x	28.0x	25.9x	24.6x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$27.99

Seasonal Terasen Strength Benefits Q1/08

Event

Fortis reported Q1/08 EPS (f.d.) of $0.55, above our $0.49 estimate and normalized Q1/07 EPS (f.d.) of $0.36.

Impact

Mildly Positive.

Details

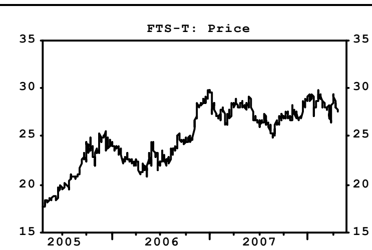
Regulated Gas Utilities (Terasen), acquired May 2007**,** recorded income of $58 million. Recall that Terasen is a seasonal business, with the majority of its earnings generated in the first and fourth quarters of the year. Fortis noted that Terasen's performance was consistent with its expectations and that the acquisition became accretive to earnings in the quarter.

Regulated Electric Utilities – Canadian Q1/08 earnings declined $6 million year-over-year to $33 million.

- **FortisAlberta** contribution declined $1 million to $11 million during the quarter. Customer growth and higher rates were more than offset by lower corporate tax recoveries and higher labour and amortization charges.
- **FortisBC** earnings of $12 million were in-line with Q1/07 levels. Customer rate increases and lower corporate taxes were offset by increased energy supply costs and higher amortization and finance charges.
- **Newfoundland Power** earnings of $6 million declined 45% year-over-year. This large decline was mainly related to a change in the quarterly allocation of annual purchase power expense, which lowered earnings by $6 million. Newfoundland Power's annual earnings are not expected to be impacted by this change. We note that excluding this change the segment's earnings would have increased $1 million year-over-year due to higher electricity sales and customer rates.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of $4 million were comparable year-over-year.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



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Regulated Utilities – Caribbean normalized earnings totaled $7 million, $1 million higher year-over-year. The increase was mainly due to strong electricity sales growth and the flow through of fuel costs, which partially offset increased finance and amortization charges as well as a $1 million unfavourable impact from a stronger Canadian dollar.

Fortis Generation earnings of $6 million declined $1 million versus the comparable period in 2007. Lower energy production and a $0.5 million unfavourable impact from a stronger Canadian dollar were the main reasons for the decline.

Fortis Properties reported earnings of $3 million, $1 million higher than Q1/07 results. The increase was primarily due to the incremental contribution from Delta Regina, which was acquired August 2007.

Corporate expenses increased to $16 million from $10 million in Q1/07 largely due to $6.5 million of after-tax finance charges associated with the Terasen acquisition.

Exhibit 1. Segmented Earnings Analysis ($mm)

	Q1/08	Q1/07	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	$58	$0	$58	n.a.
FortisAlberta	11	12	(1)	-8%
FortisBC	12	12	-	0%
Newfoundland Power	6	11	(5)	-45%
Other Canadian	4	4	-	0%
Regulated Electric Utilities - Canadian	33	39	(6)	-15%
Regulated Utilities - Caribbean[1]	7	6	1	17%
Total Regulated Utilities	**98**	**45**	**53**	**118%**
Non-regulated Fortis Generation	**6**	**7**	**(1)**	**-14%**
Non-regulated Fortis Properties	**3**	**2**	**1**	**50%**
Corporate	**(16)**	**(10)**	**(6)**	**60%**
Operating Earnings	**91**	**44**	**47**	**107%**
Adjustments	-	(2)	2	**n.a.**
Reported Earnings	**91**	**42**	**49**	**117%**
Operating EPS (basic)	$0.58	$0.40	$0.18	45%
Reported EPS (basic)	$0.58	$0.38	$0.20	53%
Operating EPS (f.d)	**$0.55**	**$0.36**	**$0.19**	**53%**
Reported EPS (f.d)	$0.55	$0.35	$0.20	57%

Note: 1) Q1/07 excludes a one-time loss of approximately $2 million related to the disposal of steam turbines.
Source: Company Reports, TD Newcrest.

Outlook

Introducing 2010 Estimates: We forecast 2010 EPS to increase four-cents versus 2009 mainly as a result of higher utility earnings, due to rate base growth, and to a lesser extent, increased Fortis Properties earnings. We expect lower Fortis Generation earnings will partially offset these factors as the incremental contribution from the 18 MW Vaca Hydroelectric Facility, scheduled to enter service late 2009, will be outweighed by the loss of earnings from the Rankine Dam beginning May 2009 (earnings of approximately $15 million in 2007).

Belize Regulatory Developments: In March 2008, Belize Electricity filed for a 15% increase in the power component of rates due to increasing fuel costs resulting from high oil prices. This application was declined as the regulator deferred its analysis until the next Annual Tariff Review and cited that in the interim a decrease in operating and capital expenditures would help offset the impact in cash flow. In April 2008, Belize Electricity filed its Annual Tariff Review for July 2008 to June 2009 that requested a 13.4% average rate increase; a final decision on this application is expected in Q2/08.

FortisOntario Refund Rescinded: FERC declared in April 2008 that it did not have jurisdiction to order a $2 million after-tax refund in Q4/07 related to an interconnection arrangement between FortisOntario and Niagara Mohawk Power. FERC expects Niagara Mohawk Power to be able to recover the refunded amounts and FortisOntario has until May 17, 2008 to request a rehearing. We expect the refund will be returned resulting in a one-cent charge to Fortis' Q2/08 earnings.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2006A	2007A	2008E	2009E	2006A	2007A	2008E	2009E	For. E	Forward
FTS	$27.99	156.8	$4,389	$1.00	3.6%	$17.05	1.6	$1.33	$1.28	$1.43	$1.50	21.0x	21.9x	19.6x	18.7x	$1.45	19.3x
ACO.X	$48.10	57.7	$2,775	$0.94	2.0%	$28.75	1.7	$3.19	$3.81	$3.78	$3.83	15.1x	12.6x	12.7x	12.6x	$3.80	12.7x
CU	$44.73	125.3	$5,605	$1.33	3.0%	$21.08	2.1	$2.55	$2.78	$2.75	$2.90	17.5x	16.1x	16.3x	15.4x	$2.80	16.0x
EMA	$21.65	111.6	$2,417	$0.95	4.4%	$13.33	1.6	$1.08	$1.23	$1.21	$1.28	20.0x	17.6x	17.9x	16.9x	$1.23	17.6x
ENB	$41.36	359.1	$14,852	$1.32	3.2%	$14.42	2.9	$1.73	$1.67	$1.87	$2.26	23.9x	24.8x	22.1x	18.3x	$2.00	20.7x
TA	$34.05	199.4	$6,790	$1.08	3.2%	$10.48	3.2	$1.09	$1.27	$1.61	$1.77	31.3x	26.9x	21.1x	19.2x	$1.66	20.5x
TRP	$37.24	543.0	$20,221	$1.44	3.9%	$18.63	2.0	$1.87	$2.08	$2.14	$2.19	19.9x	17.9x	17.4x	17.0x	$2.16	17.3x
Avg.					3.5%		2.3x					22.3x	20.9x	19.1x	17.6x		18.5x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $29.00 target price is predicated on our 2009 financial estimates as follows: 1) 50% relative earnings yield of 129% (vs. historical average of 132%), 2) 25% relative dividend yield of 93% (vs. historical average of 80%), and 3) 25% P/B of 1.6 times (vs. historical average of 1.5x). Our target price implies a 3.7% dividend yield and a price-to-earnings ratio of 19.3x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

The quarter benefited from a strong incremental contribution from Terasen Gas, although we believe that some of the strength in the quarter was timing related. Now that the integration of the gas utility has progressed substantially, we expect Fortis to ramp up its efforts to acquire regulated gas and electric utilities in Canada, the Caribbean, and the United States. The acquisition of Terasen makes Fortis the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding for low-risk blue-chip portfolios. At current levels we view Fortis as fairly valued and recommend a HOLD rating.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	2, 4, 13, 14

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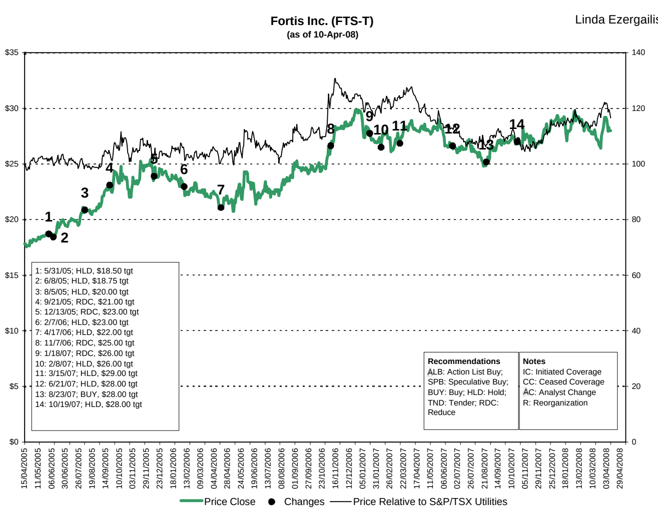

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock’s total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock’s total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock’s total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (11.9% of coverage universe), Medium (35.6%), High (47.1%), Speculative (5.4%).

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Pipelines, Power & Utilities

Recommendation:	**BUY↑**
Prior:	*HOLD*
Risk:	**LOW**
12-Month Target Price:	**C$29.00**
	Unchanged
12-Month Total Return:	**13.6%**

Market Data (C$)	
Current Price	$26.42
52-Wk Range	$24.11-$29.94
Mkt Cap (f.d.)($mm)	$4,552.2
Dividend per Share	$1.00
Dividend Yield	3.8%
Avg. Daily Trading Vol. (3mths)	438626

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	172.3
Float Shares (mm)	156.8
Net Debt/Tot Cap	62.8%
BVPS (basic)	$17.05
ROE	9.3%

Estimates (C$)

Year	2007A	2008E	2009E	2010E
EPS (basic)	1.37	1.49	1.57	1.60
EPS (basic)(old)	1.37	1.45	1.52	1.56
EPS (f.d.)	1.28	1.47	1.54	1.57
EPS (f.d.)(old)	1.28	1.43	1.50	1.54
CFPS (basic)	3.56	3.85	4.14	4.20
DI	0.82	1.00	1.08	1.14

EPS (f.d.) Quarterly Estimates (C$)

Year	2007A	2008E	2009E	2010E
Q1	0.36	0.55	--	--
Q2	0.27	0.28	--	--
Q3	0.20	--	--	--
Q4	0.45	--	--	--

Valuations

Year	2007A	2008E	2009E	2010E
P/E (f.d.)	20.6x	18.0x	17.2x	16.8x
P/CFPS (basic)	7.4x	6.9x	6.4x	6.3x
P/DI	32.2x	26.4x	24.5x	23.2x

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$26.42

Upgrading to BUY on Valuation

Event

We are upgrading Fortis Inc. to BUY from hold due to the recent decline in share price. In addition, we are changing our Fortis forecasts to largely reflect updates to our utility models and a recent Belize Electricity regulatory decision.

Impact

Positive. Since downgrading Fortis on October 22, 2007, Fortis' share price has pulled back approximately 1% while shares for comparable corporations in the space have increased by 10% on average (Exhibit 1). Fortis shares were also the bottom performer in Q2/08 versus its comparable group and experienced a decline of 7% versus an average gain of 7% for its comps. We believe investors may have overreacted to a recent Belize Electricity decision and view the recent decline in Fortis' stock price as a buying opportunity.

Exhibit 1. Recent Share Price Performance

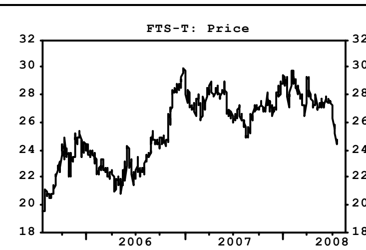
Corporation	Ticker	Recent Closing Price	Closing Price On Oct. 21 2007	Price Performance
Fortis Inc.	FTS	$26.42	$26.80	-1%
ATCO Ltd.	ACO.X	$52.03	$57.25	-9%
Canadian Utilities Ltd.	CU	$44.30	$48.50	-9%
Emera Inc.	EMA	$22.56	$19.54	15%
Enbridge Inc.	ENB	$43.73	$37.00	18%
TransAlta Corp.	TA	$36.97	$30.90	20%
TransCanada Corp.	TRP	$39.00	$37.00	5%
Average				10%

Note: Average does not include FTS, ACO.X.
Source: Thomson, TD Newcrest.

Details

We are marginally increasing our annual Fortis EPS estimates to largely reflect changes to our financial model, the most notable being updates to our utility models and lower corporate expenses (Exhibit 2). In addition, the Belizean Public Utilities Board in late June issued a decision, which disallowed previously incurred power costs and lowered Belize Electricity's return on assets to 10% from 12%. Fortis will likely book the results of this decision, which will likely negatively affect annual EPS by approximately

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



$0.04 to $0.05 or about a penny a quarter. Our Q2/08 EPS estimate drops slightly to account for this announcement. We note that Fortis plans to challenge this decision but the timeline for the appeal process is unknown at this point.

Exhibit 2. Summary of Fortis' EPS Changes

	New	Old	Change
Q2/08E	0.28	0.30	-7%
2008E	1.47	1.43	3%
2009E	1.54	1.50	3%
2010E	1.57	1.54	2%

Source: Thomson, TD Newcrest.

Valuation

Exhibit 3. Fortis' Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E			
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2007A	2008E	2009E	2010E	2007A	2008E	2009E	2010E
FTS	$26.42	156.8	$4,143	$1.00	3.8%	$17.05	1.5	$1.28	$1.47	$1.54	$1.57	20.6x	18.0x	17.2x	16.8x
ACO.X	$52.03	57.7	$3,002	$0.94	1.8%	$28.75	1.8	$3.81	$3.78	$3.83	$3.97	13.7x	13.8x	13.6x	13.1x
CU	$44.30	125.3	$5,551	$1.33	3.0%	$21.08	2.1	$2.78	$2.75	$2.90	$2.99	15.9x	16.1x	15.3x	14.8x
EMA	$22.56	111.6	$2,518	$0.95	4.2%	$13.33	1.7	$1.23	$1.21	$1.28	$1.31	18.3x	18.6x	17.6x	17.2x
ENB	$43.73	361.0	$15,787	$1.32	3.0%	$15.13	2.9	$1.67	$1.84	$2.20	$2.58	26.2x	23.8x	19.9x	16.9x
TA	$36.97	199.4	$7,372	$1.08	2.9%	$10.48	3.5	$1.27	$1.61	$1.77	$1.62	29.2x	23.0x	20.9x	22.8x
TRP	$39.00	577.7	$22,530	$1.44	3.7%	$18.63	2.1	$2.08	$2.09	$2.18	$2.44	18.8x	18.7x	17.9x	16.0x
Avg.					3.4%		2.3x					21.5x	19.7x	18.1x	17.4x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $29.00 target price is predicated on our 2009 financial estimates as follows: 1) 50% relative earnings yield of 129% (vs. historical average of 132%), 2) 25% relative dividend yield of 93% (vs. historical average of 80%), and 3) 25% P/B of 1.6 times (vs. historical average of 1.5x). Our target price implies a 3.7% dividend yield and a price-to-earnings ratio of 19.3x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

We believe Fortis' share price has overreacted to the recent Belize Electricity decision. Indeed, our target price already reflects the relatively higher sovereign risk of the Belize and other Caribbean operations. Given the recent underperformance of Fortis shares, we are upgrading Fortis to a BUY.

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BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (10.7% of coverage universe), Medium (33.1%), High (50.7%), Speculative (5.5%)

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Pipelines, Power & Utilities

Recommendation:	**BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$30.00↑**
Prior:	*C$29.00*
12-Month Total Return:	**15.8%**

Market Data (C$)

Current Price	$26.76
52-Wk Range	$24.11-$29.94
Mkt Cap (f.d.)($mm)	$4,613.4
Dividend per Share	$1.00
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3mths)	473382

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	172.4
Float Shares (mm)	157.1
Net Debt/Tot Cap	60.2%
BVPS (basic)	$16.99
ROE	9.3%

Estimates (C$)

Year	2007A	2008E	2009E	2010E
EPS (basic)	1.37	1.49	1.59	1.65
EPS (basic)(old)	1.37	1.49	1.57	1.60
EPS (f.d.)	1.28	1.47	1.56	1.62
EPS (f.d.)(old)	1.28	1.47	1.54	1.57
CFPS (basic)	3.56	3.85	4.18	4.32
DI	0.82	1.00	1.08	1.16

EPS (f.d.) Quarterly Estimates (C$)

Year	2007A	2008E	2009E	2010E
Q1	0.36	0.55	--	--
Q2	0.27	0.28	--	--
Q3	0.20	0.21	--	--
Q4	0.45	--	--	--

Valuations

Year	2007A	2008E	2009E	2010E
P/E (f.d.)	20.9x	18.2x	17.2x	16.5x
P/CFPS (basic)	7.5x	7.0x	6.4x	6.2x
P/DI	32.6x	26.8x	24.8x	23.1x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$26.76

Q2/08 Results In-Line With Expectations

Event

Fortis reported normalized Q2/08 EPS (f.d.) of $0.28, in-line with our estimate and above Q2/07 EPS (f.d.) of $0.27.

Impact

Neutral. We have updated our financial model largely to reflect higher utility capital expenditures. Our 2009E EPS (f.d.) estimate increases by $0.02 and our 2010E EPS (f.d.) estimate increases by $0.05. Our target price is now based on 50% of each of our 2009 and 2010 estimates, and therefore increases a dollar.

Details

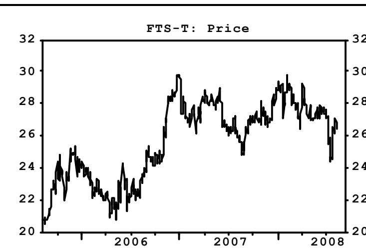
Regulated Gas Utilities (Terasen) recorded earnings of $12.0 million, an increase from $1.6 million in Q2/07 due to a full-quarter contribution from the Terasen Gas acquisition, which closed on May 17, 2007.

Regulated Electric Utilities – Canadian Q2/08 earnings of $28.0 million declined $6.0 million year-over-year.

- **FortisAlberta** contribution declined $8.5 million to $7.0 million during the quarter due to higher corporate income taxes related to regulator-approved deferral accounts and the timing of their collection.
- **FortisBC** earnings of $7.0 million were $0.5 million higher than Q2/07 results primarily due customer rate increases effective January 1, 2008 and May 1, 2008, related to a 2008 ROE increase.
- **Newfoundland Power** earnings of $10.0 million were $2.0 million higher than Q2/07 results. The increase was largely associated with a change in seasonality of purchased power expense, which increased earnings by approximately $2.5 million in the quarter.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** normalized earnings of $4.0 million were comparable year-over-year.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



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Regulated Utilities – Caribbean normalized earnings of $8.0 million were essentially flat year-over-year. Sales growth was offset by higher operating expenses, increased amortization costs, and lower electricity rates at Caribbean Utilities.

Fortis Properties earnings of $7.0 million increased from $6.0 million in Q2/07 due to contributions from Delta Regina (acquired August 1, 2007) and improvements in Atlantic Canadian hospitality operations.

Fortis Generation earnings of $7.0 million increased $2.1 million year-over-year largely due to higher rainfall in Newfoundland facilitating increased hydroelectric production.

Corporate expenses of $18.0 million increased $5.4 million year-over-year primarily as a result of higher financing charges related to the Terasen Gas acquisition.

Exhibit 1. Segmented Earnings Analysis ($mm)

	Q2/08	Q2/07	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	$12.0	$1.6	$10.4	650%
FortisAlberta	7.0	15.5	(8.5)	-55%
FortisBC	7.0	6.5	0.5	8%
Newfoundland Power	10.0	8.0	2.0	25%
Other Canadian[1]	4.0	4.0	0.0	0%
Regulated Electric Utilities - Canadian	28.0	34.0	(6.0)	-18%
Regulated Utilities - Caribbean[2]	8.0	7.6	0.4	5%
Total Regulated Utilities	**48.0**	**43.2**	**4.8**	**11%**
Non-regulated Fortis Generation	**7.0**	**4.9**	**2.1**	**43%**
Non-regulated Fortis Properties	**7.0**	**6.0**	**1.0**	**17%**
Corporate	**(18.0)**	**(12.6)**	**(5.4)**	**43%**
Operating Earnings	**44.0**	**41.5**	**2.5**	**6%**
Adjustments	(15.0)	0.0	(15.0)	**n.a.**
Reported Earnings	**29.0**	**41.5**	**(12.5)**	**-30%**
Operating EPS (f.d)	**$0.28**	**$0.27**	**$0.01**	**3%**
Reported EPS (f.d)	$0.18	$0.27	($0.09)	-32%

Notes: Earnings have been normalized for the following items:
1) A $3mm ($2mm after tax) charge associated with the repayment of a refund at FortisOntario in Q2/08
2) An $18mm ($13mm after tax) charge related to a regulatory decision by the Public Utilities Commission in Belize in Q2/08
Source: Company Reports, TD Newcrest.

Outlook

Capital Program Revised: Management expects to spend approximately $4.5 billion in gross capital expenditures over the next five years, up $500 million from its previous guidance. A large portion of this increase is driven by transmission and metering expenditures at FortisBC, with incremental spending expected at FortisAlberta and the Caribbean operations. The expenditures are expected to be front-end loaded.

Acquisitions May be a Near-Term Focus:

- **Utilities:** With Fortis' recent non-binding letter of intent to acquire a 10 percent interest in Grimsby Power Inc., our perception is that Fortis could continue to potentially acquire increased ownership stakes in larger utilities in Ontario. If the transfer tax were ever to be eliminated, Fortis would be in a strategic position to purchase remaining ownership interests in existing utility investments and could very well be a consolidator in the Ontario utilities space.
- **Properties and Generation:** With the Terasen integration substantially completed, Fortis now has the capacity to potentially pursue other significant utility acquisitions. Smaller tuck-in transactions are a possibility in the real estate domain, with hydro generation less of a focus due to our perception of continued high competition for these assets.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2007A	2008E	2009E	2010E	2007A	2008E	2009E	2010E	For. E	Forward
FTS	$26.76	157.1	$4,204	$1.00	3.7%	$16.99	1.6	$1.28	$1.47	$1.56	$1.62	20.9x	18.2x	17.2x	16.6x	$1.52	17.6x
ACO.X	$50.75	58.2	$2,954	$0.94	1.9%	$29.40	1.7	$3.81	$3.91	$3.85	$3.95	13.3x	13.0x	13.2x	12.8x	$3.87	13.1x
CU	$46.08	125.7	$5,792	$1.33	2.9%	$21.44	2.1	$2.78	$2.89	$2.90	$2.99	16.6x	15.9x	15.9x	15.4x	$2.90	15.9x
EMA	$22.75	111.9	$2,546	$0.95	4.2%	$14.58	1.6	$1.23	$1.27	$1.28	$1.29	18.5x	17.9x	17.8x	17.6x	$1.27	17.8x
ENB	$44.50	359.5	$15,998	$1.32	3.0%	$15.13	2.9	$1.67	$1.88	$2.19	$2.56	26.6x	23.6x	20.4x	17.4x	$2.07	21.5x
TA	$35.45	198.0	$7,019	$1.08	3.0%	$9.03	3.9	$1.27	$1.63	$1.75	$1.62	28.0x	21.7x	20.3x	21.9x	$1.70	20.8x
TRP	$39.85	578.0	$23,033	$1.44	3.6%	$19.97	2.0	$2.08	$2.19	$2.18	$2.44	19.2x	18.2x	18.3x	16.4x	$2.19	18.2x
Avg.					3.4%		2.4x					21.6x	19.3x	18.3x	17.5x		18.7x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $30.00 target price is predicated on 50% of each of our 2009 and 2010 financial estimates as follows: 1) 50% relative earnings yield of 133% (vs. historical average of 132%), 2) 25% relative dividend yield of 93% (vs. historical average of 80%), and 3) 25% P/B of 1.6 times (vs. historical average of 1.5x). Our target price implies a 3.7% dividend yield and a price-to-earnings ratio of 18.9x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

The quarter benefited from a strong incremental contribution from Terasen Gas and offset timing issues in Canadian Regulated Electric Utilities' earnings. Now that the integration of the gas utility has progressed substantially, we expect Fortis to ramp up its efforts to acquire regulated gas and electric utilities in Canada, the Caribbean, and the United States. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding for low-risk blue-chip portfolios. At current levels we view Fortis as attractively valued and reiterate our BUY recommendation.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	2, 4, 13, 14

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (10.4% of coverage universe), Medium (33.5%), High (50.0%), Speculative (6.1%)

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Pipelines, Power & Utilities

Recommendation:	**ACTION LIST BUY↑**
Prior:	*BUY*
Risk:	**LOW**
12-Month Target Price:	**C$30.00**
	Unchanged
12-Month Total Return:	**29.0%**

Market Data (C$)	
Current Price	$24.04
52-Wk Range	$23.50-$29.94
Mkt Cap (f.d.)($mm)	$4,144.5
Dividend per Share	$1.00
Dividend Yield	4.2%
Avg. Daily Trading Vol. (3mths)	435718

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	172.4
Float Shares (mm)	157.1
Net Debt/Tot Cap	60.2%
BVPS (basic)	$16.99
ROE	9.3%

Estimates (C$)

Year	2007A	2008E	2009E	2010E
EPS (basic)	1.37	1.49	1.59	1.65
EPS (f.d.)	1.28	1.47	1.56	1.62
CFPS (basic)	3.56	3.85	4.18	4.32
DI	0.82	1.00	1.08	1.16

EPS (f.d.) Quarterly Estimates (C$)

Year	2007A	2008E	2009E	2010E
Q1	0.36	0.55	--	--
Q2	0.27	0.28	--	--
Q3	0.20	0.21	--	--
Q4	0.45	--	--	--

Valuations

Year	2007A	2008E	2009E	2010E
P/E (f.d.)	18.8x	16.4x	15.4x	14.8x
P/CFPS (basic)	6.8x	6.2x	5.8x	5.6x
P/DI	29.3x	24.0x	22.3x	20.7x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$24.04

Upgrading to ACTION LIST BUY

Event

We are upgrading Fortis to an *ACTION LIST* BUY from BUY.

Impact

Positive. At recent levels we believe Fortis presents a compelling risk-return profile. Fortis recently made a new 52-week low and it has underperformed the sector year-to-date, outperforming only ATCO Ltd. and Canadian Utilities Ltd., which in our view have more exposure to a potential economic downturn through their unregulated businesses.

Details

We like Fortis for the following reasons:

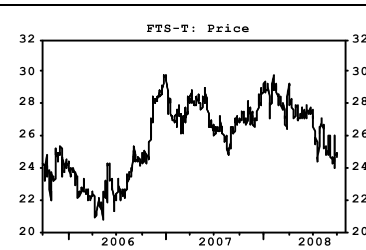
- **Low Risk Business Model**: In our view, Fortis' low risk, utility dominated business model should weather any economic storm relatively unscathed. We estimate that approximately 75% of Fortis' 2009E earnings will be derived from Canadian regulated gas and electric utilities (Exhibit 1), and these regulated businesses are expected to drive an 8% EPS CAGR to 2010.

Exhibit 1. Fortis Inc. Model (C$mm)

	2006	2007	2008E	2009E	2010E
Regulated Gas Utilities - Canadian (Terasen Gas)	-	43	104	112	116
Regulated Electric Utilities - Canadian	113	125	121	137	150
Regulated Electric Utilities - Caribbean	24	33	35	39	42
Non-Regulated Properties	16	20	22	23	23
Non-Regulated Fortis Generation	26	24	27	20	18
Corporate and Other	(35)	(57)	(76)	(79)	(76)
Operating Earnings	**143**	**188**	**233**	**251**	**273**
Non-recurring, Unusual, Discontinued Items	4	5	(7)	-	-
Reported Earnings	**147**	**193**	**227**	**251**	**273**
% Canadian Regulated Utilities[1]	63%	68%	73%	75%	76%

Note: 1) As a percentage of Operating Earnings prior to Corporate and Other.
Source: Company Reports, TD Newcrest.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



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- **Quality Companies Should Continue to Have Access to Capital**: Over the next five years, Fortis' capital expenditures are expected to exceed $4.5 billion, $3.5 billion of which relates to electric utility operations and $1.0 billion within its gas distribution utility. With cash flows from operations forecast to grow to $700 million by 2010, and expected cash dividends just over $200 million, the approximate $500 million remaining cash flows, while significant, will require Fortis to raise external capital to finance the substantial capital program and debt maturities. We believe that quality companies, such as Fortis, will continue to have access to capital even in the toughest market conditions. In addition, we expect that the regulated cost-of-service nature of its utilities should allow the company to recover any potential higher interest rates from its utility customers. Over the past while, Fortis has termed out a lot of its debt; in the first half of 2008 Fortis issued approximately $660 million of long-term debt. This freed up substantial capacity in the company's extensive credit facilities. As of June 30, 2008 the company had aggregate credit facilities in place of almost $2.2 billion, $1.8 billion of which were available. In the event of continued tough debt markets in the medium term, these undrawn credit facilities provide flexibility to defer debt issuances until market conditions become more favourable.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2007A	2008E	2009E	2010E	2007A	2008E	2009E	2010E	For. E	Forward
FTS	$24.04	157.1	$3,777	$1.00	4.2%	$16.99	1.4	$1.28	$1.47	$1.56	$1.62	18.8x	16.3x	15.4x	14.9x	$1.54	15.6x
ACO.X	$38.60	58.2	$2,247	$0.94	2.4%	$29.40	1.3	$3.81	$3.91	$3.85	$3.95	10.1x	9.9x	10.0x	9.8x	$3.86	10.0x
CU	$37.95	125.7	$4,770	$1.33	3.5%	$21.44	1.8	$2.78	$2.89	$2.90	$2.99	13.7x	13.1x	13.1x	12.7x	$2.90	13.1x
EMA	$21.17	111.9	$2,369	$0.95	4.5%	$14.58	1.5	$1.23	$1.27	$1.28	$1.29	17.2x	16.6x	16.6x	16.4x	$1.28	16.6x
ENB	$39.38	359.5	$14,157	$1.32	3.4%	$15.13	2.6	$1.67	$1.88	$2.19	$2.56	23.6x	20.9x	18.0x	15.4x	$2.11	18.7x
TA	$28.60	198.0	$5,663	$1.08	3.8%	$9.03	3.2	$1.27	$1.63	$1.75	$1.62	22.6x	17.5x	16.3x	17.7x	$1.72	16.6x
TRP	$38.17	578.0	$22,062	$1.44	3.8%	$19.97	1.9	$2.08	$2.19	$2.18	$2.44	18.3x	17.4x	17.5x	15.7x	$2.18	17.5x
Avg.					3.8%		2.1x					19.0x	17.0x	16.2x	15.4x		16.4x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $30.00 target price is predicated on 50% of each of our 2009 and 2010 financial estimates as follows: 1) 50% relative earnings yield of 133% (vs. historical average of 132%), 2) 25% relative dividend yield of 93% (vs. historical average of 80%), and 3) 25% P/B of 1.6 times (vs. historical average of 1.5x). Our target price implies a 3.7% dividend yield and a price-to-earnings ratio of 18.9x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

In these volatile equity capital markets, we expect investors will find Fortis' low-risk, utility dominated business model especially attractive. Long-term, we expect Fortis to be well positioned as an aggregator of regulated gas and electric utilities in Canada, the Caribbean, and the United States. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe the recent underperformance presents a compelling risk-return profile and on this basis, we are upgrading Fortis to an *ACTION LIST* BUY.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	2, 4, 9, 10

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3. TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company.
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8. A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control.
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10. TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company.
11. A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration.
12. Subordinate voting shares.
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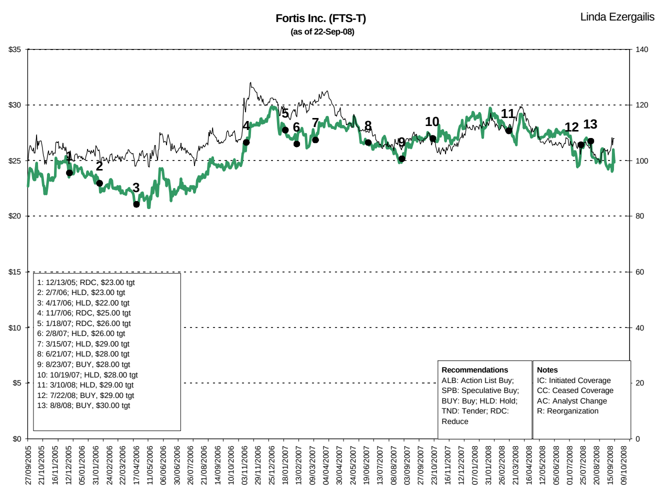
15. Common/variable voting shares.
16. Limited voting shares.
17. The research analyst has visited the material operations of the subject company.
18. The subject company provided transportation and accommodation during the visit of the material operations.



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Action List Buy/Buy/Speculative Buy: 64 %, Hold: 34 %, Reduce/Tender: 2%. Of the subject companies, TD Securities Inc. has provided investment banking services within the last 12 months for the following percentages of companies within each of the four categories: Action List Buy/Buy/ Speculative Buy: 69% ; Hold: 30%, Reduce/Tender: 1%.

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (10.0% of coverage universe), Medium (33.8%), High (49.1%), Speculative (7.1%)

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Pipelines, Power & Utilities

Recommendation: **ACTION LIST BUY**
Unchanged

Risk: **LOW**

12-Month Target Price: **C$30.00**
Unchanged

12-Month Total Return: **17.9%**

Market Data (C$)	
Current Price	$26.30
52-Wk Range	$20.70-$29.94
Mkt Cap (f.d.)($mm)	$4,534.1
Dividend per Share	$1.00
Dividend Yield	3.8%
Avg. Daily Trading Vol. (3mths)	548078

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	172.4
Float Shares (mm)	157.3
Net Debt/Tot Cap	61.2%
BVPS (basic)	$17.11
ROE	9.3%

Estimates (C$)

Year	2007A	2008E	2009E	2010E
EPS (basic)	1.37	1.50	1.49	1.63
EPS (f.d.)	1.28	1.47	1.47	1.60
EPS (f.d.)(old)	1.28	1.47	1.56	1.62
CFPS (basic)	3.56	3.82	4.09	4.32
DI	0.82	1.00	1.08	1.16

EPS (f.d.) Quarterly Estimates (C$)

Year	2007A	2008E	2009E	2010E
Q1	0.36	0.55	--	--
Q2	0.27	0.28	--	--
Q3	0.20	0.26	--	--
Q4	0.45	0.36	--	--

Valuations

Year	2007A	2008E	2009E	2010E
P/E (f.d.)	20.5x	17.9x	17.9x	16.4x
P/CFPS (basic)	7.4x	6.9x	6.4x	6.1x
P/DI	32.1x	26.3x	24.4x	22.7x

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$26.30

Solid Q3 Underpinned by Core Canadian Electric Utilities

Event

Fortis reported normalized Q3/08 EPS (f.d.) of $0.26, exceeding our estimate of $0.21 and Q3/07 EPS (f.d.) of $0.20.

Impact

Mildly Positive. We have updated our financial model primarily to reflect lower regulated ROE estimates in 2009 and 2010. Our target price is now based on 25% of our 2009 and 75% of our 2010 estimates, and remains $30.

Details

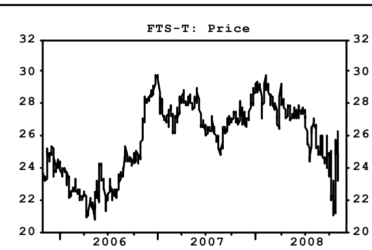
Regulated Gas Utilities (Terasen) recorded a normalized net loss of $4.5 million, an increase of $0.8 million year over year largely due to higher labour costs and amortization from increased capital expenditures.

Regulated Electric Utilities – Canadian Q3/08 earnings of $38.0 million increased 36% over the $28.0 million achieved in Q3/07.

- **FortisAlberta** contribution increased $2.3 million year over year to $17.0 million in the quarter due to higher future income tax recoveries related to regulator approved deferral accounts.
- **FortisBC** earnings of $8.0 million were $1.8 million higher year over year primarily due to lower energy supply costs from an increased proportion of hydroelectric generation over purchased power compared to Q3/07.
- **Newfoundland Power** earnings of $8.0 million nearly tripled Q3/07 results largely from a change in seasonality of purchased power expense, which boosted earnings by approximately $5.5 million in the quarter. We note this is largely timing of expense recognition within a year, with no expected impact on annual earnings.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of $5.0 million were slightly higher year over year. Increased electricity rates at Maritime Electric and FortisOntario were largely offset by decreased sales from lower consumption in Ontario.

Regulated Utilities – Caribbean earnings of $7.0 million were down $2.8 million year over year due to 1) decreased average electricity rates at Belize

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Electricity, 2) a reduction in electricity rates and the elimination of the hurricane cost recovery surcharge at Caribbean Utilities, 3) increased amortization and operating expenses, and 4) loss of revenues from Hurricane Ike.

Fortis Generation earnings of $9.0 million increased $4.0 million from the comparable period in 2007. Higher production as a result of increased rainfall, and growth in average energy prices in Ontario and upper New York State were the main changes year over year.

Fortis Properties earnings increased $1.0 million from Q3/07 results to $9.0 million due to improved performance from the Real Estate and Hospitality operations, and contributions from the Delta Regina (acquired August 1, 2007).

Corporate normalized expenses of $17.0 million increased $0.7 million year over year primarily due to higher preference share dividends.

Exhibit 1. Segmented Earnings Analysis ($mm)

	Q3/08	Q3/07	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1]	($4.5)	($3.7)	($0.8)	22%
FortisAlberta	17.0	14.7	2.3	16%
FortisBC	8.0	6.2	1.8	29%
Newfoundland Power	8.0	2.7	5.3	196%
Other Canadian	5.0	4.4	0.6	14%
Regulated Electric Utilities - Canadian	38.0	28.0	10.0	36%
Regulated Utilities - Caribbean	7.0	9.8	(2.8)	-29%
Total Regulated Utilities	**40.5**	**34.1**	**6.4**	**19%**
Non-regulated Fortis Generation	**9.0**	**5.0**	**4.0**	**80%**
Non-regulated Fortis Properties	**9.0**	**8.0**	**1.0**	**13%**
Corporate[2]	**(17.0)**	**(16.3)**	**(0.7)**	**4%**
Operating Earnings	**41.5**	**30.8**	**10.7**	**35%**
Adjustments	7.5	0.0	7.5	**n.a.**
Reported Earnings	**49.0**	**30.8**	**18.2**	**59%**
Operating EPS (f.d)	**$0.26**	**$0.20**	**$0.06**	**32%**
Reported EPS (f.d)	$0.31	$0.20	$0.11	55%

Notes:
1) Q3/08 excludes a tax reduction of $5.5 million related to historical corporate tax matters at Terasen Gas companies.
2) Q3/08 excludes a tax reduction of $2.0 million related to historical corporate tax matters at Terasen Inc.

Source: Company Reports, TD Newcrest.

Outlook

Company Reaffirms 5-Year Capital Program: Fortis still expects to spend approximately $4.5 billion over the next five years, the bulk of which is allocated to Western Canadian utilities. We expect that this forecast growth in rate base will drive above average and very low-risk EPS growth over the next few years; by our calculations the EPS CAGR to 2010 is 8%.

Liquidity Remains Strong: As at September 30, 2008, Fortis had consolidated credit facilities of $2.2 billion, of which $1.5 billion was available to be drawn.

Regulatory Updates: A number of Fortis' Canadian utilities have filed regulatory applications:

- FortisBC submitted a preliminary 2009 Revenue Requirements Application with its regulator requesting a 5.6% general rate increase effective January 1, 2009. A decision is expected by the end of 2008.
- Maritime Electric filed a rate application requesting basic rate increases effective April 1, 2009. A decision is expected by the end of Q1/09.

- FortisOntario submitted a Cost of Service Application for a rebasing of distribution rates using a 2009 test year. A decision is expected in April 2009.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2007A	2008E	2009E	2010E	2007A	2008E	2009E	2010E	For. E	Forward
FTS	$26.30	157.3	$4,137	$1.00	3.8%	$17.11	1.5	$1.28	$1.47	$1.47	$1.60	20.5x	17.8x	17.9x	16.4x	$1.47	17.9x
ACO.X	$39.34	58.3	$2,293	$0.94	2.4%	$29.64	1.3	$3.81	$3.89	$3.79	$3.96	10.3x	10.1x	10.4x	9.9x	$3.80	10.3x
CU	$42.40	125.9	$5,338	$1.33	3.1%	$21.42	2.0	$2.78	$2.92	$2.84	$3.01	15.3x	14.5x	14.9x	14.1x	$2.85	14.9x
EMA	$21.47	111.9	$2,402	$1.01	4.7%	$14.58	1.5	$1.23	$1.27	$1.28	$1.29	17.4x	16.9x	16.8x	16.6x	$1.28	16.8x
ENB	$41.86	359.5	$15,049	$1.32	3.2%	$15.13	2.8	$1.67	$1.88	$2.19	$2.56	25.1x	22.2x	19.2x	16.3x	$2.14	19.6x
TA	$24.20	197.6	$4,782	$1.08	4.5%	$11.54	2.1	$1.27	$1.55	$1.70	$1.72	19.1x	15.6x	14.2x	14.1x	$1.68	14.4x
TRP	$36.42	580.0	$21,124	$1.44	4.0%	$20.39	1.8	$2.08	$2.24	$2.24	$2.53	17.5x	16.3x	16.3x	14.4x	$2.24	16.3x
Avg.					3.9%		1.9x					19.2x	17.2x	16.6x	15.3x		16.7x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $30.00 target price is predicated on 25% of our 2009 and 75% of our 2010 financial estimates as follows: 1) 50% relative earnings yield of 131% (vs. historical average of 132%), 2) 25% relative dividend yield of 95% (vs. historical average of 80%), and 3) 25% P/B of 1.6 times (vs. historical average of 1.5x). Our target price implies a 3.8% dividend yield and a price-to-earnings ratio of 19.1x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

In our view Fortis had a very strong quarter with higher than expected contributions from Regulated Canadian Electric Utilities and Unregulated Power Generation more than offsetting softer earnings in the Regulated Caribbean Electric Utilities.

In these volatile equity capital markets, we expect investors will find Fortis' low-risk, utility dominated business model especially attractive. Long-term, we expect Fortis to be well positioned as an aggregator of regulated gas and electric utilities in Canada, the Caribbean, and the United States. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. At current levels we believe Fortis presents a compelling risk-return profile and reiterate our Action List BUY recommendation.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	2, 4, 9, 10

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Research Ratings
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TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock’s total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (10.0% of coverage universe), Medium (33.8%), High (49.1%), Speculative (7.1%)

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Action Notes

December 22, 2008
Equity Research

Pipelines, Power & Utilities

Recommendation:	**ACTION LIST BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$29.00↓**
Prior:	*C$30.00*
12-Month Total Return:	**23.4%**

Market Data (C$)	
Current Price	$24.34
52-Wk Range	$21.05-$29.69
Mkt Cap (f.d.)($mm)	$4,174.3
Dividend per Share	$1.04
Dividend Yield	4.3%
Avg. Daily Trading Vol. (3mths)	638526

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	171.5
Float Shares (mm)	169.6
Net Debt/Tot Cap	61.2%
BVPS (basic)	$17.11
ROE	9.3%

Estimates (C$)

Year	2007A	2008E	2009E	2010E
EPS (basic)	1.37	1.50	1.38	1.55
EPS (f.d.)	1.28	1.48	1.37	1.53
EPS (f.d.)(old)	1.28	1.47	1.47	1.60
CFPS (basic)	3.56	3.84	3.80	4.12
DI	0.82	1.00	1.04	1.08
DI (old)	0.82	1.00	1.08	1.16

EPS (f.d.) Quarterly Estimates (C$)

Year	2007A	2008E	2009E	2010E
Q1	0.36	0.55	--	--
Q2	0.27	0.28	--	--
Q3	0.20	0.26	--	--
Q4	0.45	0.36	--	--

Valuations

Year	2007A	2008E	2009E	2010E
P/E (f.d.)	19.0x	16.4x	17.8x	15.9x
P/CFPS (basic)	6.8x	6.3x	6.4x	5.9x
P/DI	29.7x	24.3x	23.4x	22.5x

All figures in C$, unless otherwise specified.

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Fortis Inc.

(FTS-T) C$24.34

Resuming Coverage Upon Completion of Equity Offering

Event

We are resuming coverage of Fortis Inc. following the completion of its $300 million bought deal common equity offering on December 19, 2008. During our restriction period, Fortis also announced the following events:

- On December 12, 2008, the British Columbia Utilities Commission (BCUC) approved FortisBC's (a wholly owned subsidiary of Fortis) 2009 rate application.
- On December 10, 2008, Fortis declared a four percent increase in its annual common share dividend to $1.04/share from $1.00/share, payable on March 1, 2009. Fortis' DRIP was also amended to provide a two percent discount on the purchase of common shares.

Impact

MIXED. The increase in annual dividend was slightly lower than our forecasts, while the timing of the equity issuance was a bit earlier than we had expected. We have updated our model to reflect these events along with FortisBC's updated regulatory information and our 2009 and 2010 estimates come down slightly.

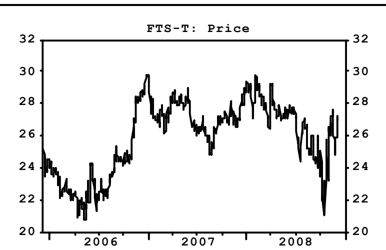
Details

Details of the FortisBC rate approval include:

- A disallowance of both the Copper Conductor Replacement Certificate of Public Convenience and Necessity (CPCN) and the Advanced Metering Infrastructure CPCN, resulting in approximately $160 million of total capital expenditures for FortisBC in 2009 (previously estimated at approximately $190 million). The BCUC is expected to approve FortisBC's 2009 capital expenditure plan sometime before the end of 2008 or in early 2009.
- Approved Productivity Improvement Factors (PIFs) of 3.0%, 1.5%, and 1.5% (for 2009, 2010, and 2011, respectively) were increased over the proposed percentages of 2.0%, 1.0%, and 1.0% (for 2009, 2010, and 2011, respectively).

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Details of the equity issuance include:

- An issuance of 11.7 million common shares at $25.65 per common share, with gross proceeds of $300.1 million.
- An over-allotment option for up to an additional 1.76 million common shares to be sold for 30 days following the closing of the offering.
- Net proceeds of the offering will be used to repay indebtedness outstanding under Fortis' credit facility (originally incurred primarily to repay $200 million of debt at its subsidiary, Terasen Inc., that matured on December 1, 2008) and for general corporate purposes.

Valuation

Exhibit 1. Fortis Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2007A	2008E	2009E	2010E	2007A	2008E	2009E	2010E	For. E	Forward
FTS	$24.34	169.6	$4,127	$1.04	4.3%	$17.11	1.4	$1.28	$1.48	$1.37	$1.53	19.0x	16.4x	17.8x	15.9x	$1.37	17.7x
ACO.X	$39.84	58.3	$2,322	$0.94	2.4%	$29.64	1.3	$3.81	$3.89	$3.79	$3.96	10.5x	10.2x	10.5x	10.1x	$3.79	10.5x
CU	$39.54	125.9	$4,978	$1.33	3.4%	$21.42	1.8	$2.78	$2.92	$2.84	$3.01	14.2x	13.5x	13.9x	13.1x	$2.84	13.9x
EMA	$22.11	112.1	$2,479	$1.01	4.6%	$13.58	1.6	$1.23	$1.27	$1.29	$1.32	18.0x	17.4x	17.1x	16.7x	$1.29	17.1x
ENB	$39.85	360.2	$14,354	$1.48	3.7%	$16.80	2.4	$1.67	$1.84	$2.24	$2.39	23.8x	21.6x	17.8x	16.7x	$2.23	17.9x
TA	$22.98	197.6	$4,541	$1.08	4.7%	$11.54	2.0	$1.27	$1.55	$1.70	$1.72	18.1x	14.8x	13.5x	13.4x	$1.70	13.6x
TRP	$33.38	610.5	$20,378	$1.44	4.3%	$20.39	1.6	$2.08	$2.24	$2.19	$2.63	16.0x	14.9x	15.2x	12.7x	$2.19	15.2x
Avg.					4.2%		1.8x					18.2x	16.5x	15.9x	14.7x		15.9x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $29.00 target price is predicated on 25% of our 2009 and 75% of our 2010 financial estimates as follows: 1) 50% relative earnings yield of 128% (vs. historical average of 132%), 2) 25% relative dividend yield of 92% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.7% dividend yield and a price-to-earnings ratio of 19.5x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

In these volatile equity capital markets, we expect investors will find Fortis' low-risk, utility dominated business model especially attractive. Long-term, we expect Fortis to be well positioned as an aggregator of regulated gas and electric utilities in Canada, the Caribbean, and the United States. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. At current levels we believe Fortis presents a compelling risk-return profile and reiterate our *Action List* BUY recommendation.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	2, 4, 9, 10

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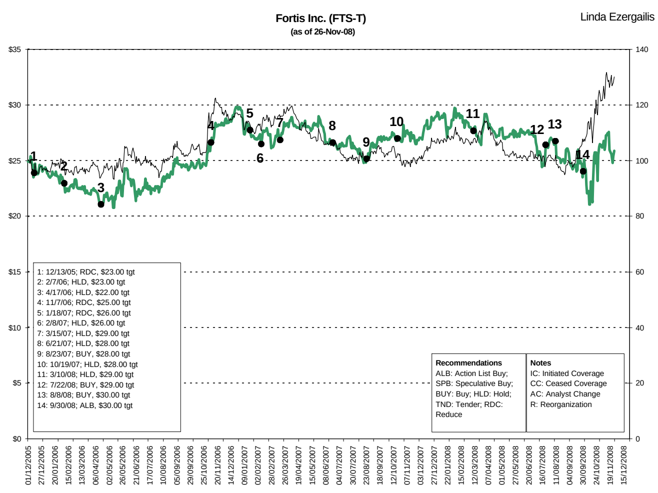

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (11.0% of coverage universe), Medium (30.0%), High (47.6%), Speculative (11.4%)

Additional Important Disclosures

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Pipelines, Power & Utilities

Recommendation:	**ACTION LIST BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$29.00**
	Unchanged
12-Month Total Return:	**27.1%**

Market Data (C$)	
Current Price	$23.64
52-Wk Range	$20.70-$29.94
Mkt Cap (f.d.)($mm)	$4,139.4
Dividend per Share	$1.04
Dividend Yield	4.4%
Avg. Daily Trading Vol. (3mths)	586964

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	175.1
Float Shares (mm)	169.2
Net Debt/Tot Cap	58.5%
BVPS (basic)	$18.00
ROE	9.2%

Estimates (C$)

Year	2007A	2008A	2009E	2010E
EPS (basic)	1.37	1.60	1.51	1.66
EPS (basic)(old)	1.37	1.50	1.38	1.55
EPS (f.d.)	1.28	1.56	1.49	1.64
EPS (f.d.)(old)	1.28	1.48	1.37	1.53
CFPS (basic)	3.56	3.95	4.03	4.34
DI	0.82	1.00	1.04	1.08

EPS (f.d.) Quarterly Estimates (C$)

Year	2007A	2008A	2009E	2010E
Q1	0.36	0.55	0.53	--
Q2	0.27	0.28	--	--
Q3	0.20	0.26	--	--
Q4	0.45	0.45	--	--

Valuations

Year	2007A	2008A	2009E	2010E
P/E (f.d.)	18.5x	15.2x	15.9x	14.4x
P/CFPS (basic)	6.6x	6.0x	5.9x	5.4x
P/DI	28.8x	23.6x	22.7x	21.9x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$23.64

Strong Performance Even in Tough Economic Times

Event

Fortis reported normalized Q4/08 EPS (f.d.) of $0.45, above our estimate of $0.36 and in-line with Q4/07 EPS.

Impact

POSITIVE. We have updated our financial forecasts, primarily to reflect stronger expected contributions from Terasen, due to strong rate base growth, and Regulated Caribbean Utilities, due to more favourable exchange rates.

Details

Regulated Gas Utilities (Terasen) Q4/08 normalized income increased $2 million year-over-year to $47 million. Recall that Terasen is a seasonal business, with the majority of its earnings generated in the first and fourth quarters of the year. The increase was primarily due to a higher allowed ROE.

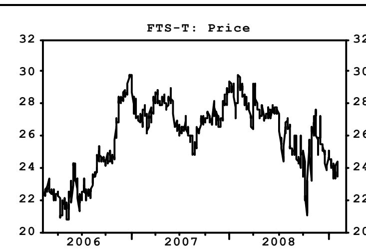
Regulated Electric Utilities – Canadian Q4/08 earnings increased $4 million year-over-year to $29 million.

- **FortisAlberta** income almost doubled year-over-year to $11 million. Higher revenues and lower future income tax expenses, mainly associated with regulator approved deferral accounts, were the main reasons for the increase.
- **FortisBC** earnings of $7 million were in-line with Q4/07 levels. Customer rate increases were offset by increased energy supply costs and higher amortization charges.
- **Newfoundland Power** earnings of $8 million declined $1 million versus Q4/07 results. The decline was mainly related to a change in the quarterly allocation of annual purchase power expense, which lowered earnings by $2 million. Newfoundland Power's annual earnings were not impacted by this change. We note that excluding this change the segment's earnings would have increased $1 million year-over-year due to higher customer rates and lower expenses.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of $3 million were comparable year-over-year.

Regulated Utilities – Caribbean normalized earnings totaled $7 million, $2 million lower year-over-year. The decrease was mainly due to lower

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



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electricity rates at Caribbean Utilities and Belize Electricity, $2 million of lost revenue at Fortis Turks and Caicos due to Hurricane Ike, as well as higher operating and amortization expenses. These factors were partially offset by electricity sales growth and a $1 million favourable foreign exchange impact.

Fortis Generation earnings of $8 million increased $1 million versus the comparable period in 2007. Increased energy production and lower financing charges were the main reasons for the higher earnings.

Fortis Properties reported earnings of $4 million, in-line with Q4/07 results.

Corporate expenses increased to $20 million from $18 million in Q4/07 largely due to higher preference share dividends and business development costs.

Exhibit 1. Segmented Earnings Analysis ($mm)

	Q4/08	Q4/07	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1]	$47	$45	$2	4%
FortisAlberta	11	6	5	83%
FortisBC	7	7	0	0%
Newfoundland Power	8	9	(1)	-11%
Other Canadian	3	3	0	0%
Regulated Electric Utilities - Canadian	29	25	4	16%
Regulated Utilities - Caribbean[2]	7	9	(2)	-22%
Total Regulated Utilities	**83**	**79**	**4**	**5%**
Non-regulated Fortis Generation	**8**	**7**	**1**	**14%**
Non-regulated Fortis Properties[3]	**4**	**4**	**0**	**0%**
Corporate[4]	**(20)**	**(18)**	**(2)**	**11%**
Operating Earnings	**75**	**72**	**3**	**4%**
Adjustments	1	7	(6)	-86%
Reported Earnings	**76**	**79**	**(3)**	**-4%**
Operating EPS (f.d)	**$0.45**	**$0.45**	**$0.00**	**0%**
Reported EPS (f.d)	$0.46	$0.49	($0.03)	-6%

Note: Reported earnings have been normalized to reflect:
1) $7 million gain on the sale of surplus land in Q4/07.
2) $1 million of additional earnings from Caribbean Utilities in Q4/08 due to a change in year end.
3) $4 million of charges to future tax expense due to the reduction of future income tax asset balances.
4) $4 million reduction of tax recoveries as a result of purchase price allocation tax adjustments and the impact of lower enacted future income tax rates on future income tax assets.

Source: Company Reports, TD Newcrest.

Outlook

Sizable Capital Program: Fortis expects capital expenditures of approximately $1.0 billion in 2009 and $4.5 billion over the next five years. The majority of these expenditures relate to Fortis' Western Canadian regulated gas and electric utilities. We do not expect the economic slowdown will materially affect Fortis' 2009 capital plan, given that a number of the large projects are already proceeding, although if economic conditions do not improve the possibility exists that some longer term projects could be deferred.

Strong Liquidity Position: At the end of 2008, Fortis had consolidated credit facilities of $2.2 billion, of which $1.5 billion was available to be drawn. Approximately $2.0 billion of the credit facilities are multi-year with the majority of maturities in 2011-2013.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2007A	2008E	2009E	2010E	2007A	2008E	2009E	2010E	For. E	Forward
FTS	$23.64	169.2	$4,000	$1.04	4.4%	$18.00	1.3	$1.28	$1.56	$1.49	$1.64	18.5x	15.2x	15.9x	14.4x	$1.50	15.7x
ACO.X	$37.28	58.3	$2,173	$1.00	2.7%	$29.64	1.3	$3.81	$3.89	$3.79	$3.96	9.8x	9.6x	9.8x	9.4x	$3.80	9.8x
CU	$39.16	125.9	$4,930	$1.41	3.6%	$21.42	1.8	$2.78	$2.92	$2.84	$3.01	14.1x	13.4x	13.8x	13.0x	$2.86	13.7x
EMA	$21.24	112.1	$2,381	$1.01	4.8%	$13.58	1.6	$1.23	$1.27	$1.29	$1.32	17.3x	16.7x	16.4x	16.1x	$1.30	16.4x
ENB	$41.49	360.2	$14,945	$1.48	3.6%	$16.80	2.5	$1.67	$1.84	$2.24	$2.39	24.8x	22.5x	18.5x	17.3x	$2.26	18.4x
TA	$22.37	198.0	$4,429	$1.16	5.2%	$12.68	1.8	$1.27	$1.36	$1.54	$1.54	17.7x	16.4x	14.5x	14.5x	$1.54	14.5x
TRP	$33.30	616.0	$20,513	$1.52	4.6%	$20.94	1.6	$2.08	$2.22	$2.13	$2.52	16.0x	15.0x	15.6x	13.2x	$2.17	15.4x
Avg.					4.3%		1.8x					18.0x	16.5x	15.8x	14.8x		15.7x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $29.00 target price is predicated on our 2010 financial estimates as follows: 1) 50% relative earnings yield of 141% (vs. historical average of 132%), 2) 25% relative dividend yield of 93% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.7% dividend yield and a price-to-earnings ratio of 17.7x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

Fortis' regulated Canadian utilities were the primary reason for the strong quarter. Moving forward we expect that the company's regulated Canadian gas and electric utilities will contribute approximately 75% of income before corporate expenses. We believe that in these volatile equity capital markets investors will find Fortis' low-risk, utility dominated business model especially attractive. Long-term, we expect Fortis to be well positioned as an aggregator of regulated gas and electric utilities in Canada, the Caribbean, and the United States. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. At current levels we believe Fortis presents a compelling risk-return profile and reiterate our *Action List* BUY recommendation.

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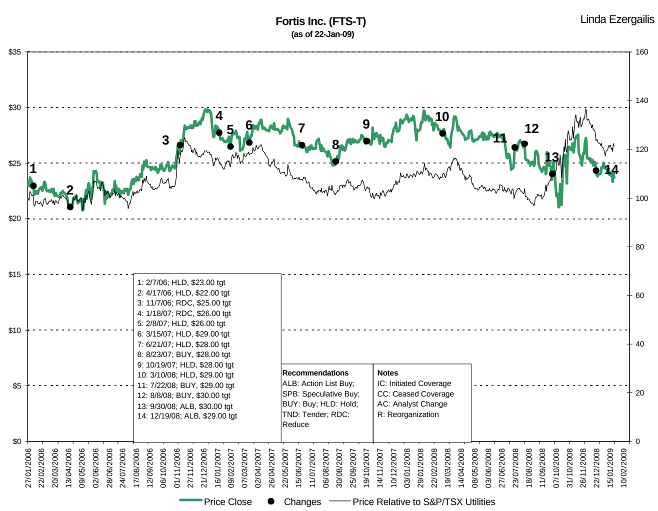

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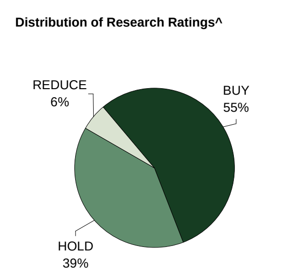

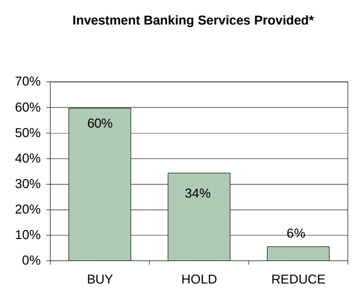

Current as of February 2, 2009

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Pipelines, Power & Utilities

Recommendation:	**ACTION LIST BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$29.00**
	Unchanged
12-Month Total Return:	**31.9%**

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ROE	9.2%

Estimates (C$)

Year	2007A	2008A	2009E	2010E
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EPS (f.d.)	1.28	1.56	1.49	1.64
CFPS (basic)	3.56	3.95	4.03	4.34
DI	0.82	1.00	1.04	1.08

EPS (f.d.) Quarterly Estimates (C$)

Year	2007A	2008A	2009E	2010E
Q1	0.36	0.55	0.51	--
Q2	0.27	0.28	0.28	--
Q3	0.20	0.26	--	--
Q4	0.45	0.45	--	--

Valuations

Year	2007A	2008A	2009E	2010E
P/E (f.d.)	17.8x	14.6x	15.3x	13.9x
P/CFPS (basic)	6.4x	5.8x	5.7x	5.2x
P/DI	27.8x	22.8x	21.9x	21.1x

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$22.77

Q1 Results In-Line with Expectations

Event

Fortis reported normalized Q1/09 EPS (f.d.) of $0.51, slightly below our estimate of $0.53 and Q1/08 EPS (f.d.) of $0.55.

Impact

NEUTRAL.

Details

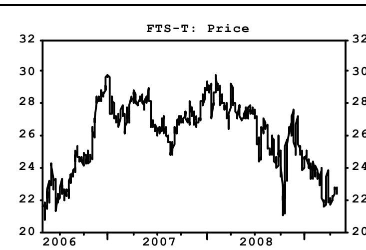
Regulated Gas Utilities (Terasen) Q1/09 earnings of $58 million were flat year over year (Exhibit 1). Higher basic customer delivery rates, customer growth, and lower income taxes were offset by increased labour and employee-benefit costs. Recall that Terasen is a seasonal business, with the majority of its earnings generated in the first and fourth quarters of the year.

Regulated Electric Utilities – Canadian Q1/09 earnings increased by $4 million year over year to $37 million.

- FortisAlberta income was $12 million, a 9% increase over Q1/08 results. Increased distribution rates along with higher load and customer growth were partially offset by increased labour and employee-benefit costs, amortization and interest expenses.
- FortisBC earnings of $14 million were up $2 million from the comparable period in 2008. Customer rate increases and customer growth were partly offset by increased energy supply costs and higher operating and amortization costs.
- Newfoundland Power earnings of $6 million remained flat year over year.
- Other Canadian Electric Utilities (Maritime Electric & FortisOntario) earnings of $5 million were $1 million higher than Q1/08 results largely a result of increased electricity rates and sales.

Regulated Utilities – Caribbean normalized earnings of $4 million were $3 million lower year over year. The decrease was mainly due to lower electricity sales, lower allowed ROA at Caribbean Utilities and Belize Electricity, and higher amortization expenses.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

Fortis Properties earnings of $2 million were down from the $3 million earned in Q1/08 due to one-time transitional operating costs associated with the Sheraton Hotel Newfoundland and decreased hotel occupancies.

Fortis Generation earnings of $6 million were comparable to Q1/08 results.

Corporate expenses increased by $1 million year over year to $17 million in Q1/09 due to higher preferred share dividends from the Series G First Preference Share issuance in Q2/08.

Exhibit 1. Segmented Earnings Analysis ($mm, except per share amounts)

	Q1/09	Q1/08	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	$58	$58	$0	0%
FortisAlberta	12	11	1	9%
FortisBC	14	12	2	17%
Newfoundland Power	6	6	0	0%
Other Canadian	5	4	1	25%
Regulated Electric Utilities - Canadian	37	33	4	12%
Regulated Utilities - Caribbean[1]	4	7	(3)	-43%
Total Regulated Utilities	**99**	**98**	**1**	**1%**
Non-regulated Fortis Properties	**2**	**3**	**(1)**	**-33%**
Non-regulated Fortis Generation	**6**	**6**	**0**	**0%**
Corporate	**(17)**	**(16)**	**(1)**	**6%**
Operating Earnings	**90**	**91**	**(1)**	**-1%**
Adjustments	2	0	2	
Reported Earnings	**92**	**91**	**1**	**1%**
Operating EPS (f.d)	**$0.51**	**$0.55**	**($0.04)**	**-7%**
Reported EPS (f.d)	$0.52	$0.55	($0.03)	-5%

Note: Earnings have been normalized for the following items.
1) In Q1/09, a $1 million favourable appeal decision at Fortis Turks and Caicos and a $1 million favourable adjustment to energy supply costs at Fortis Turks and Caicos.

Source: Company Reports, TD Newcrest.

Outlook

Strong Balance Sheet and Liquidity: At the end of Q1/09, Fortis and its subsidiaries had consolidated credit facilities of $2.2 billion, of which $1.6 billion was available to be drawn. Approximately $2.0 billion of the facilities are committed with the majority of maturities in the 2011-2013 timeframe. Management has also taken steps to strengthen its capital position by de-leveraging its balance sheet. Over the last year, Fortis has reduced its debt-to-capital ratio from approximately 64-percent debt-to-capitalization to approximately 59-percent. We believe this action is prudent given some continued short-term uncertainty in the capital markets and provides the company with some flexibility.

NEB Decision Represents a Potential Fundamental Shift: Earlier in Q1/09, the National Energy Board (NEB) released a positive decision regarding Trans Quebec & Maritimes Pipeline's (TQM) cost of capital application for 2007 and 2008. In our view, this decision could have broad positive implications for regulated businesses in Canada as it could be used as a precedent in other jurisdictions for cost of capital hearings. Given any positive regulatory decisions in Fortis' operating jurisdictions, we believe the company stands to benefit the most (of its corporate peers) due to its utility dominated portfolio. By our calculations, Fortis has the highest positive leverage to increases in regulated returns of its peer group (Exhibit 2).

Exhibit 2. EPS Sensitivities to Changes in Regulated ROEs

Company Name	Regulatory Jurisdiction	2010E EPS Sensitivity to +50 bps Change in ROE
Fortis	AUC, BCUC, PUB	3.7%
Canadian Utilities	AUC	2.4%
ATCO	AUC	2.0%
Enbridge	NEB, OEB	1.3%
TransCanada	NEB	1.2%

Note: Larger regulatory jurisdictions include: 1) Alberta Utilities Commission (AUC), 2) British Columbia Utilities Commission (BCUC), 3) National Energy Board (NEB), 4) Ontario Energy Board (OEB), and 5) Board of Commissioners of Public Utilities - Newfoundland and Labrador (PUB). Sensitivities for TransCanada and Enbridge reflect 2012 and 2013 pro-forma sensitivities respectively, due to the presence of existing settlements in place limiting the full potential upside until those time periods.

Source: Company Reports, TD Newcrest.

Valuation

Exhibit 3. Peer Group Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2007A	EPS 2008A	EPS 2009E	EPS 2010E	P/E 2007A	P/E 2008A	P/E 2009E	P/E 2010E	EPS For. E	P/E Forward
FTS	$22.32	169.8	$3,789	$1.04	4.7%	$18.36	1.2	$1.28	$1.56	$1.49	$1.64	17.4x	14.3x	15.0x	13.6x	$1.54	14.5x
ACO.X	$34.86	58.2	$2,029	$1.00	2.9%	$30.66	1.1	$3.81	$4.51	$3.92	$4.00	9.2x	7.7x	8.9x	8.7x	$3.95	8.8x
CU	$34.48	125.8	$4,338	$1.41	4.1%	$21.92	1.6	$2.78	$3.15	$2.85	$2.95	12.4x	10.9x	12.1x	11.7x	$2.88	12.0x
EMA	$19.92	112.2	$2,235	$1.01	5.1%	$13.78	1.4	$1.23	$1.26	$1.35	$1.38	16.1x	15.8x	14.8x	14.4x	$1.36	14.7x
ENB	$36.96	360.6	$13,328	$1.48	4.0%	$18.01	2.1	$1.67	$1.87	$2.29	$2.40	22.1x	19.8x	16.2x	15.4x	$2.32	15.9x
TA	$20.88	198.0	$4,134	$1.16	5.6%	$13.55	1.5	$1.27	$1.36	$1.38	$1.47	16.5x	15.4x	15.1x	14.2x	$1.41	14.8x
TRP	$30.02	616.0	$18,492	$1.52	5.1%	$20.94	1.4	$2.08	$2.22	$2.15	$2.47	14.4x	13.6x	13.9x	12.2x	$2.26	13.3x
Avg.					4.7%		1.5x					16.5x	15.0x	14.5x	13.6x		14.2x

Note: Averages exclude ATCO due to its holding company nature.

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $29.00 target price is predicated on our 2010 financial estimates as follows: 1) 50% relative earnings yield of 141% (vs. historical average of 132%), 2) 25% relative dividend yield of 93% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.7% dividend yield and a price-to-earnings ratio of 17.7x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) materially different power prices in Ontario versus our forecast.

Investment Conclusion

Increased earnings from Fortis' Regulated Canadian Electric Utilities helped ease the slowing growth experienced in its Regulated Caribbean operations.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity capital markets investors will find Fortis' low-risk, utility dominated business model especially attractive. Long-term, we expect Fortis to be well positioned as an aggregator of regulated gas and electric utilities in Canada, the Caribbean, and the United States. At current levels we believe Fortis presents a compelling risk-return profile and reiterate our Action List BUY recommendation.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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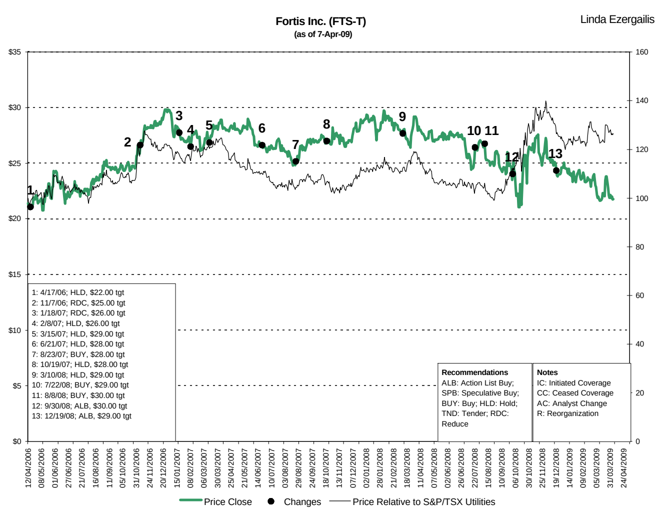

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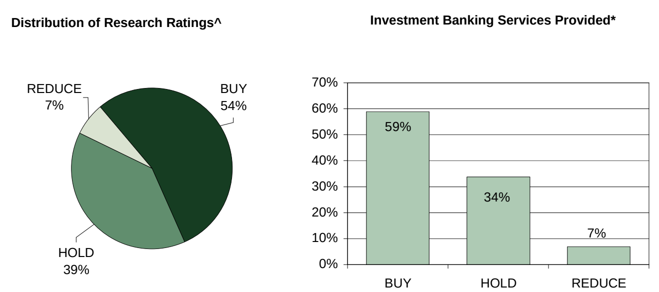

Current as of April 1, 2009

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (10.5% of coverage universe), Medium (29.3%), High (48.8%), Speculative (11.5%)

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TD Newcrest
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Action Notes

July 16, 2009
Equity Research

Pipelines, Power & Utilities

Recommendation: **BUY↓**
Prior: *ACTION LIST BUY*
Risk: **LOW**
12-Month Target Price: **C$29.00**
Unchanged
12-Month Total Return: **16.3%**

Market Data (C$)	
Current Price	$25.83
52-Wk Range	$20.70-$28.00
Mkt Cap (f.d.)($mm)	$4,788.9
Dividend per Share	$1.04
Dividend Yield	4.0%
Avg. Daily Trading Vol. (3mths)	504818

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	185.4
Float Shares (mm)	169.8
Net Debt/Tot Cap	59.5%
BVPS (basic)	$18.36
ROE	9.2%

Estimates (C$)

Year	2008A	2009E	2010E	2011E
EPS (basic)	1.60	1.46	1.62	1.75
EPS (basic)(old)	1.60	1.50	1.67	--
EPS (f.d.)	1.56	1.45	1.60	1.71
EPS (f.d.)(old)	1.56	1.49	1.64	--
CFPS (basic)	3.95	3.97	4.32	4.63
DI	1.00	1.04	1.08	1.12

EPS (f.d.) Quarterly Estimates (C$)

Year	2008A	2009E	2010E	2011E
Q1	0.55	0.51	--	--
Q2	0.28	0.28	--	--
Q3	0.26	--	--	--
Q4	0.45	--	--	--

Valuations

Year	2008A	2009E	2010E	2011E
P/E (f.d.)	16.6x	17.8x	16.1x	15.1x
P/CFPS (basic)	6.5x	6.5x	6.0x	5.6x
P/DI	25.8x	24.8x	23.9x	23.1x

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$25.83

Removing From Action List on Valuation

Event

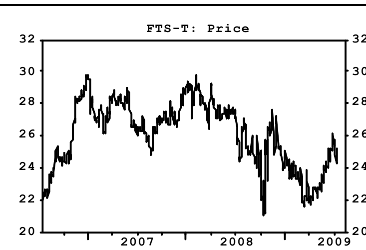
We are downgrading Fortis to BUY as the returns implied by our target price no longer warrant inclusion on the Action List. Since upgrading Fortis on October 1, 2008 its shares have gained 7.4%, greatly outperforming the sector, which on average declined 7.9%.

Impact

Neutral with Respect to Fundamentals – Downgrade is a Function of Valuation. We continue to view the shares as attractive, although not sufficiently so to warrant inclusion in the Action List.

Introducing 2011E Estimates: We expect Fortis to achieve year-over-year EPS growth of almost 7% in 2011, primarily due to higher expected regulated ROEs and western Canadian rate base growth. In addition we are revising our 2009 and 2010 estimates to reflect recent regulatory filings. For an in-depth view of our 2011 estimates for the sector, please see our Industry Note titled "***Introducing 2011 Estimates and Updated Power Price Assumptions***", published in parallel with this note.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Valuation

Exhibit 1. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2008A	2009E	2010E	2011E	2008A	2009E	2010E	2011E	For. E	Forward
FTS	$25.83	169.8	$4,385	$1.04	4.0%	$18.36	1.4	$1.56	$1.45	$1.60	$1.71	16.5x	17.8x	16.1x	15.1x	$1.53	16.9x
ACO.X	$38.53	58.1	$2,239	$1.00	2.6%	$32.14	1.2	$4.51	$3.75	$3.91	$4.09	8.5x	10.3x	9.9x	9.4x	$3.84	10.0x
CU	$37.46	125.8	$4,712	$1.41	3.8%	$22.77	1.6	$3.15	$2.72	$2.90	$3.03	11.9x	13.8x	12.9x	12.4x	$2.82	13.3x
EMA	$20.81	125.8	$2,618	$1.01	4.9%	$14.40	1.4	$1.26	$1.38	$1.43	$1.50	16.5x	15.1x	14.6x	13.9x	$1.41	14.8x
ENB	$39.70	364.6	$14,475	$1.48	3.7%	$19.22	2.1	$1.87	$2.32	$2.50	$2.58	21.3x	17.1x	15.9x	15.4x	$2.42	16.4x
TA	$21.35	198.0	$4,227	$1.16	5.4%	$13.55	1.6	$1.36	$1.20	$1.57	$1.61	15.7x	17.8x	13.6x	13.3x	$1.40	15.3x
TRP	$30.71	668.8	$20,539	$1.52	4.9%	$21.11	1.5	$2.22	$1.95	$2.22	$2.44	13.9x	15.7x	13.8x	12.6x	$2.09	14.7x
Avg.					4.5%		1.6x					16.0x	16.2x	14.5x	13.8x		15.2x

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $29.00 target price is predicated on 50% of each of our 2010 and 2011 financial estimates as follows: 1) 50% relative earnings yield of 143% (vs. historical average of 132%), 2) 25% relative dividend yield of 95% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.8% dividend yield and a price-to-earnings ratio of 17.5x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) materially different power prices in Ontario versus our forecast, and 7) integration risk.

Investment Conclusion

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity capital markets investors will find Fortis' low-risk, utility dominated business model attractive. Long-term, we expect Fortis to be well positioned as an aggregator of regulated gas and electric utilities in Canada, the Caribbean, and the United States.

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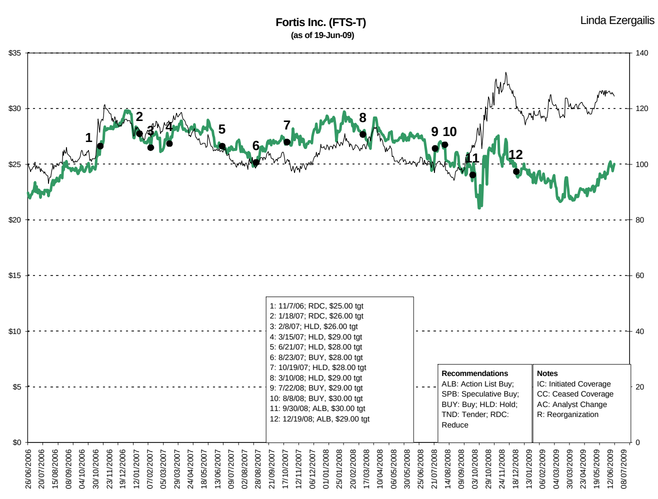

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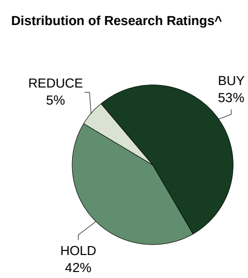

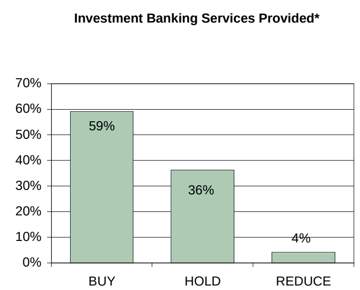

Current as of July 2, 2009

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (10.8% of coverage universe), Medium (29.2%), High (48.0%), Speculative (11.9%

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TD Newcrest
A Division of TD Securities Inc.

Action Notes

August 5, 2009
Equity Research

Pipelines, Power & Utilities

Recommendation:	**BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$29.00**
	Unchanged
12-Month Total Return:	**16.7%**

Market Data (C$)	
Current Price	$25.74
52-Wk Range	$20.70-$28.00
Mkt Cap (f.d.)($mm)	$4,615.2
Dividend per Share	$1.04
Dividend Yield	4.0%
Avg. Daily Trading Vol. (3mths)	490551

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	179.3
Float Shares (mm)	170.3
Net Debt/Tot Cap	59.5%
BVPS (basic)	$18.32
ROE	9.2%

Estimates (C$)

Year	2008A	2009E	2010E	2011E
EPS (basic)	1.60	1.46	1.62	1.75
EPS (f.d.)	1.56	1.45	1.60	1.71
CFPS (basic)	3.95	3.98	4.31	4.62
DI	1.00	1.04	1.08	1.12

EPS (f.d.) Quarterly Estimates (C$)

Year	2008A	2009E	2010E	2011E
Q1	0.55	0.51	--	--
Q2	0.28	0.28	--	--
Q3	0.26	0.24	--	--
Q4	0.45	--	--	--

Valuations

Year	2008A	2009E	2010E	2011E
P/E (f.d.)	16.5x	17.8x	16.1x	15.1x
P/CFPS (basic)	6.5x	6.5x	6.0x	5.6x
P/DI	25.7x	24.8x	23.8x	23.0x

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$25.74

Q2/09 Highlights Stability of Business Model

Event

Fortis reported normalized Q2/09 EPS (f.d.) of $0.28, in-line with our estimate, recent consensus of $0.27 and normalized Q2/08 EPS of $0.28.

Impact

NEUTRAL.

Details

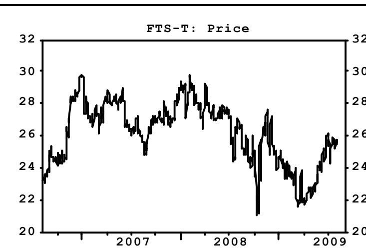
Regulated Gas Utilities (Terasen) Q2/09 normalized income of $12 million was unchanged year-over-year (Exhibit 1). Lower finance charges and higher basic customer delivery rates were offset by higher amortization costs. Recall that Terasen is a seasonal business, with the majority of its earnings generated in the first and fourth quarters of the year.

Regulated Electric Utilities – Canadian Q2/09 earnings increased $8 million year-over-year to $36 million.

- **FortisAlberta** normalized earnings of $14 million increased $7 million versus Q2/08. The increase was mainly a result of increased distribution rates along and higher load and customer growth partially offset by increased amortization and finance charges.
- **FortisBC** earnings of $7 million were in-line with Q2/08 levels. Customer rate increases were offset by increased energy supply, amortization and finance charges.
- **Newfoundland Power** earnings of $11 million increased $1 million versus Q2/08 results. The increase was mainly related to a change in the quarterly allocation of amortization costs as well as a lower effective tax rate.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of $4 million were comparable year-over-year.

Regulated Utilities – Caribbean normalized earnings totaled $7 million, $1 million lower year-over-year. The decrease was mainly due to a lower allowed ROA at Belize Electricity and higher amortization expenses partially offset by a $1 million favourable foreign exchange impact.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Fortis Generation earnings of $3 million decreased $4 million versus the comparable period in 2008. The loss of earnings from the April 2009 expiry of the Rankin hydroelectric power-for-water agreement as well as lower Ontario and New York power prices were the main reasons for the decrease. We note that the Rankine hydroelectric facility contributed $0.2 million of earnings in Q2/09 versus $3.6 million in Q2/08.

Fortis Properties reported earnings of $8 million increased $1 million versus Q2/08 results. Higher Real Estate Division earnings and lower operating expenses were the main reasons for the increase.

Corporate expenses of $18 million were in-line year-over-year as higher preference share dividends were offset by lower finance charges.

Exhibit 1. Segmented Earnings Analysis ($mm)

	Q2/09	Q2/08	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1]	$12	$12	$0	0%
FortisAlberta[1]	14	7	7	100%
FortisBC	7	7	-	0%
Newfoundland Power	11	10	1	10%
Other Canadian[2]	4	4	-	0%
Regulated Electric Utilities - Canadian	36	28	8	29%
Regulated Utilities - Caribbean[3]	7	8	(1)	-13%
Total Regulated Utilities	**55**	**48**	**7**	**15%**
Non-regulated Fortis Properties	**8**	**7**	**1**	**14%**
Non-regulated Fortis Generation	**3**	**7**	**(4)**	**-57%**
Corporate	**(18)**	**(18)**	**-**	**0%**
Operating Earnings	**48**	**44**	**4**	**9%**
Adjustments	5	(15)	20	**n.a.**
Reported Earnings	**53**	**29**	**24**	**83%**
Operating EPS (f.d)	**$0.28**	**$0.28**	**$0.00**	**1%**
Reported EPS (f.d)	$0.31	$0.18	$0.13	69%

Note: Reported earnings have been normalized to reflect:
1) Income tax benefits of $2 million and $3 million at Terasen and FortisAlberta, respectively, in Q2/09 related to prior periods.
2) $3 million ($2 million after tax) charge associated with the repayment of a refund at FortisOntario in Q2/08.
3) $18 million ($13 million after tax) charge related to a regulatory decision by the Public Utilities Commission in Belize in Q2/08.
Source: Company Reports, TD Newcrest.

Outlook

Various Regulatory Updates:

- **Terasen Gas:** Recently submitted an application with the BC regulator (BCUC) requesting a review of the current generic ROE calculation and equity thickness. Terasen Gas Inc. (TGI) requested a ROE of 11%, effective July 1, 2009, and an equity thickness of 40%, effective 2010. We note that TGI's allowed 2009 ROE is 8.47% with an equity thickness of 35%.
- **Newfoundland Power:** In its 2010 customer rate application Newfoundland Power requested an increase in its allowed ROE to 11% from 8.95%.
- **FortisOntario**: The Ontario Energy Board (OEB) recently indicated that it would hold a conference in September 2009 to review its cost of capital policy for future years.
- **FortisAlberta**: Oral hearings for the Alberta Utilities Commission's (AUC) Generic Cost of Capital Proceeding took place in May and June 2009. A decision is expect by year end.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2008A	2009E	2010E	2011E	2008A	2009E	2010E	2011E	For. E	Forward
FTS	$25.74	179.3	$4,615	$1.04	4.0%	$18.32	1.4	$1.56	$1.45	$1.60	$1.71	16.5x	17.8x	16.1x	15.1x	$1.54	16.7x
ACO.X	$38.28	58.1	$2,224	$1.00	2.6%	$33.04	1.2	$4.51	$3.91	$3.91	$4.09	8.5x	9.8x	9.8x	9.4x	$3.91	9.8x
CU	$36.76	125.8	$4,624	$1.41	3.8%	$23.18	1.6	$3.15	$2.68	$2.90	$3.03	11.7x	13.7x	12.7x	12.1x	$2.81	13.1x
EMA	$21.01	125.8	$2,643	$1.01	4.8%	$14.40	1.5	$1.26	$1.38	$1.43	$1.50	16.6x	15.2x	14.7x	14.0x	$1.41	14.9x
ENB	$42.13	365.5	$15,399	$1.48	3.5%	$19.43	2.2	$1.87	$2.29	$2.52	$2.64	22.6x	18.4x	16.7x	16.0x	$2.43	17.4x
TA	$21.64	198.0	$4,285	$1.16	5.4%	$12.90	1.7	$1.36	$1.20	$1.57	$1.61	16.0x	18.0x	13.8x	13.4x	$1.42	15.2x
TRP	$31.30	679.0	$21,253	$1.52	4.9%	$22.05	1.4	$2.22	$1.95	$2.22	$2.44	14.1x	16.1x	14.1x	12.8x	$2.11	14.8x
Avg.					4.4%		1.6x					16.2x	16.5x	14.7x	13.9x		15.4x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) 2011 forecasts are presented using current Canadian GAAP and not IFRS as a result of the uncertainties related to application of IFRS.
Source: Company Reports, Thomson, TD Newcrest.

Justification of Target Price

Our $29.00 target price is predicated on 50% of each of our 2010 and 2011 financial estimates as follows: 1) 50% relative earnings yield of 143% (vs. historical average of 132%), 2) 25% relative dividend yield of 95% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.8% dividend yield and a price-to-earnings ratio of 17.5x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) integration risk.

Investment Conclusion

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity capital markets investors will find Fortis' low-risk, utility dominated business model attractive. Long-term, we expect Fortis to be well positioned as an aggregator of regulated gas and electric utilities in Canada, the Caribbean, and the United States. At current levels we view Fortis as attractively valued and reiterate our BUY recommendation.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

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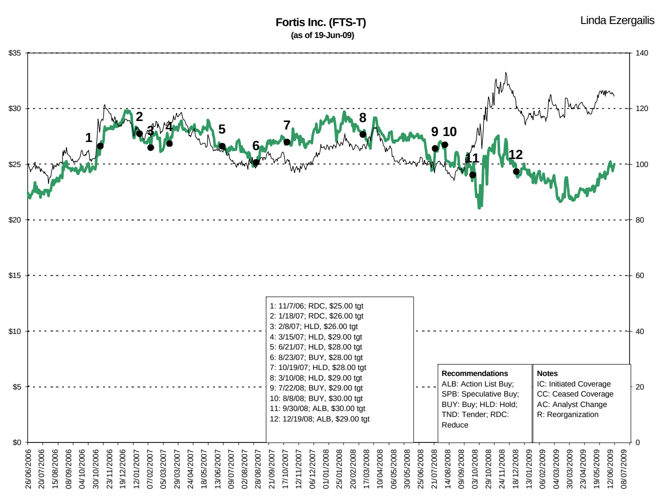

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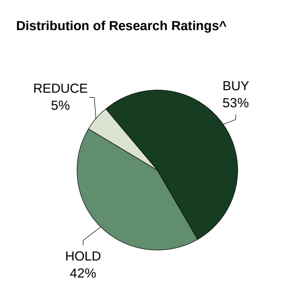

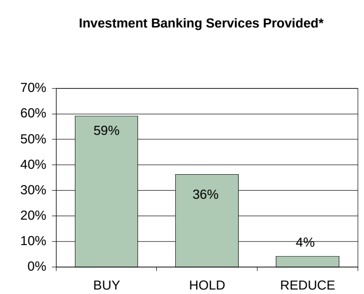

Current as of July 2, 2009

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Research Ratings
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BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (10.8% of coverage universe), Medium (29.2%), High (48.0%), Speculative (11.9%

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Pipelines, Power & Utilities

Recommendation:	**BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$29.00**
	Unchanged
12-Month Total Return:	**16.4%**

Market Data (C$)	
Current Price	$25.81
52-Wk Range	$21.52-$28.00
Mkt Cap (f.d.)($mm)	$4,811.0
Dividend per Share	$1.04
Dividend Yield	4.0%
Avg. Daily Trading Vol. (3mths)	403811

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	186.4
Float Shares (mm)	170.7
Net Debt/Tot Cap	60.3%
BVPS (basic)	$18.17
ROE	9.2%

Estimates (C$)

Year	2008A	2009E	2010E	2011E
EPS (basic)	1.60	1.46	1.62	1.75
EPS (f.d.)	1.56	1.45	1.60	1.71
CFPS (basic)	3.95	3.99	4.31	4.62
DI	1.00	1.04	1.08	1.12

EPS (f.d.) Quarterly Estimates (C$)

Year	2008A	2009E	2010E	2011E
Q1	0.55	0.51	--	--
Q2	0.28	0.28	--	--
Q3	0.26	0.21	--	--
Q4	0.45	0.43	--	--

Valuations

Year	2008A	2009E	2010E	2011E
P/E (f.d.)	16.5x	17.8x	16.1x	15.1x
P/CFPS (basic)	6.5x	6.5x	6.0x	5.6x
P/DI	25.8x	24.8x	23.9x	23.0x

Notes: 2011 forecasts are presented under GAAP and not IFRS.

All figures in C$, unless otherwise specified.

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Fortis Inc.

(FTS-T) C$25.81

Lower Q3 Results Timing Related

Event

Fortis reported normalized Q3/09 EPS (f.d.) of $0.21, below our $0.24 estimate, and normalized Q3/08 EPS of $0.26.

Impact

NEUTRAL. Although EPS were slightly below our forecasts, we believe the weakness was likely related to the timing of expenses at the Company's utility businesses.

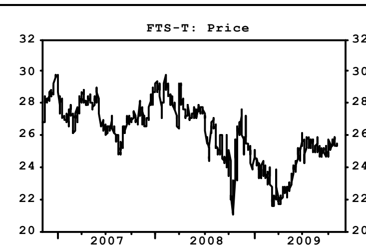
Details

Regulated Gas Utilities (Terasen) Q3/09 loss of $3 million was $2 million less than Q3/08 results. (Exhibit 1). The year-over-year reduction in loss was primarily due to lower effective corporate taxes arising from differences in deductions for tax purposes versus accounting purposes, and increased basic customer rates. These were partially offset by higher amortization and operating costs. Recall that Terasen is a seasonal business, with the majority of its earnings generated in the first and fourth quarters of the year.

Regulated Electric Utilities – Canadian Q3/09 earnings decreased by $2 million year over year to $36 million.

- **FortisAlberta** earnings of $16 million declined by $1 million versus Q3/08 results due to lower corporate income tax recoveries.
- **FortisBC** earnings of $8 million were flat year over year. An increase in customer rates and customer growth were offset by higher energy supply costs, increased amortization expenses from capital investments, and higher operating expenses.
- **Newfoundland Power** earnings of $7 million decreased by $1 million versus the comparable period in 2008. The decline was mainly related to higher operating expenses, and increased amortization costs stemming from a change in the quarterly allocation of those expenses.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of $5 million were comparable year over year.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



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Regulated Utilities – Caribbean earnings were $7 million, in-line with Q3/08 earnings. Excluding approximately $1 million of favourable foreign currency translations in Q3/09, results were down year over year largely from higher operating and amortization costs.

Fortis Generation earnings of $4 million decreased by $5 million year over year. The loss of earnings was primarily due to the April 2009 expiry of the Rankin hydroelectric power-for-water agreement. In addition, lower average New York power prices and decreased generation in Belize contributed to the year-over-year decline.

Fortis Properties reported earnings of $9 million, flat versus Q3/08 results. Contribution from the Sheraton Hotel Newfoundland, the Holiday Inn Select in Windsor, and higher Real Estate Division earnings were offset by decreased occupancy at the remainder of the Company's hotels.

Corporate expenses of $18 million increased by $1 million year over year due to higher interest expenses from the $200 million of debt issued in July 2009.

Exhibit 1. Segmented Earnings Analysis ($mm)

	Q309	Q3/08	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1]	($3)	($5)	$2	-33%
FortisAlberta	16	17	(1)	-6%
FortisBC	8	8	-	0%
Newfoundland Power	7	8	(1)	-13%
Other Canadian	5	5	-	0%
Regulated Electric Utilities - Canadian	36	38	(2)	-5%
Regulated Utilities - Caribbean	7	7	0	0%
Total Regulated Utilities	**40**	**41**	**(1)**	**-1%**
Non-Regulated Fortis Generation	**4**	**9**	**(5)**	**-56%**
Non-Regulated Fortis Properties	**9**	**9**	**0**	**0%**
Corporate[2]	**(18)**	**(17)**	**(1)**	**6%**
Operating Earnings	**35**	**42**	**(7)**	**-16%**
Adjustments	1	8	(7)	-87%
Reported Earnings	**36**	**49**	**(13)**	**-27%**
Operating EPS (f.d)	**$0.21**	**$0.26**	**($0.06)**	**-22%**
Reported EPS (f.d)	$0.21	$0.31	($0.10)	-32%

Notes: Earnings have been normalized for the following items:
1) Q3/08 excludes a tax reduction of $5.5 million related to historical corporate tax matters at Terasen Gas companies.
2) Q3/09 excludes a favourable tax adjustment of $1.0 million; Q3/08 excludes a tax reduction of $2.0 million related to historical corporate tax matters.
Source: Company Reports, TD Newcrest.

Outlook

Continued Growth in Regulated Utilities: Despite the economic downturn, management expects 2009 total capital expenditures to be over $1 billion, with the bulk of this capital being spent in Fortis' Canadian Regulated Utilities businesses. Longer term, the Company's five-year, $5 billion capital program should grow its rate base, on average, by approximately six to seven percent annually, which should translate to both earnings and dividend growth.

Valuation

Exhibit 2. Peer Group Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2008A	EPS 2009E	EPS 2010E	EPS 2011E	P/E 2008A	P/E 2009E	P/E 2010E	P/E 2011E	EPS For. E	P/E Forward
FTS	$25.81	186.4	$4,811	$1.04	4.0%	$18.17	1.4	$1.56	$1.45	$1.60	$1.71	16.5x	17.8x	16.1x	15.1x	$1.58	16.4x
ACO.X	$42.93	58.2	$2,499	$1.00	2.3%	$33.56	1.3	$4.51	$4.19	$3.91	$4.09	9.5x	10.2x	11.0x	10.5x	$3.96	10.9x
CU	$38.65	125.9	$4,866	$1.41	3.6%	$23.57	1.6	$3.15	$2.85	$2.90	$3.03	12.3x	13.6x	13.3x	12.8x	$2.89	13.4x
CPX	$19.10	78.4	$1,497	$1.26	6.6%	$22.71	0.8	$1.27	$0.62	$1.10	$1.73	15.0x	30.9x	17.4x	11.1x	$1.02	18.7x
EMA	$22.05	120.1	$2,648	$1.09	4.9%	$13.88	1.6	$1.26	$1.38	$1.43	$1.50	17.4x	16.0x	15.4x	14.7x	$1.42	15.5x
ENB	$43.15	364.7	$15,736	$1.48	3.4%	$19.04	2.3	$1.87	$2.30	$2.54	$2.66	23.1x	18.8x	17.0x	16.2x	$2.50	17.3x
TRP	$32.75	682.0	$22,336	$1.52	4.6%	$22.14	1.5	$2.22	$1.95	$2.22	$2.42	14.8x	16.8x	14.8x	13.5x	$2.18	15.1x
Avg.					4.7%		1.6x					16.3x	19.3x	15.6x	14.2x		16.0x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) Capital Power's 2008A EPS is a pro forma full-year estimate; 2009E EPS is a half-year estimate.
Source: Thomson, TD Newcrest estimates.

Justification of Target Price

Our $29.00 target price is predicated on 25% of our 2010 and 75% of our 2011 financial estimates as follows: 1) 50% relative earnings yield of 145% (vs. historical average of 132%), 2) 25% relative dividend yield of 96% (vs. historical average of 80%), and 3) 25% P/B of 1.4x (vs. historical average of 1.5x). Our target price implies a 3.8% dividend yield and a price-to-earnings ratio of 17.2x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) sovereign risk.

Investment Conclusion

Fortis' business segments have continued to perform well even in a tough economic environment, in our view. The Company is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity capital markets investors will find Fortis' low-risk, utility dominated business model attractive. Long-term, we expect Fortis to be well positioned as an aggregator of regulated gas and electric utilities in Canada, the Caribbean, and the United States. At current levels we view Fortis as attractively valued and reiterate our BUY recommendation.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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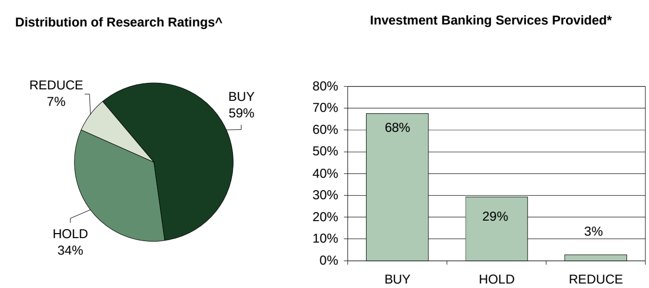

Current as of November 3, 2009

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (10.1% of coverage universe), Medium (28.9%), High (49.5%), Speculative (11.6%)

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Action Notes

Pipelines, Power & Utilities

Recommendation:	**HOLD↓**
Prior:	*BUY*
Risk:	**LOW**
12-Month Target Price:	**C$30.00↑**
Prior:	*C$29.00*
12-Month Total Return:	**7.9%**

Market Data (C$)	
Current Price	$28.76
52-Wk Range	$21.52-$28.68
Mkt Cap (f.d.)($mm)	$5,360.9
Dividend per Share	$1.04
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	401966

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	186.4
Float Shares (mm)	170.7
Net Debt/Tot Cap	60.3%
BVPS (basic)	$18.17
ROE	9.2%

Estimates (C$)

Year	2008A	2009E	2010E	2011E
EPS (basic)	1.60	1.53	1.72	1.86
EPS (basic)(old)	1.60	1.50	1.65	1.78
EPS (f.d.)	1.56	1.51	1.69	1.81
EPS (f.d.)(old)	1.56	1.48	1.62	1.73
CFPS (basic)	3.95	4.05	4.41	4.73
DI	1.00	1.04	1.08	1.12

EPS (f.d.) Quarterly Estimates (C$)

Year	2008A	2009E	2010E	2011E
Q1	0.55	0.51	--	--
Q2	0.28	0.28	--	--
Q3	0.26	0.21	--	--
Q4	0.45	0.49	--	--

Valuations

Year	2008A	2009E	2010E	2011E
P/E (f.d.)	18.4x	19.0x	17.0x	15.9x
P/CFPS (basic)	7.3x	7.1x	6.5x	6.1x
P/DI	28.8x	27.7x	26.6x	25.7x

Notes: 2011 forecasts are presented under GAAP and not IFRS.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$28.76

Terasen Gas Receives Positive Decision on Cost of Capital

Event

- The British Columbia Utility Commission (BCUC) issued a decision on Terasen Gas' return on equity and capital structure application.
- A number of regulatory decisions in BC, Ontario and Newfoundland have recently been issued which affect Fortis' regulated utilities.

Impact

POSITIVE.

We our increasing our estimates to primarily reflect the BCUC decision, and to a lesser extent, other recent regulatory decisions.

Details

Key highlights of the BCUC's decision include the following:

- **Regulated ROEs Increased**: The regulator has set the return on equity (ROE) for Terasen Gas at 9.5%, an increase from the current level of 8.47% (Exhibit 1). The new ROE is effective July 1, 2009. Terasen Gas' ROE remains the benchmark off which other utilities returns are set, and therefore, Terasen Gas Whistler and Vancouver Island ROEs are set at 10%. FortisBC's ROE is set at 9.9%, up from 8.87%.
- **Automatic Adjustment Mechanism Discontinued**: The commission determined that the automatic adjustment mechanism, which is used to determine Terasen's ROE on an annual basis, would not produce a fair return for 2010 and as such is discontinued. The regulator noted that the recent flight to quality has driven down the yields on long-term Canadian bonds, while the cost of risk has increased.
- **Terasen Gas' Equity Ratio Increased**: The commission increased Terasen Gas' equity ratio to 40% from 35.01%, effective January 1, 2010, to reflect increased business risk. The regulatory specifically noted that the risks posed by First Nations and climate change legislation have increased since 2005.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.

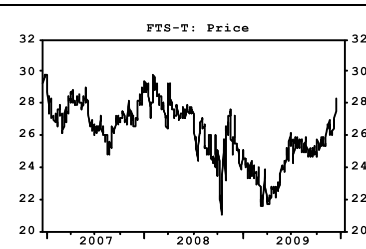

Exhibit 1. Overview of BCUC's Cost of Capital Decision

	2009E	2010E	2011E
Terasen Gas - Equity Ratios:			
New	35%	40%	40%
Prior	35%	35%	35%
Change (bps)	-	500	500
Terasen Gas - ROEs:			
New	8.98%	9.50%	9.50%
Prior	8.47%	8.90%	9.15%
Change (bps)	51	60	35
Terasen Gas (Vancouver Island) & (Whistler) - ROEs:			
New	9.58%	10.00%	10.00%
Prior	9.17%	9.60%	9.85%
Change (bps)	41	40	15
FortisBC - ROEs			
New	9.39%	9.90%	9.90%
Prior	8.87%	9.30%	9.55%
Change (bps)	52	60	35

Note: Prior ROE estimates for 2010 and 2011 were TD Newcrest estimates.
Source: Company Reports, BCUC, TD Newcrest.

Highlights from other recent decisions:

- **Newfoundland Power's 2010 General Rate Application Decision**: The Newfoundland regulator recently issued a decision which granted Newfoundland Power a ROE of 9.0% for 2010. This was in-line with the 8.95% estimate we had in our forecasts. There was no change to the 45% equity-capitalization or the formula to calculate ROEs for subsequent years.
- **Ontario Cost of Capital Decision**: The Ontario Energy Board (OEB) recently refined the approach it uses to calculate ROEs commencing in 2010. The new OEB formula is a function of both long Canada bonds as well as an A-rated Canadian utility bond index. The formula re-set adds 50 bps for transaction costs. Our expectation is that this new formula will translated into slightly higher ROEs in Ontario versus the previous approach.
- **Terasen's 2010-2011 Negotiated Settlement Approved**: The BCUC has approved Terasen Gas' and Terasen Gas (Vancouver Island) Inc.'s 2010-2011 revenue requirement negotiated settlement. The performance-based rate-setting mechanism, which expires at the end of 2009, will not be renewed for 2010 and 2011.

Valuation

Exhibit 2. Peer Group Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2008A	EPS 2009E	EPS 2010E	EPS 2011E	P/E 2008A	P/E 2009E	P/E 2010E	P/E 2011E	EPS For. E	P/E Forward
FTS	$28.76	186.4	$5,361	$1.04	3.6%	$18.17	1.6	$1.56	$1.51	$1.69	$1.81	18.4x	19.0x	17.0x	15.9x	$1.68	17.1x
ACO.X	$46.31	58.2	$2,695	$1.00	2.2%	$33.56	1.4	$4.51	$4.30	$3.99	$4.13	10.3x	10.8x	11.6x	11.2x	$4.00	11.6x
CU	$43.80	125.9	$5,514	$1.41	3.2%	$23.57	1.9	$3.15	$2.93	$2.95	$3.05	13.9x	14.9x	14.8x	14.4x	$2.95	14.9x
CPX	$21.48	78.4	$1,684	$1.26	5.9%	$22.71	0.9	$1.27	$0.62	$1.15	$1.69	16.9x	34.7x	18.7x	12.7x	$1.13	19.0x
EMA	$25.46	120.0	$3,055	$1.09	4.3%	$13.87	1.8	$1.26	$1.43	$1.44	$1.52	20.1x	17.8x	17.6x	16.7x	$1.44	17.7x
ENB	$48.28	364.7	$17,607	$1.70	3.5%	$19.04	2.5	$1.87	$2.30	$2.60	$2.78	25.9x	21.0x	18.6x	17.4x	$2.59	18.7x
TA	$23.14	198.0	$4,582	$1.16	5.0%	$12.69	1.8	$1.36	$0.96	$1.36	$1.30	17.1x	24.1x	17.0x	17.8x	$1.34	17.2x
TRP	$36.02	682.0	$24,566	$1.52	4.2%	$22.14	1.6	$2.22	$1.95	$2.22	$2.42	16.3x	18.5x	16.2x	14.9x	$2.21	16.3x
Avg.					4.2%		1.7x					18.4x	21.4x	17.1x	15.7x		17.3x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) Capital Power's 2008A EPS is a pro forma full-year estimate; 2009E EPS is a half-year estimate.
Source: Company Reports, Thomson, TD Newcrest.

Justification of Target Price

Our $30.00 target price is predicated on 25% of our 2010 and 75% of our 2011 financial estimates as follows: 1) 50% relative earnings yield of 148% (vs. historical average of 132%), 2) 25% relative dividend yield of 93% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.7% dividend yield and a price-to-earnings ratio of 16.9x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) sovereign risk.

Investment Conclusion

We view the BCUC’s decision favourably. The increase in allowed returns is less that the company requested, but greater than what has been granted by other regulators. In addition, Terasen Gas was successful in its application to increase its equity ratio to 40%. The Company is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity markets investors will find Fortis’ low-risk, utility dominated business model attractive. Long-term, we expect Fortis to be well positioned as an aggregator of regulated gas and electric utilities in Canada, the Caribbean, and the United States. Given the relatively less compelling potential returns versus other investments in the sector, we are downgrading the shares to HOLD.

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Fortis Inc.	FTS-T	1,2, 4, 9, 10

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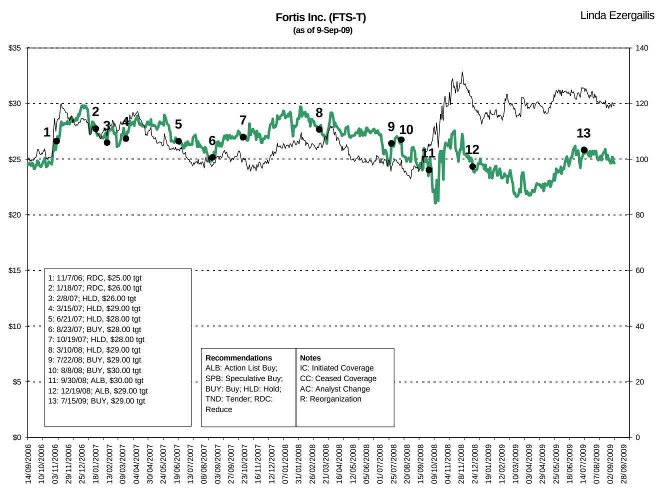

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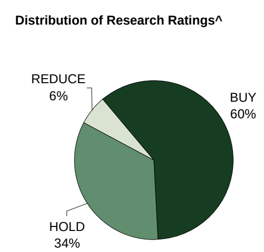

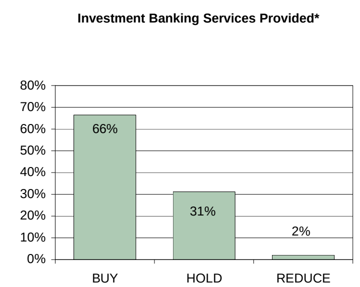

Current as of December 2, 2009

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Pipelines, Power & Utilities

Recommendation:	**HOLD** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$30.00** *Unchanged*
12-Month Total Return:	**12.1%**

Market Data (C$)	
Current Price	$27.76
52-Wk Range	$21.52-$29.24
Mkt Cap (f.d.)($mm)	$5,188.3
Dividend per Share	$1.12
Dividend Yield	4.0%
Avg. Daily Trading Vol. (3mths)	402516

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	186.9
Float Shares (mm)	171.3
Net Debt/Tot Cap	60.5%
BVPS (basic)	$18.65
ROE	8.2%

Estimates (C$)

Year	2008A	2009A	2010E	2011E
EPS (basic)	1.60	1.50	1.64	1.79
EPS (f.d.)	1.56	1.48	1.62	1.75
EPS (f.d.)(old)	1.56	1.51	1.69	1.81
CFPS (basic)	3.95	3.98	4.22	4.55
DI	1.00	1.04	1.12	1.16
DI (old)	1.00	1.04	1.08	1.12

EPS (f.d.) Quarterly Estimates (C$)

Year	2008A	2009A	2010E	2011E
Q1	0.55	0.52	0.55	--
Q2	0.28	0.28	--	--
Q3	0.26	0.22	--	--
Q4	0.45	0.45	--	--

Valuations

Year	2008A	2009A	2010E	2011E
P/E (f.d.)	17.8x	18.8x	17.1x	15.9x
P/CFPS (basic)	7.0x	7.0x	6.6x	6.1x
P/DI	27.8x	26.7x	24.8x	23.9x

Notes: 2011 forecasts are presented under GAAP and not IFRS.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Fortis Inc.

(FTS-T) C$27.76

Q4 Results A Bit Shy Of Expectations

Event

Fortis reported normalized Q4/09 EPS (f.d.) of $0.45, below our $0.49 estimate, recent consensus of $0.50, and in-line with normalized Q4/08 EPS (f.d.).

Impact

SLIGHTLY NEGATIVE. The lighter than expected EPS was largely due to our over-estimation of the degree of growth in the Company's Regulated Canadian Electric Utilities. We still believe this segment will experience strong growth going forward, however, we have revised our estimates downwards, primarily to reflect the recent $250 million preference share issue.

Details

Regulated Gas Utilities (Terasen) Q4/09 earnings of $52 million were $5 million above Q4/08 results (Exhibit 1). The increase was largely a result of an accrual stemming from the increase, effective July 1, 2009, of the allowed ROE for the Terasen Gas companies, in addition to higher basic customer rates and lower finance charges. The increase was partly offset by higher depreciation costs due to capital investment.

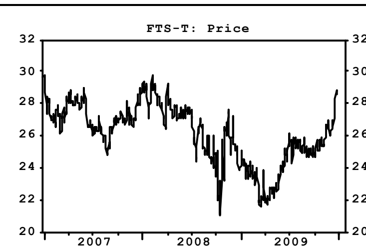
Regulated Electric Utilities – Canadian Q4/09 earnings of $31 million increased by $2 million year over year.

- **FortisAlberta** earnings of $12 million increased by $1 million versus Q4/08 results. Increased customer rates and electricity sales, along with the impact of increases in both 2009 allowed ROE and deemed equity thickness, were partially offset by higher amortization expenses and higher interest charges.
- **FortisBC** earnings of $8 million were $1 million higher than Q4/08 results. An increase in customer rates and customer growth were partially offset by higher operating expenses and finance charges.
- **Newfoundland Power** earnings of $8 million were flat year over year. An increase in electricity sales were mitigated by higher demand charges, and increased operating and financing expenses.

Other Canadian Electric Utilities (Maritime Electric & FortisOntario) earnings of $3 million were in-line with Q4/08 earnings.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Regulated Utilities – Caribbean earnings of $7 million were comparable year over year. Lower amortization expenses at Fortis Turks and Caicos stemming from a favourable change in depreciation estimates, and increased electricity sales and rates at Caribbean Utilities were offset by unfavourable foreign exchange translations, and higher finance charges.

Fortis Generation earnings of $3 million decreased by $5 million year over year. The loss of earnings was primarily due to the April 2009 expiry of the Rankine hydroelectric power-for-water agreement. In addition, lower average New York power prices, decreased generation in New York and Belize, and an unfavourable currency impact contributed to the year-over-year decline.

Fortis Properties reported earnings of $5 million, an increase of $1 million versus Q4/08 results. A full quarter contribution from the Sheraton Hotel Newfoundland, incremental earnings from the Holiday Inn Select Windsor, and higher Real Estate Division earnings were partially offset by decreased occupancy at the remainder of the Company's hotels.

Corporate expenses of $19 million decreased by $1 million year over year due to lower business development costs.

Exhibit 1. Segmented Earnings Analysis ($mm)

	Q4/09	Q4/08	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1,2]	$52	$47	$5	10%
FortisAlberta[3]	12	11	1	9%
FortisBC	8	7	1	14%
Newfoundland Power	8	8	-	0%
Other Canadian[4]	3	3	-	0%
Regulated Electric Utilities - Canadian	31	29	2	7%
Regulated Utilities - Caribbean[5]	7	7	-	0%
Total Regulated Utilities	**90**	**83**	**7**	**8%**
Non-Regulated Fortis Generation	**3**	**8**	**(5)**	**-63%**
Non-Regulated Fortis Properties	**5**	**4**	**1**	**25%**
Corporate	**(19)**	**(20)**	**1**	**-5%**
Operating Earnings	**79**	**75**	**4**	**5%**
Adjustments	3	1	2	150%
Reported Earnings	**81**	**76**	**5**	**7%**
Operating EPS (f.d)	**$0.45**	**$0.45**	**$0.00**	**0%**
Reported EPS (f.d)	$0.46	$0.46	($0.00)	0%

Notes:
1) Q4/09 excludes $5.0 million of costs associated with the conversion of customer appliances from propane to natural gas.
2) Q4/09 excludes $1.5 million of earnings associated to prior periods.
3) Q4/09 excludes $3.0 million of earnings associated to prior periods.
4) Q4/09 excludes a $3.0 million favourable tax adjustment.
5) Q4/08 excludes $1.0 million of additional earnings from Caribbean Utilities due to a change in year end.

Source: Company Reports, TD Newcrest.

Outlook

Continued Growth in Regulated Utilities: Management has forecasted 2010 total capital expenditures to be approximately $1.1 billion, with the bulk of this capital being spent at Fortis' Canadian Regulated Utilities businesses. During the 2010–2014 timeframe, the Company is forecasting gross capital investment nearing $5 billion. Of this amount, approximately 70% is expected to be at the Regulated Electric Utilities, namely FortisAlberta and FortisBC, while 27% is forecasted to be at the Regulated Gas Utilities. The remainder is anticipated to go into non-regulated activities.

Vaca Facility Commissioning: The Company's 19 MW hydroelectric generating facility at Vaca in Belize is expected to be commissioned in Q1/10. The US$53 million project is forecasted to increase average annual electricity production by approximately 80 GWh to 240 GWh.

Regulatory Updates: In Q4/09, a number of regulatory decisions were received at the Company's Canadian Regulated Utilities, which resulted in increases to their allowed returns on equity and/or equity thicknesses. Please refer to our December 18, 2009 *Action Note* titled, **"Terasen Gas Receives Positive Decision on Cost of Capital"**, and our November 16, 2009 *Action Note* titled, **"Alberta Regulator Sets New ROEs and Equity Ratios"** for further details and the impact on Fortis.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2008A	2009E	2010E	2011E	2008A	2009E	2010E	2011E	For. E	Forward
FTS	$27.76	186.9	$5,188	$1.12	4.0%	$18.65	1.5	$1.56	$1.48	$1.62	$1.75	17.8x	18.7x	17.2x	15.9x	$1.63	17.0x
ACO.X	$45.86	58.2	$2,669	$1.06	2.3%	$33.56	1.4	$4.51	$4.30	$3.99	$4.13	10.2x	10.7x	11.5x	11.1x	$3.96	11.6x
CU	$42.79	125.9	$5,387	$1.51	3.5%	$23.57	1.8	$3.15	$2.93	$2.95	$3.05	13.6x	14.6x	14.5x	14.0x	$2.95	14.5x
CPX	$21.08	78.4	$1,653	$1.26	6.0%	$22.71	0.9	$1.27	$0.62	$1.15	$1.69	16.6x	34.1x	18.3x	12.5x	$1.20	17.5x
EMA	$23.36	120.0	$2,803	$1.09	4.7%	$13.87	1.7	$1.26	$1.43	$1.44	$1.52	18.5x	16.3x	16.2x	15.4x	$1.44	16.2x
ENB	$47.27	371.0	$17,537	$1.70	3.6%	$19.72	2.4	$1.87	$2.30	$2.60	$2.78	25.3x	20.6x	18.2x	17.0x	$2.63	18.0x
TA	$22.15	198.0	$4,386	$1.16	5.2%	$12.69	1.7	$1.36	$0.96	$1.36	$1.30	16.3x	23.1x	16.3x	17.0x	$1.40	15.8x
TRP	$34.37	682.0	$23,440	$1.52	4.4%	$22.14	1.6	$2.22	$1.95	$2.22	$2.42	15.5x	17.6x	15.5x	14.2x	$2.24	15.3x
Avg.					4.5%		1.7x					17.7x	20.7x	16.6x	15.1x		16.3x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) Capital Power's 2008A EPS is a pro forma full-year estimate; 2009E EPS is a half-year estimate.
Source: Thomson, TD Newcrest estimates.

Justification of Target Price

Our $30.00 target price is predicated on 25% of our 2010 and 75% of our 2011 financial estimates as follows: 1) 50% relative earnings yield of 146% (vs. historical average of 132%), 2) 25% relative dividend yield of 97% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.9% dividend yield and a price-to-earnings ratio of 17.1x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) sovereign risk.

Investment Conclusion

Fortis' business segments have continued to perform well even in a tough economic environment, in our view. The Company is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity capital markets investors will find Fortis' low-risk, utility dominated business model attractive. Long-term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the United States, Canada, and the Caribbean.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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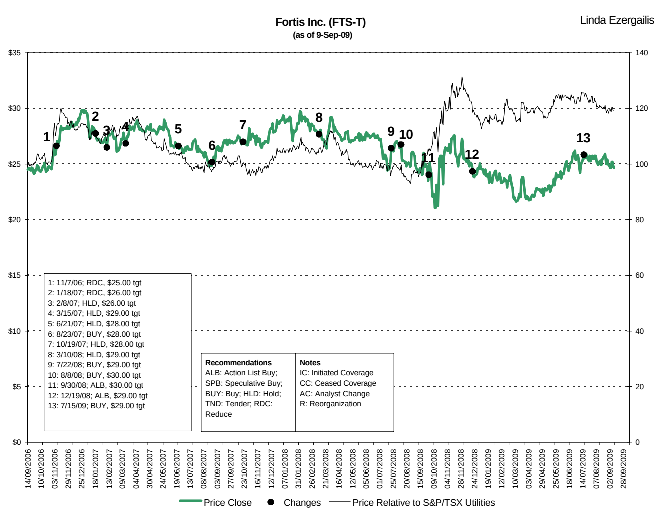

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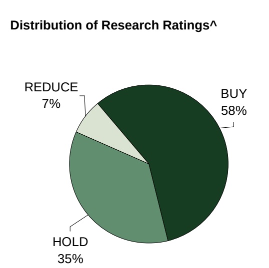

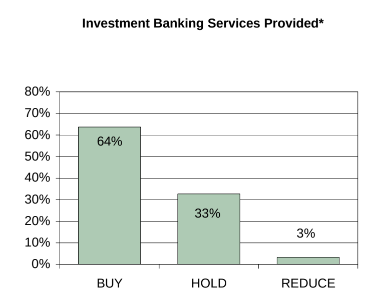

Current as of January 7, 2010

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ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
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SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
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Pipelines, Power & Utilities

Recommendation:	**HOLD** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$30.00** *Unchanged*
12-Month Total Return:	**10.9%**

Market Data (C$)	
Current Price	$28.05
52-Wk Range	$22.05-$29.32
Mkt Cap (f.d.)($mm)	$5,214.5
Dividend per Share	$1.12
Dividend Yield	4.0%
Avg. Daily Trading Vol. (3mths)	468679

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	185.9
Float Shares (mm)	172.2
Net Debt/Tot Cap	57.9%
BVPS (basic)	$18.66
ROE	8.2%

Estimates (C$)

Year	2008A	2009A	2010E	2011E
EPS (basic)	1.60	1.50	1.59	1.74
EPS (basic)(old)	1.60	1.50	1.64	1.79
EPS (f.d.)	1.56	1.48	1.57	1.70
EPS (f.d.)(old)	1.56	1.48	1.62	1.75
CFPS (basic)	3.95	3.98	4.17	4.49
DI	1.00	1.04	1.12	1.16

EPS (f.d.) Quarterly Estimates (C$)

Year	2008A	2009A	2010E	2011E
Q1	0.55	0.52	0.56	--
Q2	0.28	0.28	0.30	--
Q3	0.26	0.22	--	--
Q4	0.45	0.45	--	--

Valuations

Year	2008A	2009A	2010E	2011E
P/E (f.d.)	18.0x	19.0x	17.9x	16.5x
P/CFPS (basic)	7.1x	7.0x	6.7x	6.2x
P/DI	28.1x	27.0x	25.0x	24.2x

Notes: 2011 forecasts are presented under GAAP and not IFRS.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Fortis Inc.

(FTS-T) C$28.05

Strong Gas Utility Earnings Lead Q1 Results

Event

Fortis reported Q1/10 EPS (f.d.) of $0.56, in-line with our $0.55 estimate, but below recent consensus of $0.59. Q1/09 normalized EPS (f.d.) were $0.52.

Impact

NEUTRAL. We have revised our forecasts largely to reflect updated F/X assumptions and regulatory information.

Details

Regulated Gas Utilities (Terasen) Q1/10 earnings of $73 million were $15 million above Q1/09 results (Exhibit 1). The increase was largely a result of higher customer delivery rates from the impact of increased allowed ROEs and equity ratios, effective January 1, 2010, and decreased finance charges from lower interest rates and borrowings.

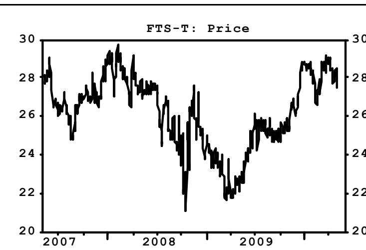
Regulated Electric Utilities – Canadian Q1/10 earnings of $40 million increased by $3 million year over year.

- **FortisAlberta** earnings of $14 million increased by $2 million versus Q1/09 results. Increased customer rates from the impact of increases in both 2010 allowed ROE and deemed equity thickness were partially offset by higher operating, amortization, and financing expenses.
- **FortisBC** earnings of $14 million were flat year over year. An increase in customer rates, higher incentive adjustments, and lower supply and operating costs were virtually offset by higher finance charges and lower electricity sales.
- **Newfoundland Power** earnings of $7 million were up $1 million versus Q1/09 results. Increased electricity rates and sales, along with lower labour costs were partially mitigated by higher administrative and financing expenses.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario**) earnings of $5 million were in-line with Q1/09 earnings.

Regulated Utilities – Caribbean earnings of $4 million were comparable year over year. Unfavourable foreign exchange translations, and higher finance charges were offset by increased electricity sales and rates at Caribbean Utilities.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Fortis Generation earnings of $2 million decreased by $4 million year over year. The loss of earnings was primarily due to the April 2009 expiry of the Rankine hydroelectric power-for-water agreement. In addition, lower generation in Belize contributed to the year-over-year decline.

Fortis Properties reported earnings of $2 million, in-line with Q1/09 results. Higher Real Estate Division earnings, contribution from the Holiday Inn Select Windsor, and improved performance from the Atlantic Canadian hotel operations were offset by decreased occupancy at the western Canadian hotel operations.

Corporate expenses increased by $4 million to $21 million in Q1/10 largely from increased preferred share dividends from the Series H issue in January 2010 and increased finance charges from a higher debt balance.

Exhibit 1. Segmented Earnings Analysis ($mm)

	Q1/10	Q1/09	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	$73	$58	$15	26%
FortisAlberta	14	12	2	17%
FortisBC	14	14	0	0%
Newfoundland Power	7	6	1	17%
Other Canadian	5	5	-	0%
Regulated Electric Utilities - Canadian	40	37	3	8%
Regulated Utilities - Caribbean[1]	4	4	-	0%
Total Regulated Utilities	**117**	**99**	**18**	**18%**
Non-Regulated Fortis Generation	**2**	**6**	**(4)**	**-67%**
Non-Regulated Fortis Properties	**2**	**2**	**0**	**0%**
Corporate	**(21)**	**(17)**	**(4)**	**24%**
Operating Earnings	**100**	**90**	**10**	**11%**
Adjustments	-	2	(2)	-100%
Reported Earnings	**100**	**92**	**8**	**9%**
Operating EPS (f.d)	**$0.56**	**$0.52**	**$0.05**	**9%**
Reported EPS (f.d)	$0.56	$0.52	$0.04	8%

Note: Earnings have been normalized for the following items:
1) In Q1/09, a $1 million favourable appeal decision and a $1 million favourable adjustment to energy supply costs, both at Fortis Turks and Caicos.

Source: Company Reports, TD Newcrest.

Outlook

Q2/10 EPS Forecast: We are estimating Q2/10 EPS of $0.30, a $0.02 increase versus Q2/09 results. We believe the increase could largely be due to higher year-over-year earnings from its Canadian Utilities as a result of the favorable regulatory decisions received in both Alberta and BC subsidiaries back in Q4/09, along with growing rate bases. Incremental contribution from the Vaca Dam (commissioned in Q1/10) will also likely be a positive contributor. Partially offsetting the increase may be higher corporate expenses.

Valuation

Exhibit 2. Peer Group Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2008A	EPS 2009A	EPS 2010E	EPS 2011E	P/E 2008A	P/E 2009A	P/E 2010E	P/E 2011E	EPS For. E	P/E Forward
FTS	$28.05	185.9	$5,214	$1.12	4.0%	$18.66	1.5	$1.56	$1.48	$1.57	$1.70	18.0x	18.9x	17.9x	16.5x	$1.61	17.4x
ACO.X	$48.79	58.2	$2,840	$1.06	2.2%	$35.49	1.4	$4.51	$4.63	$4.06	$4.25	10.8x	10.5x	12.0x	11.5x	$4.12	11.8x
CU	$45.37	125.8	$5,708	$1.51	3.3%	$24.77	1.8	$3.15	$3.26	$2.98	$3.09	14.4x	13.9x	15.2x	14.7x	$3.01	15.1x
CPX	$22.49	80.6	$1,813	$1.26	5.6%	$22.48	1.0	$1.27	$0.60	$1.15	$1.35	17.7x	nmf	19.5x	16.7x	$1.22	18.5x
EMA	$23.66	119.7	$2,832	$1.13	4.8%	$13.31	1.8	$1.26	$1.52	$1.55	$1.48	18.7x	15.6x	15.2x	16.0x	$1.53	15.5x
ENB	$49.33	371.0	$18,301	$1.70	3.4%	$19.72	2.5	$1.87	$2.30	$2.57	$2.78	26.4x	21.5x	19.2x	17.7x	$2.64	18.7x
TA	$20.90	218.6	$4,569	$1.16	5.6%	$13.86	1.5	$1.36	$0.88	$1.07	$1.23	15.4x	23.7x	19.5x	16.9x	$1.12	18.6x
TRP	$35.84	687.0	$24,622	$1.60	4.5%	$22.25	1.6	$2.22	$2.02	$1.97	$2.29	16.2x	17.7x	18.2x	15.7x	$2.08	17.3x
Avg.					4.5%		1.7x					18.1x	18.6x	17.8x	16.3x		17.3x

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $30.00 target price is predicated on our 2011 financial estimates as follows: 1) 50% relative earnings yield of 141% (vs. historical average of 132%), 2) 25% relative dividend yield of 97% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.9% dividend yield and a price-to-earnings ratio of 17.7x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) sovereign risk.

Investment Conclusion

Terasen's strong contribution during the quarter helped the Company achieve year-over-year EPS growth. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity capital markets investors will find the Company's low-risk, utility dominated business model attractive. Long-term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the United States, Canada, and the Caribbean.

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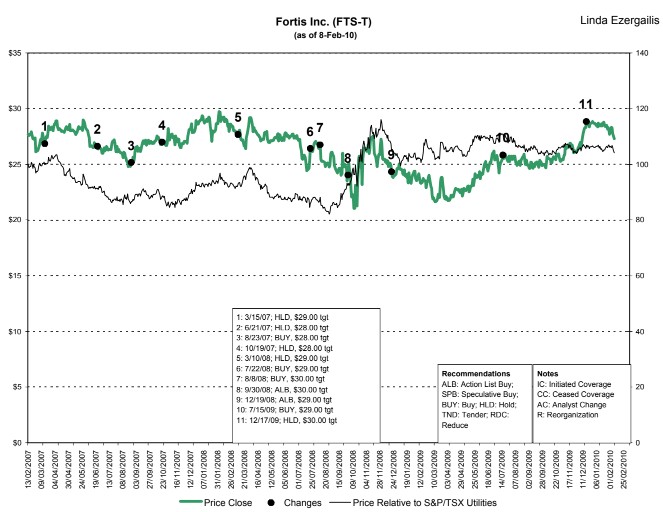

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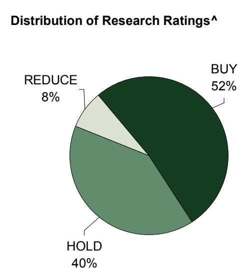

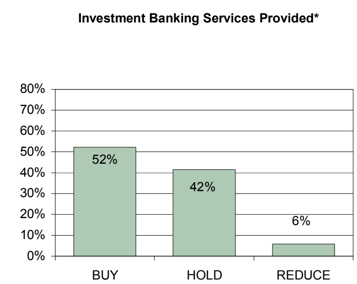

Current as of April 6, 2010

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (10.2% of coverage universe), Medium (27.1%), High (52.1%), Speculative (10.6%)

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Pipelines, Power & Utilities

Recommendation:	**HOLD**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$31.00↑**
Prior:	*C$30.00*
12-Month Total Return:	**11.4%**

Market Data (C$)

Current Price	$28.84
52-Wk Range	$21.60-$29.51
Mkt Cap (f.d.)($mm)	$4,998.0
Dividend per Share	$1.12
Dividend Yield	3.9%
Avg. Daily Trading Vol. (3mths)	476184

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	173.3
Float Shares (mm)	172.9
Net Debt/Tot Cap	58.0%
BVPS (basic)	$18.79
ROE	8.2%

Estimates (C$)

Year	2009A	2010E	2011E	2012E
EPS (basic)	1.50	1.60	1.74	1.81
EPS (basic)(old)	1.50	1.59	1.74	--
EPS (f.d.)	1.48	1.57	1.70	1.77
EPS (f.d.)(old)	1.48	1.57	1.70	--
CFPS (basic)	3.98	4.17	4.48	4.71
DI	1.04	1.12	1.16	1.20

EPS (f.d.) Quarterly Estimates (C$)

Year	2009A	2010E	2011E	2012E
Q1	0.52	0.56	--	--
Q2	0.28	0.32	--	--
Q3	0.22	0.23	--	--
Q4	0.45	--	--	--

Valuations

Year	2009A	2010E	2011E	2012E
P/E (f.d.)	19.5x	18.4x	17.0x	16.3x
P/CFPS (basic)	7.2x	6.9x	6.4x	6.1x
P/DI	27.7x	25.8x	24.9x	24.0x

Notes: 2011 forecasts are presented under GAAP and not IFRS.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$28.84

Solid Q2/10 - Rolling Out 2012 Estimates

Event

Fortis reported Q2/10 EPS (f.d.) of $0.32, which was above both our $0.30 estimate and Q2/09 normalized EPS (f.d.) of $0.28.

Impact

MILDLY POSITIVE.

Our Fortis target price increases by a dollar to $31, as we are rolling forward our target to be based 50% on each of our 2011 and 2012 estimates.

Details

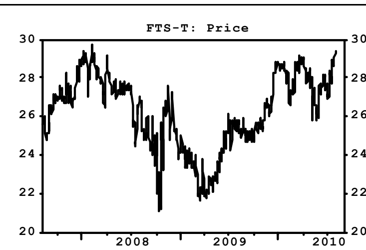
Regulated Gas Utilities (Terasen) Q2/10 normalized earnings of $17 million were $5 million above Q2/09 results (Exhibit 1). The increase was primarily due to higher customer delivery rates, effective January 2010, to reflect increased allowed ROEs and equity ratios. Partially offsetting this were higher operating and amortization expenses as well as a higher corporate tax rate.

Regulated Electric Utilities – Canadian Q2/10 normalized earnings of $40 million increased by $4 million year-over-year.

- **FortisAlberta** normalized earnings of $17 million increased by $3 million versus Q2/09 results. The main reason for the increase was higher interim customer rates, effective January 2010, to reflect an increased allowed ROE and deemed equity thickness. Partially offsetting this were higher operating, amortization and financing expenses.
- **FortisBC** earnings of $8 million increased $1 million year-over-year. Increased customer rates, effective January 2010, to reflect a higher allowed return and increased investment, was the main reason for the increase. This was partially offset by higher operating and amortization expenses as well as lower electricity sales.
- **Newfoundland Power** earnings of $11 million were in-line versus Q2/09. Increased electricity rates and sales as well as lower operating labour costs were offset by higher pension, wage and amortization expenses.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of $4 million were in-line with Q2/09 earnings.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Regulated Utilities – Caribbean earnings of $7 million were comparable year-over-year. Higher electricity rates and sales at Caribbean Utilities were offset by an unfavourable foreign exchange translation as well as increased tax and finance expenses.

Fortis Generation earnings of $3 million were in-line with Q2/09. Increased Belizean production and reduced finance charges were offset by an unfavourable currency translation and the April 2009 expiry of the Rankine hydroelectric power-for-water agreement.

Fortis Properties reported earnings of $8 million, in-line with Q2/09 results. An increased contribution from the Real Estate Division as well as improved Atlantic and central Canadian hotel operations were mainly offset by decreased occupancy at the western Canadian hotel operations.

Corporate expenses increased by $2 million to $20 million in Q2/10 largely from increased preferred share dividends from the Series H issue in January 2010 as well as higher business development costs.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q2/10	Q2/09	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1]	$17	$12	$5	42%
FortisAlberta[1]	17	14	3	21%
FortisBC	8	7	1	14%
Newfoundland Power	11	11	-	0%
Other Canadian	4	4	-	0%
Regulated Electric Utilities - Canadian	40	36	4	11%
Regulated Utilities - Caribbean	7	7	-	0%
Total Regulated Utilities	**64**	**55**	**9**	**16%**
Non-Regulated Fortis Generation	**3**	**3**	**-**	**0%**
Non-Regulated Fortis Properties	**8**	**8**	**-**	**0%**
Corporate	**(20)**	**(18)**	**(2)**	**11%**
Operating Earnings	**55**	**48**	**7**	**15%**
Adjustments	-	5	(5)	-100%
Reported Earnings	**55**	**53**	**2**	**4%**
Operating EPS (f.d)	**$0.32**	**$0.28**	**$0.03**	**12%**
Reported EPS (f.d)	$0.32	$0.31	$0.01	2%

Note: Earnings have been normalized for the following items:
1) Income tax benefits of $2 million and $3 million at Terasen and FortisAlberta, respectively, in Q2/09 related to prior periods.
Source: Company Reports, TD Newcrest.

Outlook

Rolling Out 2012 Forecasts: We are introducing a 2012 EPS (f.d.) of $1.77, up 4% from our 2011E EPS (f.d.) of $1.70. We expect rate base growth in the Company's Regulated Canadian Electric Utilities will be the primary driver of the bulk of the earnings increase.

Q3/10 Preview: We are forecasting Q3/10 EPS of $0.23, a penny higher than Q3/09 EPS largely due to increased earnings as a result of rate base growth at the Company's Regulated Canadian Electric Utilities, partially offset by higher Corporate costs.

Valuation

Exhibit 2. Peer Group Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2008A	EPS 2009A	EPS 2010E	EPS 2011E	P/E 2008A	P/E 2009A	P/E 2010E	P/E 2011E	EPS For. E	P/E Forward
FTS	$28.84	173.3	$4,998	$1.12	3.9%	$18.79	1.5	$1.56	$1.48	$1.57	$1.70	18.5x	19.4x	18.4x	17.0x	$1.64	17.5x
ACO.X	$50.65	58.4	$2,958	$1.06	2.1%	$36.22	1.4	$4.51	$4.63	$4.38	$4.42	11.2x	10.9x	11.6x	11.5x	$4.40	11.5x
CPX	$23.30	80.6	$1,878	$1.26	5.4%	$22.02	1.1	$1.27	$0.60	$1.20	$1.37	18.3x	nmf	19.5x	17.0x	$1.30	18.0x
CU	$48.32	126.0	$6,088	$1.51	3.1%	$25.00	1.9	$3.15	$3.26	$3.08	$3.14	15.3x	14.8x	15.7x	15.4x	$3.11	15.5x
EMA	$26.73	120.0	$3,208	$1.13	4.2%	$13.11	2.0	$1.26	$1.52	$1.57	$1.51	21.1x	17.6x	17.0x	17.7x	$1.53	17.4x
ENB	$51.59	373.0	$19,243	$1.70	3.3%	$20.05	2.6	$1.87	$2.30	$2.70	$2.82	27.7x	22.5x	19.1x	18.3x	$2.77	18.6x
TA	$21.37	218.8	$4,676	$1.16	5.4%	$13.60	1.6	$1.36	$0.88	$1.02	$1.20	15.8x	24.2x	20.9x	17.8x	$1.13	18.9x
TRP	$36.91	690.0	$25,468	$1.60	4.3%	$22.28	1.7	$2.22	$2.02	$1.97	$2.28	16.7x	18.3x	18.7x	16.2x	$2.16	17.1x
Avg.					4.2%		1.8x					19.0x	19.5x	18.5x	17.1x		17.6x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) Capital Power's 2008A EPS is a pro forma full-year estimate; 2009E EPS is a half-year estimate.
Source: Company Reports, Thomson, TD Newcrest.

Justification of Target Price

Our $31.00 target price is predicated on 50% of our 2011 and 2012 financial estimates as follows: 1) 50% relative earnings yield of 140% (vs. historical average of 132%), 2) 25% relative dividend yield of 95% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.8% dividend yield and a price-to-earnings ratio of 17.9x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) sovereign risk.

Investment Conclusion

Terasen and FortisAlberta reported strong contributions during the quarter, which helped the company achieve strong year-over-year EPS growth. Moving forward we expect growth in Fortis' regulated utilities will continue to be the primary driver of EPS growth. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity capital markets investors will find the Company's low-risk, utility dominated business model attractive. Long-term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the United States, Canada, and the Caribbean.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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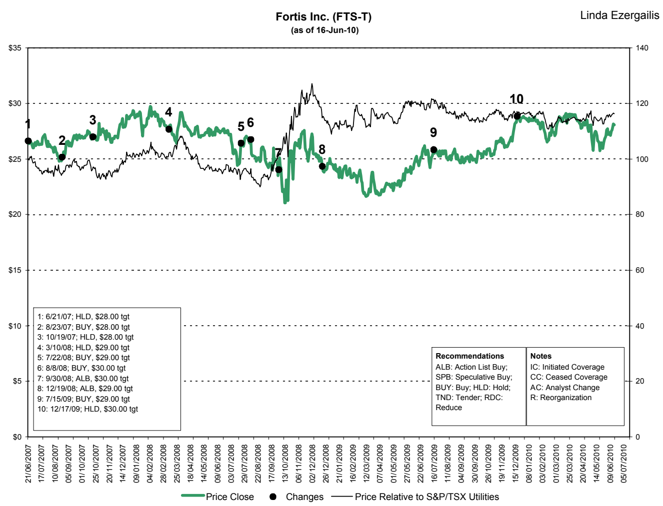

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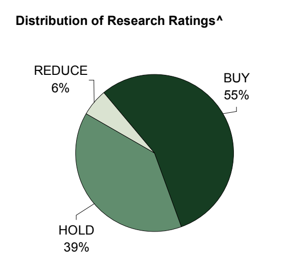

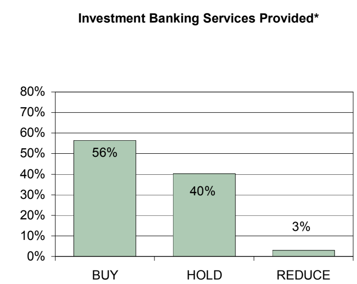

Current as of July 5, 2010

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TD Newcrest
A Division of TD Securities Inc.

Action Notes

August 27, 2010
Equity Research

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Pipelines, Power & Utilities

Recommendation:	**BUY↑**
Prior:	*HOLD*
Risk:	**LOW**
12-Month Target Price:	**C$32.00↑**
Prior:	*C$31.00*
12-Month Total Return:	**14.0%**

Market Data (C$)

Current Price	$29.05
52-Wk Range	$21.60-$29.51
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Dividend per Share	$1.12
Dividend Yield	3.9%
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EPS (f.d.) Quarterly Estimates (C$)

Year	2009A	2010E	2011E	2012E
Q1	0.52	0.56	--	--
Q2	0.28	0.32	--	--
Q3	0.22	0.23	--	--
Q4	0.45	--	--	--

Valuations

Year	2009A	2010E	2011E	2012E
P/E (f.d.)	19.6x	18.5x	17.1x	16.4x
P/CFPS (basic)	7.3x	7.0x	6.5x	6.2x
P/DI	27.9x	25.9x	25.0x	24.2x

Notes: 2011 forecasts are presented under GAAP and not IFRS.

All figures in C$, unless otherwise specified.

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Fortis Inc.

(FTS-T) C$29.05

Waneta Expansion Hydro Project Announced - Upgrading to Buy

Event

Fortis along with the Columba Power Corporation and Columbia Basin Trust have announced an agreement to develop the 335 MW Waneta Expansion project.

Impact

POSITIVE.

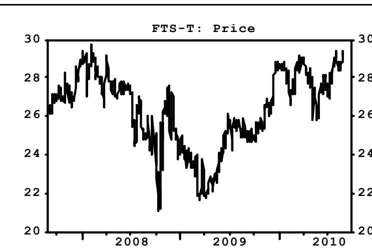
Once fully brought into service in 2015 we estimate the project could add $0.03 of EPS on an annualized basis. We estimate the project could represent one dollar of value on a present value basis, and as such we are increasing our target price to $32.

Details

- **Location**: The project is located on the Pend d'Oreille River, south of Trail, BC. The expansion facility would be directly downstream of the existing 493 MW Waneta Dam, which is owned by BC Hydro and Teck Resources.
- **Capacity:** The facility is expected to have a capacity of 335 MW and generate approximately 630 GWh of electricity per year.
- **Ownership:** Fortis along with the Columbia Power Corporation and Columbia Basin Trust, which are both government owned corporations, are jointly developing the project with Fortis' interest in the expansion expected to be 51%.
- **Cost**: The facility is expected to cost $930 million (100% basis), which includes interest during construction and contingencies.
- **Power Purchase Agreements**: BC Hydro will purchase an average of 101 MW of capacity under a 40-year energy purchase agreement at similar prices to projects that were successful in its 2008 Clean Power Call. The remaining capacity of approximately 234 MW will be sold to FortisBC under a 40-year contract.
- **Timing**: The project is expected to enter service in the spring of 2015.
- **Returns**: Fortis expects the project will earn a ROE that is slightly better than its regulated investments. We assume the project will earn a ROE in the range of 9-10%.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



- **Capital Structure**: A debt-to-capitalization of 65% is expected. We expect Fortis will initially finance the project with its credit facilities, start terming out its debt in 2012 and wait until the project enters service before installing permanent equity financing.
- **Capital Cost Risk:** A fixed-price, design-build contract has been secured with SNC Lavalin, which should remove the majority of the capital cost risk.
- **Hydrology Risk**: The facility will receive fixed energy and capacity entitlements based on long-term average generation levels, which should remove most of the hydrology risk.
- **Regulatory:** Federal and provincial environmental assessment approvals are in place. The power sold to FortisBC will be subject to the British Columbia Utilities Commission's approval. While interested parties have until September 13, 2010 to object to the Government entering into the Partnership with Fortis without a competitive process, we don't expect any serious objections to be filed.

Valuation

Exhibit 1. Peer Group Valuation

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS 2008A	EPS 2009A	EPS 2010E	EPS 2011E	P/E 2008A	P/E 2009A	P/E 2010E	P/E 2011E	EPS For. E	P/E Forward
FTS	$29.05	173.3	$5,034	$1.12	3.9%	$18.79	1.5	$1.56	$1.48	$1.57	$1.70	18.6x	19.6x	18.5x	17.1x	$1.65	17.6x
ACO.X	$50.15	58.4	$2,929	$1.06	2.1%	$36.22	1.4	$4.51	$4.63	$4.38	$4.42	11.1x	10.8x	11.5x	11.4x	$4.40	11.4x
CU	$46.58	126.0	$5,869	$1.51	3.2%	$25.00	1.9	$3.15	$3.26	$3.08	$3.14	14.8x	14.3x	15.1x	14.9x	$3.12	15.0x
CPX	$22.50	80.6	$1,814	$1.26	5.6%	$22.02	1.0	$1.27	$0.60	$1.20	$1.37	17.7x	nmf	18.8x	16.4x	$1.31	17.2x
EMA	$25.79	114.8	$2,961	$1.13	4.4%	$15.61	1.7	$1.26	$1.52	$1.60	$1.61	20.4x	17.0x	16.2x	16.0x	$1.61	16.0x
ENB	$52.35	373.0	$19,527	$1.70	3.2%	$20.05	2.6	$1.87	$2.30	$2.70	$2.82	28.1x	22.8x	19.4x	18.6x	$2.78	18.9x
TA	$21.23	219.0	$4,649	$1.16	5.5%	$13.60	1.6	$1.36	$0.88	$1.02	$1.20	15.7x	24.1x	20.7x	17.7x	$1.14	18.6x
TRP	$37.69	690.0	$26,006	$1.60	4.2%	$22.28	1.7	$2.22	$2.02	$1.97	$2.28	17.0x	18.7x	19.1x	16.5x	$2.17	17.3x
Avg.					4.3%		1.7x					18.9x	19.4x	18.3x	16.7x		17.2x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) Capital Power's 2008A EPS is a pro forma full-year estimate; 2009E EPS is a half-year estimate.
Source: Company Reports, Thomson, TD Newcrest.

Justification of Target Price

Our $32.00 target price is predicated on 50% of our 2011 and 2012 financial estimates as follows: 1) 50% relative earnings yield of 135% (vs. historical average of 132%), 2) 25% relative dividend yield of 92% (vs. historical average of 80%), and 3) 25% P/B of 1.5x (vs. historical average of 1.5x). Our target price implies a 3.7% dividend yield and a price-to-earnings ratio of 18.5x, compared to historical averages of 4.4% and 14.4x, respectively.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, and 5) sovereign risk.

Investment Conclusion

We view the Waneta Expansion project positively, as we believe it will contribute low-risk, long-life, stable cash flows to Fortis. In addition, we believe the project could facilitate further non-regulated hydro projects, not only in BC, but also the Pacific Northwest. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity capital markets investors will find the Company's low-risk, utility dominated business model attractive. Long-term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the United States, Canada, and the Caribbean. Given what we view to be attractive risk adjusted returns, we are upgrading Fortis to a BUY.

TD Newcrest Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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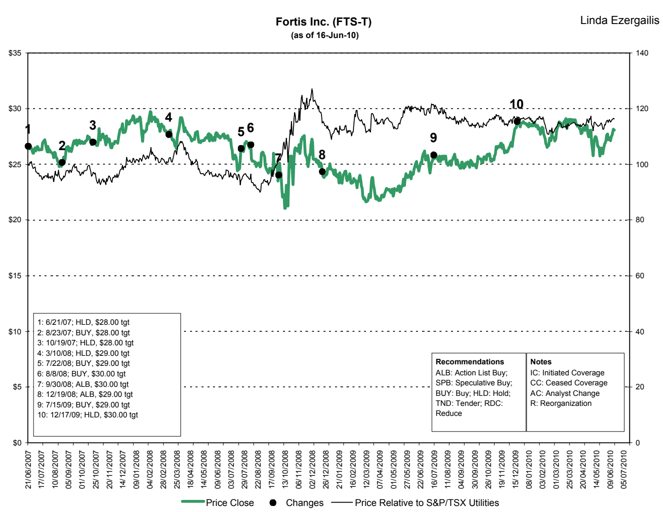

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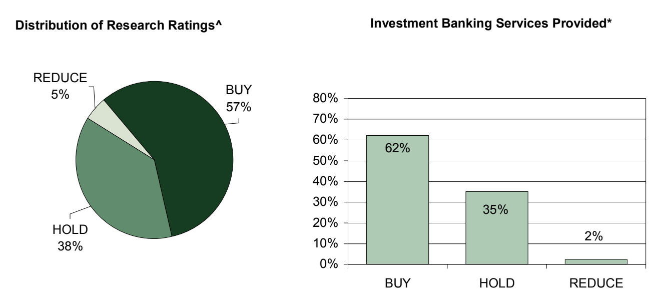

Current as of August 6, 2010

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (8.6% of coverage universe), Medium (28.5%), High (52.6%), Speculative (10.3%)

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TD Newcrest
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Action Notes

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Pipelines, Power & Utilities

Recommendation:	**BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$36.00↑**
Prior:	*C$32.00*
12-Month Total Return:	**11.6%**

Market Data (C$)

Current Price	$33.26
52-Wk Range	$21.60-$33.58
Mkt Cap (f.d.)($mm)	$5,790.6
Dividend per Share	$1.12
Dividend Yield	3.4%
Avg. Daily Trading Vol. (3mths)	461722

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	174.1
Float Shares (mm)	173.6
Net Debt/Tot Cap	58.5%
BVPS (basic)	$18.75
ROE	8.2%

Estimates (C$)

Year	2009A	2010E	2011E	2012E
EPS (basic)	1.50	1.62	1.77	1.85
EPS (basic)(old)	1.50	1.60	1.74	1.81
EPS (f.d.)	1.48	1.59	1.73	1.81
EPS (f.d.)(old)	1.48	1.57	1.70	1.77
CFPS (basic)	3.98	4.22	4.54	4.79
DI	1.04	1.12	1.16	1.20

EPS (f.d.) Quarterly Estimates (C$)

Year	2009A	2010E	2011E	2012E
Q1	0.52	0.56	--	--
Q2	0.28	0.32	--	--
Q3	0.21	0.24	--	--
Q4	0.45	0.48	--	--

Valuations

Year	2009A	2010E	2011E	2012E
P/E (f.d.)	22.5x	20.9x	19.2x	18.4x
P/CFPS (basic)	8.4x	7.9x	7.3x	6.9x
P/DI	32.0x	29.7x	28.7x	27.7x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$33.26

Q3 Results in Line With Expectations

Event

Fortis reported normalized Q3/10 EPS (f.d.) of $0.24, in line with our $0.23 estimate, recent consensus of $0.24 and above Q3/09 normalized EPS (f.d.) of $0.21.

Impact

SLIGHTLY POSITIVE.

We have updated our forecasts largely to reflect increased earnings at the Other Canadian Electric Utilities segment. In addition, we are rolling forward our target to be based 25% on our 2011 and 75% on our 2012 financial estimates as well as incorporating a lower bond yield assumption into our target price derivation (see Justification of Target Price Section). As a result of these changes, our target price increases by $4 dollars to $36.

Details

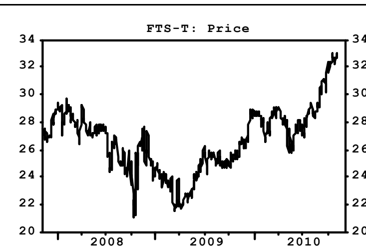
Regulated Gas Utilities (Terasen) Q3/10 normalized earnings of $(9) million were $6 million below Q3/09 results (Exhibit 1). The decrease was primarily due to higher operating and maintenance expenses at Terasen Gas Inc. that were approved by the regulator as a result of the recent Negotiated Settlement Agreement.

Regulated Electric Utilities – Canadian Q3/10 earnings of $43 million increased by $7 million year over year.

- **FortisAlberta** earnings of $19 million increased by $4 million versus Q3/09 results. The main reason for the increase was higher interim customer rates, effective January 2010, to reflect an increased allowed ROE and deemed equity thickness, in addition to growth in electrical infrastructure investment.
- **FortisBC** earnings of $11 million increased by $2 million year over year driven by increased customer rates to reflect a higher allowed return and increased utility investment.
- **Newfoundland Power** earnings of $8 million were $1 million higher than Q3/09 results. Increased electricity rates and sales were partially offset by higher operating expenses associated with repairs caused by Hurricane Igor in September 2010.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of $5 million were in-line with Q3/09 results.

Regulated Utilities – Caribbean earnings of $8 million were slightly higher year over year largely from the deferral, for future collection in customer rates, of previously expensed business taxes at Belize Electricity.

Fortis Generation earnings of $9 million were $5 million higher than Q3/09 results largely due to increased rainfall and the contribution from the Vaca hydroelectric generating facility that was commissioned in March 2010.

Fortis Properties reported earnings of $9 million, in-line with Q3/09 results.

Corporate expenses increased by $1 million to $19 million in Q3/10 largely due to increased preferred share dividends from the Series H issue in January 2010 as well as higher business development costs.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q3/10	Q3/09	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1]	($9)	($3)	($6)	200%
FortisAlberta	19	15	4	27%
FortisBC	11	9	2	22%
Newfoundland Power	8	7	1	14%
Other Canadian	5	5	-	0%
Regulated Electric Utilities - Canadian	43	36	7	19%
Regulated Utilities - Caribbean	8	7	1	14%
Total Regulated Utilities	**42**	**40**	**2**	**5%**
Non-Regulated Fortis Generation	**9**	**4**	**5**	**125%**
Non-Regulated Fortis Properties	**9**	**9**	**-**	**0%**
Corporate[2]	**(19)**	**(18)**	**(1)**	**6%**
Operating Earnings	**41**	**35**	**6**	**17%**
Adjustments	4	1	3	n.a.
Reported Earnings	**45**	**36**	**9**	**25%**
Operating EPS (f.d)	**$0.24**	**$0.21**	**$0.03**	**14%**
Reported EPS (f.d)	$0.26	$0.21	$0.05	22%

Note: Earnings have been normalized for the following items:
1) In Q3/10, a $4mm (after-tax) reversal of operating expenses related to project cost overruns previously expensed related to the Whistler conversion project.
2) Q3/09 excludes a favourable tax adjustment of $1mm.

Source: Company Reports, TD Newcrest.

Outlook

Potential Amalgamation of the Terasen Companies: Management spoke to the possibility of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc. merging into a single company. While no decision has been definitively set, the Company is considering the submission of an application in 2011, which would require approval from the British Columbia Utilities Commission (BCUC) and consent from the BC government. Any proposed combination would likely occur over the next 2-3 years and could present mutual benefits to both the Company and customers.

Competitive Transmission Build a Possibility: Given the increasing amount of power projects coming on-line in various provinces across Canada, the demand for transmission infrastructure to support this increase in generation is becoming apparent. Certain regions will require extensive transmission build to connect these projects to the grid and some jurisdictions are signaling that they could adopt a competitive tendering process for these transmission projects. Management is optimistic that these opportunities will arise and is hopeful that it can secure transmission project mandates in provinces like Alberta and Ontario in the future. We believe this is achievable given the Company's strong expertise in transmission, and its incumbency and ability to leverage its Newfoundland Power, FortisBC, FortisOntario, and FortisAlberta operations.

Belize Electricity Update: Final arguments will be presented in December 2010 relating to the Company's petition against the PUC's June 2008 Final Decision. Management believes it presented a solid appeal and expects a final judge ruling some time in the first half of 2011.

Q4/10 Preview: We are forecasting Q4/10 EPS of $0.48, a $0.03 increase over Q4/09 results largely due to contribution from the Vaca hydroelectric facility and rate base growth at the Company's Regulated Canadian Electric Utilities.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2009A	2010E	2011E	2012E	2009A	2010E	2011E	2012E	For. E	Forward
FTS	$33.26	174.1	$5,791	$1.12	3.4%	$18.75	1.8	$1.48	$1.59	$1.73	$1.81	22.4x	20.9x	19.3x	18.4x	$1.71	19.5x
ACO.X	$56.00	58.4	$3,270	$1.06	1.9%	$37.23	1.5	$4.63	$4.59	$4.61	$4.98	12.1x	12.2x	12.2x	11.2x	$4.60	12.2x
CU	$49.40	126.0	$6,224	$1.51	3.1%	$25.42	1.9	$3.26	$3.15	$3.28	$3.62	15.2x	15.7x	15.1x	13.7x	$3.26	15.1x
CPX	$24.31	80.6	$1,959	$1.26	5.2%	$22.01	1.1	$0.60	$1.25	$1.26	$0.82	nmf	19.4x	19.3x	29.7x	$1.26	19.4x
EMA	$30.07	120.3	$3,617	$1.30	4.3%	$14.99	2.0	$1.52	$1.63	$1.76	$1.76	19.8x	18.5x	17.1x	17.1x	$1.74	17.3x
ENB	$56.24	375.0	$21,090	$1.70	3.0%	$19.55	2.9	$2.30	$2.70	$2.82	$2.97	24.5x	20.8x	20.0x	19.0x	$2.80	20.1x
TA	$20.63	220.0	$4,539	$1.16	5.6%	$14.00	1.5	$0.88	$0.99	$0.99	$1.00	23.4x	20.9x	20.9x	20.6x	$0.99	20.9x
TRP	$37.43	693.0	$25,939	$1.60	4.3%	$22.21	1.7	$2.02	$1.95	$2.18	$2.20	18.5x	19.2x	17.2x	17.0x	$2.15	17.4x
Avg.					4.1%		1.8x					20.6x	19.3x	18.4x	19.4x		18.5x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) Capital Power's 2009A is a half-year actual.

Source: Company Reports, Thomson, TD Newcrest.

Justification of Target Price

Our $36.00 target price is predicated on 25% of our 2011 and 75% of our 2012 financial estimates as follows: 1) 50% relative earnings yield of 142% (vs. historical average of 132%), 2) 25% relative dividend yield of 94% (vs. historical average of 80%), and 3) 25% P/B of 1.7x (vs. historical average of 1.5x). Our target price implies a 3.3% dividend yield and a price-to-earnings ratio of 20.1x, compared to historical averages of 4.4% and 14.4x, respectively. Note that we currently incorporate a 3.5% 10-year Canada bond yield assumption (previously 4.0%) into our target price calculations.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

Fortis' Regulated Electric Utilities and Non-Regulated Generation segments reported strong contributions during the quarter. Moving forward we expect growth in the Company's regulated utilities will continue to be the primary driver of EPS growth.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in these volatile equity capital markets investors will find the Company's low-risk, utility dominated business model attractive. Long-term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the United States, Canada, and the Caribbean.

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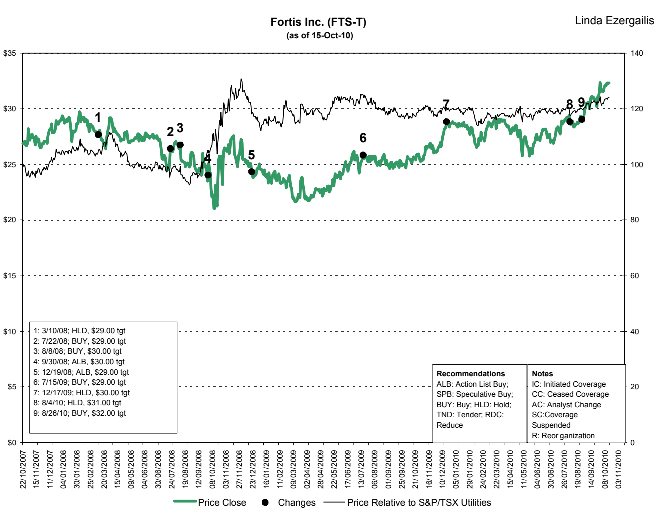
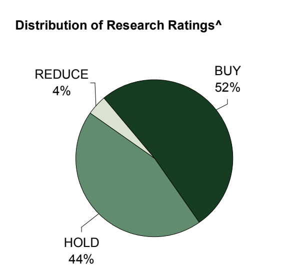
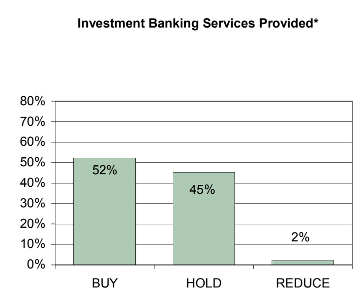


Distribution of Research Ratings





Current as of November 2, 2010

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (7.5% of coverage universe), Medium (31.4%), High (50.6%), Speculative (10.5%)

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Pipelines, Power & Utilities

Recommendation:	**BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$36.00↑**
Prior:	*C$35.00*
12-Month Total Return:	**9.9%**

Market Data (C$)

Current Price	$33.81
52-Wk Range	$21.60-$35.45
Mkt Cap (f.d.)($mm)	$6,363.0
Dividend per Share	$1.16
Dividend Yield	3.4%
Avg. Daily Trading Vol. (3mths)	497834

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	188.2
Float Shares (mm)	174.4
Net Debt/Tot Cap	57.8%
BVPS (basic)	$18.95
ROE	8.6%

Estimates (C$)

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.73	1.82
EPS (basic)(old)	1.50	1.62	1.77	1.85
EPS (f.d.)	1.48	1.60	1.69	1.78
EPS (f.d.)(old)	1.48	1.59	1.73	1.81
CFPS (basic)	3.98	4.25	4.51	4.78
CFPS (basic)(old)	3.98	4.22	4.54	4.79

EPS (f.d.) Quarterly Estimates (C$)

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.59	--
Q2	0.28	0.32	--	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

Valuations

Year	2009A	2010A	2011E	2012E
P/E (f.d.)	22.8x	21.1x	20.0x	19.0x
P/CFPS (basic)	8.5x	8.0x	7.5x	7.1x
P/DI	32.5x	30.2x	29.1x	28.2x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$33.81

Q4 Results a Solid End to 2010

Event

Fortis reported Q4/10 EPS (f.d.) of $0.47, slightly lower than our $0.48 estimate, recent consensus of $0.51 but above Q4/09 normalized EPS (f.d.) of $0.45.

Impact

NEUTRAL. We have made numerous adjustments to our model, which include updating our Newfoundland Power rate base model and a private debt placement. Our estimates decrease slightly as a result of these changes. However, our target price increases by one dollar to $36.00 as we are rolling forward our target to be based 100% on our 2012 forecasts.

Details

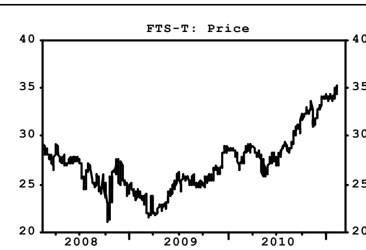
Regulated Gas Utilities (Terasen) Q4/10 earnings of $45 million were $7 million below normalized Q4/09 results (Exhibit 1). The decrease was largely due to the timing of operating expenses, with a higher weighting of costs in Q4/10, increased labour and employee-benefit expenses, and higher maintenance and operating activities that were approved by the regulator as a result of the recent Negotiated Settlement Agreement.

Regulated Electric Utilities – Canadian Q4/10 earnings of $41 million increased by $10 million year over year.

- **FortisAlberta** earnings of $17 million increased by $5 million versus Q4/09 normalized results primarily from ongoing electrical infrastructure investment, customer growth, and higher regulator-approved expenses recoverable from customers.
- **FortisBC** earnings of $10 million increased by $2 million year over year driven largely by increased customer rates reflecting a higher allowed return and increased incentive adjustments.
- **Newfoundland Power** earnings of $9 million were $1 million higher than Q4/09 results. Increased electricity rates and sales were the main drivers for the increase.
- **Other Canadian Electric Utilities (Maritime Electric & FortisOntario)** earnings of $5 million were $2 million ahead of Q4/09 normalized results largely due to higher capitalized overhead expenses in Q4/10.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Regulated Utilities – Caribbean earnings of $5 million were $2 million lower year over year largely from increased legal expenses at Belize Electricity as a result of the regulatory challenges, in addition to lower electricity sales.

Fortis Generation earnings of $5 million were $2 million higher than Q4/09 results largely from increased generation production in all operating regions, and higher average electricity prices in Upper New York State and Ontario.

Fortis Properties reported earnings of $7 million, $2 million above Q4/09 results primarily due to lower effective income taxes, in addition to rent increases in the real estate division.

Corporate expenses decreased by $1 million to $18 million in Q4/10 largely due to lower financing costs.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q4/10	Q4/09	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1,2]	$45	$52	($7)	-13%
FortisAlberta[3]	17	12	5	42%
FortisBC	10	8	2	25%
Newfoundland Power	9	8	1	13%
Other Canadian[4]	5	3	2	67%
Regulated Electric Utilities - Canadian	41	31	10	32%
Regulated Utilities - Caribbean	5	7	(2)	-29%
Total Regulated Utilities	**91**	**90**	**2**	**2%**
Non-Regulated Fortis Generation	**5**	**3**	**2**	**67%**
Non-Regulated Fortis Properties	**7**	**5**	**2**	**40%**
Corporate	**(18)**	**(19)**	**1**	**-5%**
Operating Earnings	**85**	**79**	**7**	**8%**
Adjustments	-	3	(3)	**-100%**
Reported Earnings	**85**	**81**	**4**	**5%**
Operating EPS (f.d)	**$0.47**	**$0.45**	**$0.02**	**5%**
Reported EPS (f.d)	$0.47	$0.46	$0.01	2%

Notes: Earnings have been normalized for the following items:

1) Q4/09 excludes $5.0 million of costs associated with the conversion of customer appliances from propane to natural gas.
2) Q4/09 excludes $1.5 million of earnings associated to prior periods.
3) Q4/09 excludes $3.0 million of earnings associated to prior periods.
4) Q4/09 excludes a $3.0 million favourable tax adjustment.

Source: Company Reports, TD Newcrest.

Outlook

MOU to Develop Transmission Projects in Ontario: On February 2, 2011, FortisOntario announced that it had entered into a memorandum of understanding (MOU) with Lake Huron Anishinabek Transmission Company Inc. (LHATC) for the potential construction and operation of regulated electricity transmission projects in Ontario. FortisOntario will hold a minimum ownership of 51% and LHATC will have the right to acquire up to a 49% equity interest in the joint venture.

Given the increasing amount of renewable power projects coming on line in Ontario, the demand for transmission infrastructure to support this increase in generation has prompted the Ontario Energy Board (OEB) to issue a Framework for Transmission Project Development Plans, which could encourage new transmission investment in Ontario through a formal competitive process for projects identified by the Ontario Power Authority. Although it is still early days, we view this development positively as we believe Fortis' strong expertise in transmission and its incumbency in Ontario will allow the company to potentially secure transmission project mandates in the province.

Q1/11 Preview: We are forecasting Q1/11 EPS of $0.59, a $0.03 increase over Q1/10 results largely due to rate base growth at the Company's Regulated Canadian Utilities and a full-quarter contribution from the Vaca hydroelectric generating facility.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2009A	2010E	2011E	2012E	2009A	2010E	2011E	2012E	For. E	Forward
FTS	$33.81	188.2	$6,363	$1.16	3.4%	$18.95	1.8	$1.48	$1.60	$1.69	$1.78	22.8x	21.2x	19.9x	19.0x	$1.70	19.8x
ACO.X	$56.88	58.4	$3,322	$1.14	2.0%	$37.23	1.5	$4.63	$4.59	$4.61	$4.98	12.3x	12.4x	12.3x	11.4x	$4.65	12.2x
CU	$51.86	126.0	$6,534	$1.61	3.1%	$25.42	2.0	$3.26	$3.15	$3.28	$3.62	15.9x	16.5x	15.8x	14.3x	$3.32	15.6x
CPX	$24.95	80.6	$2,011	$1.26	5.1%	$22.01	1.1	$0.60	$1.25	$1.26	$0.86	n.a.	20.0x	19.9x	29.0x	$1.21	20.6x
EMA	$31.00	120.3	$3,729	$1.30	4.2%	$14.99	2.1	$1.52	$1.63	$1.82	$1.86	20.4x	19.1x	17.0x	16.7x	$1.83	17.0x
ENB	$57.44	378.0	$21,712	$1.96	3.4%	$19.88	2.9	$2.30	$2.63	$2.80	$2.98	25.0x	21.8x	20.5x	19.3x	$2.82	20.3x
TA	$20.74	220.0	$4,563	$1.16	5.6%	$14.00	1.5	$0.88	$0.86	$0.96	$0.98	23.5x	24.0x	21.6x	21.2x	$0.96	21.5x
TRP	$37.96	693.0	$26,306	$1.60	4.2%	$22.21	1.7	$2.02	$1.95	$2.17	$2.20	18.8x	19.5x	17.5x	17.3x	$2.17	17.5x
Avg.					4.1%		1.9x					21.1x	20.3x	18.9x	19.5x		18.9x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) Capital Power's 2009A is a half-year actual.

Source: Company Reports, Thomson, TD Newcrest.

Justification of Target Price

Our $36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

We expect capital investments in the Company's regulated utilities to continue to be the primary driver of EPS growth in the medium term, which we view positively given the low-risk and regulated nature of the assets.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility dominated business model attractive. Long-term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the United States, Canada, and the Caribbean.

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Fortis Inc.	FTS-T	1,2, 4, 9, 10

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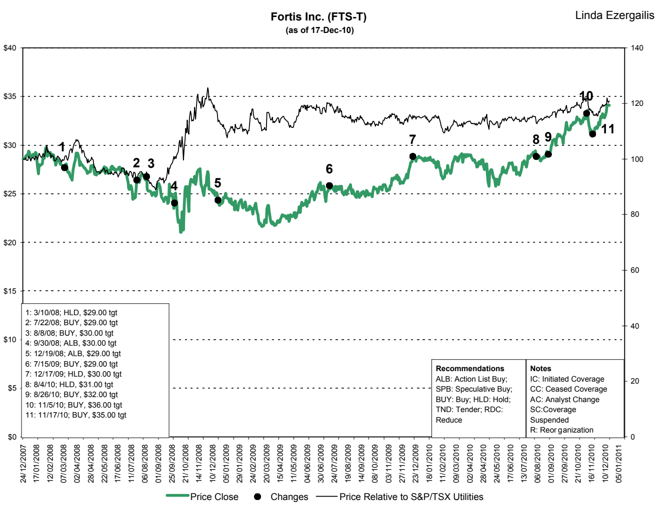

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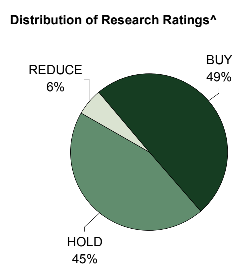

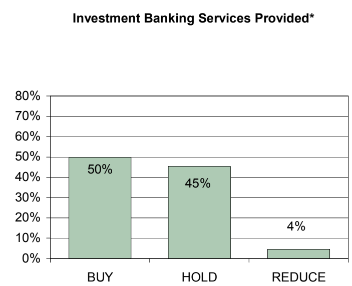

Current as of February 2, 2011

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Fortis Inc.

(FTS-T) C$32.29

Belize Electricity Receives Negative Court Decision

Event

The Supreme Court of Belize dismissed Belize Electricity Ltd.'s (70% owned by Fortis) appeal regarding the regulator's Final Decision following the 2008 Annual Tariff Review Proceeding.

Impact

MILDLY NEGATIVE.

We are reducing each of our 2011 and 2012 EPS estimates by three pennies to reflect lower expected Belize Electricity earnings as a result of the decision.

Details

Belize Electricity Ltd. Overview: An integrated electric utility and the principal distributor of electricity in Belize. The utility has approximately $0.2 billion of assets and serves more than 77,000 customers. Fortis has a 70% ownership interest in Belize Electricity.

Regulatory Overview: Belize Electricity is regulated by the Public Utilities Commission (PUC). The PUC issued a decision in June 2008, which disallowed $18 million of previously incurred power costs and lowered Belize Electricity's return on assets (ROA) to 10% from 12%. Fortis is of the view that the decision violated established regulatory practices and contractual obligations between the utility and the government. Belize Electricity challenged the decision in several proceedings during which time the PUC has been prohibited from carrying out any rate review proceedings and taking enforcement actions against the utility. We note that Belize Electricity has not been earning its 10% allowed ROA due to the aforementioned regulatory challenges.

Pipelines, Power & Utilities

Recommendation:	**BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$36.00**
	Unchanged
12-Month Total Return:	**15.1%**

Market Data (C$)	
Current Price	$32.29
52-Wk Range	$21.60-$35.45
Mkt Cap (f.d.)($mm)	$6,077.0
Dividend per Share	$1.16
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	481895

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	188.2
Float Shares (mm)	174.4
Net Debt/Tot Cap	57.8%
BVPS (basic)	$18.95
ROE	8.6%

Estimates (C$)

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.69	1.79
EPS (basic)(old)	1.50	1.63	1.73	1.82
EPS (f.d.)	1.48	1.60	1.66	1.75
EPS (f.d.)(old)	1.48	1.60	1.69	1.78
CFPS (basic)	3.98	4.25	4.47	4.74
CFPS (basic)(old)	3.98	4.25	4.51	4.78

EPS (f.d.) Quarterly Estimates (C$)

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.59	--
Q2	0.28	0.32	--	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

Valuations

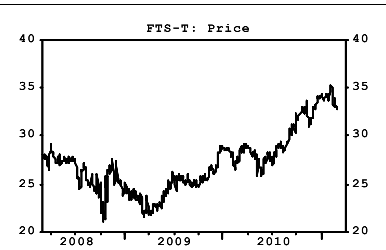
Year	2009A	2010A	2011E	2012E
P/E (f.d.)	21.8x	20.2x	19.5x	18.5x
P/CFPS (basic)	8.1x	7.6x	7.2x	6.8x
P/DI	31.0x	28.8x	27.8x	26.9x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Overview of Decision:

- **Decision**: The Supreme Court dismissed Belize Electricity's appeal of the regulator's Final Decision following the 2008 Annual Tariff Review Proceeding.
- **Earnings Impact**: Moving forward we expect earnings from Belize Electricity to be similar to the $1.5 million that was generated in 2010. Fortis believes the utility should generate $10 million of earnings under normal operations. We note that Belize Electricity represented less than 1% of Fortis' consolidated earnings in 2010.
- **Possible Next Steps**: Belize Electricity is reviewing the decision and its options. The company can appeal to the Belize Court of Appeal and following that, if required, the case could be brought to the Caribbean Court of Justice in Trinidad.

Valuation

Exhibit 1. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E	For. E	Forward
FTS	$32.29	188.2	$6,077	$1.16	3.6%	$18.95	1.7	$1.48	$1.60	$1.66	$1.75	21.8x	20.2x	19.5x	18.5x	$1.68	19.2x
ACO.X	$57.11	57.9	$3,308	$1.14	2.0%	$38.22	1.5	$4.63	$4.88	$4.56	$4.97	12.3x	11.7x	12.5x	11.5x	$4.65	12.3x
CU	$49.90	127.5	$6,361	$1.61	3.2%	$26.01	1.9	$3.26	$3.28	$3.19	$3.58	15.3x	15.2x	15.6x	14.0x	$3.27	15.3x
EMA	$30.72	127.6	$3,920	$1.30	4.2%	$16.33	1.9	$1.52	$1.65	$1.74	$1.81	20.2x	18.6x	17.7x	17.0x	$1.75	17.5x
ENB	$57.71	378.0	$21,814	$1.96	3.4%	$19.88	2.9	$2.30	$2.63	$2.80	$2.98	25.1x	21.9x	20.6x	19.4x	$2.84	20.3x
TA	$20.06	220.3	$4,419	$1.16	5.8%	$13.09	1.5	$0.88	$0.88	$1.06	$1.04	22.8x	22.8x	18.9x	19.3x	$1.06	19.0x
TRP	$37.90	696.0	$26,378	$1.68	4.4%	$22.27	1.7	$2.02	$1.97	$2.14	$2.22	18.7x	19.2x	17.7x	17.1x	$2.16	17.6x
Avg.					4.2%		1.8x					20.7x	19.7x	18.0x	17.5x		17.9x

Notes:
1) Averages exclude ATCO due to its holding company nature.
Source: Company Reports, Thomson, TD Newcrest.

Justification of Target Price

Our $36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.

Key Risks to Target Price

1) Higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

We expect Belize Electricity to continue to challenge the decision. The decision, while mildly negative is largely immaterial to the company, although it does highlight the higher risk nature of Fortis' Caribbean investments relative to its Canadian regulated businesses.

We expect capital investments in the Company's regulated utilities to continue to be the primary driver of EPS growth in the medium term, which we view positively given the low-risk and regulated nature of the assets. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and therefore we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility dominated business model attractive. Long-term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the United States, Canada, and the Caribbean.

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Fortis Inc.	FTS-T	1,2, 4, 9, 10

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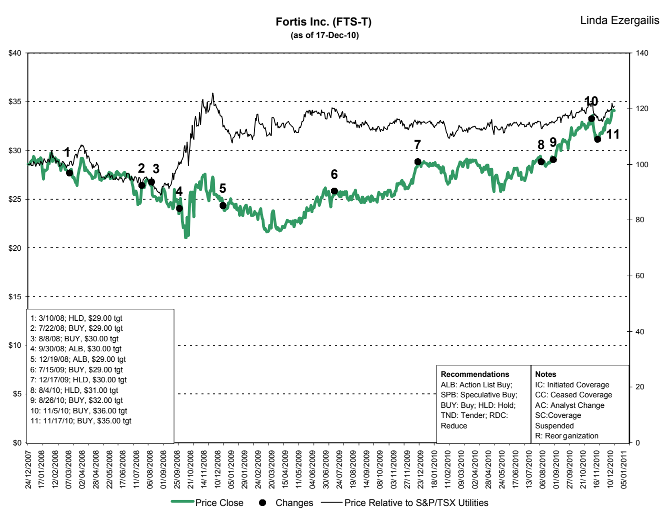

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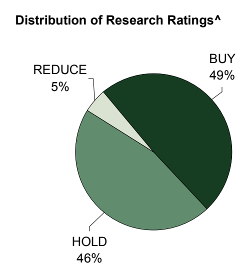

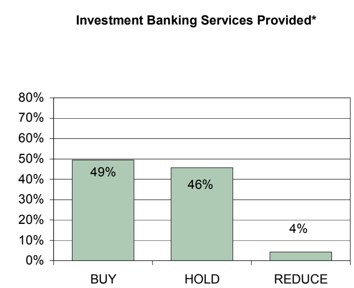

Current as of March 1, 2011

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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BUY: The stock’s total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock’s total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock’s total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (7.3% of coverage universe), Medium (33.3%), High (49.4%), Speculative (10.0%)

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Pipelines, Power & Utilities

Recommendation:	**BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$36.00**
	Unchanged
12-Month Total Return:	**14.9%**

Market Data (C$)	
Current Price	$32.35
52-Wk Range	$21.60-$35.45
Mkt Cap (f.d.)($mm)	$6,072.1
Dividend per Share	$1.16
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	424169

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	187.7
Float Shares (mm)	175.4
Net Debt/Tot Cap	56.1%
BVPS (basic)	$19.36
ROE	8.6%

Estimates (C$)

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.70	1.83
EPS (basic)(old)	1.50	1.63	1.69	1.79
EPS (f.d.)	1.48	1.60	1.67	1.78
EPS (f.d.)(old)	1.48	1.60	1.66	1.75
AFFO/Shr	2.01	2.15	2.57	2.60
AFFO/Shr (old)	2.01	1.94	2.23	2.55

EPS (f.d.) Quarterly Estimates (C$)

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.64	--
Q2	0.28	0.32	0.36	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

Valuations

Year	2009A	2010A	2011E	2012E
P/E (f.d.)	21.9x	20.2x	19.4x	18.2x
P/AFFO	16.1x	15.0x	12.6x	12.4x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$32.35

Regulated Canadian Utilities Drive Q1 Results

Event

Fortis reported Q1/11 normalized EPS (f.d.) of $0.64, higher than our $0.59 estimate, recent consensus of $0.62, and Q1/10 EPS (f.d.) of $0.56.

Impact

SLIGHTLY POSITIVE. We have made several changes to our model, the largest of which includes adjusting our FortisAlberta rate base model for increased capital spend in 2011-2013, along with refining our overall maintenance expenditure forecasts. Our estimates increase slightly as a result of these changes. We are maintaining our $36.00 target price and BUY recommendation.

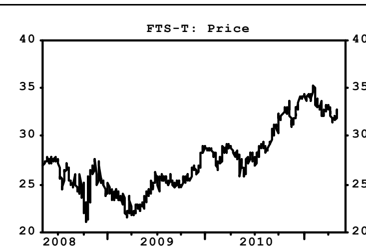
Details

Regulated Gas Utilities Q1/11 earnings of $76 million were $3 million above Q1/10 results (Exhibit 1). The increase was largely due to rate base growth from continued utility investments, the timing of the recorded impact of a rate decision received back in 2010, and lower amortization costs from retired assets.

Regulated Electric Utilities – Canadian Q1/11 normalized earnings of $52 million increased by $12 million year over year.

- **FortisAlberta** normalized earnings of $20 million increased by $6 million versus Q1/10 results, primarily due to rate base growth from continued utility investments and the timing of the recorded impact of a rate decision received back in 2010.
- **FortisBC** earnings of $19 million increased by $5 million year over year, driven largely by increased electricity sales and rate base growth from capital investments.
- **Newfoundland Power** earnings of $7 million were flat year over year.
- **Other Canadian Electric Utilities** earnings of $6 million were $1 million higher than Q1/10 results, largely due to an increase in ROE at Algoma Power and increased electricity sales.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

Regulated Utilities – Caribbean earnings of $4 million were unchanged from Q1/10 results.

Fortis Generation earnings of $3 million were $1 million higher than Q1/10 results, largely from increased generation production in Belize and higher average energy sales in Ontario.

Fortis Properties normalized earnings of $1 million were $1 million below Q1/10 results, primarily due to the impact of the economic downturn on hotel operations and increased amortization expenses from capital investments.

Corporate expenses decreased by $1 million to $20 million in Q1/11, largely due to lower operating and financing costs.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q1/11	Q1/10	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	$76	$73	$3	4%
FortisAlberta[1]	20	14	6	43%
FortisBC	19	14	5	36%
Newfoundland Power	7	7	-	0%
Other Canadian	6	5	1	20%
Regulated Electric Utilities - Canadian	52	40	12	30%
Regulated Utilities - Caribbean	4	4	-	0%
Total Regulated Utilities	**132**	**117**	**15**	**13%**
Non-Regulated Fortis Generation	**3**	**2**	**1**	**25%**
Non-Regulated Fortis Properties[2]	**1**	**2**	**(1)**	**-50%**
Corporate	**(20)**	**(21)**	**1**	**-5%**
Operating Earnings	**116**	**100**	**16**	**16%**
Adjustments	1	-	1	**n.a.**
Reported Earnings	**117**	**100**	**17**	**17%**
Operating EPS (f.d)	**$0.64**	**$0.56**	**$0.08**	**14%**
Reported EPS (f.d)	$0.65	$0.56	$0.09	15%

Notes: Reported earnings have been normalized for the following items:
1) Q1/11 excludes a $1.0 million (after-tax) gain related to the sale of property.
2) Q1/11 excludes a $0.5 million (pre-tax) gain related to the sale of the Viking Mall in Newfoundland.

Source: Company Reports, TD Newcrest.

Outlook

Regulatory Updates:

- **FortisAlberta:** In March 2011, FortisAlberta filed its 2012 and 2013 Distribution Tariff Application, which also included approximately $776 million in forecasted gross capital expenditures over the two-year period. A final decision by the regulator is expected in Q1/12.
- **FortisBC:** FortisBC Electric intends to file a 2012-2013 Revenue Requirements Application (RRA) in the summer of 2011. Similarly, FortisBC Energy (previously known as the Terasen companies) expects to file a 2012-2013 RRA in May 2011.
- **Newfoundland Power:** A customer rate application is expected to be filed in May 2011, which proposes an increase in rates by approximately 8%, effective July 1, 2011.

Future Acquisitions a Possibility: Our growth outlook for Fortis incorporates an estimated $5.5 billion capital program over the next five years. Management is also actively pursuing regulated electric and natural gas distribution utilities, and an acquisition could occur first in the U.S. over Canada, given our view of the potential candidates. We would not expect Fortis to form a joint venture with or take a partial interest in a smaller, high-cash yielding corporate affiliate, although, for a very large acquisition, a purely financial partner could play a role.

Q2/11 Preview: We are forecasting Q2/11 EPS of $0.36, a $0.04 increase over Q2/10 results, largely due to rate base growth at the Company's FortisAlberta and FortisBC regulated utilities.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E	For. E	Forward
FTS	$32.35	187.7	$6,072	$1.16	3.6%	$19.36	1.7	$1.48	$1.60	$1.67	$1.78	21.8x	20.2x	19.4x	18.2x	$1.71	18.9x
ACO.X	$60.27	57.8	$3,484	$1.14	1.9%	$35.49	1.7	$4.63	$4.88	$5.00	$5.28	13.0x	12.4x	12.0x	11.4x	$5.10	11.8x
CU	$55.21	127.5	$7,038	$1.61	2.9%	$23.95	2.3	$3.26	$3.28	$3.37	$3.63	17.0x	16.8x	16.4x	15.2x	$3.46	16.0x
CPX	$25.48	87.8	$2,237	$1.26	4.9%	$22.53	1.1	$0.60	$1.38	$1.54	$1.54	n.a.	18.5x	16.5x	16.6x	$1.54	16.5x
EMA	$31.67	126.7	$4,013	$1.30	4.1%	$13.65	2.3	$1.52	$1.65	$1.73	$1.81	20.8x	19.2x	18.3x	17.5x	$1.76	18.0x
ENB	$61.44	378.0	$23,224	$1.96	3.2%	$19.88	3.1	$2.30	$2.63	$2.80	$2.98	26.8x	23.4x	21.9x	20.6x	$2.86	21.4x
TA	$21.25	222.0	$4,718	$1.16	5.5%	$12.84	1.7	$0.88	$0.88	$1.09	$1.10	24.1x	24.1x	19.5x	19.3x	$1.09	19.4x
TRP	$41.29	699.0	$28,862	$1.68	4.1%	$24.15	1.7	$2.02	$1.97	$2.25	$2.29	20.4x	21.0x	18.3x	18.0x	$2.27	18.2x
Avg.					4.0%		2.0x					21.8x	20.5x	18.6x	17.9x		18.4x

Notes:
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2) Capital Power's 2009A is a half-year actual.
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Justification of Target Price

Our $36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.

Key Risks to Target Price

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

Fortis' Q1/11 results were a strong start to the year. We expect capital investments in the Company's regulated utilities to continue to be the primary driver of EPS growth in the medium term, which we view positively given the low-risk and regulated nature of the assets. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility-dominated business model attractive. Long term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the U.S., Canada, and the Caribbean.

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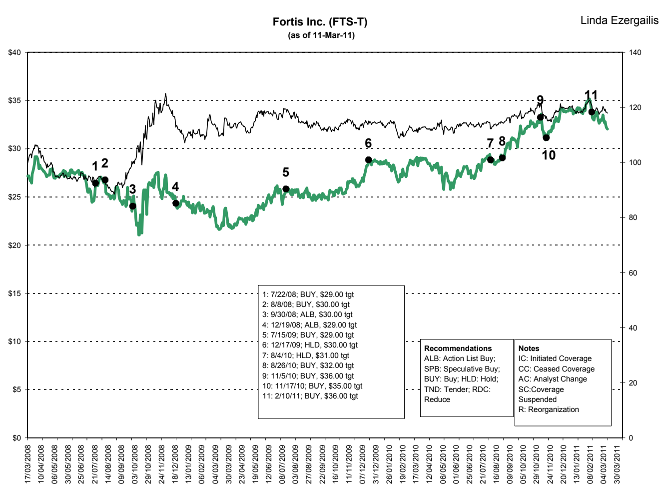

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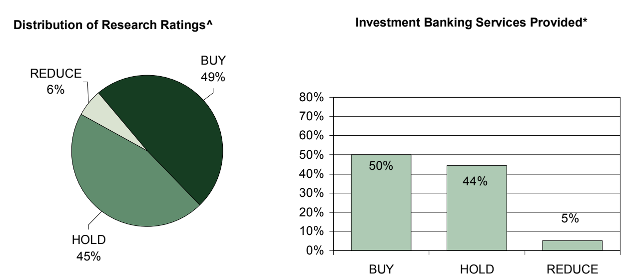

Current as of May 2, 2011

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TD Newcrest
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Action Notes

June 15, 2011
Equity Research

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Fortis Inc.

(FTS-T) C$31.77

Pipelines, Power & Utilities

Recommendation:	**BUY** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$36.00** *Unchanged*
12-Month Total Return:	**17.0%**

Market Data (C$)	
Current Price	$31.77
52-Wk Range	$26.80-$35.45
Mkt Cap (f.d.)($mm)	$6,252.3
Dividend per Share	$1.16
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3mths)	641893

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	196.8
Float Shares (mm)	184.5
Net Debt/Tot Cap	54.5%
BVPS (basic)	$20.04
ROE	8.6%

Estimates (C$)

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.69	1.88
EPS (basic)(old)	1.50	1.63	1.70	1.83
EPS (f.d.)	1.48	1.60	1.65	1.83
EPS (f.d.)(old)	1.48	1.60	1.67	1.78
AFFO/Shr	2.01	2.15	2.53	2.56
AFFO/Shr (old)	2.01	2.15	2.57	2.60

EPS (f.d.) Quarterly Estimates (C$)

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.64	--
Q2	0.28	0.32	0.36	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

Valuations

Year	2009A	2010A	2011E	2012E
P/E (f.d.)	21.5x	19.9x	19.3x	17.4x
P/AFFO	15.8x	14.8x	12.6x	12.4x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Resuming Coverage: Acquisition of Vermont Utility Announced

Event

- We are resuming coverage of Fortis after the completion of a $300 million equity offering.
- On May 30, 2011, Fortis announced that it entered into an agreement to acquire Central Vermont Public Service Corporation (CVPS) for an aggregate purchase price of approximately US$700 million.
- On June 10, 2011, the Government of Belize issued a statement announcing its interest in assuming control of Belize Electricity Ltd. (BEL).

Impact

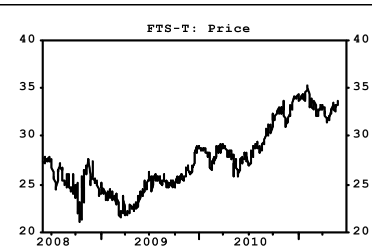
MIXED. We have revised our estimates to include the successful acquisition of CVPS along with updating our financing assumptions, which includes the recent equity offering. However, given that Fortis has not received any formal offer from the Belize Government for its investment in BEL we are not incorporating a sale of the asset in our model. Our target remains $36.00.

Details

CVPS Acquisition:

- **Description:** CVPS is the largest integrated electric utility in Vermont, and consists of approximately 9,000 miles of distribution lines and over 600 miles of sub-transmission lines. CVPS also holds directly and indirectly approximately 41% of Vermont Transco LLC (Velco), which owns and operates the high-voltage transmission system in Vermont. CVPS serves approximately 160,000 customers in about two-thirds of the cities and towns in Vermont.
- **Price:** US$35.10 per share in cash for an aggregate purchase price of approximately US$700 million, which includes approximately US$230 million of debt. This represents a 1.4x price-to-total rate base multiple when including CVPS' total interest in Velco.
- **Favourable Regulatory Framework:** For CVPS, the allowed rate of return on common equity for 2011 has been set at 9.45% and the equity thickness is currently 57%.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Belize, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



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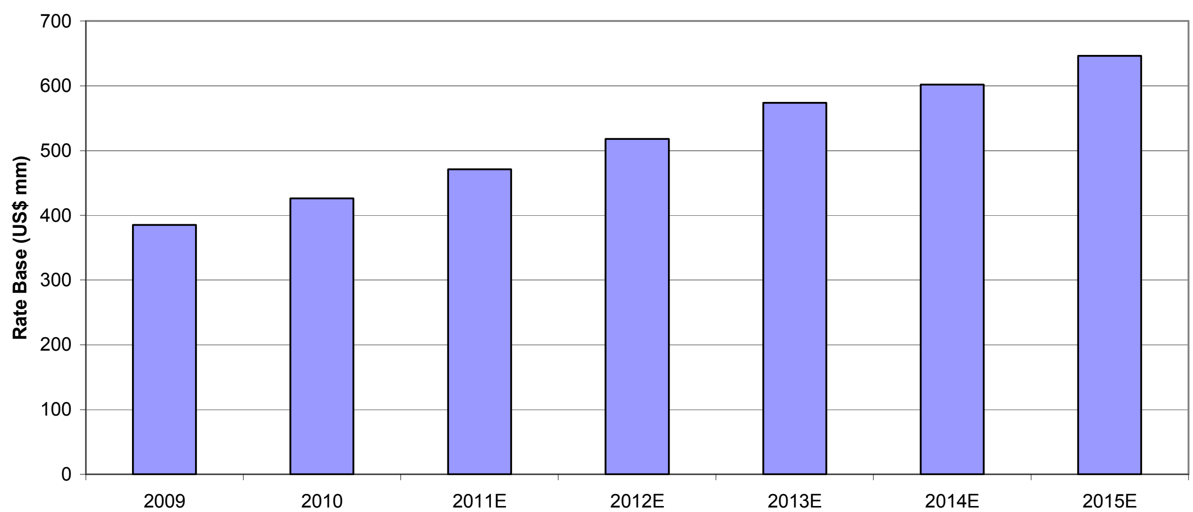
- **Rate Base Growth:** CVPS expects its rate base investment to reach approximately US$650 million by 2015, representing a compound average annual growth rate of 8.7% from 2010 to 2015 (Exhibit 1). In 2010, total assets and rate base assets of CVPS were approximately US$711 million and US$426 million, respectively.
- **EPS Accretive:** The acquisition is expected to be accretive to Fortis' EPS in the first full year of ownership. Based on our assumptions we estimate an annual EPS accretion of $0.04 in 2012.
- **Financing:** Upon the transaction close, Fortis expects to fund the acquisition by drawing on its committed term credit facility.
- **Higher Bid Unlikely:** Given our understanding that the sale process was thoroughly conducted (by Lazard Ltd.), we do not foresee a higher bid. The transaction break fee is $17.5 million plus expenses (capped at $2 million).
- **Approvals and Timing:** The transaction is subject to the receipt of approvals from CVPS shareholders, regulatory and other approvals, including those of the Vermont Public Service Board and the U.S. FERC, and customary closing conditions. Fortis expects to close the acquisition within 6 to 12 months. We have assumed an early 2012 closing.
- **In-Line With Strategy and Creates Further Opportunities in the U.S. Northeast:** We view the foray into the U.S. Northeast positively as it could build on Fortis' strategy of growing earnings through its regulated rate base investments, and potentially provide it with the foundation for growing its asset base in the U.S. Northeast. It is our understanding that Fortis sees other similar opportunities in the U.S., and a successful acquisition of CVPS could provide Fortis with the impetus to acquire other electric utilities in the region, in our view.

Exhibit 1. CVPS Estimated Rate Base Growth (2009–2015)



Note:
1) Includes Velco investments and VT Marble acquisition, net of stimulus funding.
Source: Company Reports, TD Newcrest.

Equity Offering:

- On May 30, 2011, Fortis entered into an agreement to sell 9.1 million common shares on a bought deal basis at $33.00 per share, for gross proceeds of approximately $300 million ($345.3 million with over-allotment). The underwriters have an option to purchase up to an additional 1.365 million common shares at the same price up to 30 days after the offering close.
- The net proceeds are expected to be used to repay the company's outstanding credit facility, finance additional equity injections into the company's western Canadian regulated utilities and the Waneta Expansion, and general corporate purposes.

Government of Belize Announcement:

- On June 10, 2011, the Government of Belize issued a statement announcing its interest in assuming control of BEL through the purchase of a majority stake of its shares. The Government of Belize currently owns approximately 25% of BEL while Fortis owns approximately 70%.
- **Offer Not Official:** No official offer has been made by the Belize Government for BEL but if a proposal is announced we would expect Fortis to prefer to sell either all or none of its stake in BEL.
- **BEL Investment Largely Immaterial:** In 2010, BEL contributed approximately $2 million of net earnings to Fortis (less than 1% of 2010 consolidated operating earnings) and the company's net investment in BEL is approximately C$125 million.
- **BECOL Investment Unaffected:** It is our understanding that the Government of Belize is not interested in Fortis' investment in Belize Electric Company Limited (BECOL), which operates three non-regulated generation assets in Belize and sells output to BEL under 50-year power purchase agreements (PPAs). We believe that the Belize Government intends to honour the PPAs with BECOL, and that there are strong mechanisms in place to ensure that those contracts are honoured.
- **Timing:** It is our understanding that BEL has the cash to purchase electricity for just under a month using a cash advance from the Belize Government, and that the Government would like to reach a deal prior to this deadline.

Valuation

Exhibit 2. Valuation

	Curr.	Shares	Market	Ind.		Book		EPS (f.d.)				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E	For. E	Forward
FTS	$31.77	196.8	$6,252	$1.16	3.7%	$20.04	1.6	$1.48	$1.60	$1.65	$1.83	21.4x	19.9x	19.2x	17.3x	$1.74	18.3x
ACO.X	$60.80	57.8	$3,514	$1.14	1.9%	$35.49	1.7	$4.63	$4.88	$5.00	$5.28	13.1x	12.5x	12.2x	11.5x	$5.13	11.9x
CU	$56.40	127.5	$7,190	$1.61	2.9%	$23.95	2.4	$3.26	$3.28	$3.37	$3.63	17.3x	17.2x	16.7x	15.6x	$3.49	16.2x
CPX	$26.40	87.8	$2,318	$1.26	4.8%	$22.53	1.2	$0.60	$1.38	$1.54	$1.54	n.a.	19.1x	17.1x	17.2x	$1.54	17.1x
EMA	$31.66	126.7	$4,011	$1.30	4.1%	$13.65	2.3	$1.52	$1.65	$1.73	$1.81	20.8x	19.2x	18.3x	17.5x	$1.77	17.9x
ENB	$30.89	758.0	$23,415	$0.98	3.2%	$20.48	1.5	$1.15	$1.32	$1.42	$1.52	26.8x	23.5x	21.8x	20.4x	$1.46	21.1x
TA	$21.00	222.0	$4,662	$1.16	5.5%	$12.84	1.6	$0.88	$0.88	$1.09	$1.10	23.8x	23.9x	19.3x	19.0x	$1.10	19.2x
TRP	$41.46	699.0	$28,981	$1.68	4.1%	$24.15	1.7	$2.02	$1.97	$2.25	$2.29	20.5x	21.1x	18.4x	18.1x	$2.27	18.3x
Avg.					4.0%		1.8x					21.8x	20.5x	18.7x	17.9x		18.3x

Notes:

1) Averages exclude ATCO due to its holding company nature.

Source: Company Reports, Thomson, TD Newcrest.

Justification of Target Price

Our $36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.

Key Risks to Target Price

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

If successful, we view the CVPS acquisition positively as we believe it would be mutually beneficial for both companies. The transaction should provide Fortis with a source of stable, regulated earnings, in a favourable regulatory jurisdiction with the potential to expand the company's footprint into the U.S. Northeast. CVPS is expected to gain the financial backing of a strong parent to help fund its future growth, receive benefits to improve its system reliability and efficiency for customers, and keep its operations autonomous in the Fortis fold.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility-dominated business model attractive. Long term, we expect the Company to be well positioned as an aggregator of regulated gas and electric utilities in the U.S. and Canada.

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Fortis Inc.	FTS-T	1,2, 4, 9, 10

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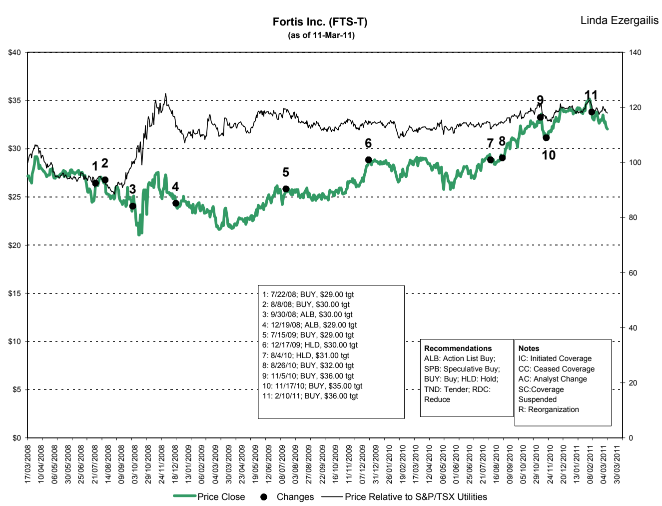

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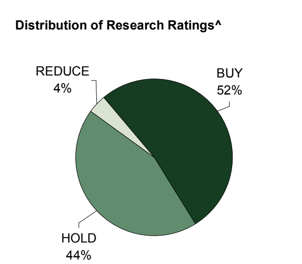

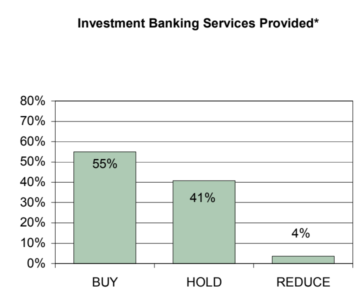

Current as of June 1, 2011

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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BUY: The stock’s total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock’s total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock’s total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

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Pipelines, Power & Utilities

Recommendation:	**BUY** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$36.00** *Unchanged*
12-Month Total Return:	**16.1%**

Market Data (C$)	
Current Price	$32.01
52-Wk Range	$26.80-$35.45
Mkt Cap (f.d.)($mm)	$6,299.6
Dividend per Share	$1.16
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	476948

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	196.8
Float Shares (mm)	184.5
Net Debt/Tot Cap	54.5%
BVPS (basic)	$20.04
ROE	8.6%

Estimates (C$)

Year	2009A	2010A	2011E	2012E
EPS (basic)	1.50	1.63	1.67	1.87
EPS (basic)(old)	1.50	1.63	1.69	1.88
EPS (f.d.)	1.48	1.60	1.64	1.82
EPS (f.d.)(old)	1.48	1.60	1.65	1.83
AFFO/Shr	2.01	2.15	2.48	2.51
AFFO/Shr (old)	2.01	2.15	2.53	2.56

EPS (f.d.) Quarterly Estimates (C$)

Year	2009A	2010A	2011E	2012E
Q1	0.52	0.56	0.64	--
Q2	0.28	0.32	0.36	--
Q3	0.21	0.24	--	--
Q4	0.45	0.47	--	--

Valuations

Year	2009A	2010A	2011E	2012E
P/E (f.d.)	21.6x	20.0x	19.5x	17.6x
P/AFFO	15.9x	14.9x	12.9x	12.8x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$32.01

Fortis' Electric Utility in Belize to be Expropriated

Event

The Government of Belize has passed a legislation and issued an order to expropriate Fortis' 70% ownership interest in Belize Electricity Limited (BEL). Compensation for Fortis' interest remains to be determined.

Impact

MILDLY NEGATIVE.

We have updated our forecasts to remove the earnings contribution from BEL (approximately $2 million per year, versus a fair return level of $10 million). At this point, however, we have not written down the net investment from the company's balance sheet, as the final payment could take over a year to resolve.

While there is some risk to the earnings contribution from Fortis' non-regulated hydro generation assets in the country (BECOL), which we estimate to be $12-13 million annually (approximately 4% of consolidated earnings), we believe that the contractual provisions in place are sufficient to protect the investment's value and cash flow.

We would view any weakness in the stock price, as a result of this announcement, to be a buying opportunity.

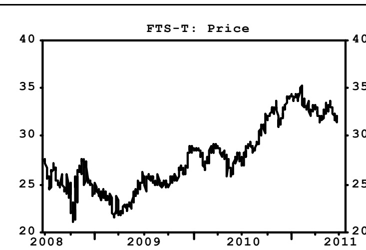
Details

- **BEL Overview**: Fortis owned approximately 70% of BEL, which is the main distributor of electricity in the country. Prior to the expropriation, the Government effectively owned 25% of BEL, with the balance being held by approximately 1,100 Belizeans.
- **BEL Investment Largely Immaterial to Fortis**: In 2010, BEL contributed approximately $2 million of net earnings to Fortis (less than 1% of 2010 consolidated operating earnings) and the company's net investment in BEL was approximately $125 million (less than 2% of Fortis' assets).

Please see the final pages of this document for important disclosure information.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



- **Expropriation was a Known Risk:** BEL had been unsuccessfully seeking a fair return for years through the courts of appeal as the regulator had kept electricity rates too low to allow direct operating costs to be recovered and the debt to be serviced. Last week, our understanding was that BEL had sufficient cash to purchase electricity for just under a month using a cash advance from the Belize Government, and that the Government was interested in purchasing a majority interest in BEL prior to the cash running out.
- **Foreign Investment Exiting Belize**: We continue to be hopeful that Fortis will be able to recover its net investment in BEL, although there is some risk to that scenario. Our understanding is that the water and telephone companies have already been taken over by the Government, with the water company acquired but the phone company expropriated.
- **Government Has No Plans to Nationalize BECOL**: Fortis also owns and operates three non-regulated hydro dams in Belize that sell electricity to BEL under 50-year power purchase agreements (PPAs). We estimate Fortis' investment in Belize Electric Company Limited (BECOL) to be $160-175 million and the assets to generate $12-13 million of earnings per year. We believe that the Belize Government intends to honour the PPAs with BECOL, and that there are strong mechanisms in place to ensure that those contracts are honoured. Local media has quoted Prime Minister Barrow as stating that "*...because BECOL is functioning well and there is no difficulty in its generation of electricity, there can be no reason to interfere with BECOL and Fortis' ownership...except for compelling, unavoidable public interest reasons, this Government observes the sanctity of contracts*".
- **Other Caribbean Investments Appear Stable**: Other than potentially consolidating utilities in Turks & Caicos and the Cayman Islands in the future, we would not expect Fortis to expand its presence to new countries in the Caribbean. As Fortis has been growing, the Caribbean has continued to shrink as a percentage of the consolidated company, which we have always viewed to be a positive trend. Last year Utilities earnings in the Caribbean region contributed 8% to Fortis' operating earnings, versus 18% in 2007.

Outlook

Timing Could Take Years to Fully Resolve: Our understanding is that while Fortis is required to file a claim within 30 days of expropriation, and have all final claims submitted within 12 months from expropriation. The Legislation does not set a timeline for actually paying out the claim beyond effectively stating that the reasonable payment is to be made in a reasonable time. Given our view of the weak financial state of the Government, it could take some time for any payment to be made. While Fortis could appeal the level of payment the Government establishes in the court system, to date Fortis has been unsuccessful in obtaining a fair return for BEL through the appeals process, suggesting that a significant write down of Fortis' BEL investment is a real risk. The Government does not appear to put much weight on the negative investment signal to foreigners that this move makes, especially since this is not the first infrastructure to be nationalized, increasing the risk of an investment write down for Fortis.

Valuation

Exhibit 1. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS (f.d.)				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E	For. E	Forward
FTS	$32.01	196.8	$6,300	$1.16	3.6%	$20.04	1.6	$1.48	$1.60	$1.64	$1.82	21.6x	20.0x	19.5x	17.6x	$1.73	18.5x
ACO.X	$60.85	57.8	$3,517	$1.14	1.9%	$35.49	1.7	$4.63	$4.88	$5.00	$5.28	13.1x	12.5x	12.2x	11.5x	$5.13	11.9x
CU	$56.52	127.5	$7,205	$1.61	2.8%	$23.95	2.4	$3.26	$3.28	$3.37	$3.63	17.4x	17.2x	16.8x	15.6x	$3.49	16.2x
CPX	$26.57	87.8	$2,333	$1.26	4.7%	$22.53	1.2	$0.60	$1.38	$1.54	$1.54	n.a.	19.3x	17.2x	17.3x	$1.54	17.3x
EMA	$31.50	126.7	$3,991	$1.30	4.1%	$13.65	2.3	$1.52	$1.65	$1.73	$1.81	20.7x	19.1x	18.2x	17.4x	$1.77	17.8x
ENB	$30.69	758.0	$23,263	$0.98	3.2%	$20.48	1.5	$1.15	$1.32	$1.42	$1.52	26.7x	23.3x	21.6x	20.2x	$1.47	20.9x
TA	$20.74	222.0	$4,604	$1.16	5.6%	$12.84	1.6	$0.88	$0.88	$1.09	$1.10	23.5x	23.6x	19.0x	18.8x	$1.10	18.9x
TRP	$42.10	699.0	$29,428	$1.68	4.0%	$24.15	1.7	$2.02	$1.97	$2.25	$2.29	20.8x	21.4x	18.7x	18.4x	$2.27	18.5x
Avg.					4.0%		1.8x					21.8x	20.6x	18.7x	17.9x		18.3x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) Capital Power's 2009A is a half-year actual.
Source: Company Reports, Thomson, TD Newcrest.

Justification of Target Price

Our $36.00 target price is predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free-cash-flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.

Key Risks to Target Price

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

We view the expropriation of Fortis' 70% interest in BEL as largely immaterial, as its investments in Belize are relatively small and have never been a part of our core investment thesis. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that in the current environment, investors will find the Company's low risk, utility-dominated business model attractive. Long term, we expect the Company to be well-positioned as an aggregator of regulated gas and electric utilities in the U.S. and Canada. We would view any weakness in the stock price, as a result of this announcement, as a buying opportunity.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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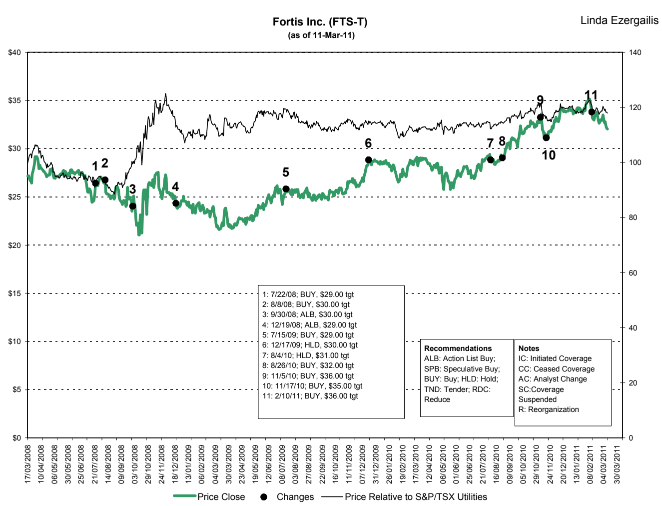

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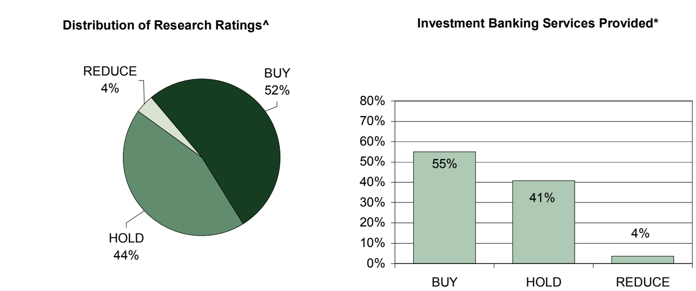

Current as of June 1, 2011

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All figures in C$, unless otherwise specified.

Gaz Metro's Bid for CVPS is Slightly Higher than Fortis'

Event

Gaz Metro Limited Partnership has submitted an unsolicited bid to acquire all of the common shares of Central Vermont Public Service Corporation (CVPS) for US$35.25 per share, in cash. This bid is slightly higher than the US$35.10 per share, in cash offer included in Fortis' and CVPS' merger agreement, which was announced on May 30, 2011.

CVPS commented that its board of directors would review the offer in due course based on its fiduciary responsibilities and contractual commitments to Fortis.

As a reminder, Valener has a 29% ownership interest in Gaz Metro LP.

Impact for Valener (VNR-T)
POTENTIALLY POSITIVE.
Given Gaz Metro's existing electric distribution utility operations in Vermont (Green Mountain Power), we believe the acquisition would make strategic sense. Based on our calculations, the acquisition of CVPS – as proposed – could add three cents of accretion to our Valener EPS estimates. However, due to the uncertainty surrounding the situation, we are leaving our estimates unchanged at this point.

Impact for Fortis (FTS-T)
POTENTIALLY NEGATIVE.
The CVPS acquisition is included in our Fortis forecasts and we estimate the transaction would be four cents accretive to our EPS estimates. At this point, our Fortis forecasts remain unchanged and continue to include the contribution from CVPS.

For further details on Fortis' offer please refer to our June 15, 2011 Action Note titled, *Resuming Coverage: Acquisition of Vermont Utility Announced*

Overview of CVPS

CVPS is the largest integrated electric utility in Vermont, and consists of approximately 9,000 miles of distribution lines and over 600 miles of sub-transmission lines. CVPS also holds directly and indirectly approximately 41% of Vermont Transco LLC (Velco), which owns and operates the high-voltage transmission system in Vermont. CVPS serves approximately 160,000 customers in about two-thirds of the cities and towns in Vermont.

CVPS is regulated by the Vermont Public Services Board (VPSB) and, for 2011, the allowed rate of return on common equity has been set at 9.45% and the equity thickness is currently 57%. CVPS expects its rate base investment to reach approximately US$650 million by 2015, representing a compound average annual growth rate of 8.7% from 2010 to 2015. In 2010, total assets and rate base assets of CVPS were approximately US$711 million and US$426 million, respectively.

Overview of Gaz Metro's Offer

- **Price**: US$35.25 per share in cash for an aggregate purchase price of US$702 million, which includes approximately US$230 million in debt. This represents a 1.5x price-to-total rate base multiple when including CVPS' total interest in Velco in addition to the break fee payable by CVPS to Fortis.
- **Dividends**: Shareholders will continue to receive the current quarterly dividend of US$0.23 per share. We note that under Fortis' offer, shareholders would receive dividends of US$0.23 per share for two quarters followed by US$0.01 per share for the remaining quarters until the transaction closes (Exhibit 1).

Exhibit 1: Comparison of Gaz Metro's and Fortis' Offers (US$)

	Gaz Metro	Fortis	% Delta
Cash Offer Price	35.25	35.10	0.4%
Total Consideration - Dec 31, 2011 Closing	35.71	35.56	0.4%
Total Consideration - March 31, 2012 Closing	35.94	35.57	1.0%
Total Consideration - June 30, 2012 Closing	36.17	35.58	1.7%

Note: Total consideration includes dividends received.

Source: Company Reports, TD Newcrest.

- **Timing**: Management expects the transaction to close in 8-12 months, based on prior transactions (including its purchase of Green Mountain Power in 2007).
- **Approvals**: The transaction is subject to approval by CVPS shareholders, then regulatory and other approvals including the US FERC and VPSB. We note that Gaz Metro has significant experience in dealing with the Vermont regulator, due to its existing natural gas and electric distribution utilities in the state. Local Gaz Metro utility manager discussed an offer with regulators prior to making the offer public.
- **Gaz Metro Financing**: Gaz Metro expects to fund a purchase of CVPS' shares with 50% debt and 50% equity. The debt and equity would be in-place prior to closing, although the company does have a bridge facility available.
- **Valener Financing:** We expect Valener to participate in any equity offering by Gaz Metro to maintain its 29% ownership interest. We believe Valener would finance its acquisition of Gaz Metro shares through an equity offering of approximately $70 million.
- **Strategic Rationale:** Gaz Metro has a sizable existing presence in Vermont including its ownership of Green Mountain Power, which is the second largest electric distribution utilty in Vermont (next to CVPS). The company had stated in the past that it would be interested in consolidation opportunities in the state.

Overview of Fortis' Offer

- **Price**: US$35.10 per share in cash for an aggregate purchase price of US$700 million, which includes approximately US$230 million of assumed debt. This represents a 1.4x price-to-total rate base multiple when including CVPS' total interest in Velco.
- **Dividends**: Shareholders would receive the current quarterly dividend of US$0.23 per share for the next two quarters followed by $0.01 per share for each subsequent quarter until closing.
- **Merger Agreement and Break Fee**: Fortis previously has entered into a merger agreement with CVPS. The agreement includes a break fee of US$17.5 million, in addition to expenses which are capped at US$2.0 million. Included in the agreement is a clause which allows Fortis to counter any superior offer.
- **Timing**: Fortis expects the transaction to close in 6-12 months.
- **Financing**: Upon the transaction close, Fortis expects to fund the acquisition by drawing on its committed term credit facility.
- **Strategic Rationale:** The acquisition would be Fortis' first foray into the U.S. Northeast. It is our understanding that Fortis sees other similar opportunities in the U.S., and a successful acquisition of CVPS could provide Fortis with the impetus to acquire other electric utilities in the region, in our view.

Investment Conclusion

Gaz Metro's offer was a surprise to us as it was our understanding that CVPS' merger agreement with Fortis was the result of a thorough sale process. We also point out that unsolicited bids for utility assets are a rare event given the importance and length of time required for regulatory approvals. Given the $17.5 million break fee with Fortis, we do not believe that Gaz Metro's offer is high enough for CVPS' board to recommend the offer, as the cost of the break fee would be borne by CVPS shareholders in the event that the regulator does not approve a takeover. At this point, we believe that a likely scenario is that Fortis increases its bid slightly.

Exhibit 2. Overview of Estimates

		Curr.	Market	Ind.		EPS			P/E			12-Month	Total		Risk
Stock Name	**Symbol**	**Price**	**Cap (mm)**	**Div.**	**Yield**	**2010A**	**2011E**	**2012E**	**2010A**	**2011E**	**2012E**	**Target**	**Return**	**Rating**	**Rating**
ATCO Ltd.	ACO.X	$61.15	$3,534.5	$1.14	1.9%	$4.88	$5.00	$5.28	12.5x	12.2x	11.6x	$69.00	14.7%	AL BUY	LOW
Canadian Utilities Ltd.	CU	$55.90	$7,127.3	$1.61	2.9%	$3.28	$3.37	$3.63	17.0x	16.6x	15.4x	$60.00	10.2%	AL BUY	LOW
Fortis Inc.	FTS	$31.64	$6,226.8	$1.16	3.7%	$1.60	$1.64	$1.82	19.8x	19.3x	17.4x	$36.00	17.4%	BUY	LOW
TransCanada Corp.	TRP	$42.29	$29,560.7	$1.68	4.0%	$1.97	$2.25	$2.29	21.5x	18.8x	18.5x	$43.00	5.7%	BUY	LOW
Capital Power Corp.	CPX	$27.06	$2,375.9	$1.26	4.7%	$1.38	$1.54	$1.54	19.6x	17.5x	17.6x	$27.00	4.4%	HOLD	MEDIUM
Emera Inc.	EMA	$31.23	$3,956.8	$1.30	4.2%	$1.65	$1.73	$1.81	18.9x	18.1x	17.3x	$32.00	6.6%	HOLD	LOW
Enbridge Inc.	ENB	$30.68	$23,194.1	$0.98	3.2%	$1.32	$1.42	$1.52	23.3x	21.6x	20.2x	$30.00	1.0%	HOLD	LOW
TransAlta Corp.	TA, TAC	$20.59	$4,529.8	$1.16	5.6%	$0.88	$1.09	$1.10	23.4x	18.9x	18.7x	$20.00	2.8%	HOLD	MEDIUM
Average					4.0%				20.5x	18.7x	17.9x				

		Curr.	Market	Ind.		AFFO Per Shr (f.d.)			P/AFFO			12-Month	Total		Risk
Stock Name	**Symbol**	**Price**	**Cap (mm)**	**Div.**	**Yield**	**2010A**	**2011E**	**2012E**	**2010A**	**2011E**	**2012E**	**Target**	**Return**	**Rating**	**Rating**
AltaGas Ltd.	ALA	$25.83	$2,185.2	$1.32	5.1%	$2.17	$2.23	$2.53	11.9x	11.6x	10.2x	$26.00	5.8%	BUY	MEDIUM
Inter Pipeline Fund	IPL.UN	$15.51	$4,009.3	$0.96	6.2%	$1.23	$1.37	$1.44	12.6x	11.4x	10.7x	$15.50	6.1%	HOLD	MEDIUM
Provident Energy Ltd.	PVE, PVX	$8.18	$2,205.3	$0.54	6.6%	$0.68	$0.74	$0.83	12.0x	11.1x	9.9x	$8.50	10.5%	HOLD	MEDIUM
Valener Inc.	VNR	$16.29	$607.5	$1.00	6.1%	$2.28	$2.06	$2.09	7.1x	7.9x	7.8x	$16.50	7.4%	HOLD	LOW
Veresen Inc.	VSN	$13.91	$2,303.5	$1.00	7.2%	$1.23	$1.21	$1.32	11.4x	11.5x	10.5x	$13.50	4.2%	HOLD	MEDIUM
Enbridge Income Fund Holdings Inc.	ENF	$18.50	$640.1	$1.15	6.2%	$1.38	$1.36	$1.43	13.4x	13.6x	12.9x	$16.00	-7.3%	REDUCE	MEDIUM
Keyera Corp.	KEY	$42.64	$3,057.3	$ 1.92	4.5%	$2.98	$2.94	$2.90	14.3x	14.5x	14.7x	$32.00	-20.5%	REDUCE	MEDIUM
Pembina Pipeline Corp.	PPL	$24.71	$4,141.4	$1.56	6.3%	$1.57	$1.63	$1.68	15.8x	15.2x	14.7x	$18.00	-20.8%	REDUCE	MEDIUM
Average					6.0%				12.3x	12.1x	11.4x				

Source: Company Reports, Thomson, TD Newcrest.

Exhibit 3. Justification of Target Prices

Stock Name	Ticker	Exch.	Rating	Target Price	Justification of Target Price
ATCO Ltd.	ACO.X	T	AL BUY	$69.00	predicated on ATCO's estimated one-year forward NAV and applying a 20% discount to NAV. The company's estimated one-year forward NAV depends on our $60.00 CU target price. Our target price implies a 1.8% dividend yield and a price-to-earnings ratio of 13.1x, based on our 2012 financial estimates.
Canadian Utilities Ltd.	CU	T	AL BUY	$60.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 9.5x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Capital Power Corp.	CPX	T	HOLD	$27.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 9.0x, 2) 25% relative dividend yield of 170%, and 3) 50% free-cash-flow yield of 10.5%. Our target incorporates a 3.5% 10-year Government of Canada bond yield.
Emera Inc.	EMA	T	HOLD	$32.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Enbridge Inc.	ENB	T, N	HOLD	$30.00	predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 130%, and 3) 50% free cash flow yield of 8.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Fortis Inc.	FTS	T	BUY	$36.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
TransAlta Corp.	TA, TAC	T, N	HOLD	$20.00	predicated on our financial estimates as follows: 1) 25% EV to 2012E EBITDA multiple of 9.0x, 2) 25% relative 2012E dividend yield of 160%, and 3) 50% 2011E free cash flow yield of 10.0%. Given the unusually high maintenance capital scheduled for 2012, at this point we believe a 2011 free cash flow metric is more representative of a more normal business operation and, therefore, is the input to our target price derivation. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
TransCanada Corp.	TRP	T, N	BUY	$43.00	predicated on 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 9.5x, 2) 25% relative dividend yield of 140%, and 3) 50% free cash flow yield of 9.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
AltaGas Ltd.	ALA	T	BUY	$26.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 150%, and 3) 50% free cash flow yield of 9.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Enbridge Income Fund Holdings Inc.	ENF	T	REDUCE	$16.00	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.0x, 2) 25% relative dividend yield of 180%, and 3) 50% free-cash-flow yield of 10.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Veresen Inc.	VSN	T	HOLD	$13.50	predicated on 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 10.0x, 2) 25% relative dividend yield of 190%, and 3) 50% free-cash-flow yield of 10.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Valener Inc.	VNR	T	HOLD	$16.50	predicated on 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 9.0x, 2) 25% relative dividend yield of 175%, and 3) 50% free cash flow yield of 13.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Inter Pipeline Fund	IPL.UN	T	HOLD	$15.50	predicated on our 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 140%, and 3) 50% free-cash-flow yield of 9.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.
Keyera Corp.	KEY	T	REDUCE	$32.00	predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 10.0x, 2) 25% relative dividend yield of 140%, and 3) 50% free cash flow yield of 10.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Pembina Pipeline Corp.	PPL	T	REDUCE	$18.00	predicated on 2012 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.0x, 2) 25% relative dividend yield of 180%, and 3) 50% free cash flow yield of 10.0%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.
Provident Energy Ltd.	PVE	T	HOLD	$8.50	predicated on our 2012 financial estimates as follows: 1) 25% EV / EBITDA multiple of 9.5x, 2) 25% relative dividend yield of 150%, and 3) 50% free cash flow yield of 10.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond yield assumption.

Source: Company Reports, Thomson, TD Newcrest.

Exhibit 4. Key Risks to Target Prices

Stock Name	Ticker	Exch.	Risk	Key Risks to Target Price
ATCO Ltd.	ACO.X	T	LOW	1) Higher than expected long bond yields, 2) regulatory surprises, 3) commodity price risk, 4) corporate governance considerations, 5) lack of disclosure, 6) as with all companies where voting control is not in the market, the controlling shareholder (Mr. Ron Southern controls approximately 84% of the voting shares) and minority shareholders may not agree on issues that could affect the value of shares held by the minority 7) operational disruptions, 8) cyclical nature of industrial business, and 9) share price of Canadian Utilities.
Canadian Utilities Ltd.	CU	T	LOW	1) Higher than expected long bond yields, 2) regulatory surprises, 3) commodity price risk, 4) corporate governance considerations, 5) lack of disclosure, 6) as with all companies where voting control is not in the market, the controlling shareholder (ATCO Ltd. owns 82% of the voting shares) and minority shareholders may not agree on issues that could affect the value of shares held by the minority and 7) operational disruptions.
Capital Power Corp.	CPX	T	MEDIUM	1) Materially different than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) materially different than expected power price environment, 5) unanticipated changes to environmental laws and regulations, and 6) escalating construction costs.
Emera Inc.	EMA	T	LOW	1) higher than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) higher than expected fuel costs, 5) regulatory surprises, 6) sovereign risk, and 7) escalating construction costs.
Enbridge Inc.	ENB	T, N	LOW	1) higher than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) potential reduction in historical valuation premium to sector, 5) tougher-than-expected competition for new oil transmission pipeline capacity, 6) regulatory surprises, 7) substantial delays and/or cancellations of oil sands projects, and 8) WCSB risk
Fortis Inc.	FTS	T	LOW	1) higher than expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.
TransAlta Corp.	TA, TAC	T, N	MEDIUM	1) Materially different than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) materially different than expected power and coal price environments, and 5) unanticipated changes to environmental laws and regulations.
TransCanada Corp.	TRP	T, N	LOW	1) Higher than expected long bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) surprise regulatory decisions, 5) materially different power prices & fuel costs versus our forecast, 6) higher than expected debt and equity capital costs, 7) capital project cost overruns, and 8) WCSB risk.
AltaGas Ltd.	ALA	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) commodity price risk; 5) unanticipated changes to environmental laws and regulations; 6) surprise industry regulation; 7) WCSB risk; 8) unfavourable regulatory decisions; and 9) escalating construction costs.
Enbridge Income Fund Holdings Inc.	ENF	T	MEDIUM	1) Higher-than-expected bond yields, 2) acquisitions that do not create shareholder value, 3) operational disruptions, 4) weaker-than-expected volumes in Saskatchewan System, 5) toll disputes, 6) WCSB risk, 7) recontracting risk on the Alliance Pipeline, and 8) unfavourable tax legislation.
Veresen Inc.	VSN	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) weaker-than-expected fractionation spreads at Aux Sable; 5) stronger-than-expected C$ versus US$; 6) toll disputes; 7) WCSB risk; 8) capital project cost overruns and 9) re-contracting risk on the Alliance Pipeline.
Valener Inc.	VNR	T	LOW	1) Unfavourable regulatory decisions; 2) higher than expected interest rates; 3) currency risk; 4) financing risk; 5) weakness in general economic conditions; 6) control by Gaz Metro inc.; 7) operational disruptions and environmental incidents; 8) acquisitions that do not create unitholder value; and 9) weather and wind which are significantly different than normal.
Inter Pipeline Fund	IPL.UN	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) commodity prices; 5) toll disputes; 6) changes in production volumes of natural gas and crude oil in Western Canada; 7) L.P. lack of voting control; 8) unfavourable regulatory decisions; and 9) foreign exchange movement.
Keyera Corp.	KEY	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) commodity price risk; 5) unanticipated changes to environmental laws and regulations; 6) surprise industry regulation; 7) WCSB risk; 8) economic dependence on key customers; and 9) unfavourable regulatory decisions
Pembina Pipeline Corp.	PPL	T	MEDIUM	1) Higher than expected bond yields; 2) acquisitions that do not create shareholder value; 3) operational disruptions; 4) commodity price risk; 5) toll disputes; 6) substantial delays and/or cancellations of oil sands projects; and 7) WCSB risk
Provident Energy Ltd.	PVE	T	MEDIUM	1) Commodity price risk, 2) regulatory risk, 3) rising interest rates, 4) financing risk, 5) operational disruptions and environmental incidents, 6) changes in production and export volumes of natural gas in Western Canada, 7) reliance on key customers.

Source: Company Reports, Thomson, TD Newcrest.

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Company	Ticker		Disclosures
ATCO Ltd.	ACO.X-T		14
AltaGas Ltd.	ALA-T		1, 2, 4, 9
Canadian Utilities Ltd.	CU-T		1, 2, 4, 9, 14
Capital Power Corp.	CPX-T		1, 2, 4, 9, 16
Emera Inc.	EMA-T		1, 2, 4, 9, 10
Enbridge Inc.	ENB-T	ENB-N	1,2, 4, 9, 10
Enbridge Income Fund Holdings Inc.	ENF-T		1, 2, 4
Fortis Inc.	FTS-T		1,2, 4, 9, 10
Inter Pipeline Fund	IPL.UN-T		1, 2, 4
Keyera Corp.	KEY-T		2, 4
Pembina Pipeline Corp.	PPL-T		1, 2, 4, 9
Provident Energy Ltd.	PVE-T		1, 2, 4, 9
TransAlta Corp.	TA-T	TAC-N	1, 2, 4, 9, 10
TransCanada Corp.	TRP-T	TRP-N	2, 4, 9, 10
Valener Inc.	VNR-T		2, 4

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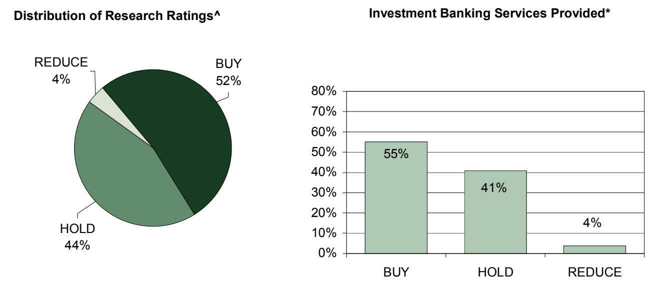

Current as of June 1, 2011

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Research Ratings

ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

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Pipelines, Power & Utilities

Recommendation:	**BUY**
	Unchanged
Risk:	**LOW**
12-Month Target Price:	**C$36.00**
	Unchanged
12-Month Total Return:	**13.4%**

Market Data (C$)

Current Price	$32.76
52-Wk Range	$27.65-$35.45
Mkt Cap (f.d.)($mm)	$6,447.2
Dividend per Share	$1.16
Dividend Yield	3.5%
Avg. Daily Trading Vol. (3mths)	495520

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	196.8
Float Shares (mm)	184.5
Net Debt/Tot Cap	54.5%
BVPS (basic)	$20.04
ROE	8.6%

Estimates (C$)

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.67	1.81	1.89
EPS (basic)(old)	1.63	1.67	1.87	--
EPS (f.d.)	1.60	1.64	1.77	1.84
EPS (f.d.)(old)	1.60	1.64	1.82	--
AFFO/Shr	2.15	2.59	2.32	2.94
AFFO/Shr (old)	2.15	2.48	2.51	--

EPS (f.d.) Quarterly Estimates (C$)

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	--	--
Q2	0.32	0.36	--	--
Q3	0.24	--	--	--
Q4	0.47	--	--	--

Valuations

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	20.5x	20.0x	18.5x	17.8x
P/AFFO	15.2x	12.6x	14.1x	11.1x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$32.76

Fortis Walks Away from CVPS Bid

Event

- Central Vermont Public Service Corporation (CVPS) and Gaz Metro Limited Partnership (Gaz Metro) announced a definitive agreement for the sale of CVPS to Gaz Metro.
- Fortis has effectively terminated its Merger Agreement with CVPS.

Impact

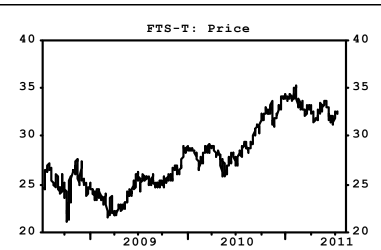
SLIGHTLY NEGATIVE. We have removed CVPS' contribution from our forecasts and added Fortis' receipt of the termination fee. We are also introducing our 2013 forecasts and rolling forward our target to be based 50% on each of our 2012 and 2013 estimates.

Details

- **Timeline:** Fortis management received notice yesterday that the Board of Directors of CVPS deemed Gaz Metro's bid a superior proposal. Fortis waived its right to enter into further discussions with CVPS in exchange for the prompt payment of the break fee, which resulted in the termination of its Merger Agreement with CVPS.
- **CVPS Contribution:** Our Fortis EPS forecasts previously included an accretion of approximately four cents from an assumed CVPS acquisition.
- **Break-Fee Proceeds:** Fortis will receive a US$17.5 million termination fee in addition to US$2.0 million in expenses.
- **Disciplined Management:** We believe an unwillingness to put in a higher bid demonstrates Fortis' disciplined approach to acquisitions.

Please see our July 13, 2011 Action Note on Valener titled, ***Gaz Metro Wins Bid for CVPS*** for more details on Gaz Metro's bid for CVPS.

Company Profile
Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

Valuation

Exhibit 1. Comparables

Symbol	Curr. Price	Shares O/S (mm)	Market Cap (mm)	Ind. Div.	Yield	Book Value	P/BV	EPS (f.d.) 2009A	EPS (f.d.) 2010A	EPS (f.d.) 2011E	EPS (f.d.) 2012E	P/E 2009A	P/E 2010A	P/E 2011E	P/E 2012E	EPS For. E	P/E Forward
FTS	$32.76	196.8	$6,447	$1.16	3.5%	$20.04	1.6	$1.48	$1.60	$1.64	$1.77	22.1x	20.5x	19.9x	18.6x	$1.71	19.2x
ACO.X	$62.78	57.8	$3,629	$1.14	1.8%	$35.49	1.8	$4.63	$4.88	$5.10	$5.56	13.6x	12.9x	12.3x	11.3x	$5.34	11.8x
CU	$56.75	127.5	$7,234	$1.61	2.8%	$23.95	2.4	$3.26	$3.28	$3.47	$3.86	17.4x	17.3x	16.3x	14.7x	$3.68	15.4x
CPX	$25.08	95.8	$2,403	$1.26	5.0%	$22.94	1.1	$0.60	$1.38	$1.53	$1.51	n.a.	18.2x	16.4x	16.7x	$1.52	16.5x
EMA	$32.31	126.7	$4,094	$1.30	4.0%	$13.65	2.4	$1.52	$1.65	$1.73	$1.81	21.3x	19.6x	18.7x	17.9x	$1.77	18.2x
ENB	$31.28	758.0	$23,710	$0.98	3.1%	$20.48	1.5	$1.15	$1.32	$1.42	$1.52	27.2x	23.8x	22.0x	20.6x	$1.47	21.3x
TA	$20.68	222.0	$4,591	$1.16	5.6%	$12.84	1.6	$0.88	$0.88	$1.09	$1.10	23.5x	23.5x	19.0x	18.7x	$1.10	18.9x
TRP	$40.04	699.0	$27,988	$1.68	4.2%	$24.15	1.7	$2.02	$1.97	$2.25	$2.29	19.8x	20.4x	17.8x	17.5x	$2.27	17.6x
Avg.					4.1%		1.8x					21.9x	20.5x	18.6x	17.8x		18.2x

Notes:
1) Averages exclude ATCO due to its holding company nature.
2) Capital Power's 2009A is a half-year actual.
Source: Thomson, TD Newcrest.

Justification of Target Price

Our $36.00 target is predicated on 50% of each of our 2012 and 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 90%, and 3) 50% free-cash-flow yield of 7.0%. Our target incorporates a 3.5% 10-year Government of Canada bond yield.

Key Risks to Target Price

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

Fortis demonstrated discipline in its decision not to make a counter offer for CVPS, in our view. Management has indicated that it is working on a few other opportunities, and we believe that Fortis is well-positioned to make future acquisitions, as any smaller utility the Company might acquire would likely gain the financial backing of a strong parent to help fund its future growth, receive benefits to improve its system reliability and efficiency for customers, and keep its operations autonomous in the Fortis fold.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that in the current environment, investors will find the Company’s low-risk, utility-dominated business model attractive.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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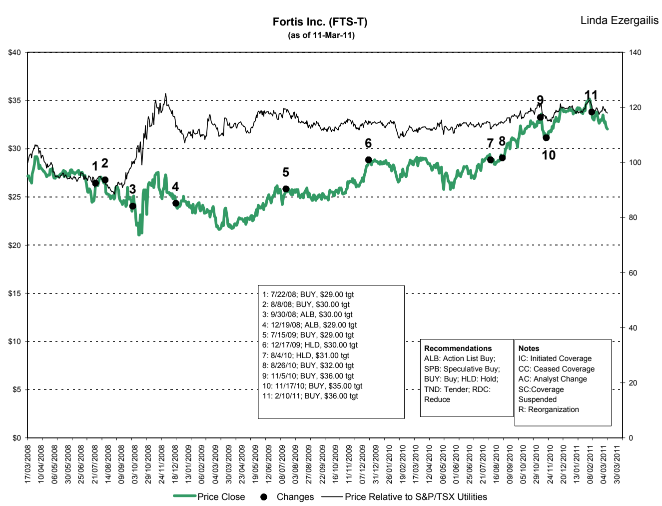

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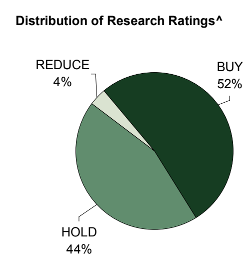

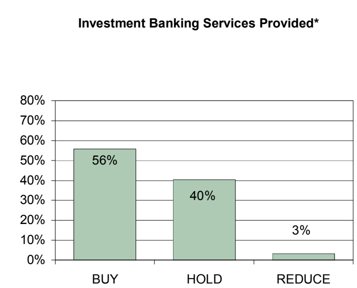

Current as of July 5, 2011

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TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock’s total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

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TD Newcrest
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Action Notes

August 3, 2011
Equity Research

Pipelines, Power & Utilities

Recommendation: **BUY**
Unchanged

Risk: **LOW**

12-Month Target Price: **C$36.00**
Unchanged

12-Month Total Return: **21.4%**

Market Data (C$)	
Current Price	$30.60
52-Wk Range	$28.25-$35.45
Mkt Cap (f.d.)($mm)	$5,700.8
Dividend per Share	$1.16
Dividend Yield	3.8%
Avg. Daily Trading Vol. (3mths)	487040

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	186.3
Float Shares (mm)	186.3
Net Debt/Tot Cap	52.0%
BVPS (basic)	$20.20
ROE	8.6%

Estimates (C$)

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.66	1.79	1.86
EPS (f.d.)	1.60	1.63	1.75	1.82
EPS (f.d.)(old)	1.60	1.64	1.77	1.84
DI	1.12	1.16	1.20	1.26
AFFO/Shr	2.15	2.60	2.56	2.87
AFFO/Shr (old)	2.15	2.59	2.32	2.94

EPS (f.d.) Quarterly Estimates (C$)

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	--	--
Q2	0.32	0.33	--	--
Q3	0.24	0.23	--	--
Q4	0.47	--	--	--

Valuations

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	19.1x	18.8x	17.5x	16.8x
P/AFFO	14.2x	11.8x	12.0x	10.7x

Notes: 2011/12 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$30.60

Q2/11 Results Slightly Miss - Favourable Outlook Remains

Event

Fortis reported Q2/11 EPS (f.d.) of $0.33, which was slightly below our $0.36 estimate, recent consensus of $0.35, but above Q2/10 EPS (f.d.) of $0.32.

Impact

NEUTRAL.

We have made numerous changes to our financial model, primarily to reflect recent regulatory filings as well as more muted non-regulated generation and properties margins. The net result of these changes is that our 2011 EPS (f.d.) estimate decreases by a penny, while our 2012 and 2013 estimates each decrease by two pennies (Exhibit 1).

Exhibit 1. Overview of Changes to Estimates

	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.66	1.79	1.86
EPS (basic) (old)	1.63	1.67	1.81	1.89
EPS (f.d)	1.60	1.63	1.75	1.82
EPS (f.d) (old)	1.60	1.64	1.77	1.84
Free Cash Flow per Share (AFFO/Shr)	2.17	2.60	2.56	2.87
Free Cash Flow per Share (old)	2.15	2.59	2.32	2.94
Dividends per Share (DI)	1.12	1.16	1.20	1.26

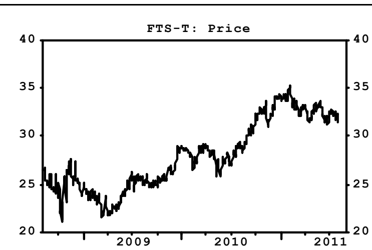
Source: Company Reports, TD Newcrest.

Details

Regulated Gas Utilities Q2/11 earnings of $15 million were $2 million below Q2/10 results (Exhibit 2). The decline was mainly attributable to the timing of operating expenses during the year partially offset by rate base growth from continued utility investments.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Regulated Electric Utilities – Canadian Q2/11 earnings of $45 million increased by $5 million year over year.

- **FortisAlberta** earnings of $19 million increased $2 million versus Q2/10 results, primarily due to rate base growth from continued utility investments. The increase was partially offset by lower transmission revenue as well as lower than expected customer growth and energy deliveries.
- **FortisBC** earnings of $9 million increased by $1 million year over year, driven largely by rate base growth from capital investments as well as lower than expected power costs.
- **Newfoundland Power** earnings of $11 million were flat year over year. The effects of a lower allowed ROE and higher costs were offset by increased electricity sales growth and a lower effective tax rate.
- **Other Canadian Electric Utilities** earnings of $6 million were $2 million higher than Q2/10 results. The increase was largely due to Algoma Power ROE, increased electricity sales, the timing of costs during the year as well as a lower effective tax rate.

Regulated Utilities – Caribbean earnings of $7 million were unchanged from Q2/10 results.

Fortis Generation earnings of $2 million were $1 million higher than Q2/10 results. The decrease was mainly attributable to lower production in Belize due to lower rainfall. Partially offsetting this was increased production in New York and Ontario due to higher rainfall.

Fortis Properties earnings of $7 million were $1 million below Q2/10 results, primarily due to the impact of the economic downturn on hotel operations as well as increased operating and amortization costs.

Corporate expenses decreased by $2 million to $18 million in Q2/11, largely due to lower business development and financing costs.

Exhibit 2. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q2/11	Q2/10	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	$15	$17	($2)	-12%
FortisAlberta[1]	19	17	2	12%
FortisBC	9	8	1	13%
Newfoundland Power	11	11	-	0%
Other Canadian	6	4	2	50%
Regulated Electric Utilities - Canadian	45	40	5	13%
Regulated Utilities - Caribbean	7	7	-	0%
Total Regulated Utilities	**67**	**64**	**3**	**5%**
Non-Regulated Fortis Generation	**2**	**3**	**(1)**	**-33%**
Non-Regulated Fortis Properties[2]	**7**	**8**	**(1)**	**-13%**
Corporate	**(18)**	**(20)**	**2**	**-10%**
Operating Earnings	**58**	**55**	**3**	**5%**
Adjustments	-	-	-	**n.a.**
Reported Earnings	**58**	**55**	**3**	**5%**
Operating EPS (f.d)	**$0.33**	**$0.32**	**$0.01**	**3%**
Reported EPS (f.d)	$0.33	$0.32	$0.01	3%

Source: Company Reports, TD Newcrest.

Outlook

Belize Update: In late July Fortis initiated legal proceedings for compensation from the Government of Belize for the value of its previous investment in Belize Electricity, which recently had a book value of be $112 million. As a reminder, on June 20, 2011 the Government of Belize expropriated Fortis' 70% ownership interest in Belize Electricity. For more information please refer to our June 22, 2011 note titled, "***Fortis' Electric Utility in Belize to be Expropriated***." Fortis' non-regulated generating assets (BECOL) in the country have not been impacted, although Belize Electricity recently had US$6.5 million of overdue energy purchases outstanding to BECOL.

Regulatory Updates:

- **FortisBC Energy Companies (Terasen Gas)**: In May 2011 the FortisBC Energy companies filed their 2012-2013 Revenue Requirement Applications. FortisBC Energy's application includes forecast average rate bases of $2,737 million and $2,788 million for 2012 and 2013, respectively. The FortisBC Energy (Vancouver Island) application includes forecast average rate bases of $788 million and $814 million for 2012 and 2013, respectively.
- **FortisBC Electric**: In June 2011 FortisBC Electric filed a rate application that includes forecast average rate bases of $1,145 million and $1,212 million for 2012 and 2013, respectively.
- **FortisAlberta**: The Alberta regulator recently held a generic cost of capital hearing, which concluded on July 5, 2011. A decision is not expected until Q4/11 at the earliest. As a reminder, a number of Alberta utilities filed a joint submission in which they request: 1) an average ROE of 10.375% for 2011 and 2012, 2) a two percentage point increase to equity thickness, and 3) that a formula approach to establish the ROE not be implemented at this time.
- **Newfoundland Power**: In July 2011 the utility filed an application with the regulator requesting approval of its 2012 capital expenditures plan of $77 million.
- **Fortis Turks and Caicos**: The Government plans to implement a carbon tax effective September 2011. The utility may not be permitted to pass the costs along to customers, which if implemented could affect earnings by $2-3 million annually.

Q3/11 Preview: We are forecasting Q3/2011 EPS of $0.23, a penny below comparable Q3/2010 EPS. We expect rate base growth in the Canadian regulated utilities segment to be more than offset by lower contribution from the regulated Caribbean utilities, continued softness in hotel revenues, and a higher number of shares outstanding.

Valuation

Exhibit 3. Peer Group Valuation

	Curr.	Shares	Market	Ind.		Book		EPS (f.d.)				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	Value	P/BV	2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E	For. E	Forward
FTS	$30.60	186.3	$5,701	$1.16	3.8%	$20.20	1.5	$1.48	$1.60	$1.63	$1.75	20.6x	19.1x	18.8x	17.5x	$1.70	18.0x
ACO.X	$61.04	57.7	$3,522	$1.14	1.9%	$36.43	1.7	$4.63	$4.88	$5.07	$5.56	13.2x	12.5x	12.0x	11.0x	$5.36	11.4x
CU	$56.00	127.5	$7,139	$1.61	2.9%	$24.43	2.3	$3.26	$3.28	$3.45	$3.86	17.2x	17.1x	16.2x	14.5x	$3.69	15.2x
CPX	$23.94	96.9	$2,320	$1.26	5.3%	$21.63	1.1	$0.60	$1.38	$1.27	$1.50	n.a.	17.4x	18.9x	16.0x	$1.40	17.1x
EMA	$31.04	126.7	$3,933	$1.30	4.2%	$13.65	2.3	$1.52	$1.65	$1.73	$1.81	20.4x	18.8x	17.9x	17.1x	$1.78	17.5x
ENB	$30.74	758.0	$23,301	$0.98	3.2%	$20.48	1.5	$1.15	$1.32	$1.42	$1.52	26.7x	23.4x	21.7x	20.3x	$1.48	20.8x
TA	$20.82	222.0	$4,622	$1.16	5.6%	$12.49	1.7	$0.88	$0.88	$1.12	$1.13	23.6x	23.6x	18.6x	18.5x	$1.13	18.5x
TRP	$39.00	703.0	$27,417	$1.68	4.3%	$22.54	1.7	$2.02	$1.97	$2.20	$2.30	19.3x	19.8x	17.7x	17.0x	$2.26	17.3x
Avg.					4.2%		1.7x					21.3x	19.9x	18.5x	17.3x		17.8x

Source: Thomson, TD Newcrest.

Justification of Target Price

Our $36.00 target price is predicated on 50% of our 2012 and 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 90%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 3.5% 10-year Government of Canada bond-yield assumption.

Key Risks to Target Price

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

The quarter was slightly below our expectations, mainly as a result of weaker than expected earnings at the company's regulated gas utility, mainly as a result of the timing of expenses during the year, as well as lower hospitality earnings. Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We believe that Fortis is well-positioned to make future acquisitions, as any smaller utility the Company might acquire would likely gain the financial backing of a strong parent to help fund its future growth, receive benefits to improve its system reliability and efficiency for customers, and keep its operations autonomous in the Fortis fold. We believe that in the current environment, investors will find the Company's low-risk, utility-dominated business model attractive.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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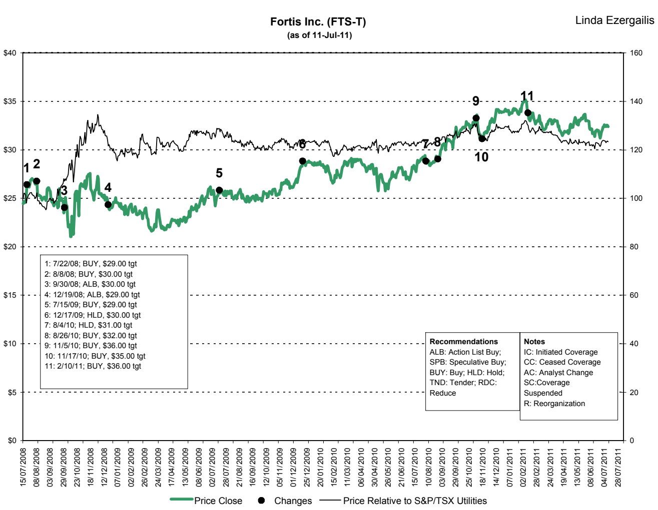

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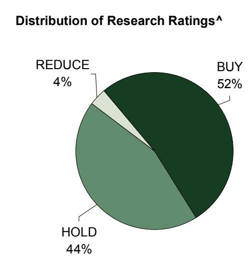

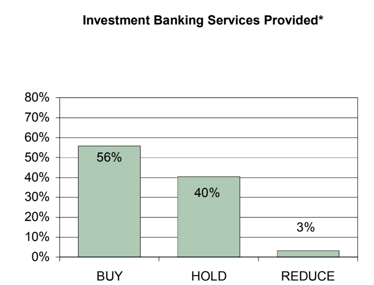

Current as of July 5, 2011

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
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TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

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Pipelines, Power & Utilities

Recommendation:	**BUY** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$37.00** *Unchanged*
12-Month Total Return:	**12.0%**

Market Data (C$)	
Current Price	$34.06
52-Wk Range	$28.24-$35.45
Mkt Cap (f.d.)($mm)	$6,386.3
Dividend per Share	$1.16
Dividend Yield	3.4%
Avg. Daily Trading Vol. (3mths)	532613

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	187.5
Float Shares (mm)	186.9
Net Debt/Tot Cap	53.2%
BVPS (basic)	$20.38
ROE	8.6%

Estimates (C$)

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.70	1.75	1.82
EPS (basic)(old)	1.63	1.66	1.79	1.86
EPS (f.d.)	1.60	1.66	1.71	1.78
EPS (f.d.)(old)	1.60	1.63	1.75	1.82
DI	1.12	1.16	1.20	1.26
AFFO/Shr	2.15	2.62	2.69	2.77

EPS (f.d.) Quarterly Estimates (C$)

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	--	--
Q2	0.32	0.33	--	--
Q3	0.24	0.25	--	--
Q4	0.47	0.47	--	--

Valuations

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	21.3x	20.5x	19.9x	19.1x
P/AFFO	15.8x	13.0x	12.7x	12.3x

Notes: 2011-2013 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Fortis Inc.

(FTS-T) C$34.06

Q3/11 Results Slightly Above Expectations

Event

Fortis reported normalized Q3/11 EPS (f.d.) of $0.25, slightly above our $0.23 estimate, recent consensus of $0.24, and normalized Q3/10 EPS (f.d.) of $0.24.

Impact

NEUTRAL.

The results were better than our expectations largely due to timing of operating expenses in the Gas Distribution Utility in B.C. Corporate expenses were also lower than we were forecasting, partially a result of a favourable foreign exchange gain. We have updated our financial model primarily to reflect slightly lower returns in the unregulated businesses partially offset by increased earnings in Other Canadian Electric Utilities (Exhibit 1). We have also adjusted our maintenance capital assumptions.

We are rolling forward our target to be based 25% on our 2012 and 75% on our 2013 forecasts, and are maintaining our BUY recommendation and $37 target price.

Exhibit 1. Overview of Changes to Estimates

	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.70	1.75	1.82
EPS (basic) (old)	1.63	1.66	1.79	1.86
EPS (f.d)	1.60	1.66	1.71	1.78
EPS (f.d) (old)	1.60	1.63	1.75	1.82
Free Cash Flow per Share (AFFO/Shr)	2.15	2.62	2.69	2.77
Free Cash Flow per Share (old)	2.15	2.60	2.56	2.87
Dividends per Share (DI)	1.12	1.16	1.20	1.26

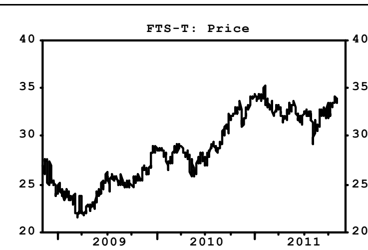
Source: Company Reports, TD Securities.

Details

Regulated Gas Utilities Q3/11 losses of $3 million were $6 million lower than Q3/10 results due to rate base growth from continued utility investments, lower than expected operating expenses from the timing of spending and capitalization of operating costs during the year, and lower effective income taxes.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Please see the final pages of this document for important disclosure information.

Regulated Electric Utilities – Canadian Q3/11 earnings of $43 million were flat year over year.

- **FortisAlberta** earnings of $19 million were comparable to Q3/10 results. Rate base growth from continued utility investments along with higher customer growth and energy deliveries were offset by a positive 2010 revenue requirements decision, which was recorded in Q3/10.
- **FortisBC** earnings of $10 million decreased by $1 million year over year driven by lower capitalized allowance for funds used during construction (AFUDC) from fewer assets under construction, and higher effective income taxes.
- **Newfoundland Power** earnings of $8 million were flat year over year. The effects of increased electricity sales, a lower effective tax rate, and hurricane costs recorded back in Q3/10 were offset by a lower allowed ROE and higher employee-related costs.
- **Other Canadian Electric Utilities** earnings of $6 million were $1 million higher than Q3/10 results. The increase was due to a higher Algoma Power ROE, increased electricity sales, and a lower effective tax rate at FortisOntario.

Regulated Utilities – Caribbean earnings of $6 million were $2 million lower year over year largely from lower electricity sales, and no earnings contribution from Belize Electricity.

Fortis Generation earnings of $8 million were $1 million lower than Q3/10 results. The decrease was mainly attributable to lower production in Belize due to lower rainfall and lower Upper New York State generation from a plant outage.

Fortis Properties earnings of $9 million were flat year over year. Increased administrative expenses were offset by increased revenues at the hospitality division as a result of higher average room rates and hotel occupancy.

Corporate normalized expenses decreased by $3 million to $16 million in Q3/11, largely due to foreign exchange gains.

Exhibit 2. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q3/11	Q3/10	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian[1]	($3)	($9)	$6	-67%
FortisAlberta	19	19	-	0%
FortisBC	10	11	(1)	-9%
Newfoundland Power	8	8	-	0%
Other Canadian	6	5	1	20%
Regulated Electric Utilities - Canadian	43	43	-	0%
Regulated Utilities - Caribbean	6	8	(2)	-25%
Total Regulated Utilities	**46**	**42**	**4**	**10%**
Non-Regulated Fortis Generation	**8**	**9**	**(1)**	**-11%**
Non-Regulated Fortis Properties	**9**	**9**	**-**	**0%**
Corporate[2]	**(16)**	**(19)**	**3**	**-16%**
Operating Earnings	**47**	**41**	**6**	**15%**
Adjustments	11	4	7	**175%**
Reported Earnings	**58**	**45**	**13**	**29%**
Operating EPS (f.d)	**$0.25**	**$0.24**	**$0.02**	**7%**
Reported EPS (f.d)	$0.31	$0.26	$0.05	20%

Notes: Earnings have been normalized for the following items:
1) In Q3/10, a $4mm (after-tax) reversal of operating expenses related to project cost overruns previously expensed related to the Whistler conversion project.
2) In Q3/11, an $11mm (after-tax) gain from the Central Vermont Public Service merger termination fee.
Source: Company Reports, TD Securities.

Outlook

Belize Electricity Update:

- On October 21, 2011, Fortis initiated actions in the Belize Supreme Court to challenge the expropriation of its investment in Belize Electricity. An independent valuation of Fortis' previous investment in Belize Electricity has been commissioned and Fortis expects to submit its claim to the Government of Belize (GOB) in Q4/11.
- On October 25, 2011, the GOB amended the Constitution of Belize to require majority government ownership of three public utilities, including Belize Electricity, but excluding Fortis' non-regulated Belizean generating assets (BECOL). The Prime Minister of Belize has stated that it is not the GOB's intention to expropriate BECOL.
- At September 30, 2011, the book values of Fortis' investments in Belize Electricity and BECOL were $120 million and $159 million, respectively. In addition, Belize Electricity recently had US$8.0 million of overdue energy purchases outstanding to BECOL. It is our understanding that there are agreements in place such that the GOB guarantees the payment of Belize Electricity's obligations to BECOL.

Regulatory Updates:

- **FortisBC Energy Companies:** In September 2011, the FortisBC Energy companies filed an update to their 2012-2013 Revenue Requirement Applications. FortisBC Energy Inc.'s application includes forecast average rate bases of $2,754 million and $2,811 million for 2012 and 2013, respectively. The FortisBC Energy (Vancouver Island) application includes forecast average rate bases of $788 million and $816 million for 2012 and 2013, respectively. The FortisBC Energy (Whistler) application includes forecast average rate bases of $42 million and $41 million for 2012 and 2013, respectively.
- **FortisOntario:** In September 2011, Algoma Power filed its first Third-Generation IRM application for customer electricity distribution rates, effective January 1, 2012, which maintains the allowed ROE at 9.85% for 2012. During Q4/11, FortisOntario expects to file a Third-Generation IRM application for its operations in Port Colborne and a similar application for its Fort Erie and Gananoque operations, maintaining an allowed ROE at 8.01% for 2012.

Continued Investment in Utilities: Management's five-year capital expenditure plan to the end of 2015 has increased by $0.2 billion to $5.7 billion. The higher outlook for capital expenditures is largely in the FortisBC Energy companies in Canada, which supports our view that Fortis' growth outlook will be driven by strong utility investment in Canada.

Q4/11 Preview: We are forecasting Q4/11 EPS of $0.47, in-line with Q4/10 results. We expect rate base growth in the Canadian regulated utilities to be offset by lower contribution from the regulated Caribbean utilities and a higher number of shares outstanding.

Valuation

Exhibit 3. Peer Group Valuation

	Curr.	Shares	Market	Ind.		EPS (f.d.)				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	2010A	2011E	2012E	2013E	2010A	2011E	2012E	2013E	For. E	Forward
FTS	$34.06	187.5	$6,386	$1.16	3.4%	$1.60	$1.66	$1.71	$1.78	21.3x	20.5x	19.9x	19.1x	$1.71	20.0x
ACO.X	$61.33	57.8	$3,545	$1.14	1.9%	$4.88	$5.47	$5.92	$6.02	12.6x	11.2x	10.4x	10.2x	$5.85	10.5x
CU	$62.32	127.5	$7,944	$1.61	2.6%	$3.28	$3.72	$4.09	$4.24	19.0x	16.8x	15.2x	14.7x	$4.03	15.5x
EMA	$32.64	123.2	$4,021	$1.35	4.1%	$1.65	$1.63	$1.72	$1.82	19.8x	20.0x	18.9x	17.9x	$1.71	19.1x
ENB	$35.21	760.0	$26,760	$0.98	2.8%	$1.32	$1.45	$1.53	$1.65	26.8x	24.3x	22.9x	21.3x	$1.52	23.1x
TA	$21.83	222.9	$4,866	$1.16	5.3%	$0.88	$1.25	$1.28	$1.37	24.8x	17.4x	17.0x	16.0x	$1.28	17.1x
TRP	$42.68	704.0	$30,047	$1.68	3.9%	$1.97	$2.20	$2.36	$2.48	21.7x	19.4x	18.1x	17.2x	$2.34	18.3x
Avg.					3.9%					21.6x	19.7x	18.4x	17.3x		18.5x

Source: Thomson, TD Securities.

Justification of Target Price

Our $37.00 target price is predicated on 25% of our 2012 and 75% of our 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 95%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.75% 10-year Government of Canada bond-yield assumption.

Key Risks to Target Price

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

The quarter was slightly ahead of our expectations largely related to the timing of operating expenses in the Gas Distribution Utility.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. The Company's future growth is largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the Company might acquire would likely gain the financial backing of a strong parent to help fund its future growth, receive benefits to improve its system reliability and efficiency for customers, and keep its operations autonomous in the Fortis fold. We believe that in the current environment, investors will find the Company's low-risk, utility-dominated business model attractive.

TD Securities Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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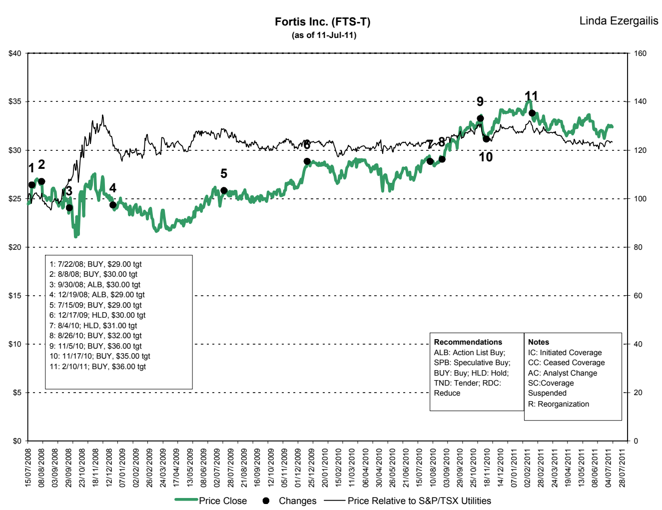

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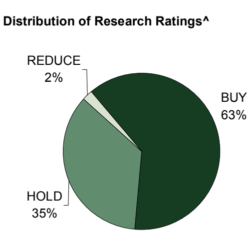

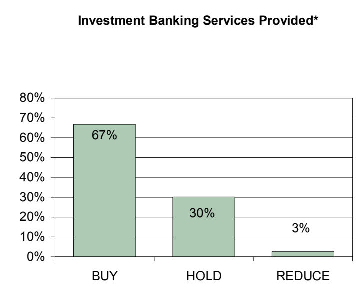

Current as of November 2, 2011

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BUY: The stock’s total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock’s total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock’s total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (7.2% of coverage universe), Medium (33.8%), High (48.8%), Speculative (10.2%)

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Fortis Inc.

(FTS-T) C$33.89

Pipelines, Power & Utilities

Recommendation:	**HOLD↓**
Prior:	*BUY*
Risk:	**LOW**
12-Month Target Price:	**C$35.00↓**
Prior:	*C$36.00*
12-Month Total Return:	**6.8%**

Market Data (C$)	
Current Price	$33.89
52-Wk Range	$28.24-$35.21
Mkt Cap (f.d.)($mm)	$6,398.4
Dividend per Share	$1.20
Dividend Yield	3.5%
Avg. Daily Trading Vol. (3mths)	570808

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	188.8
Float Shares (mm)	188.8
Net Debt/Tot Cap	55.4%
BVPS (basic)	$20.53
ROE	8.5%

Estimates (C$)

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.68	1.69	1.76
EPS (basic)(old)	1.63	1.68	1.73	1.81
EPS (f.d.)	1.60	1.67	1.67	1.74
EPS (f.d.)(old)	1.60	1.65	1.69	1.77
DI	1.12	1.16	1.20	1.26
AFFO/Shr	2.15	2.62	2.54	2.62

EPS (f.d.) Quarterly Estimates (C$)

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	0.64	--
Q2	0.32	0.33	--	--
Q3	0.24	0.25	--	--
Q4	0.47	0.46	--	--

Valuations

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	21.2x	20.3x	20.3x	19.5x
P/AFFO	15.8x	12.9x	13.3x	12.9x

Notes: 2012-2013 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Q4/11 In-Line; Downgrading to HOLD on Valuation

Event

Fortis reported normalized Q4/11 EPS (f.d.) of $0.46, which was in line with our estimate, recent consensus, and normalized Q4/10 EPS (f.d.) of $0.47.

Impact

SLIGHTLY NEGATIVE.

Our 2012 and 2013 EPS (f.d.) estimates decline by $0.02 and $0.03, respectively, primarily to reflect lower expected returns from Fortis' non-regulated properties. Our target price declines $1 to $35 commensurate with our lower growth outlook.

Exhibit 1. Overview of Changes to Estimates

	2010A	2011A	2012E	2013E
EPS (basic)	1.63	1.68	1.69	1.76
EPS (basic) (old)	1.63	1.68	1.73	1.81
EPS (f.d)	1.60	1.67	1.67	1.74
EPS (f.d) (old)	1.60	1.65	1.69	1.77
Free Cash Flow per Share (AFFO/Shr)	2.15	2.62	2.54	2.62
Free Cash Flow per Share (old)	2.15	2.61	2.67	2.75
Dividends per Share (DI)	1.12	1.16	1.20	1.26

Source: Company Reports, TD Securities.

Details

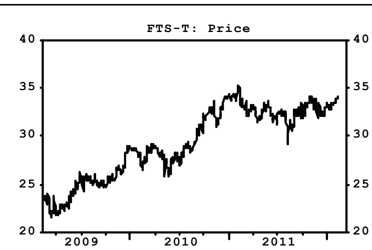
Regulated Gas Utilities Q4/11 earnings of $51 million were $6 million higher than Q4/10 results due to rate base growth from continued utility investments, lower-than-expected taxes and finance charges, and higher gas transportation volumes related to the forestry and mining sectors (Exhibit 2).

Regulated Electric Utilities – Canadian Q4/11 earnings of $42 million increased slightly year over year.

- **FortisAlberta** normalized earnings of $19 million increased $2 million versus Q4/10 results as rate base growth from continued utility investments was partially offset by a lower allowed ROE.
- **FortisBC Electric** earnings of $11 million increased by $1 million year over year driven by rate base growth, lower-than-expected energy supply costs and increased non-regulated income.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



- **Newfoundland Power** earnings of $8 million were $1 million lower year over year. The effects a lower allowed ROE, decreased earnings from a joint-use pole arrangement, higher effective tax rate and higher operating expenses were partially offset by electricity sales growth and lower energy supply costs.
- **Other Canadian Electric Utilities** earnings of $5 million were $1 million lower than Q4/10 results. The decrease was due to lower FortisOntario electricity sales, a $2 million rate of return adjustment at Maritime Electric due to higher-than-expected electricity sales and higher operating expenses.

Regulated Utilities – Caribbean earnings of $3 million were $2 million lower year over year largely from higher operating expenses at Turks & Caicos related to inflationary pressures and consulting fees associated with ongoing regulatory matters.

Fortis Generation earnings of $5 million were comparable with Q4/10. Lower New York energy prices, decreased interest income and higher business development costs were offset by increased production in Belize.

Fortis Properties earnings of $5 million declined $2 million versus Q4/10 primarily to reflect higher corporate income taxes partially offset by the incremental contribution from the Hilton Suites Winnipeg Airport hotel, which was acquired in October 2011.

Corporate expenses were flat year over year.

Exhibit 2. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q4/11	Q4/10	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	$51	$45	$6	13%
FortisAlberta[1]	19	17	2	9%
FortisBC Electric	11	10	1	10%
Newfoundland Power	8	9	(1)	-11%
Other Canadian	4	5	(1)	-20%
Regulated Electric Utilities - Canadian	42	41	1	1%
Regulated Utilities - Caribbean	3	5	(2)	-40%
Total Regulated Utilities	**96**	**91**	**5**	**5%**
Non-Regulated Fortis Generation	**5**	**5**	**-**	**0%**
Non-Regulated Fortis Properties	**5**	**7**	**(2)**	**-29%**
Corporate	**(18)**	**(18)**	**-**	**0%**
Operating Earnings	**88**	**85**	**3**	**3%**
Adjustments	(2)	-	(2)	**n.a.**
Reported Earnings	**86**	**85**	**1**	**1%**
Operating EPS (f.d)	**$0.46**	**$0.47**	**($0.01)**	**-2%**
Reported EPS (f.d)	$0.45	$0.47	($0.02)	-4%

Notes: Earnings have been normalized for the following items:

1) ($1.5) million of earnings in Q4/11 related to a retroactive decision by the AUC in December 2011, which lowered FortisAlberta's allowed ROE to 8.75% from 9.00% for 2011.

Source: Company Reports, TD Securities.

Outlook

Belize Update:

- **Belize Expropriation Update**: In June 2011, the Government of Belize (GOB) enacted legislation leading to the expropriation of Belize Electricity. The book value of Fortis' investment in Belize Electricity at the end of 2011 was $106 million. In November 2011, Fortis commissioned an independent valuation of its investment and submitted its claim for compensation to the GOB. The GOB also commissioned an independent valuation and its estimated fair value was significantly below the Fortis' estimate. Fortis continues to purse alternative options for obtaining fair compensation from the GOB.
- **BECOL Update**: At December 31, 2011, the book value of Fortis' investment in BECOL (non-regulated Belizean generating assets) was $154 million. In addition, Belize Electricity recently had US$7.4 million of overdue energy purchases outstanding to BECOL. It is our understanding that there are agreements in place such that the GOB is highly motivated to guarantee the payment of Belize Electricity's obligations to BECOL.

Regulatory Updates:

- **BC Generic Cost of Capital Proceeding**: The British Columbia Utilities Commission gave preliminary notice of its intention to initiate a Generic Cost of Capital proceeding in early 2012. Items to be reviewed include: 1) setting an appropriate cost of capital for a low-risk utility, 2) establishing an automatic ROE adjustment mechanism, and 3) establishing deemed capital structure and cost of capital methodology.
- **FortisAlberta**: Fortis and other utilities in Alberta have appealed an element of the regulator's December 2011 cost of capital decision related to the wording around unused assets, asking clarification about treatment of such assets in rate base, which we expect will ultimately be resolved in the utilities' favour (to uphold the regulatory compact).
- **FortisBC Electric**: In November 2011, the FortisBC Electric filed an updated 2012-2013 Revenue Requirement, which includes forecast average rate bases of $1,146 million and $1,215 million for 2012 and 2013, respectively.
- **Newfoundland Power**: In November 2011 the utility's allowed 2012 ROE was calculated to be 7.85% under the automatic adjustment formula, down from 8.38% in 2011. Use of the automatic formula has been suspended and a full cost of capital review is expected in 2012.

Strong Capital Program: In 2012, management expects capital expenditures of approximately $1.3 billion. The company's five-year plan (2012-2016) forecasts gross capital expenditures of $5.5 billion. Of this amount, 63% is expected to be related to regulated electric utilities, 23% to regulated gas utilities and 13% to non-regulated operations. The strong outlook for capital expenditures supports our view that Fortis' growth outlook will be driven by utility investment in Canada.

Q1/12 Preview: We are forecasting Q1/12 EPS of $0.64, in line with Q1/11 results. We expect rate base growth in the Canadian regulated utilities to be offset by a higher number of shares outstanding.

Valuation

Exhibit 3. Peer Group Valuation

	Curr.	Shares	Market	Ind.		EPS (f.d.)				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	2010A	2011E	2012E	2013E	2010A	2011E	2012E	2013E	For. E	Forward
FTS	$33.89	188.8	$6,398	$1.20	3.5%	$1.60	$1.67	$1.67	$1.74	21.2x	20.3x	20.3x	19.5x	$1.67	20.3x
ACO.X	$61.55	57.8	$3,558	$1.31	2.1%	$4.88	$5.44	$5.91	$5.99	12.6x	11.3x	10.4x	10.3x	$5.96	10.3x
CU	$62.07	127.5	$7,913	$1.77	2.9%	$3.28	$3.69	$4.07	$4.19	18.9x	16.8x	15.3x	14.8x	$4.11	15.1x
CPX	$25.00	97.1	$2,429	$1.26	5.0%	$1.38	$1.22	$1.56	$1.75	18.1x	20.5x	16.0x	14.3x	$1.60	15.7x
EMA	$33.37	123.6	$4,125	$1.35	4.0%	$1.65	$1.58	$1.66	$1.82	20.2x	21.2x	20.0x	18.3x	$1.67	19.9x
ENB	$39.13	761.0	$29,778	$1.13	2.9%	$1.32	$1.51	$1.58	$1.88	29.7x	26.0x	24.7x	20.9x	$1.59	24.6x
TRP	$41.78	704.0	$29,413	$1.68	4.0%	$1.97	$2.20	$2.35	$2.39	21.2x	19.0x	17.8x	17.5x	$2.37	17.6x
TA	$20.42	222.9	$4,552	$1.16	5.7%	$0.88	$1.11	$1.28	$1.21	23.2x	18.3x	15.9x	16.8x	$1.30	15.7x
Avg.					4.0%					21.8x	20.3x	18.6x	17.4x		18.4x

Source: Thomson, TD Securities.

Justification of Target Price

Our $35.00 target price is predicated on our 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

Key Risks to Target Price

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

The quarter was largely in line with our expectations as stronger-than-expected Canadian Utilities earnings were offset by a weaker Properties contribution. During 2012, we expect Fortis to continue to benefit from strong growth from its regulated utilities, partially offset by continued Properties weakness.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the company might acquire is likely gain the financial backing of a strong parent to help fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment, investors will find the company's low-risk, utility-dominated business model attractive. Given the relatively less compelling potential returns versus other investments in the sector, we are downgrading the shares to HOLD.

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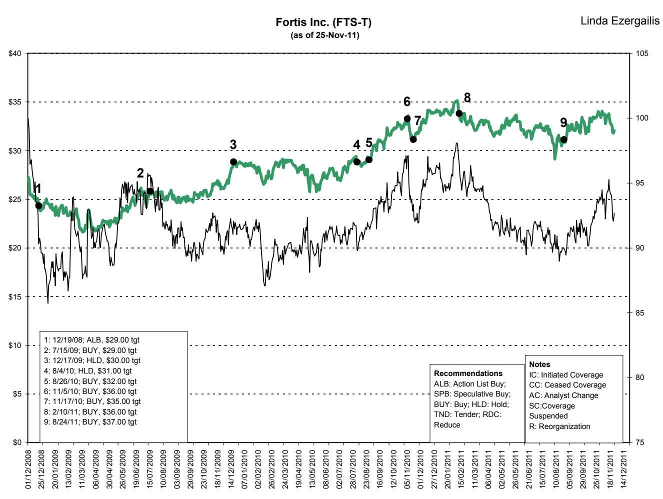

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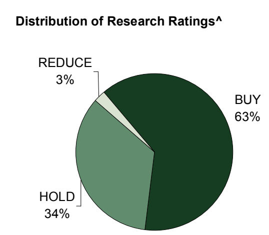

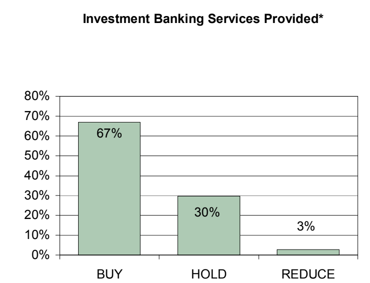

Current as of February 2, 2012

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Pipelines, Power & Utilities

Recommendation:	**HOLD** *Unchanged*
Risk:	**LOW**
12-Month Target Price:	**C$35.00** *Unchanged*
12-Month Total Return:	**11.8%**

Market Data (C$)	
Current Price	$32.38
52-Wk Range	$28.24-$34.39
Mkt Cap (f.d.)($mm)	$6,113.3
Dividend per Share	$1.20
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3mths)	569630

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	188.8
Float Shares (mm)	188.8
Net Debt/Tot Cap	55.4%
BVPS (basic)	$20.53
ROE	8.5%

Estimates (C$)

Year	2010A	2011E	2012E	2013E
EPS (basic)	1.63	1.68	1.69	1.82
EPS (basic)(old)	1.63	1.68	1.69	1.76
EPS (f.d.)	1.60	1.67	1.67	1.79
EPS (f.d.)(old)	1.60	1.67	1.67	1.74
DI	1.12	1.16	1.20	1.26
AFFO/Shr	2.15	2.62	2.54	2.55

EPS (f.d.) Quarterly Estimates (C$)

Year	2010A	2011E	2012E	2013E
Q1	0.56	0.64	0.64	--
Q2	0.32	0.33	--	--
Q3	0.24	0.25	--	--
Q4	0.47	0.46	--	--

Valuations

Year	2010A	2011E	2012E	2013E
P/E (f.d.)	20.2x	19.4x	19.4x	18.1x
P/AFFO	15.1x	12.4x	12.7x	12.7x

Notes: 2012-2013 forecasts are presented under Canadian GAAP.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Fortis Inc.

(FTS-T) C$32.38

Fortis Enters into Agreement to Acquire CH Energy

Event

Fortis has entered into an agreement to acquire CH Energy Group (CHG-N) for US$65.00 per common share in cash, for an aggregate purchase price of US$1.5 billion, including the assumption of approximately US$500 million of debt.

Impact

POSITIVE.

The acquisition is expected to be immediately accretive to Fortis' EPS (excluding one-time transaction costs of $20 million-$25 million). We calculate the acquisition to be approximately $0.04 accretive to EPS on an annual basis, assuming that it is ultimately financed with approximately $150 million of preferred shares, $450 million of common equity and the remainder with debt. We have updated our financial model to assume the transaction closes at the end of February 2013 and to reflect other fine-tuning. (Exhibit 1). We note that our 2013 free cash flow estimate declines to reflect the on-time transactions costs associated with the acquisition. While we believe that this will add ballpark a dollar of value to Fortis' shares, this is dependent on the outcome of the regulatory approval process (e.g. concessions made to customers) and assumes no competing bids surface.

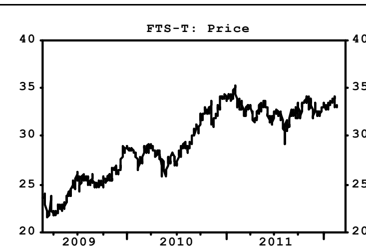
Exhibit 1. Estimate Changes

	2010A	2011A	2012E	2013E
EPS (basic)	1.63	1.68	1.69	1.82
EPS (basic) (old)	1.63	1.68	1.69	1.76
EPS (f.d)	1.60	1.67	1.67	1.79
EPS (f.d) (old)	1.60	1.67	1.67	1.74
Free Cash Flow per Share (AFFO/Shr)	2.15	2.62	2.54	2.55
Free Cash Flow per Share (old)	2.15	2.62	2.54	2.62
Dividends per Share (DI)	1.12	1.16	1.20	1.26

Source: Thomson, TD Securities.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Details

- **Description**: CH Energy's main business (93% of total assets, 97% of 2011 net income) is a regulated transmission and distribution (T&D) utility, Central Hudson, serving approximately 300,000 electric and 75,000 natural gas customers in New York State's Mid-Hudson River Valley region. CH Energy also has a non-regulated subsidiary primarily involved in fuel delivery to 56,000 customers in the Mid-Atlantic Region.
- **Acquisition Price Appears Reasonable**: The US$65.00 per share offer represents an approximate 10.5% premium above CH Energy's closing price on February 17, a 13% premium above the 20-day average share price of US$57.49, and approximately 10.4x 2011 EBITDA. On a 2013E basis, we calculate the EV/EBITDA to be 9.4x, P/E to be 19.4x and price-to-total rate base to be 1.5x.
- **Timing**: Fortis expects to close the acquisition within 12 months.
- **Competing Offers Possible, but Unlikely**: The merger agreement was a result of negotiations, rather than an auction process. Given what we view to be a fair price, we do not expect any higher competing offers. We note, however, that CH Energy shares have traded through the offer price. The transaction includes a break fee of US$19.7 million (US$1.32 per CHG share) plus expenses that are capped at US$4 million (US$0.27 per CHG share).
- **Financing**: Fortis expects to use its multi-year committed credit facility to finance the purchase in the short term. Long term, Management intends to finance the acquisition consistent with the corporation's current capital structure.
- **Favourable Regulatory Environment**: Central Hudson is regulated by the New York Public Service Commission (NYPSC) under a traditional cost of service model. Current rates are based on a three-year settlement, expiring mid-2013 that includes an allowed rate of return on common equity of 10% and an equity thickness of 48%.
- **Rate Base Growth:** Management expects annual capital expenditures to exceed US$100 million on average through 2016, which should result in rate base and earnings growth, in our view.
- **Regulatory approval risk Appears Low**: The transaction is subject to the receipt of approvals from CH Energy shareholders, the NYPSC, the U.S. FERC and Hart-Scott-Rodino, as well as customary closing conditions. We expect the NYPSC to approve the acquisition given Fortis' reputation and track record of successful utility acquisitions, and the potential customer benefits that could include any or all of the following: offsetting or deferring future rate increases, enhancing the quality of service to customers or making that service more affordable. Fortis will operate CH Energy as a standalone utility, keep the headquarters in Poughkeepsie, NY, and is also committed to maintaining existing wages and benefits to CH Energy employees.
- **Significant Strategic Thrust into U.S.**: We view the foray into the U.S. Northeast positively as it furthers Fortis' strategy of entering into the U.S. regulated electric and gas distribution business with what we view to be a good sized utility (material in size but not too large). Fortis has been looking for U.S. acquisitions for a number of years. We note that the company has a successful track record in acquiring utilities including Aquila Canada for $1.5 billion in 2004 and Terasen Gas for $3.7 billion in 2007.

Valuation

Exhibit 2. Peer Group Valuation

	Curr.	Shares	Market	Ind.		EPS (f.d.)				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	2010A	2011E	2012E	2013E	2010A	2011E	2012E	2013E	For. E	Forward
FTS	$32.38	188.8	$6,113	$1.20	3.7%	$1.60	$1.67	$1.67	$1.79	20.3x	19.4x	19.4x	18.1x	$1.67	19.4x
ACO.X	$63.55	57.8	$3,673	$1.31	2.1%	$4.88	$5.44	$5.91	$5.99	13.0x	11.7x	10.8x	10.6x	$5.98	10.6x
CU	$62.98	127.5	$8,029	$1.77	2.8%	$3.28	$3.69	$4.07	$4.19	19.2x	17.1x	15.5x	15.0x	$4.12	15.3x
CPX	$25.20	97.1	$2,448	$1.26	5.0%	$1.38	$1.22	$1.56	$1.75	18.3x	20.6x	16.2x	14.4x	$1.61	15.7x
EMA	$33.18	124.1	$4,118	$1.35	4.1%	$1.65	$1.64	$1.70	$1.80	20.1x	20.2x	19.5x	18.5x	$1.70	19.5x
ENB	$38.52	765.0	$29,468	$1.13	2.9%	$1.32	$1.46	$1.60	$1.87	29.3x	26.4x	24.1x	20.6x	$1.62	23.8x
TA	$20.89	222.9	$4,656	$1.16	5.6%	$0.88	$1.11	$1.28	$1.21	23.7x	18.7x	16.3x	17.2x	$1.31	16.0x
TRP	$42.26	704.0	$29,751	$1.76	4.2%	$1.97	$2.23	$2.35	$2.39	21.5x	19.0x	18.0x	17.7x	$2.37	17.8x
Avg.					4.0%					21.8x	20.2x	18.4x	17.3x		18.2x

Source: Thomson, TD Securities.

Justification of Target Price

Our $35.00 target price is predicated on our 2013 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond-yield assumption.

Key Risks to Target Price

1) Higher-than-expected long-bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, and 6) escalating construction costs.

Investment Conclusion

If successful, we view the CH Energy acquisition positively as we believe that it will be mutually beneficial for both companies. The transaction should provide Fortis with a source of stable, regulated earnings, in a favourable regulatory jurisdiction with the potential to expand the company's footprint into the U.S. Northeast. CH Energy is expected to gain the financial backing of a strong parent to help fund its future growth, benefit from sharing of best practices across the Fortis group of utilities, and keep its operations autonomous in the Fortis fold.

Fortis is the largest investor-owned gas and electric distribution utility in Canada, and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the company might acquire is likely gain the financial backing of a strong parent to help fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment, investors will find the company's low-risk, utility-dominated business model attractive.

TD Securities Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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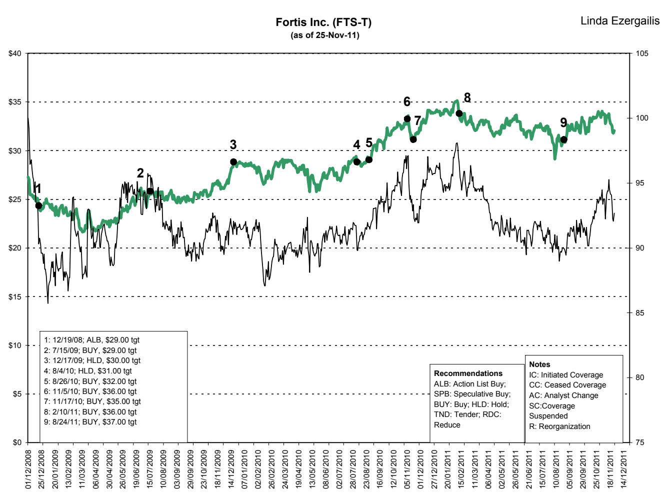

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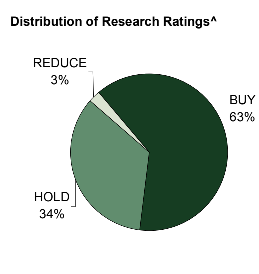

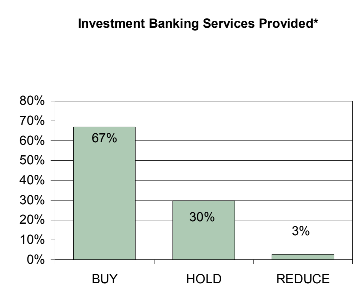

Current as of February 2, 2012

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (6.8% of coverage universe), Medium (32.2%), High (48.7%), Speculative (12.3%)

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Pipelines, Power & Utilities

Recommendation:	**BUY↑**
Prior:	*HOLD*
Risk:	**LOW**
12-Month Target Price:	**C$37.00↑**
Prior:	*C$35.00*
12-Month Total Return:	**10.6%**

Market Data (C$)

Current Price	$34.55
52-Wk Range	$28.24-$34.39
Mkt Cap (f.d.)($mm)	$6,920.4
Dividend per Share	$1.20
Dividend Yield	3.5%
Avg. Daily Trading Vol. (3mths)	613914

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	200.3
Float Shares (mm)	189.3
Net Debt/Tot Cap	53.2%
BVPS (basic)	$20.61
ROE	8.5%

Estimates (C$)

Year	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.69	1.81	1.89
EPS (basic)(old)	1.68	1.69	1.82	--
EPS (f.d.)	1.67	1.67	1.79	1.86
EPS (f.d.)(old)	1.67	1.67	1.79	--
DI	1.16	1.20	1.26	1.32
AFFO/Shr	2.62	2.54	2.54	2.86

EPS (f.d.) Quarterly Estimates (C$)

Year	2011A	2012E	2013E	2014E
Q1	0.64	0.64	--	--
Q2	0.33	0.33	--	--
Q3	0.25	--	--	--
Q4	0.46	--	--	--

Valuations

Year	2011A	2012E	2013E	2014E
P/E (f.d.)	20.7x	20.7x	19.3x	18.6x
P/AFFO	13.2x	13.6x	13.6x	12.1x

Notes: Forecasts are based on US GAAP.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$34.55

Q1 Results In-Line With Expectations; Upgrading to BUY

Event

Fortis reported normalized Q1/12 EPS (f.d.) of $0.64, in line with our $0.64 estimate and Q1/11 EPS (f.d.) of $0.64 but slightly below recent consensus estimates of $0.66.

Impact

SLIGHTLY POSITIVE.

We have updated our model and our estimates remain largely unchanged. Effective Q1/12, Fortis also began reporting under U.S. GAAP. The adoption of U.S. GAAP does not materially change our earnings estimates.

We are also rolling forward our target price to be based 75% on our 2013 and 25% on our 2014 estimates and, as a result, we are increasing our target by $2 to $37. Given the implied total returns to our target, we are upgrading the stock to BUY (from Hold).

Exhibit 1. Estimate Changes

	2010A	2011A	2012E	2013E	2014E
EPS (basic)	1.63	1.68	1.69	1.81	1.89
EPS (basic) (old)	1.63	1.68	1.69	1.82	-
EPS (f.d)	1.60	1.67	1.67	1.79	1.86
EPS (f.d) (old)	1.60	1.67	1.67	1.79	-
Free Cash Flow per Share (AFFO/Shr)	2.15	2.62	2.54	2.54	2.86
Free Cash Flow per Share (old)	2.15	2.62	2.54	2.55	-
Dividends per Share	1.12	1.16	1.20	1.26	1.32
Dividends per Share (old)	1.12	1.16	1.20	1.26	-

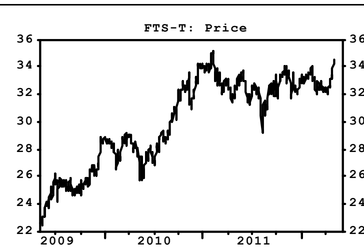
Source: TD Securities.

Details

Regulated Gas Utilities Q1/12 earnings of $82 million were $7 million higher than Q1/11 results, largely due to rate base growth from utility investments, and higher gas transportation volumes to both the forestry and mining industries (Exhibit 2).

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Regulated Electric Utilities – Canadian Q1/12 earnings of $51 million were comparable year over year.

- **FortisAlberta** earnings of $21 million increased by $1 million versus Q1/11 results as rate base growth from utility investments was partially offset by decreased energy consumption by residential customers and a lower allowed ROE.
- **FortisBC Electric** earnings of $16 million decreased by $3 million year over year, largely due to the expiration of the performance-based rate-setting (PBR) mechanism in December 2011. The decline was partially offset by rate base growth.
- **Newfoundland Power** earnings of $7 million were $1 million higher year over year as a result of increased electricity sales and lower effective income taxes. The increase was partially offset by decreased earnings from a joint-use pole arrangement that ended in October 2011.
- **Other Canadian Electric Utilities** earnings of $7 million were $1 million higher than Q1/11 results, largely from lower effective income taxes and increased electricity sales in PEI.

Regulated Utilities – Caribbean earnings of $3 million were $1 million lower year over year, largely from the expropriation of Belize Electricity.

Fortis Generation earnings of $5 million were $2 million higher year over year due to increased generation in Belize resulting from higher rainfall.

Fortis Properties earnings of $1 million were comparable year over year.

Corporate and Other expenses decreased by $2 million year over year, primarily due to increased capitalized interest related to the Waneta Expansion.

Exhibit 2. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q1/12	Q1/11	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	$82	$75	$7	9%
FortisAlberta[1]	21	20	1	5%
FortisBC Electric	16	19	(3)	-16%
Newfoundland Power	7	6	1	17%
Other Canadian	7	6	1	17%
Regulated Electric Utilities - Canadian	51	51	-	0%
Regulated Utilities - Caribbean	3	4	(1)	-25%
Total Regulated Utilities	**136**	**130**	**6**	**5%**
Non-Regulated Fortis Generation	**5**	**3**	**2**	**67%**
Non-Regulated Fortis Properties[2]	**1**	**1**	**1**	**100%**
Corporate[3]	**(17)**	**(19)**	**2**	**-11%**
Operating Earnings	**125**	**115**	**11**	**9%**
Adjustments	(4)	2	(6)	**-367%**
Reported Earnings	**121**	**116**	**5**	**4%**
Operating EPS (f.d)	**$0.64**	**$0.64**	**$0.00**	**1%**
Reported EPS (f.d)	$0.62	$0.64	($0.02)	-4%

Notes: Earnings have been normalized for the following items:
1) Q1/11 excludes a $1.0 million gain related to the sale of property.
2) Q1/11 excludes a $0.5 million gain related to the sale of the Viking Mall in Newfoundland.
3) Q1/12 excludes $4.0 million of costs related to the pending CH Energy acquisition.

Source: Company Reports, TD Securities.

Outlook

Regulatory Updates:

- **B.C. Generic Cost of Capital Proceeding:** The British Columbia Utilities Commission gave a final notice of the items to be reviewed in the Generic Cost of Capital proceeding, which include 1) setting an appropriate cost of capital for a low-risk utility, including capital structure, ROE and debt interest; 2) establishing whether an automatic ROE adjustment mechanism is warranted; and 3) establishing a generic methodology for each utility's cost of capital in reference to the benchmark low-risk utility.
- **FortisAlberta:** In April 2012 the AUC approved a negotiated settlement with respect to 2012 distribution revenue requirements using a forecast mid-year rate base of $2.025 billion. The discussions regarding the PBR initiative for utilities in Alberta continues and a decision is expected by year-end.
- **Newfoundland Power:** In March 2012 Newfoundland Power filed a cost of capital application to discontinue the use of the current ROE adjustment mechanism and to approve a reasonable rate of return on rate base for 2012. A public hearing on the application is scheduled for June 2012.

CH Energy Update: In April 2012, applications were filed with the New York State Public Service Commission and FERC seeking approval of Fortis' acquisition of CH Energy. The CH Energy Group shareholder vote on the transaction is expected to occur in mid-2012, and management expects to close the acquisition by the end of Q1/13.

Organic Capital Program Remains Unchanged: In 2012, management expects gross capital expenditures of approximately $1.3 billion. The company's five-year plan (2012-2016) forecasts gross capital expenditures of $5.5 billion. Of this amount, 64% is expected to be related to regulated electric utilities, 23% to regulated gas utilities, and 13% to non-regulated operations. The B.C. Waneta Expansion project remains on track and has completed the intake, powerhouse, and power tunnel construction with $290 million spent to date.

Publishing Our 2014 Estimates and Q2/12 Preview: Our 2014 EPS (f.d.) estimate increases by $0.07 year over year to $1.86, largely due to growth at the Canadian regulated utilities in addition to a full-year contribution from CH Energy. We are also forecasting Q2/12 EPS of $0.33, in line with Q2/11 results. We expect rate base growth in the Canadian regulated utilities to be offset by the expiration of the PBR mechanism at FortisBC Electric and a higher number of shares outstanding.

Valuation

Exhibit 3. Peer Group Valuation

	Curr.	Shares	Market	Ind.		EPS (f.d.)				P/E				EPS	P/E
Symbol	Price	O/S (mm)	Cap (mm)	Div.	Yield	2010A	2011A	2012E	2013E	2010A	2011A	2012E	2013E	For. E	Forward
FTS	$34.55	200.3	$6,920	$1.20	3.5%	$1.60	$1.67	$1.67	$1.79	21.6x	20.7x	20.7x	19.3x	$1.71	20.2x
ACO.X	$74.89	57.7	$4,321	$1.31	1.7%	$4.88	$5.70	$6.15	$6.23	15.4x	13.1x	12.2x	12.0x	$6.17	12.1x
CU	$71.16	127.6	$9,080	$1.77	2.5%	$3.28	$3.69	$4.02	$4.18	21.7x	19.3x	17.7x	17.0x	$4.08	17.4x
CPX	$23.59	97.4	$2,298	$1.26	5.3%	$1.38	$1.24	$1.44	$1.63	17.1x	19.0x	16.4x	14.5x	$1.50	15.7x
EMA	$35.00	124.1	$4,344	$1.35	3.9%	$1.65	$1.64	$1.70	$1.80	21.2x	21.3x	20.6x	19.5x	$1.73	20.2x
ENB	$40.94	765.0	$31,319	$1.13	2.8%	$1.32	$1.46	$1.60	$1.87	31.1x	28.1x	25.6x	21.9x	$1.69	24.3x
TA	$16.49	224.6	$3,704	$1.16	7.0%	$0.88	$1.04	$0.98	$0.96	18.7x	15.9x	16.8x	17.2x	$0.97	16.9x
TRP	$43.44	705.0	$30,625	$1.76	4.1%	$1.97	$2.23	$2.19	$2.31	22.1x	19.5x	19.8x	18.8x	$2.23	19.4x
Avg.					4.1%					21.9x	20.5x	19.7x	18.3x		19.2x

Source: Thomson, TD Securities.

Justification of Target Price

Our $37.00 target price is predicated 75% on our 2013 and 25% on our 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond yield assumption.

Key Risks to Target Price

1) higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

Investment Conclusion

Going forward, we view the pending CH Energy acquisition positively as we believe that it will be mutually beneficial for both companies if successful. The transaction should provide Fortis with a source of stable, regulated earnings, in a favourable regulatory jurisdiction, with the potential to expand the company's footprint into the U.S. Northeast. CH Energy is expected to gain the financial backing of a strong parent to help fund its future growth, benefit from sharing of best practices across the Fortis group of utilities, and keep its operations autonomous in the Fortis fold.

Fortis is the largest investor-owned gas and electric distribution utility in Canada and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the company might acquire is likely gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment investors will find the company's low-risk, utility-dominated business model attractive, and given the total potential returns to our target, we are upgrading the stock to BUY.

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Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9, 10

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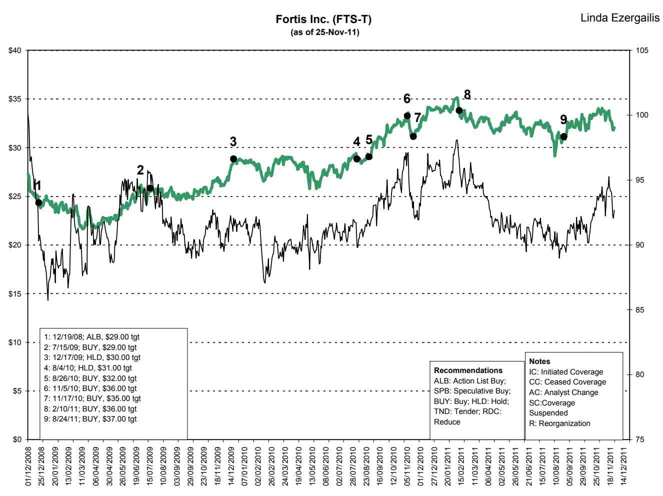

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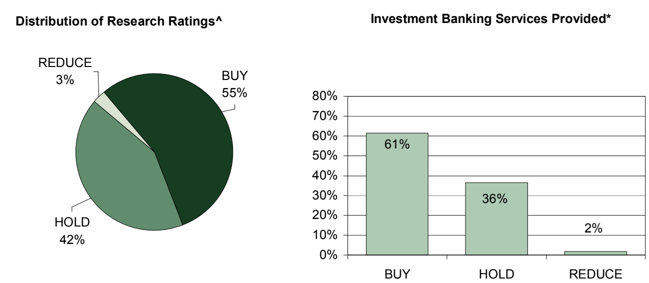

Current as of April 3, 2012

^ Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
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TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock's total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (6.7% of coverage universe), Medium (31.5%), High (49.4%), Speculative (12.4%)

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Pipelines, Power & Utilities

Recommendation: **BUY** *Unchanged*

Risk: **LOW**

12-Month Target Price: **C$37.00** *Unchanged*

12-Month Total Return: **18.9%**

Market Data (C$)	
Current Price	$32.14
52-Wk Range	$28.24-$34.98
Mkt Cap (f.d.)($mm)	$6,437.6
Dividend per Share	$1.20
Dividend Yield	3.7%
Avg. Daily Trading Vol. (3mths)	643130

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	200.3
Float Shares (mm)	189.3
Net Debt/Tot Cap	53.2%
BVPS (basic)	$20.61
ROE	8.5%

Estimates (C$)

Year	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.70	1.81	1.89
EPS (basic)(old)	1.68	1.69	1.81	1.89
EPS (f.d.)	1.67	1.68	1.78	1.86
EPS (f.d.)(old)	1.67	1.67	1.79	1.86
DIVIDEND	1.16	1.20	1.26	1.32
AFFO/Shr	2.62	2.55	2.53	2.86

EPS (f.d.) Quarterly Estimates (C$)

Year	2011A	2012E	2013E	2014E
Q1	0.64	0.64	--	--
Q2	0.33	0.33	--	--
Q3	0.25	--	--	--
Q4	0.46	--	--	--

Valuations

Year	2011A	2012E	2013E	2014E
P/E (f.d.)	19.2x	19.1x	18.1x	17.3x
P/AFFO	12.3x	12.6x	12.7x	11.2x

Notes: Forecasts are based on US GAAP.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

Fortis Inc.

(FTS-T) C$32.14

Resuming Coverage Post Sub Receipt Offering

Event

- We are resuming coverage of Fortis Inc. following the close of an 18.5 million subscription receipt offering for gross proceeds of $601 million.
- On June 19, 2012, CH Energy Group (CH Energy) shareholders voted 92% in favour of the acquisition of the company by Fortis for US$65.00 per common share in cash (US$1.5 billion in aggregate).

For additional details on the CH Energy acquisition, please refer to our February 22, 2012, Action Note titled, "***Fortis Enters into Agreement to Acquire CH Energy*".**

Impact

SLIGHTLY POSITIVE.

We view both the subscription receipt closing and the CH Energy shareholder approval as positive steps towards closing the acquisition. Given the recent volatility in the capital markets, we believe that the use of subscription receipts reduces the financing risk associated with the acquisition. However, the offering was slightly larger than we were modeling and as a result our 2013 forecasts decline slightly, partially offset by a positive regulatory decision at Newfoundland Power, which saw its regulated ROE increase slightly to 8.80% (from 8.38%).

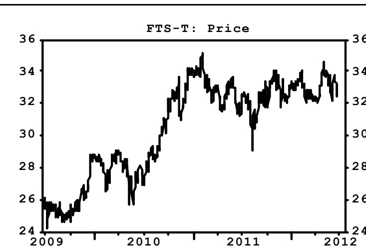
Exhibit 1. Estimate Changes

	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.70	1.81	1.89
EPS (basic) (old)	1.68	1.69	1.81	1.89
EPS (f.d)	1.67	1.68	1.78	1.86
EPS (f.d) (old)	1.67	1.67	1.79	1.86
Free Cash Flow per Share (AFFO/Shr)	2.62	2.55	2.53	2.86
Free Cash Flow per Share (old)	2.62	2.54	2.54	2.86
Dividends per Share	1.16	1.20	1.26	1.32
Dividends per Share (old)	1.16	1.20	1.26	1.32

Source: TD Securities.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Details

- **Approvals and Timing:** Regulatory approval is required from the New York State Public Service Commission (NYPSC), the U.S. FERC, and Hart-Scott-Rodino. In April 2012, Fortis and Central Hudson (the regulated electric utility owned by CH Energy) filed a joint petition to launch the regulatory review for approval of the acquisition. We expect the NYPSC to approve the acquisition given Fortis' reputation and track record of successful utility acquisitions, and the potential for customer benefits. The acquisition is expected to close by the end of Q1/13.
- **Favourable Regulatory Environment:** Central Hudson is regulated by the NYPSC under a traditional cost of service model. Current rates are based on a three-year settlement, expiring mid-2013 that includes an allowed ROE of 10% and an equity thickness of 48%. In our view, this compares favourably with Fortis' other large utilities as CH Energy offers slightly higher returns with a similar risk profile (Exhibit 2). CH Energy also has favourable regulatory mechanisms similar to those of Fortis' other large utilities (Exhibit 3).

Exhibit 2. Comparison of Fortis' Large Utilities

Utility	Customers (#000s)[1]	Rate Base ($B)[2]	2012 Equity Thickness (%)	2012 Allowed ROE (%)
FortisBC Energy	939	3.6	40%	9.50%[3]
FortisBC (Electric)	162	1.1	40%	9.90%
FortisAlberta	501	2.0	41%	8.75%
Newfoundland Power	248	0.9	45%	8.80%
Central Hudson[4]	**375**	**1.0**	**48%**	**10.00%**

Notes:
1) As at March 31, 2012.
2) Forecast mid-year 2012.
3) ROE is for FortisBC Energy Inc. ROE for FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc. is 50 bps higher.
4) CHEG acquisition announced on February 21, 2012. CHEG owns Central Hudson Gas & Electric. Transaction is expected to close by March 31, 2013.

Source: Company Reports, TD Securities.

Exhibit 3. Regulatory Mechanisms for Fortis' Large Utilities

Utility	FortisBC Energy	FortisBC (Electric)	FortisAlberta	Newfoundland Power	Central Hudson (1)
Cost of service regulation	✓	✓	✓	✓	✓
Forward test year/Negotiated rate settlement	✓	✓	✓	✓	✓
Commodity/Energy supply cost trackers (2)	✓	(3) (4)	N/A (5)	✓	✓
Advance approval required for capital expenditures	✓	✓	✓	✓	✓
Weather (volume) normalization	✓	(4)	N/A (5)	✓	✓
Pension cost tracker (2)	✓	✓	N/A (6)	✓	✓
Interest expense tracker (2)	✓	✓	x	x	✓
Property tax tracker (2)	✓	✓	x	✓	✓
Relief typically granted for major non-controllable expenses (including taxes, storm damage and accounting changes)	✓	✓	✓	✓	✓

Notes:
1) CHEG acquisition announced on February 21, 2012. CHEG owns Central Hudson Gas & Electric. Transaction is expected to close by March 31, 2013.
2) Deferral for future recovery from (refund to) customers of certain variances between actual and that forecast for rate setting.
3) Majority of power requirements met through the utility's own generation and long-term fixed-price contracts.
4) FortisBC Electric has requested commodity/energy supply cost and sales variance trackers for 2012 and 2013, subject to regulator approval.
5) Distribution utility only. No commodity or purchase power exposure.
6) Primarily has defined contribution pension plan.

Source: Company Reports, TD Securities.

- **Significant Strategic Thrust into the U.S.:** We view the pending foray into the U.S. Northeast as positive as it would further Fortis' strategy of entering into the U.S. regulated electric and gas distribution business with what we view to be a good-sized utility. Fortis has been looking for U.S. acquisitions for a number of years and we believe management has been disciplined in the process. For example, Fortis walked away from Central Vermont Public Service back in 2011 instead of increasing its original bid for the utility. We note that the company has a successful track record of acquiring utilities including Aquila Canada for $1.5 billion in 2004 and Terasen Gas for $3.7 billion in 2007.
- **Description of CH Energy Group:** CH Energy's main business (93% of total assets, 97% of 2011 net income) is a regulated transmission and distribution utility, Central Hudson, serving approximately 300,000 electric and 75,000 natural gas customers in New York State's Mid-Hudson River Valley region. CH Energy also has a non-regulated subsidiary primarily involved in fuel delivery to 56,000 customers in the Mid-Atlantic Region.

Outlook

- **Highest Degree of Regulation and Lowest Risk Large-Cap Name in our Sector:** We expect Fortis will continue to have the highest degree of regulation of other power and utility companies under our coverage and we view it as the lowest risk, best defensive large-cap play in our universe (Exhibit 4).

Exhibit 4. Degree of Regulation and Business Mix

	Fortis	ATCO	Canadian Utilities	Capital Power	Emera	TransAlta	Average
Degree of Regulation							
High	89%	39%	53%		62%		41%
Loose		12%	16%	36%	32%	13%	18%
Unregulated	11%	49%	31%	64%	6%	87%	41%
Business Mix							
Long-Haul Oil Transmission							
Long-Haul Natural Gas Transmission		7%	10%		11%		5%
Natural Gas Distribution	34%	11%	15%				10%
Electricity Transmission & Distribution	55%	21%	28%		73%		30%
Power Generation	5%	24%	33%	99%	12%	85%	43%
Oil Related Midstream							
Natural Gas Related Midstream		3%	4%				1%
Marketing and Other	6%	33%	10%	1%	4%	15%	12%

Notes:
1) Degree of regulation and business mix percentages are based off 2011A data, except for Fortis, which is based off 2013E.
2) ATCO and Canadian Utilities' debt values are adjusted for the companies' large cash balances.
Source: Company Reports, TD Securities.

- **Steady EPS and DPS Growth; No Further Need for Common Equity:** We are forecasting mid-single digit EPS and dividend per share CAGRs out to the end of 2014, largely on the back of rate base growth at the regulated utilities and the CH Energy acquisition. We believe Fortis could raise approximately $250 million of preferred shares but we do not forecast any additional common equity financings out to 2015 (Exhibits 5-8).
- **Continued Appetite for Acquisitions:** We believe that Fortis' management will remain acquisitive and will continue to look at utility acquisitions. Our understanding is that there are some European based utility owners in New York and given the uncertainty surrounding the current situation in Europe, there is the possibility for these European players to shed assets in order to raise capital and strengthen their balance sheets. We believe that Fortis would be a potential bidder for any asset divestitures by these entities. That being said, given Fortis' utility acquisition strategy of keeping its subsidiaries autonomous and self-functioning, we believe that Fortis has the capability to acquire regulated utilities throughout the U.S. and would not limit itself to existing regions.

Exhibit 5. Segmented Income Statement

Income Statement ($mm)	2009	2010	2011	2012E	2013E	2014E
FortisBC Energy Companies	120	126	139	146	149	147
FortisAlberta	57	68	74	82	89	93
FortisBC Electric	37	42	48	47	50	52
Newfoundland Power	32	35	34	35	36	37
Other Canadian Electric Utilities	17	19	22	21	22	23
CH Energy Group	-	-	-	-	40	48
Regulated Electric Utilities - Caribbean	25	23	20	24	25	26
Fortis Properties	24	26	23	23	26	30
Fortis Generation	16	20	18	21	23	27
Corporate and Other	(72)	(78)	(72)	(75)	(90)	(89)
Operating Earnings	**256**	**281**	**306**	**324**	**369**	**394**
Non-recurring, Unusual, Discontinued Items	6	4	12	-	(23)	-
Reported Earnings	**262**	**285**	**318**	**324**	**347**	**394**

Source: TD Securities.

Exhibit 6. Cash Flows

Cash Flow ($mm)	2009	2010	2011	2012E	2013E	2014E
Cash Flow Operations	**637**	**783**	**904**	**836**	**931**	**1,022**
Cash Flow Investing	**(1,052)**	**(991)**	**(1,125)**	**(1,216)**	**(2,507)**	**(1,108)**
Cash Flow Financing	**438**	**232**	**201**	**328**	**1,565**	**93**
Issuance of Equity & Prefs (Net)	46	322	345	330	667	82
Increase/(Decrease) in Debt (Net)	551	146	(36)	269	1,203	333
Common & Pref Dividends	(159)	(236)	(108)	(271)	(305)	(322)
Change in Cash (incl. F/X)	19	24	(20)	(52)	(11)	7
Beg. Period Cash and Equivalents	66	85	109	89	37	26
End Period Cash and Equivalents	**85**	**109**	**89**	**37**	**26**	**33**

Source: TD Securities.

Exhibit 7. Balance Sheet

Balance Sheet ($mm)	2009	2010	2011	2012E	2013E	2014E
Current Assets	1,126	1,204	1,120	1,044	1,033	1,040
Capital Assets	9,004	9,593	10,266	11,140	13,236	13,888
Other Long-Term Assets	2,030	2,106	2,176	2,219	3,333	2,120
Total Assets	**12,160**	**12,903**	**13,562**	**14,402**	**17,601**	**17,048**
Current Liabilities	1,594	1,517	1,320	1,083	2,643	1,603
Long-Term Debt and Capital Lease Obligations	5,276	5,609	5,679	6,282	6,530	7,353
Other Long-Term Liabilities	1,750	1,880	2,094	2,094	2,094	2,094
Total Liabilities	**8,620**	**9,006**	**9,093**	**9,459**	**11,267**	**11,050**
Preferred Shares (Equity Classified)	347	592	592	842	842	842
Shareholders' Equity	3,193	3,305	3,877	4,101	5,492	5,156
Total Liabilities and Shareholders' Equity	**12,160**	**12,903**	**13,562**	**14,402**	**17,601**	**17,048**

Source: TD Securities.

Exhibit 8. Capitalization

Capital Structure ($mm)	2009	2010	2011	2012E	2013E	2014E
Total Debt	5,915	6,023	5,944	6,213	7,416	7,749
	60%	*58%*	*54%*	*53%*	*54%*	*54%*
Non-Controling Interest	123	162	208	208	208	208
	1%	*2%*	*2%*	*2%*	*2%*	*1%*
Preferred Shares	667	912	912	1,162	1,162	1,162
	7%	*9%*	*8%*	*10%*	*8%*	*8%*
Common Equity	3,193	3,305	3,877	4,095	4,899	5,148
	32%	*32%*	*35%*	*35%*	*36%*	*36%*
Total Capitalization	9,898	10,402	10,941	11,678	13,685	14,267

Source: TD Securities.

Valuation

Exhibit 9. Valuation

		Curr.	Shares	Market	Ind.		EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
Power & Utility Companies	**Symbol**	**Price**	**O/S(mm)**	**Cap (mm)**	**Div.**	**Yield**	**2011A**	**2012E**	**2013E**	**2011A**	**2012E**	**2013E**	**2012E**	**2013E**	**2012E**	**2013E**
Fortis Inc.	FTS	$32.14	200.3	$6,438	$1.20	3.7%	$1.67	$1.68	$1.78	$2.62	$2.55	$2.53	19.1x	18.1x	7.9%	7.9%
ATCO Ltd.	ACO.X	$72.31	57.7	$4,172	$1.31	1.8%	$5.70	$6.15	$6.23	$8.38	$7.97	$7.75	11.8x	11.6x	11.0%	10.7%
Canadian Utilities Ltd.	CU	$66.40	127.6	$8,473	$1.77	2.7%	$3.69	$4.02	$4.18	$5.32	$4.77	$4.62	16.5x	15.9x	7.2%	7.0%
Capital Power Corp.	CPX	$23.79	97.4	$2,317	$1.26	5.3%	$1.24	$1.44	$1.64	$2.78	$2.50	$3.02	16.5x	14.5x	10.5%	12.7%
Emera Inc.	EMA	$32.74	128.5	$4,207	$1.35	4.1%	$1.64	$1.68	$1.78	$2.06	$2.13	$1.95	19.5x	18.4x	6.5%	5.9%
TransAlta Corp.	TA, TAC	$16.97	224.6	$3,811	$1.16	6.8%	$1.04	$0.98	$0.96	$1.68	$1.01	$1.81	17.3x	17.7x	6.0%	10.7%
Valener Inc.	VNR	$15.06	37.5	$565	$1.00	6.6%	$0.82	$0.80	$0.89	$2.04	$2.10	$2.10	18.9x	16.9x	13.9%	13.9%
Average (1)						4.9%							18.0x	16.9x	8.7%	9.7%

Notes:
1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

Justification of Target Price

Our $37.00 target price is predicated 75% on our 2013 and 25% on our 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 10.5x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond yield assumption.

Key Risks to Target Price

1) Higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, 7) closing of pending acquisitions, and 8) access to capital markets.

Investment Conclusion

Going forward, we view the pending CH Energy acquisition positively as we believe that it will be mutually beneficial for both companies if successful. The transaction should provide Fortis with a source of stable, regulated earnings, in a favourable regulatory jurisdiction, with the potential to expand the company's footprint into the U.S. Northeast. CH Energy is expected to gain the financial backing of a strong parent to help fund its future growth, benefit from sharing of best practices across the Fortis group of utilities, realize customer benefits while maintaining steady rates, and keep its operations autonomous within Fortis.

Fortis is the largest highly-regulated investor-owned gas and electric distribution utility in Canada and, therefore, we view it as a core holding. We expect the company's future growth to be largely driven by utility investment in Canada. However, we believe that Fortis is also well-positioned to make future acquisitions, as any smaller utility the company might acquire is likely to gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment investors will find the company's low-risk, utility-dominated business model attractive, and given the total potential returns to our target, we reiterate our BUY recommendation.

TD Securities Equity Research Disclosures

Company	Ticker	Disclosures
Fortis Inc.	FTS-T	1,2, 4, 9

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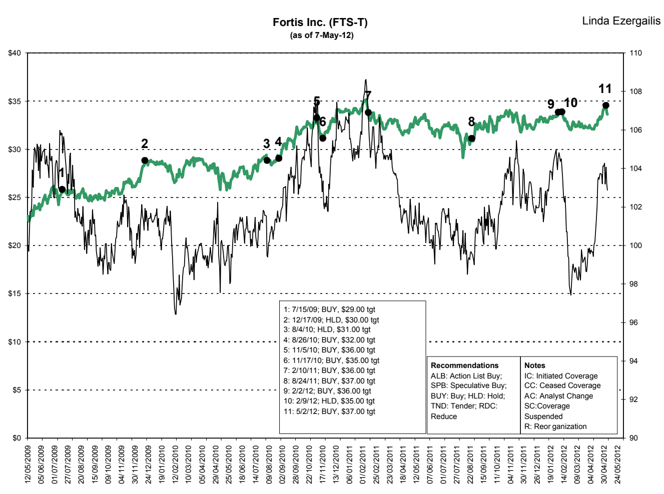

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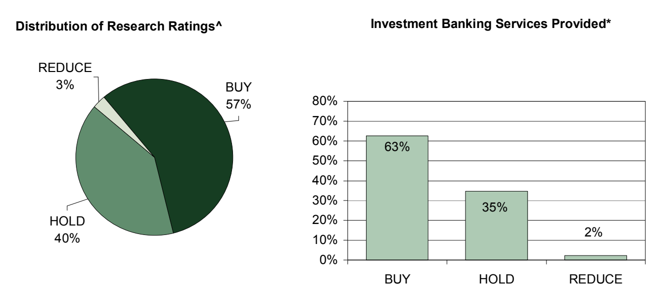

Current as of June 4, 2012

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Research Ratings
ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.
BUY: The stock’s total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.
HOLD: The stock’s total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.
TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.
REDUCE: The stock’s total return is expected to be negative over the next 12 months.

Overall Risk Rating in order of increasing risk: Low (6.6% of coverage universe), Medium (31.3%), High (50.0%), Speculative (12.1%)

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Pipelines, Power & Utilities

Recommendation: **BUY**
Unchanged

Risk: **LOW**

12-Month Target Price: **C$37.00**
Unchanged

12-Month Total Return: **14.3%**

Market Data (C$)	
Current Price	$33.41
52-Wk Range	$28.24-$34.98
Mkt Cap (f.d.)($mm)	$6,708.7
Dividend per Share	$1.20
Dividend Yield	3.6%
Avg. Daily Trading Vol. (3mths)	480029

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d.)(mm)	200.8
Float Shares (mm)	190.0
Net Debt/Tot Cap	52.1%
BVPS (basic)	$20.68
ROE	8.5%

Estimates (C$)

Year	2011A	2012E	2013E	2014E
EPS (basic)	1.68	1.72	1.81	1.89
EPS (basic)(old)	1.68	1.70	1.81	1.89
EPS (f.d.)	1.67	1.69	1.78	1.87
EPS (f.d.)(old)	1.67	1.68	1.78	1.86
DIVIDEND	1.16	1.20	1.26	1.32
AFFO/Shr	2.62	2.53	2.53	2.88

EPS (f.d.) Quarterly Estimates (C$)

Year	2011A	2012E	2013E	2014E
Q1	0.64	0.64	--	--
Q2	0.33	0.34	--	--
Q3	0.25	0.26	--	--
Q4	0.46	--	--	--

Valuations

Year	2011A	2012E	2013E	2014E
P/E (f.d.)	20.0x	19.8x	18.8x	17.9x
P/AFFO	12.8x	13.2x	13.2x	11.6x

Notes: Forecasts are based on US GAAP.

All figures in C$, unless otherwise specified.

Please see the final pages of this document for important disclosure information.

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Fortis Inc.

(FTS-T) C$33.41

Solid Q2; CH Energy Acquisition Remains On Track

Event

Fortis reported adjusted Q2/12 EPS (f.d.) of $0.34, slightly above our $0.33 estimate, recent consensus and Q2/11 EPS (f.d.).

Impact

NEUTRAL.

We have revised our estimates slightly to reflect various regulatory updates and financing assumptions. We are rolling forward our target price to be based 50% on each of our 2013 and 2014 estimates. Our target remains $37.

Details

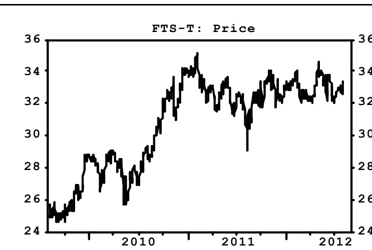
Regulated Gas Utilities Q2/12 earnings of $13 million declined by $2 million year over year, largely due to lower-than-expected customer additions and decreased capitalized allowance for funds used during construction (AFUDC) from a lower capital program in 2012.

Regulated Electric Utilities – Canadian Q2/12 earnings of $52 million were $9 million higher year over year.

- **FortisAlberta** earnings of $26 million increased by $8 million versus Q2/11 results, largely due to rate base growth from utility investments along with higher transmission revenue and lower depreciation deemed by the regulator. The increase was partially offset by a lower allowed ROE.
- **FortisBC Electric** earnings of $9 million were comparable year over year, as the expiration of the performance-based rate-setting (PBR) mechanism in December 2011 and lower capitalized AFUDC were offset by rate base growth.
- **Newfoundland Power** earnings of $12 million were $2 million higher year over year, largely a result of lower effective income taxes and a higher allowed ROE. The increase was partially offset by lower earnings from a joint-use pole arrangement that ended in October 2011 and increased depreciation from new investments.
- **Other Canadian Electric Utilities** earnings of $5 million were $1 million lower than Q2/11 results, mainly from increased operating expenses at FortisOntario resulting from higher employee-related costs and timing of expenses.

Company Profile

Fortis Inc. (FTS-T) is a diversified infrastructure holding company, primarily comprising of gas distribution utilities in B.C. and electric utilities in Canada, Turks and Caicos and the Cayman Islands. Fortis also owns a real estate and hotels subsidiary and has interests in electric generation ventures in Canada and the U.S.



Regulated Utilities – Caribbean earnings of $6 million were in line with Q2/11 results.

Fortis Generation earnings of $5 million were $3 million higher year over, largely due to increased generation in Belize resulting from higher rainfall.

Fortis Properties earnings of $8 million were comparable year over year.

Corporate and Other expenses increased by $2 million year over year, largely due to lower income tax recovery in Q2/12.

Exhibit 1. Segmented Earnings Analysis ($mm unless stated otherwise)

	Q2/12	Q2/11	YOY Change	YOY % Change
Regulated Gas Utilities - Canadian	$13	$15	($2)	-13%
FortisAlberta	26	18	8	44%
FortisBC Electric	9	9	-	0%
Newfoundland Power	12	10	2	20%
Other Canadian	5	6	(1)	-17%
Regulated Electric Utilities - Canadian	52	43	9	21%
Regulated Utilities - Caribbean	6	6	-	0%
Total Regulated Utilities	**71**	**64**	**7**	**11%**
Non-Regulated Fortis Generation	**5**	**2**	**3**	**150%**
Non-Regulated Fortis Properties	**8**	**8**	**-**	**0%**
Corporate[1]	**(19)**	**(17)**	**(2)**	**12%**
Operating Earnings	**65**	**57**	**8**	**14%**
Adjustments	(3)	-	(3)	**n.a.**
Reported Earnings	**62**	**57**	**5**	**9%**
Operating EPS (f.d)	**$0.34**	**$0.33**	**$0.01**	**4%**
Reported EPS (f.d)	**$0.33**	**$0.33**	**$0.00**	**0%**

Notes: Earnings have been normalized for the following items:
1) $3mm of costs (after-tax) incurred in Q2/12 related to the pending CH Energy acquisition.

Source: Company Reports, TD Securities.

Outlook

Regulatory Updates:

- **B.C. Generic Cost of Capital Hearing:** The evidence portion of the proceeding will take place through to early-December 2012 with a potential oral hearing starting December 12, 2012. A decision is expected in early-2013. As a reminder, the British Columbia Utilities Commission gave a final notice of the items to be reviewed in the Generic Cost of Capital proceeding, which included 1) setting an appropriate cost of capital for a low-risk utility, including capital structure, ROE and debt interest; 2) establishing whether an automatic ROE adjustment mechanism is warranted; and 3) establishing a generic methodology for each utility's cost of capital in reference to the benchmark low-risk utility.
- **FortisAlberta:** In April 2012 the AUC approved a negotiated settlement with respect to 2012 distribution revenue requirements using a forecast mid-year rate base of $2.025 billion. The discussions regarding the PBR initiative for distribution utilities in Alberta continues and a decision is expected in Q4/12.
- **Newfoundland Power:** In June 2012 Newfoundland Power received a positive regulatory decision, which saw its regulated ROE increase slightly to 8.80% from 8.38% for 2011. However, the regulator has requested that Newfoundland Power file a General Rate Application for 2013, which it will do in Q3/12.

Acquisition and CH Energy Updates:

- FortisBC Electric is in preliminary discussion to purchase the City of Kelowna's electricity distribution utility for approximately $50 million-60 million. The utility serves 15,000 customers and FortisBC Electric has operated and maintained the assets since 2000. Both parties are working towards a close by the end of Q1/13.
- In July 2012 Fortis received regulatory approval for the CH Energy acquisition from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the U.S. Currently, the New York State Public Service Commission is reviewing the jointly filed Fortis and CH Energy application, and management remains on track to close the acquisition by the end of Q1/13.

Organic Capital Program Remains Unchanged: In 2012 management expects gross capital expenditures of approximately $1.3 billion. The company's five-year plan (2012-2016) forecasts gross capital expenditures of $5.5 billion. Of this amount, 65% is expected to be related to regulated electric utilities, 21% to regulated gas utilities, and 14% to non-regulated operations. The $900-million B.C. Waneta Expansion project remains on schedule and on budget, with the excavation of the intake, powerhouse and power tunnel complete. Approximately $345 million has been spent to date.

Q3/12 Preview: We are forecasting Q3/12 EPS of $0.26, slightly above Q3/11 results. We expect rate base growth in the Canadian regulated utilities to offset the expiration of the PBR mechanism at FortisBC Electric and a higher number of shares outstanding.

Valuation

Exhibit 2. Valuation

		Curr.	Shares	Market	Ind.		EPS (f.d.)			AFFO Per Shr (f.d.)			P/E		AFFO Yield	
Power & Utility Companies	**Symbol**	**Price**	**O/S(mm)**	**Cap (mm)**	**Div.**	**Yield**	**2011A**	**2012E**	**2013E**	**2011A**	**2012E**	**2013E**	**2012E**	**2013E**	**2012E**	**2013E**
Fortis Inc.	FTS	$33.54	200.8	$6,735	$1.20	3.6%	$1.67	$1.69	$1.78	$2.62	$2.53	$2.53	19.8x	18.8x	7.5%	7.5%
ATCO Ltd.	ACO.X	$73.70	57.6	$4,243	$1.31	1.8%	$5.70	$6.11	$6.32	$8.38	$8.09	$8.04	12.1x	11.7x	11.0%	10.9%
Canadian Utilities Ltd.	CU	$70.00	127.6	$8,935	$1.77	2.5%	$3.69	$3.94	$4.20	$5.32	$4.77	$4.67	17.8x	16.7x	6.8%	6.7%
Capital Power Corp.	CPX	$21.52	97.5	$2,098	$1.26	5.9%	$1.24	$1.41	$1.48	$2.78	$2.46	$2.84	15.2x	14.6x	11.4%	13.2%
Emera Inc.	EMA	$35.32	128.5	$4,539	$1.35	3.8%	$1.64	$1.68	$1.78	$2.06	$2.13	$1.95	21.0x	19.9x	6.0%	5.5%
TransAlta Corp.	TA, TAC	$15.65	227.0	$3,553	$1.16	7.4%	$1.04	$0.70	$0.73	$1.68	$0.28	$1.01	22.5x	21.4x	1.8%	6.5%
Valener Inc.	VNR	$15.89	37.5	$596	$1.00	6.3%	$0.82	$0.80	$0.89	$2.04	$2.10	$2.10	20.0x	17.9x	13.2%	13.2%
Average (1)						4.9%							19.4x	18.2x	7.8%	8.8%

Notes:
1) Averages exclude ATCO Ltd.

Source: Thomson, TD Securities.

Justification of Target Price

Our $37.00 target price is predicated 50% on each of our 2013 and 2014 financial estimates as follows: 1) 25% EV/EBITDA multiple of 11.0x, 2) 25% relative dividend yield of 125%, and 3) 50% free cash flow yield of 7.5%. Our target price also incorporates a 2.5% 10-year Government of Canada bond yield assumption.

Key Risks to Target Price

1) higher-than-expected long bond yields, 2) operational disruptions, 3) regulatory surprises, 4) unexpected large acquisitions, 5) sovereign risk, 6) escalating construction costs, and 7) access to capital markets.

Investment Conclusion

Fortis is the largest highly-regulated investor-owned gas and electric distribution utility in Canada. The pending CH Energy transaction should also provide Fortis with a source of stable and regulated earnings in a favourable regulatory jurisdiction, with the potential to expand the company's footprint into the U.S. Northeast.

We expect Fortis' future growth to be largely driven by utility investment in Canada. However, we believe that the company is also well-positioned to make future acquisitions, as any smaller utility it might acquire is likely to gain the financial backing of a strong parent to fund its future growth, and receive benefits to improve its system reliability and efficiency for customers. We believe that in the current environment investors will find Fortis' low-risk, utility-dominated business model attractive and, given the total potential returns to our target, we reiterate our BUY recommendation. We view it as a core holding in the sector.

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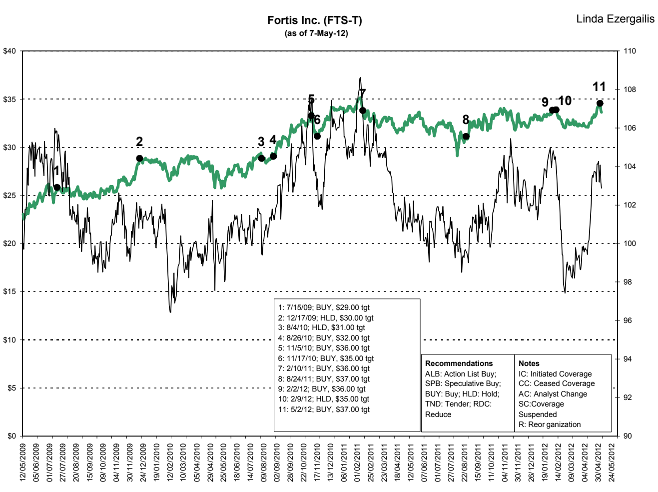

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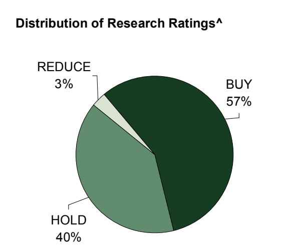

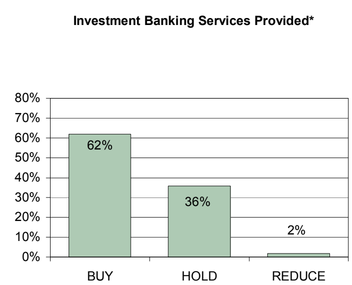

Current as of July 4, 2012

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UBS

UBS Investment Research

Fortis Inc.

Global Equity Research

Americas

Electric Utilities

12-month rating	Buy
	Prior: Not Rated
12m price target	C$29.00/US$27.59 -
Price	C$26.49/US$25.20

RIC: FTS.TO BBG: FTS CN

3 December 2009

Everything moving in the right direction

■ **Upside potential from higher ROEs and equity thickness**

Driven by declines in government bond rates and higher equity risk premiums, some Canadian regulators are currently reviewing the level of allowed returns for utilities such as Fortis Inc. (FTS), with a goal of better aligning ROEs with capital costs. Based on modest expectations for a 50 bps uplift in ROEs and a 200 bps uplift in equity thickness across FTS's regulated portfolio, we foresee 8% upside potential to forward estimates.

■ **The more you spend, the more you make**

We forecast FTS's regulated rate base CAGR at 6.6% between 2009-13 as the company makes significant infrastructure investments in Alberta and British Colombia to meet expected economic and population growth. We expect both EPS growth and dividends to keep pace.

■ **Well positioned for accretive acquisitions**

FTS possesses one of the lowest costs of capital in its peer group, which, along with its premium valuation, gives the company a competitive advantage in the M&A market. Although the company's five-year capital program will absorb the bulk of free cash flow, we believe FTS is on the lookout for accretive acquisition opportunities. That said, we expect management to take a disciplined approach to capital deployment, ensuring that any new businesses are consistent with its existing low-risk model.

■ **Valuation: Initiating coverage with Buy rating and $29 price target**

Our price target is set at the average of 17.5x P/E and a forecast 3.7% dividend yield.

Highlights (C$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	2,726.00	3,903.00	3,741.06	3,890.96	3,923.67
EBIT (UBS)	549.00	700.00	724.43	768.56	818.99
Net Income (UBS)	185.00	245.00	269.64	299.90	330.16
EPS (UBS, C$)	1.20	1.49	1.53	1.66	1.80
Net DPS (UBS, C$)	0.93	1.03	1.03	1.08	1.22

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	23.4	17.9	19.4	19.8	20.9
ROIC (EBIT) %	9.9	8.5	8.1	8.0	8.1
EV/EBITDA (core) x	9.7	8.4	9.6	9.5	9.2
PE (UBS) x	17.8	17.8	17.3	16.0	14.7
Net dividend yield %	3.4	3.9	3.9	4.1	4.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of C$26.49 on 02 Dec 2009 19:36 EST

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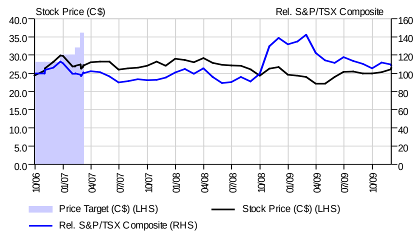
Trading data (local/US$)	
52-wk range	C$26.91-21.62/US$25.58-16.81
Market cap.	C$4.53bn/US$4.31bn
Shares o/s	171m (COM)
Free float	100%
Avg. daily volume ('000)	398
Avg. daily value (C$m)	10.2

Balance sheet data 12/09E	
Shareholders' equity	C$3.14bn
P/BV (UBS)	1.4x
Net Cash (debt)	(C$6.00bn)

Forecast returns	
Forecast price appreciation	+9.5%
Forecast dividend yield	4.1%
Forecast stock return	+13.6%
Market return assumption	5.5%
Forecast excess return	+8.1%

EPS (UBS, C$)	12/09E			12/08
	From	To	Cons.	Actual
Q1	-	0.52	0.52	0.53
Q2	-	0.32	0.31	0.20
Q3	-	0.24	0.21	0.34
Q4E	-	0.49	0.48	0.39
12/09E	-	1.53	*1.52*	
12/10E	-	1.66	*1.63*	

Performance (C$)



Source: UBS

www.ubs.com/investmentresearch

Contents

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Investment Thesis

Everything moving in the right direction

Underpinned by a $5.0 billion, five-year capital program, we expect continued low-risk EPS and dividend growth at Fortis Inc. (FTS), driven by its highly stable regulated businesses. In addition to growth from an expanding rate base, we expect further uplift from favourable rulings at the regulatory level that would increase allowed ROEs and equity thickness to better align returns with capital costs. Based on modest expectations for a 50 bps uplift in ROEs and a 200 bps uplift in equity thickness across FTS's regulated portfolio, we foresee 8% upside potential to forward estimates.

Over the next five years, FTS will reinvest the majority of its free cash flow in its existing regulated businesses as economic and population growth in Western Canada fuel a need for further infrastructure projects. However, through its well deserved premium valuation multiple and low cost of capital, we believe FTS is well positioned to pursue accretive acquisition opportunities beyond its current suite of organic initiatives. As always, management will take a measured approach to acquisitions, ensuring that any new businesses are in keeping with the company's low-risk asset base.

We are initiating coverage of FTS with a Buy rating and a $29 price target. Our price target is based on the average of our forecast dividend yield of 3.7% and a 2010 P/E multiple of 17.5x, slightly above the five-year average of 17.2x.

Uplift from regulated business—ROE and equity thickness

Regulated ROE is poised to move higher to realign returns with capital costs

Lately, the precipitous decline in government bond rates and higher equity risk premiums have caused a dislocation between regulated rates of return and corporate costs of capital. In response, some Canadian regulators are reviewing the current structure of ROE calculations with the goal of better aligning returns with capital costs. Accordingly, we expect positive news flow over the next few months as regulators decide on the future level of ROEs, precipitating upward revisions of forward EPS estimates for utilities such as FTS.

Earnings and dividends to keep pace with strong rate base growth

Strong organic growth driven by Western Canadian businesses

We forecast FTS's regulated rate base CAGR at 6.6% between 2009-13 as the company makes significant infrastructure investments in Alberta and British Colombia. Over the same period, we expect both EPS growth and dividends to keep pace with the growth in the company's rate base. It should be noted that this growth rate at least matches the expected EPS growth of the market at large. However it will be achieved with greater safety as we foresee few risks to our forecast, given a stable regulatory framework that ensures a certain rate of return.

Premium valuation well deserved

Low-risk business model and clear organic growth outlook justify premium valuation

On almost any metric, FTS trades at a premium valuation to its peers in the regulated utility space. In our view, this premium is well deserved in light of the company's highly visible organic growth profile, which will deliver continued low-risk EPS and dividend growth through 2013. Accordingly, we are not concerned with the current valuation and, in fact, we note that at 16.0x P/E, FTS trades below its five-year average of 17.2x. For purposes of valuation, we assume FTS's valuation expands to 17.5x forward EPS to reflect an increasingly clear organic growth profile. Applying this multiple to forecast fully diluted 2010 EPS of $1.66 yields an expected share price $29.03.

Historically, FTS's dividend yield has demonstrated a strong relationship with BBB rated bond yields, staying fairly close to a 300 bps discount over the past 10 years. Although the spread has recently tightened as bond yields collapsed and equity risk premiums rose, we expect this relationship to be restored over the next year. Incorporating UBS forecasts for 6.7% BBB rated bond yields at year-end 2010, we believe FTS's dividend yield will fall to 3.7%, moderately below the current level of 4.0%. Conservatively assuming 2010 dividends of $1.08 per share results in an expected share price of $29.19.

Our $29 price target is set at the rounded average of the two methods above.

Low WACC, premium multiple = accretive opportunities

Well balanced from a capital structure perspective but premium valuation presents an opportunity

FTS possesses one of the lowest costs of capital in its peer group which, along with its premium valuation, gives the company a competitive advantage in the M&A market. Although the company's five-year capital program will absorb the bulk of free cash flow, we believe FTS is actively on the lookout for accretive acquisition opportunities. That said, we expect management to take a disciplined approach to capital deployment, ensuring that any new businesses are consistent with its existing low-risk business model.

Sensitivity analysis

8% upside potential to EPS estimates from a modest 50 bps increase in average ROE and a 200 bps increase in equity thickness

As principally a regulated entity, earning a consistent rate of return, FTS's earnings profile is highly stable and predictable. However, the company is currently engaged in a number of regulatory proceedings that could materially increase its ROE and equity thickness to better reflect capital costs. Should adjustments prove favourable, the company may realize a meaningful uplift to its EPS. We attempt to quantify these potential impacts in Table 1.

FTS estimates that every 100 bps change in allowed ROE on its four largest businesses (78% of assets) has a $0.15 impact on EPS, which is roughly consistent with our analysis below.

Table 1: Sensitivity of 2010E fully diluted EPS to changes in average regulated Canadian ROEs and equity thickness

2010 EPS (fully diluted)

		Change in regulated ROE				
		-0.50%	-0.25%	0.00%	0.25%	0.50%
Δ in equity thickness	-2%	$1.52	$1.56	$1.59	$1.62	$1.66
	-1%	$1.55	$1.59	$1.62	$1.66	$1.70
	0%	$1.59	$1.62	$1.66	$1.69	$1.73
	1%	$1.62	$1.65	$1.69	$1.73	$1.77
	2%	$1.65	$1.69	$1.73	$1.76	$1.80

Source: Bloomberg and UBS estimates

Consensus expectations

Unsurprisingly, given the nature of FTS's businesses, our forecasts are largely in line with consensus. We believe forward estimates do not yet reflect the uplift from higher ROEs and equity thickness that is likely to arise from current regulatory proceedings.

Table 2: UBS vs. consensus estimates

		UBS	Consensus	Variance
EPS	2009	$1.53	$1.52	1%
	2010	$1.66	$1.63	2%
EBITDA	2009	$1,092	$1,099	-1%
	2010	$1,156	$1,151	0%

Source: Bloomberg and UBS estimates

Risk analysis

Regulatory risk represents the majority of uncertainly in FTS's outlook. As discussed above, we expect any regulatory changes in the near to mid-term to be favourable. That said, the company does carry minor exposure to non-regulated businesses involved in power generation and income-producing real estate. These businesses contribute a relatively minor portion of earnings and we expect the majority of growth capital to be focused on FTS's more stable regulatory business. Of late, the company has received some unfavourable rulings on a regulated utility operating in Belize. There remains a degree of uncertainty throughout FTS's Caribbean segment, which comprises a fairly minor 8% of assets.

Forthcoming catalysts

(1) Over the next several months, the company is likely to receive rulings from certain regulatory bodies that govern FTS's activities in various Canadian provinces. To better align returns earned by regulated utilities and the cost of capital, we expect meaningful increases in both ROE levels and assumed equity thickness. These changes will provide another leg of EPS growth beyond the company's currently defined capital spending plan.

(2) FTS is in an enviable position to take advantage of its premium valuation and low cost of capital to pursue accretive acquisitions. While we see no immediate need for accelerated capital deployment, we believe the market would look favourably on further acquisitions that are complementary to FTS's existing business model.

Corporate overview

Fortis Inc. is principally a regulated utility operating a number of transmission and distribution businesses throughout Canada. Approximately 84% of FTS's assets are located in Canada and earn a regulated rate of return, driven by three factors:

95% of FTS's assets earn a highly predictable, regulated rate of return

(1) The rate base of its regulated businesses.

(2) The allowed ROE on its regulated assets.

(3) The allowed equity thickness on its regulated assets.

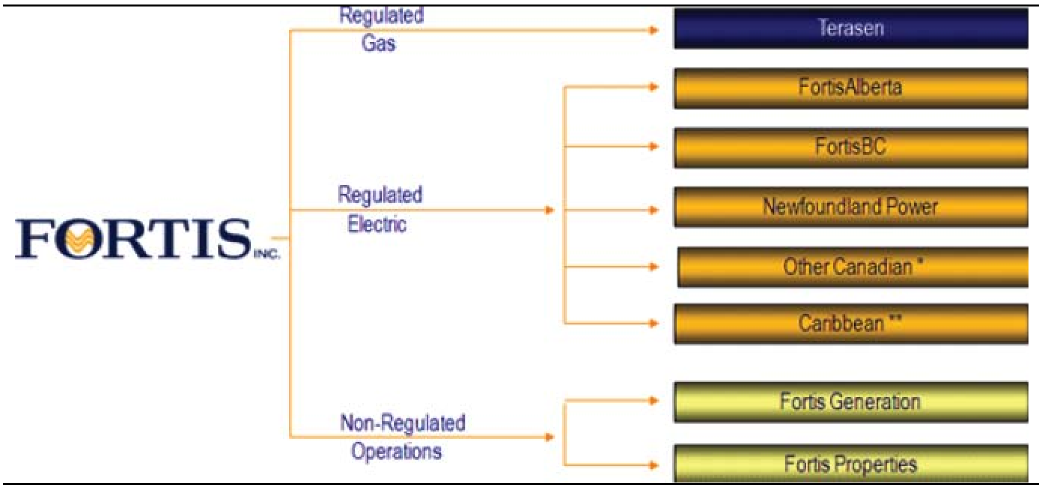
Simply put, FTS's earnings in each of its regulated Canadian businesses can be expressed as follows:

Rate Base x Return on Equity x Equity Thickness

Charges to end-users are periodically adjusted to ensure each regulated business continues to earn its targeted rate of return. The company has the ability to out-earn or under-earn its permitted rate of return based on, among other things, the impact of cost savings or overruns as well as actual amounts of leverage employed, which may differ from levels prescribed by the regulator. However, the three factors above are the principal drivers of the company's earnings.

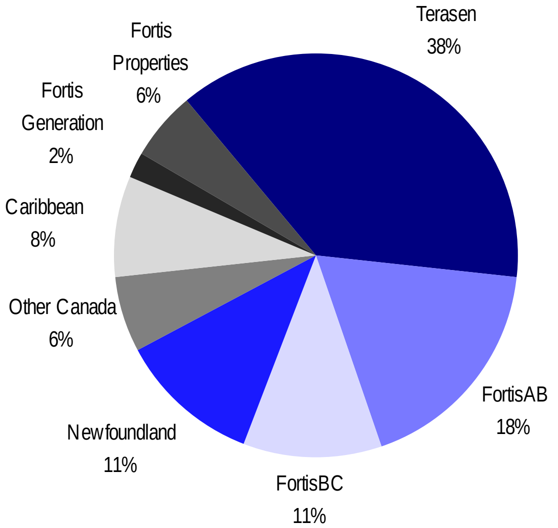
The remainder of the FTS's business is composed of regulated utilities in Belize, the Grand Cayman and Turks and Caicos (8% of assets) which earn a return on *assets* rather than on *equity* as above. In addition, the company has two non-regulated sub-segments composed of Fortis Generation and Fortis Properties, which in aggregate comprise 8% of company assets.

Chart 1: Organization chart



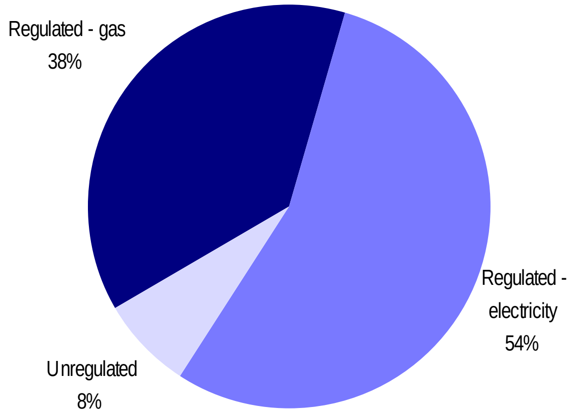
* Includes Maritime Electric on Prince Edward Island and FortisOntario.
** Includes Belize Electricity, Caribbean Utilities on Grand Cayman and Fortis Turks and Caicos.
Source: Company reports

Chart 2: Tangible assets—by business segment (est. at YE09)



Source: Company reports and UBS

Chart 3: Tangible assets—by business type (est. at YE09)



Source: Company reports and UBS

Over the past 10 years, FTS has completed a number of transactions that transformed the company into a major player in Canada's utility sector. The first was the $1.5 billion acquisition of FortisAlberta and FortisBC from Aquila Inc. in 2004. The second was the $3.7 billion purchase of Terasen Inc. in 2007. Today, these businesses generate ~70% of consolidated earnings.

Chart 4: 10-year corporate history of notable events

Source: Company reports and UBS

Regulated businesses

(92% of assets)

Rate base

Given that rate base is one of the key drivers of earnings growth, the more FTS can spend, the more it makes. However, spending levels first must be approved by the appropriate regulator to ensure that contemplated capital projects are for the public good and end-user rates will not be unduly increased. Accordingly, the level of spending and thus rate base growth in each regulated business is tied to the expected rate of economic and population growth in each respective region. As shown in Table 3, FTS has forecast its capital spending plans for the next five years. Over 2009-13, the company expects to spend $5.0 billion, with a significant concentration (74%) earmarked for businesses in Alberta and British Columbia. In aggregate, we forecast the company's regulated rate base CAGR will be 6.6% through 2013 (Chart 5).

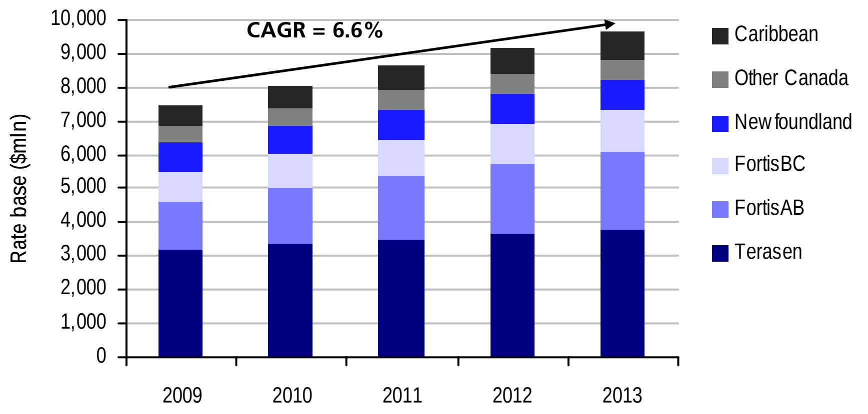
Table 3: Five-year spending plan ($mln) (2009-13E)

	2009	2010	2011	2012	2013	Total
Terasen	240	270	270	260	260	1,300
FortisAB	410	350	350	350	340	1,800
FortisBC	110	125	125	125	115	600
NF Power	70	65	65	65	60	325
Cdn other	120	40	40	40	35	275
Carribbean	105	100	100	100	95	500
Non-regulated	45	40	40	40	35	200
Total	1,100	990	990	980	940	5,000

Source: Company reports and UBS

Five-year, $5 billion capital program will drive 6.6% CAGR of rate base

Chart 5: Rate base growth of regulated businesses



Source: Company reports and UBS estimates

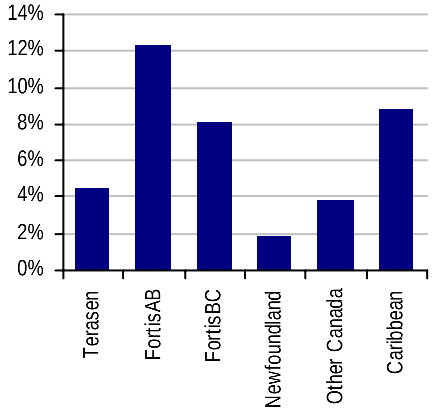
As shown in Chart 6, the majority of growth in FTS's aggregate rate base will be fuelled by capital spending in the electric utilities of FortisAlberta and FortisBC, which will respectively see a rate base CAGR of 12% and 8% through 2013. In Alberta, continued growth in oil sands development is expected to support economic growth and sustain above-average population growth. Similarly, in BC, continued migration should drive population growth and the need for increased infrastructure spending in FortisBC. That said, FTS's largest business—the regulated natural gas distribution utility of Terasen—should realize more modest growth of ~4%, as gas infrastructure needs are forecast to be relatively minimal.

74% of capital spending plan earmarked for businesses in Western Canada

Within the Caribbean sub-segment, there are a number of underdeveloped countries that will require significant infrastructure build-out as those regions become industrialized. Accordingly, we forecast a ~9% rate base CAGR over the forecast horizon. That said, we expect the company to proceed carefully in these regions, as recent regulatory proceedings have resulted in unilateral and unfavourable rulings against FTS (discussed in the next section). These regions carry relatively higher country and regulatory risk, which may precipitate the company to limit its exposure.

In contrast, economic and population growth in the eastern provinces of Ontario and Newfoundland is expected to be more modest as manufacturing activity remains depressed. Accordingly, infrastructure spending in those regions will result in below-average rate base growth in 2009-13.

Chart 6: 2009-13E rate base CAGR by regulated business



Source: Company reports and UBS estimates

ROE and equity thickness

FTS is currently engaged in a number of regulatory proceedings that may result in increases to its allowed ROE and permitted equity thickness (Figure 1). In general, these proceedings reflect the view of industry, which contends that current ROE calculations, driven by Government of Canada bond yields, fail to reflect the actual cost of equity. As a result, industry participants are optimistic that regulators across Canada will grant meaningful increases to ROE and equity thickness levels such that utilities will be adequately compensated for capital employed. These proceedings have the potential to result in a meaningful uplift to FTS's earnings level (Table 4).

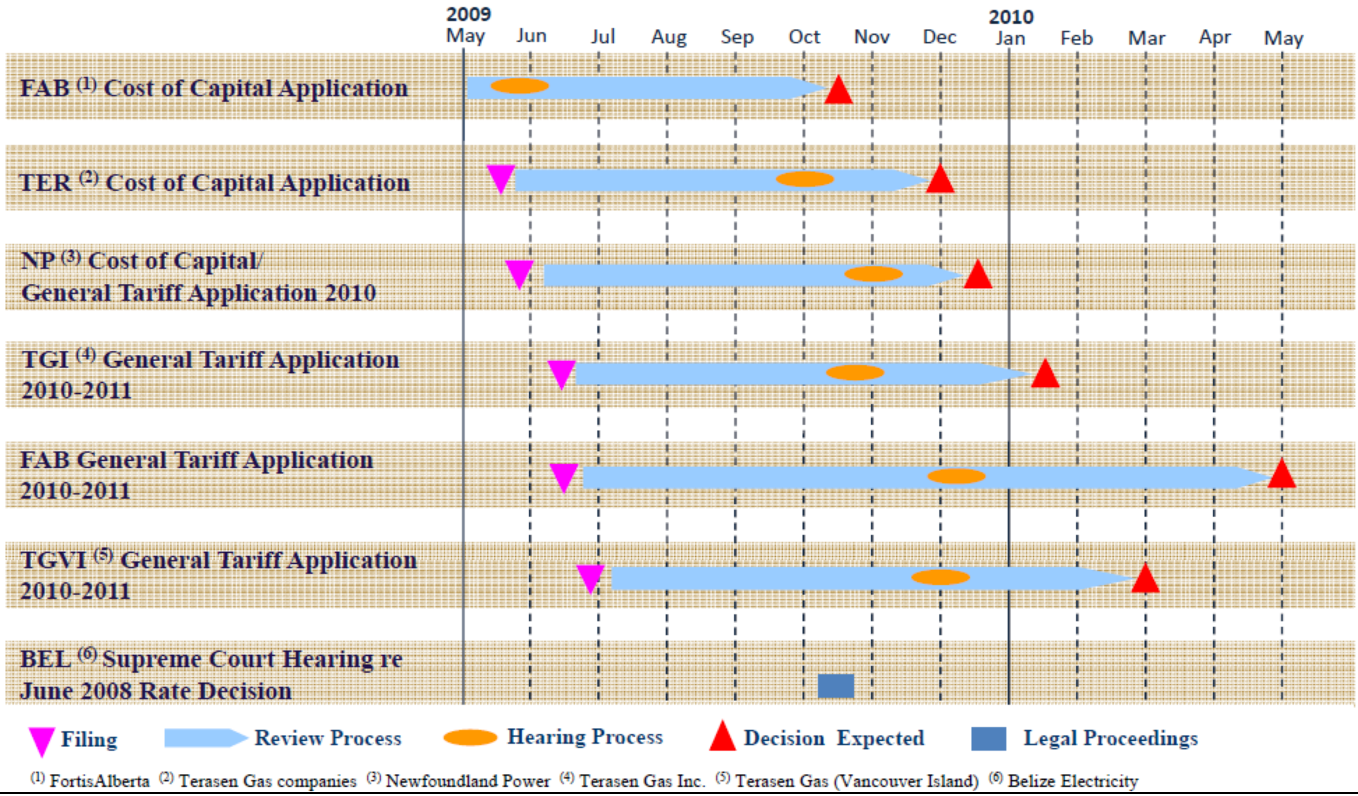
Table 4: Sensitivity of 2010E fully diluted EPS to changes in average regulated Canadian ROEs and equity thickness

2010 EPS (fully diluted)

Δ in equity thickness	Change in regulated ROE:	-0.50%	-0.25%	0.00%	0.25%	0.50%
	-2%	$1.52	$1.56	$1.59	$1.63	$1.66
	-1%	$1.55	$1.59	$1.62	$1.66	$1.70
	0%	$1.59	$1.62	$1.66	$1.70	$1.73
	1%	$1.62	$1.66	$1.69	$1.73	$1.77
	2%	$1.65	$1.69	$1.73	$1.76	$1.80

Source: Bloomberg and UBS estimates

Figure 1: Regulatory calendar



Source: Company reports

FortisAlberta

Consistent with the above schedule, the company most recently learned that the Alberta Utilities Commission (AUC), as part of its Generic Cost of Capital proceeding, has adjusted the allowed ROE to 9.0% for Alberta utilities, up 49 bps from the previous level of 8.51%. This action effectively removes the old generic formula based off Government of Canada bond yields, a move that may establish a benchmark from which other utilities in Canada will follow. In addition, FortisAlberta also received an uplift to its allowed equity thickness to 41% from 37%. Combined, we estimate these changes will result in a $0.05/share increase in annual EPS, all else equal.

The AUC recently raised FortisAlberta's allowed ROE from 8.51% to 9.00%, and its equity thickness from 37% to 41%

Historically, FortisAB has earned ROEs well in excess of its prescribed rates as a result of successful cost management activity, the benefit of which flows directly to the company. While we foresee some moderation in this premium, we expect the company to continue realizing supernormal returns as it efficiently executes on significant infrastructure programs in the province.

Terasen Gas Inc. (TGI) and Terasen Gas Vancouver Island (TGVI)

In May 2009, the Terasen Gas companies filed an application with the BC Utilities Commission (BCUC) requesting a review of the current ROE adjustment mechanism and the deemed equity component. The application seeks an increase in the allowed ROE for TGI from the current 8.47% to 11.00% while maintaining the risk-premium spread for TGVI at 70 bps. In addition, the companies have also applied for an increase in the allowed equity component from 35% to 40%. A decision is expected by early 2010.

FTS's largest business, Terasen, has applied for a significant increase in allowed ROEs

For the past few years, Terasen's ROEs have received the benefit for BCUC's Performance Based Return (PBR), which allows the company to split cost savings with customers on a 50/50 basis. This agreement is set to expire by the end of 2009 and it was announced on Dec 2/09 that the PBR program will be ended. While negative, we believe the termination of this program may increase the likelihood that the Terasen companies will receive a meaningful uplift to their regulated ROE levels.

FortisBC

The BCUC decision on Terasen is expected to affect FortisBC

As with Terasen, FortisBC is permitted to realize returns over and above the prescribed rate by splitting cost savings with customers on a 50/50 basis. This PBR program, which runs through 2011, limits savings to 200 bps of excess ROE. Based on our analysis, FortisBC has historically realized the full uplift from this program and we expect similar returns to continue.

Regulated rates of return for FortisBC have historically been set at a 40 bps premium over the level assigned for Terasen, which is 8.87% for 2009. We expect that the aforementioned regulatory proceeding concerning Terasen could have implications for FortisBC, given the historical link in allowed ROEs. However, the ultimate impact on FortisBC is uncertain.

Newfoundland Power

Newfoundland Power has applied for an increase in ROEs from 8.95% to 11.0%

In September 2009, Newfoundland Power filed an application seeking to increase its allowed ROE from 8.95% to 11.0% while keeping the equity thickness constant at 45%. A public hearing on the application occurred in October 2009 and a decision is expected by the end of 2009 or early in 2010.

FortisOntario

The OEB is currently reviewing its ROE adjustment mechanism

Included as part of the "other Canadian" segment, the cost of capital for FortisOntario and other utilities in the province is currently under review by the Ontario Energy Board (OEB). Although the timing for a potential increase in regulated ROE is uncertain, a stakeholder conference was held in September and October.

Belize Electricity

Regulatory framework in FTS's Caribbean segment appears less stable (but only 8% of assets)

Included as part of the "Caribbean" segment, Belize Electricity (BE) has perhaps been the most contentious of FTS's subsidiaries. In June 2008, Belize's Public Utilities Commission (PUC) issued its Final Decision on BE's 2008/2009 Rate Application and rejected most of the recommendations made by a PUC-appointed independent expert. In addition, the PUC imposed a retroactive adjustment to BE's prior year financial results ($13 million impact) while reducing the targeted allowed return on assets from 12% to 10%.

In February 2009, the PUC effectively restored BE's allowed ROA to 12%, although an April 2009 application to reverse the previously-imposed retroactive adjustment was denied. Legal proceedings between BE and PUC continue to this day and the ultimate outcome remains uncertain.

Non-regulated businesses

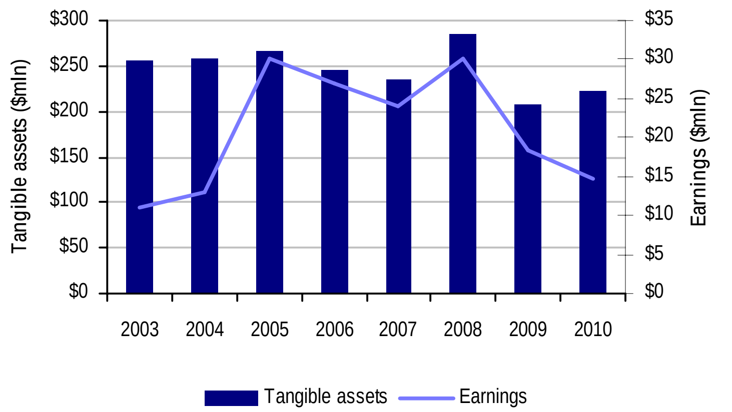
(8% of assets)

Fortis Generation

FTS's Generation segment has historically experienced greater shifts in profitability

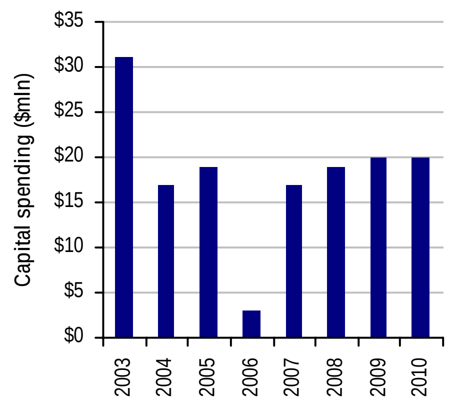
The Generation segment is composed of a number of thermal and hydro facilities in Canada, the US, and Belize. The segment has historically experienced wide swings in profitability. Currently, unregulated generation across North America is plagued by weak power prices, which have come under pressure from lower natural gas prices (which typically set the marginal price of power), as well as depressed economic activity that has expanded reserve margins (the difference between capacity and demand). Until natural gas prices strengthen, we expect earnings of FTS's Generation segment to remain depressed. However, a significant portion of FTS's generation is sold under long-term power purchase agreements, thereby limiting the downside to earnings. We expect modest investment in FTS's Generation segment, consistent with management's five-year spending plan.

Chart 7: Tangible assets vs. earnings—Fortis Generation



Source: Company reports and UBS estimates

Chart 8: Capital spending—Fortis Generation



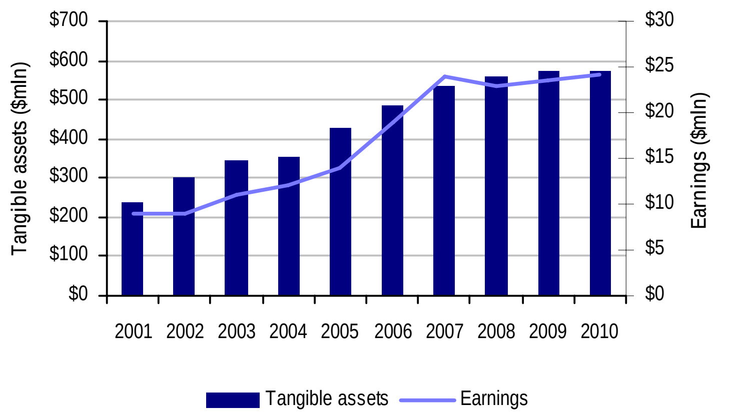
Source: Company reports and UBS estimates

Fortis Properties

Fortis Properties owns and operates 20 hotels with approximately 3,800 rooms in eight Canadian provinces. As shown in Chart 9 and Chart 10, this segment experienced steady earnings growth from 2001-07 as the company made meaningful investments in the business. However, investment over the past few years has been modest and, as such, tangible assets and earnings have reached a plateau. Based on the company's five-year spending plan, investment in this segment is expected to remain minimal as the majority of capital is directed towards regulated businesses in Western Canada.

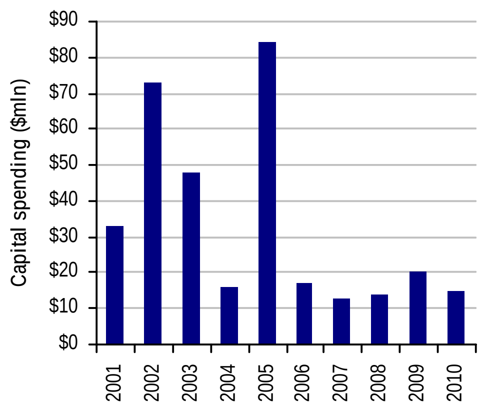
Fortis Properties has delivered stable earnings similar to the company's regulated businesses

Chart 9: Tangible assets vs. earnings—Fortis Properties



Source: Company reports and UBS estimates

Chart 10: Capital spending—Fortis Properties



Source: Company reports and UBS estimates

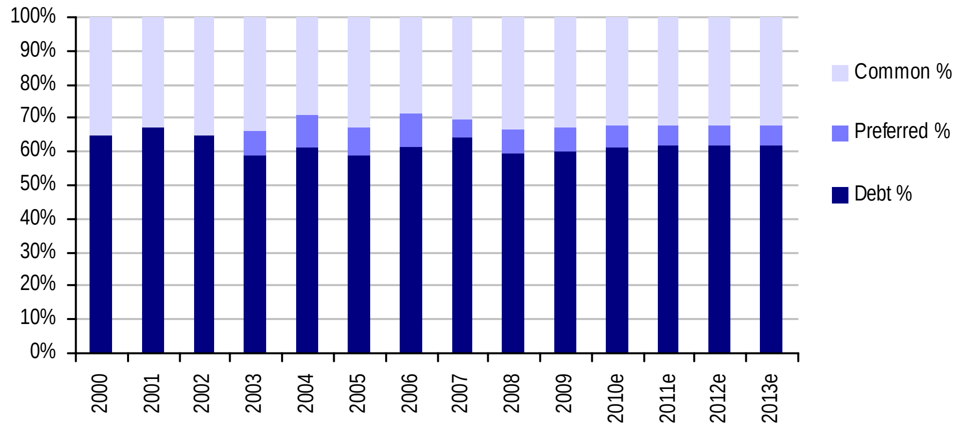
Strategy, acquisitions—ready to pounce

Debt levels stable

Debt/capital ratio forecast to remain stable at 60-63% over the next 5 years

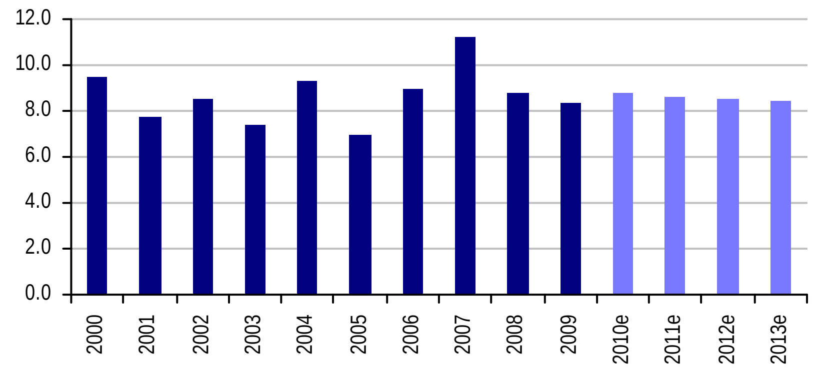
For the next few years, the businesses operated by FTS have ample organic growth opportunities as infrastructure needs in Canada will absorb the majority of free cash flow, thereby holding relative debt ratios within their targeted range (Chart 11 and Chart 12). To the extent possible, we believe FTS will deploy capital into its regulated Canadian businesses, as the low-risk nature of such assets is in agreement with the company's core business model. Ultimately, as the company grows this business and earnings continue to expand, consolidated cash flows may begin to outstrip organic investment opportunities towards the end of our forecast horizon. This may precipitate a desire to layer on complementary businesses.

Chart 11: Capital structure—expected to remain similar



Source: Company reports and UBS estimates

Chart 12: Debt / cash flow—consistent over time



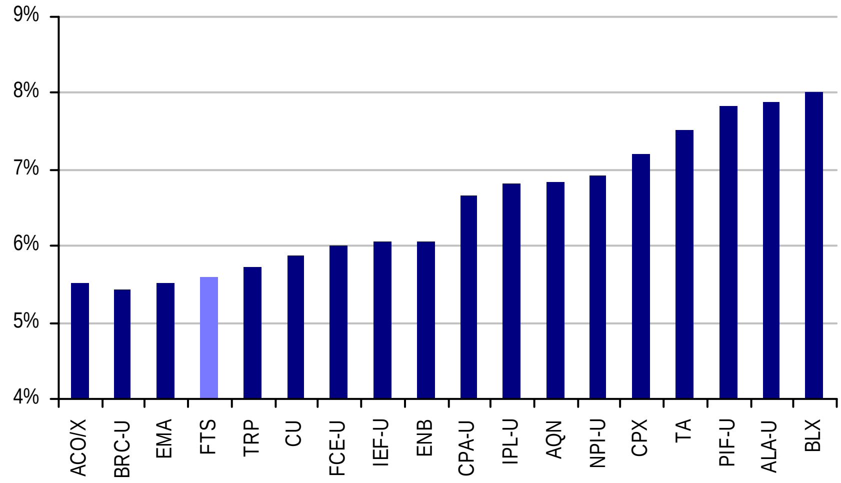
Source: Company reports and UBS estimates

Low cost of capital, premium valuation = accretive opportunities

WACC among the lowest in the Canadian utility space and…

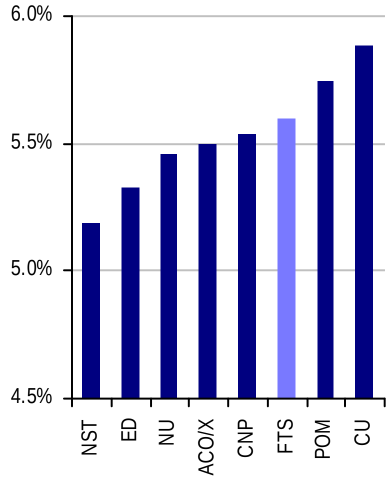
Unsurprisingly, given FTS's highly stable earnings profile, its cost of capital of 5.60% is among the lowest in the Canadian utility sector (Chart 13). Similarly, among regulated transmission & distribution utilities, FTS's weighted average cost of capital is just 41 bps above that of NSTAR, which is the lowest in the sector, at 5.19%. Finally, among regulated integrated utilities, FTS's WACC is well below the industry average of 6.02% and just 33 bps higher than Southern Company, one of the largest electric utilities in the US.

Chart 13: Relative WACC—Canadian utility sector



Source: Bloomberg

Chart 14: Relative WACC—N.A. regulated transmission & distribution



Source: Bloomberg

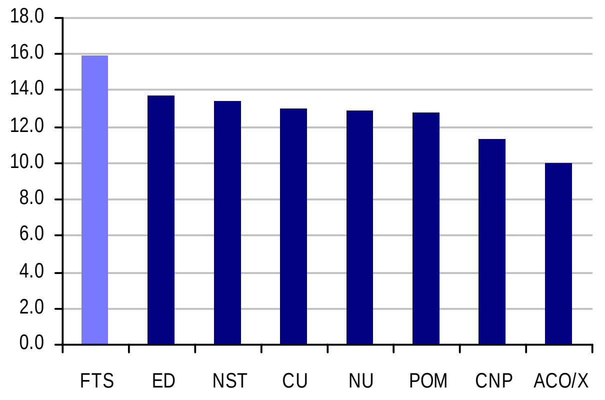
...the highest valuations among distribution utilities

As shown in the following charts, FTS trades at a meaningful premium to its peers both in the regulated transmission and distribution business and the regulated integrated business. This premium valuation reflects FTS's low-risk business model and clear growth profile, in our view. Combined with an exceptionally low cost of capital, this puts FTS in a strong competitive position to pursue accretive acquisitions. Where possible, we expect the company to capitalize on acquisition opportunities in Canada that are complementary to existing regulated businesses. However, such opportunities are limited and we believe management may look to the US for acquisition targets. We expect a very measured approach in this regard, ensuring that any purchases are in keeping with FTS's low-risk model.

Low WACC, high valuation open the door to accretive acquisitions

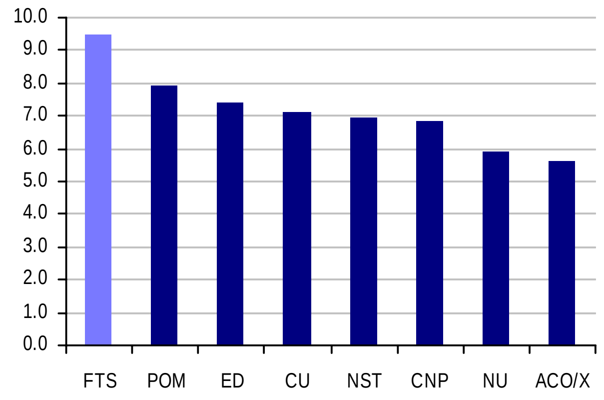
Led by CEO H. Stanley Marshall and CFO Barry Perry, FTS has consistently taken a disciplined approach to capital deployment. Although the company will be confronted with a number of acquisition opportunities, it is unlikely to be a buyer simply for the sake of growth. If the right opportunity fails to present itself, we expect management to simply return excess capital to shareholders. In the near term, the company has the luxury of simply redeploying cash flow into its existing businesses, which currently offer good organic growth opportunities. In the meantime, we expect the premium valuation to be sustained, thereby providing the flexibility to pursue accretive deals if the fit is right.

Chart 15: 2010E P/E—regulated transmission & distribution



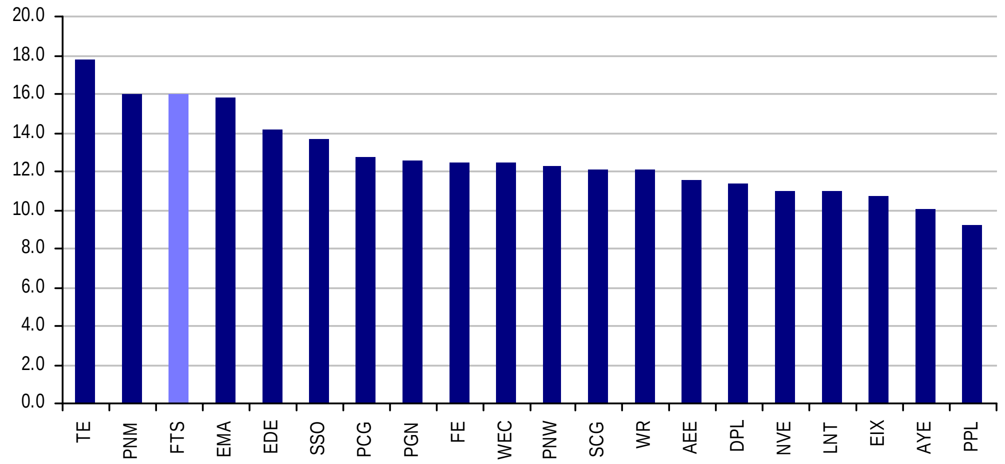
Source: Bloomberg and UBS estimates

Chart 16: 2010E EV/EBITDA—regulated transmission & dist.



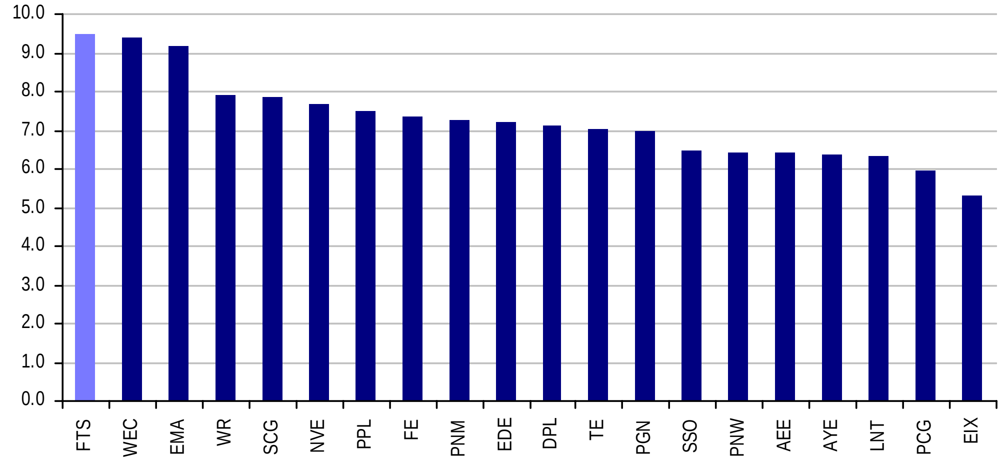
Source: Bloomberg and UBS estimates

Chart 17: Relative 2010E P/E—North American regulated integrated utilities



Source: Bloomberg and UBS estimates

Chart 18: Relative 2010E EV/EBITDA—North American regulated integrated utilities



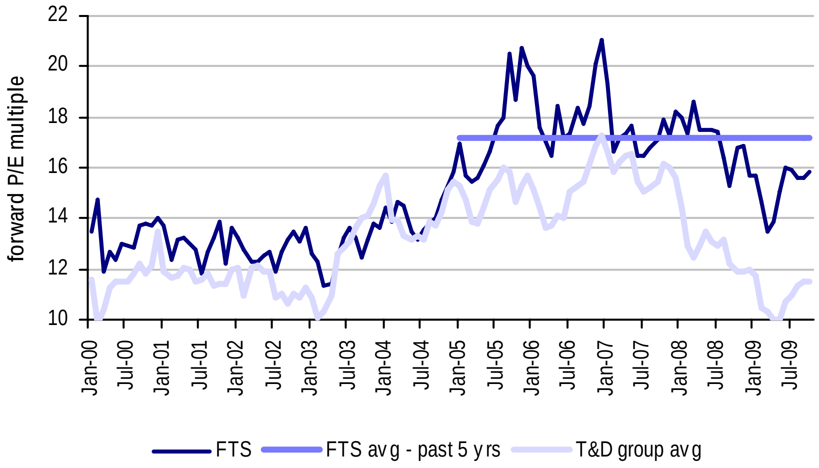
Source: Bloomberg and UBS estimates

Valuation

Current valuation below historical levels

As the charts in the previous section demonstrated, FTS's valuation is at or near the front of the pack on both forward EPS and forward EBITDA. We believe this premium valuation is well deserved and supportable from a historical perspective. Over the past 5 years, FTS has traded at an average P/E of 17.2x, while ranging from 14x to 21x during that period. As such, FTS's current 16.0x multiple is high versus peers but remains below historical norms.

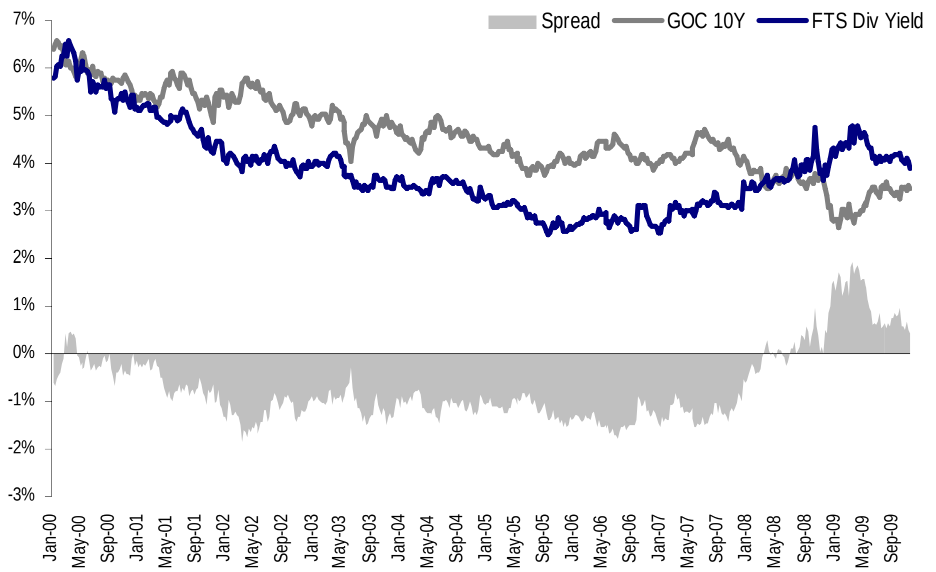
Chart 19: FTS—historical forward P/E ratio



Source: FactSet

FTS boasts 36 consecutive years of dividend growth, the longest streak of any public company in Canada. This track record speaks to the predictability and sustainability of its earnings base, which has been able to shrug off even the deepest economic downturns. We have confidence in this cash flow stream, almost to the point where FTS common equity might be considered a fixed income investment. In relation to government bond yields, we note a relatively strong historical relationship between FTS's dividend yield and the Government of Canada 10-year bond yield (Chart 20). That said, this relationship has broken down of late as a result of increased equity risk premiums combined with an expansionary monetary policy that has driven down the risk-free rate of interest.

Chart 20: Government of Canada 10-year bond yield vs. FTS dividend yield

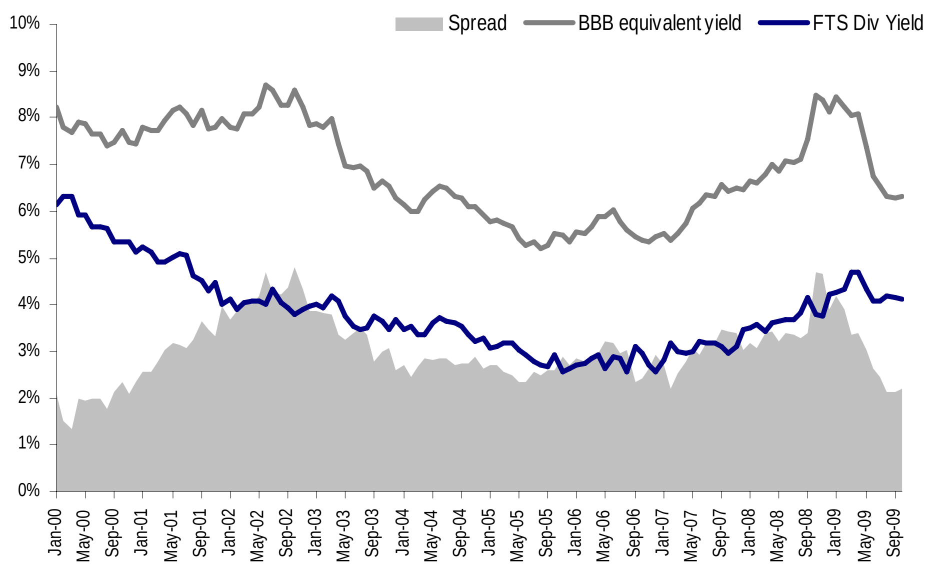


Source: Bloomberg and UBS

We expect FTS's dividend yield to maintain its historically strong relationship to BBB bond yields

To adjust for this, it is necessary to replace government bond yield with investment grade bond yield. For our purposes, and consistent with the views of rating agencies on FTS's debt, we compared the equivalent yield of BBB rated bonds in Canada to FTS's dividend yield (Chart 21). As expected, although the BBB-DY spread has tightened of late, the movements of these two variables are more closely aligned, suggesting that investment grade bond yields may be an appropriate valuation tool for FTS. Over the past 10 years, BBB bond yields have averaged a 3.0% premium over FTS's dividend yield, although bracketed by brief rendezvous with 2.0% on the low side and 4.0% on the high side. We expect the BBB premium to revert to its historical average of 3.0%, up from the current level of 2.2%.

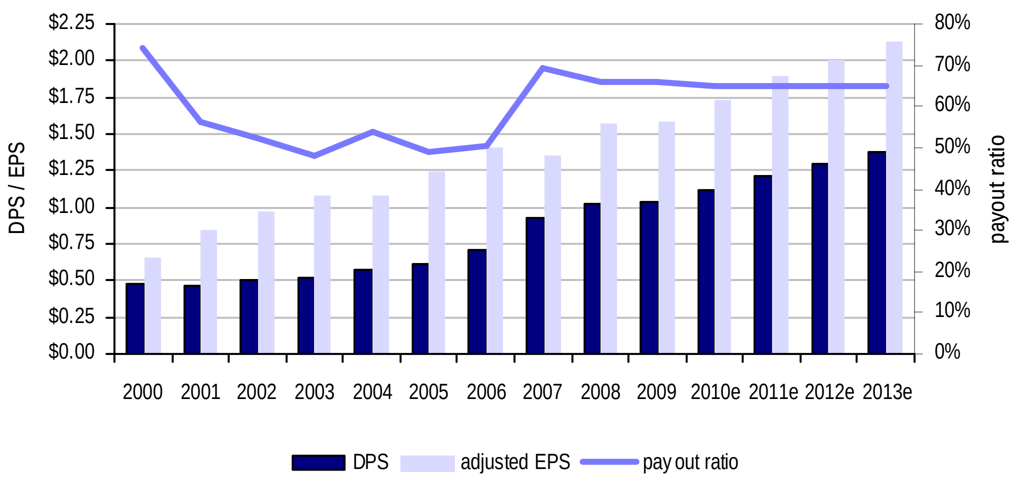
Chart 21: Investment grade bond yield vs. FTS dividend yield



Source: Bloomberg and UBS

As reflected in Chart 22, FTS accelerated its dividend program significantly in 2007, when the payout ratio was boosted from ~50% to ~65%, a level that we expect to remain unchanged for the foreseeable future. Accordingly, dividends should keep pace with earnings, with a CAGR of 5.8% between 2009-13. FTS currently pays a quarterly dividend of $0.26/share ($1.04/share annually), which was modestly raised from $0.25/share in December 2008. Based on our earnings forecast for 2010 and assuming a 65% payout ratio, we expect the company to raise its quarterly dividend to $0.27/share or $0.28/share in December 2009.

Chart 22: Dividend growth expected to keep pace with EPS growth given stable payout ratio



Source: Company reports and UBS estimates

Based on UBS forecasts of year-end 2010 government bond yields of 4.0% and our forecast for BBB credit spreads of 2.7%, we expect BBB bond yields of 6.7%. Applying our above-stated expectation of a 300 bps premium for BBB bond yields results in a forecast FTS dividend yield of 3.7%, modestly lower than the current level of 4.0%. Using this forecast 3.7% yield and conservatively assuming 2010 dividends per share of $1.08 results in an expected share price of $29.19.

In addition, we believe FTS's forward multiple will return to 17.5x, a level slightly above its historical average of 17.2x, to reflect the company's increasingly clear organic growth profile. Applying this 17.5x multiple to forecast 2010 fully diluted EPS $1.66 yields an expected share price of $29.03.

Our $29 price target is based on the average of our forecast 3.7% dividend yield and target P/E multiple of 17.5x

Taking the average of these methodologies, we arrive at a price target of $29. Given the implied forecast return of 14%, we have a Buy rating.

Table 5: Relative valuations—regulated utilities

		Share		Price	Capitalization (mln)			Leverage		EPS		P/E		EV/EBITDA		Performance (US$ terms)			
		Price	Rating	Target	Market Cap	Net Debt	EV	Debt/ Cap	Debt/ EBITDA	2010	2011	2010	2011	2010	2011	1w	3m	1y	YTD
Regulated Transmission & Distribution Utilities																			
Fortis Inc.	C$	$26.49	Buy	$29.00	$4,530	$6,004	$10,534	65%	5.5x	$1.66	$1.80	16.0x	14.7x	9.5x	9.2x	2%	9%	24%	25%
ATCO Ltd.	C$	$43.53	Not Rated	-	$2,525	$4,919	$7,443	48%	3.9x	$4.37	$4.48	10.0x	9.7x	5.7x	NA	-3%	1%	22%	15%
Canadian Utilities	C$	$40.95	Not Rated	-	$5,148	$3,424	$8,572	50%	2.9x	$3.15	$3.33	13.0x	12.3x	7.1x	NA	1%	6%	1%	1%
CenterPoint Energy Inc.	US$	$13.58	Not Rated	-	$5,301	$9,080	$14,381	84%	4.6x	$1.20	$1.31	11.3x	10.4x	6.9x	NA	3%	9%	6%	8%
Consolidated Edison	US$	$43.93	Neutral	$40.00	$11,281	$11,042	$22,322	52%	4.1x	$3.20	$3.25	13.7x	13.5x	7.4x	6.8x	2%	10%	11%	13%
Northeast Utilities	US$	$24.57	Buy	$26.00	$4,304	$4,871	$9,175	58%	4.1x	$1.90	$2.20	12.9x	11.2x	5.9x	5.4x	0%	4%	6%	2%
NSTAR Inc.	US$	$33.50	Not Rated	-	$3,578	$2,864	$6,442	63%	3.0x	$2.50	$2.63	13.4x	12.7x	6.9x	NA	1%	8%	-6%	-8%
PEPCO Holdings Inc.	US$	$16.93	Not Rated	-	$3,752	$5,981	$9,733	59%	5.4x	$1.32	$1.46	12.8x	11.6x	7.9x	NA	5%	14%	-4%	-5%
Average								60%	4.2x			12.9x	12.0x	7.2x	7.1x	1%	7%	7%	6%
Regulated Integrated Utilities																			
Allegheny Energy Inc.	US$	$22.65	Not Rated	-	$3,841	$4,222	$8,063	60%	3.7x	$2.25	$2.56	10.1x	8.9x	6.4x	NA	1%	2%	-32%	-33%
Alliant Energy Corp.	US$	$28.47	Not Rated	-	$3,150	$2,497	$5,646	39%	3.5x	$2.60	$3.00	11.0x	9.5x	6.3x	NA	3%	8%	-7%	-2%
Ameren Corp.	US$	$26.89	Not Rated	-	$6,371	$7,527	$13,898	53%	3.6x	$2.33	$2.40	11.5x	11.2x	6.4x	NA	3%	12%	-22%	-19%
DPL Inc.	US$	$28.28	Not Rated	-	$3,387	$1,452	$4,839	61%	2.4x	$2.50	$2.60	11.3x	10.9x	7.1x	NA	3%	9%	36%	24%
Edison International	US$	$35.18	Not Rated	-	$11,462	$10,401	$21,863	56%	2.7x	$3.30	$3.40	10.7x	10.4x	5.3x	NA	2%	11%	8%	10%
Emera Inc.	C$	$23.75	Not Rated	-	$2,673	$2,792	$5,464	59%	5.0x	$1.50	$1.58	15.8x	15.0x	9.2x	NA	0%	8%	8%	7%
Empire District Electric Company	US$	$18.57	Neutral	$18.00	$563	$783	$1,345	57%	5.1x	$1.31	$1.63	14.2x	11.4x	7.2x	6.2x	-1%	1%	12%	6%
FirstEnergy Corp.	US$	$43.90	Not Rated	-	$13,382	$14,483	$27,865	63%	3.8x	$3.51	$4.10	12.5x	10.7x	7.4x	NA	2%	4%	-23%	-10%
PG&E Corporation	US$	$43.31	Not Rated	-	$16,066	$11,543	$27,609	55%	2.8x	$3.40	$3.69	12.7x	11.7x	6.0x	NA	1%	6%	19%	12%
Pinnacle West Capital Co.	US$	$36.25	Not Rated	-	$3,671	$3,739	$7,410	53%	3.9x	$2.95	$2.88	12.3x	12.6x	6.4x	NA	3%	14%	21%	13%
PNM Resources Inc.	US$	$11.34	Not Rated	-	$983	$1,858	$2,841	56%	5.2x	$0.71	$1.15	16.0x	9.9x	7.2x	NA	0%	6%	9%	13%
PPL Corporation	US$	$31.50	Buy	$34.00	$11,986	$9,777	$21,762	65%	5.5x	$3.42	$3.33	9.2x	9.5x	7.5x	7.4x	2%	6%	-3%	3%
Progress Energy Inc.	US$	$40.18	Neutral	$38.00	$10,214	$12,559	$22,772	57%	4.4x	$3.20	$3.28	12.6x	12.3x	7.0x	6.9x	2%	2%	1%	1%
SCANA Corp.	US$	$36.26	Not Rated	-	$4,465	$4,517	$8,982	59%	4.3x	$3.00	$3.22	12.1x	11.3x	7.9x	NA	2%	7%	6%	2%
NV Energy Inc	US$	$12.08	Not Rated	-	$2,835	$5,463	$8,298	63%	5.7x	$1.10	$1.09	11.0x	11.1x	7.7x	NA	4%	5%	31%	22%
Southern Company	US$	$32.64	Neutral	$30.00	$24,228	$21,860	$46,088	58%	4.1x	$2.38	$2.50	13.7x	13.0x	6.5x	7.4x	2%	4%	-10%	-12%
TECO Energy Inc.	US$	$8.17	Not Rated	-	$308	$175	$484	34%	2.8x	$0.46	$0.55	17.8x	14.9x	7.0x	NA	0%	1%	18%	8%
Wisconsin Energy Corp.	US$	$46.16	Neutral	$43.00	$5,400	$5,125	$10,525	59%	5.3x	$3.71	$3.88	12.4x	11.9x	9.4x	9.8x	1%	3%	7%	10%
Westar Energy, Inc.	US$	$21.16	Neutral	$19.00	$2,318	$2,739	$5,056	45%	5.0x	$1.75	$1.85	12.1x	11.4x	7.9x	8.4x	2%	5%	9%	3%
Average								55%	4.1x			12.6x	11.4x	7.1x	7.7x	2%	6%	5%	3%
Regulated Gas Utilities																			
AGL Resources Inc	US$	$35.53	Buy	$40.00	$2,725	$2,554	$5,279	56%	4.0x	$2.84	$3.06	12.5x	11.6x	8.5x	8.1x	1%	6%	23%	13%
Atmos Energy	US$	$27.64	Neutral	$28.00	$2,532	$2,131	$4,663	49%	3.1x	$2.25	$2.33	12.3x	11.9x	6.7x	6.5x	-2%	2%	16%	17%
NiSource Inc.	US$	$14.87	Neutral	$13.50	$4,095	$6,516	$10,611	52%	4.4x	$1.12	$1.10	13.3x	13.5x	8.4x	8.1x	3%	13%	28%	36%
Northwest Natural Gas	US$	$43.70	Buy	$47.00	$1,159	$755	$1,914	49%	3.5x	$2.59	$2.79	16.9x	15.7x	6.4x	6.0x	0%	4%	-7%	-1%
Southwest Gas	US$	$27.01	Buy	$36.00	$1,212	$1,259	$2,471	53%	3.1x	$2.15	$2.37	12.5x	11.4x	4.6x	4.2x	0%	11%	8%	7%
WGL Holdings	US$	$31.91	Neutral	$33.00	$1,600	$665	$2,265	33%	1.9x	$2.31	$2.48	13.8x	12.9x	7.7x	7.2x	0%	-4%	-5%	-2%
Average								49%	3.3x			13.6x	12.8x	7.1x	6.7x	0%	5%	10%	12%

Source: Bloomberg and UBS estimates. Note: Estimates for Not Rated companies are consensus estimates.

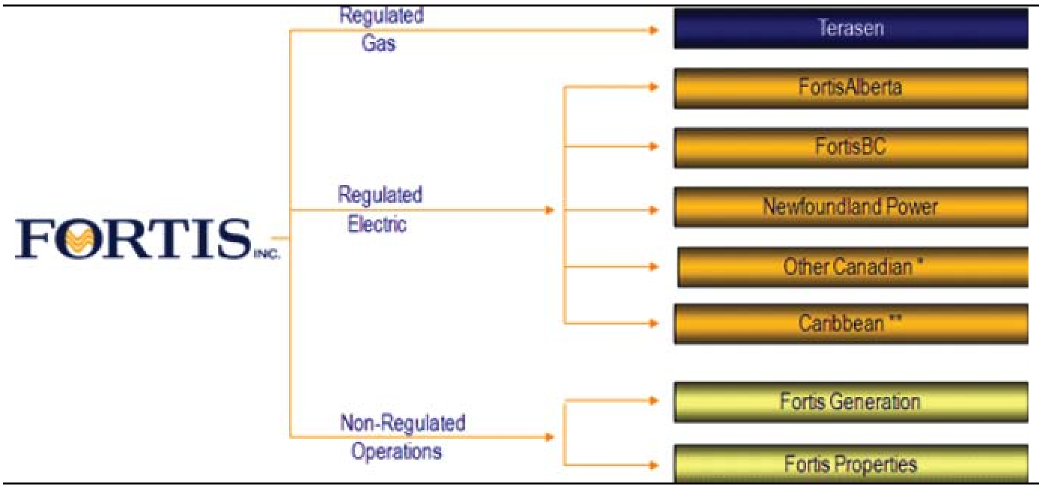
Table 6: Forecast summary

		2009 Dec/09	1Q10 Mar/10	2Q10 Jun/10	3Q10 Sep/10	4Q10 Dec/10	2010 Dec/10	1Q11 Mar/11	2Q11 Jun/11	3Q11 Sep/11	4Q11 Dec/11	2011 Dec/11	2012 Dec/12
SEGMENTED EARNINGS													
Regulated businesses													
Terasen Gas	($mm)	$125	$63	$12	$0	$56	$130	$66	$12	-$1	$60	$136	$142
growth y/y	(%)	*5.7%*	*8.0%*	*-15.9%*	*-84.1%*	*-0.2%*	*3.9%*	*5.0%*	*-1.0%*	*179.2%*	*7.6%*	*4.9%*	*4.4%*
FortisAlberta	($mm)	$55	$17	$14	$27	$16	$75	$20	$18	$30	$17	$85	$95
growth y/y	(%)	*19.5%*	*41.6%*	*-15.1%*	*68.6%*	*61.7%*	*35.6%*	*16.4%*	*28.1%*	*11.8%*	*4.0%*	*14.3%*	*11.8%*
FortisBC	($mm)	$36	$13	$8	$9	$8	$38	$15	$9	$9	$9	$42	$45
growth y/y	(%)	*6.6%*	*-3.9%*	*14.8%*	*9.6%*	*11.3%*	*5.7%*	*10.7%*	*10.4%*	*6.4%*	*7.8%*	*9.0%*	*8.2%*
Newfoundland Power	($mm)	$33	$8	$10	$7	$9	$35	$9	$10	$7	$9	$35	$36
growth y/y	(%)	*2.5%*	*32.7%*	*-5.7%*	*5.2%*	*0.5%*	*5.3%*	*12.0%*	*0.2%*	*-6.9%*	*2.9%*	*2.1%*	*1.9%*
Canadian Other	($mm)	$19	$6	$4	$7	$5	$22	$6	$4	$7	$5	$23	$23
growth y/y	(%)	*35.7%*	*20.2%*	*-7.1%*	*45.9%*	*-0.5%*	*15.8%*	*1.7%*	*11.5%*	*-0.9%*	*5.2%*	*3.3%*	*3.0%*
Caribbean Electric	($mm)	$27	$8	-$7	$8	$14	$23	$7	-$5	$9	$14	$26	$29
growth y/y	(%)	*57.0%*	*25.8%*	*-197.9%*	*18.2%*	*108.0%*	*-14.2%*	*-3.6%*	*-26.8%*	*13.2%*	*3.7%*	*13.9%*	*11.6%*
Unregulated businesses	($mm)												
Fortis Generation	($mm)	$18	$4	$3	$3	$4	$15	$6	$3	$3	$5	$17	$15
growth y/y	(%)	*-38.9%*	*-28.7%*	*9.0%*	*-31.5%*	*-15.8%*	*-19.4%*	*29.5%*	*3.5%*	*-1.4%*	*16.4%*	*14.0%*	*-10.8%*
Fortis Properties	($mm)	$24	$3	$7	$10	$5	$24	$3	$7	$10	$5	$25	$26
growth y/y	(%)	*2.4%*	*37.6%*	*-11.9%*	*6.4%*	*6.3%*	*2.8%*	*-2.8%*	*4.7%*	*1.8%*	*5.8%*	*2.9%*	*3.1%*
Consolidated Earnings	($mm)	$270	$105	$36	$56	$103	$300	$116	$44	$60	$110	$330	$354
EPS (diluted)	($/share)	$1.57	$0.61	$0.21	$0.33	$0.59	$1.73	$0.67	$0.25	$0.34	$0.63	$1.88	$2.00
EPS (diluted)	($/share)	$1.53	$0.58	$0.21	$0.32	$0.56	$1.66	$0.63	$0.25	$0.33	$0.60	$1.80	$1.91
growth y/y	(%)	*2.5%*	*12.0%*	*-33.7%*	*50.2%*	*13.6%*	*8.6%*	*8.3%*	*21.7%*	*5.2%*	*6.2%*	*8.5%*	*6.0%*
OTHER FINANCIAL													
EBITDA	($mm)	$1,092	$322	$241	$264	$329	$1,156	$346	$262	$279	$349	$1,236	$1,310
Dividends	($/share)	$1.03	$0.27	$0.27	$0.27	$0.27	$1.08	$0.31	$0.31	$0.31	$0.31	$1.22	$1.30
Payout ratio	(%)	66%					63%					65%	65%
Capital spending	($mm)	$1,070	$248	$248	$248	$248	$990	$247	$247	$247	$247	$987	$980
Regulated rate base	($mm)	$125	$63	$12	$0	$56	$130	$66	$12	-$1	$60	$136	$142
growth y/y	(%)	*5.7%*	*8.0%*	*-15.9%*	*-84.1%*	*-0.2%*	*3.9%*	*5.0%*	*-1.0%*	*179.2%*	*7.6%*	*4.9%*	*4.4%*

Source: Company reports and UBS estimates

Appendix A—business overview

Chart 23: Organization chart



* Includes Maritime Electric on Prince Edward Island and FortisOntario.

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

Source: Company reports

Terasen Gas (38% of assets)

Terasen Gas is a natural gas transmission and distribution company servicing approximately 834,000 residential, commercial and industrial users in British Colombia, Canada (86% of BC's natural gas users) Terasen Gas was originally a daughter company of Knight Inc. (formerly known as Kinder Morgan, Inc.) and was sold to Fortis Inc. in February of 2007 for $3.7 billion. Terasen Gas is rate regulated by the British Columbia Utilities Commission (BCUC).

FortisAlberta (18% of assets)

FortisAlberta provides electricity distribution services to end-user customers in the province of Alberta. The company's low-voltage distribution network is focused on servicing the rural and urban communities of central and southern Alberta. With approximately 107,600 kilometres of transmission lines throughout the province, FortisAlberta services 460,700 electricity users, a customer base which is comprised of residential, commercial, farm, oil and gas and industrial consumers of electricity.

FortisBC (11% of assets)

FortisBC is a rate-regulated electric utility servicing the province of British Colombia. Electricity is provided through an extensive network of hydroelectric generating plants, high voltage transmission lines, and distribution assets. As at year-end 2008, FortisBC's customer base had grown to roughly 157,000 customers, comprised of residential, general service, wholesale and industrial consumers of electricity located in the southern interior of British Columbia.

Fortis Inc. acquired FortisBC and FortisAlberta from what used to be Aquila Inc. in May of 2004 for a total acquisition price of $1.48 billion. Currently, the company's power generating assets are primarily comprised of four hydroelectric generating plants on the Kootenay River, as well as a number of BCUC approved purchase power agreements. Other company assets include approximately 7,000 kilometres of transmission and distribution power lines and 64 substations throughout British Columbia.

Newfoundland Power Inc. (11% of assets)

Newfoundland Power Inc. is a regulated, integrated generation, transmission and distribution company which services customers on the island portion of the Province of Newfoundland and Labrador. The company's customer base is comprised primarily of residential and commercial customers located in 600 communities and numbering 236,000 users.

Other Canadian (6% of assets)

Maritime Electric

Maritime Electric is an integrated electric utility which directly services approximately 73,000 residential customers located on Prince Edward Island through 5,300 kilometers of transmission and distribution lines. While the company currently owns and operates generating plants with capacity of 150 MW, the majority of the electricity the company distributes is purchased from NB Power. Maritime Electric obtains this power via two submarine cables between Prince Edward Island and New Brunswick, which the company leases from the government of PEI. Maritime Electric is 100% owned by Fortis Inc. through its subsidiary; Fortis Properties.

FortisOntario

FortisOntario is comprised of two wholly owned regulated utility subsidiaries; Canadian Niagara Power which services Fort Erie, Port Colborne and Gananoque, and Cornwall Electric which services Cornwall. Combined, the two entities service roughly 52,000 customers with 1,570 kilometers of transmission and distribution lines and a peak demand of 227 MW. Canadian Niagara Power also owns international transmission facilities in Fort Erie as well as a 10% interest in Westario Power Holdings Inc. and Rideau St. Lawrence, two regional electric distribution companies.

Caribbean segment (8% of assets)

Belize Electricity

Belize Electricity is the principle distributor of electricity in Belize, servicing nearly 74,000 customers with 2,840 kilometres of transmission and distribution lines and a peak demand of 74 MW. Fortis Inc. currently has a 70% controlling interest in Belize Electricity.

Caribbean Utilities

Caribbean Utilities is the sole distributor of electricity on Grand Cayman Island, servicing nearly 24,000 customers with 555 kilometres of transmission and distribution lines and a peak demand of 94 MW. Fortis currently has a 59.5% controlling interest in the company.

Fortis Turks and Caicos

Fortis Turks and Caicos is the principle distributor of electricity on the Turks and Caicos Islands, servicing over 9,000 customers with 335 kilometers of transmission and distribution lines and a peak demand of 29 MW. The company is secured as the principal distributor on the islands by a number of 50-year licenses which expire in 2036 and 2037.

Fortis Generation (2% of assets)

Fortis Generation consists of the operations of non-regulated generating assets in Belize, Ontario, central Newfoundland, British Columbia and Upper New York State; the combined assets have generating capacity of 120 MW (115 MW is hydroelectric).

In Belize, Fortis Generation currently owns and operates the 25-MW Mollejon and 7-MW Chalillo hydroelectric generating facilities located on the Macal River. In eastern Ontario, Fortis Generation currently owns six non-regulated hydroelectric generating stations with combined capacity of 8 MW. In addition, the company also owns a 5 MW gas-fired cogeneration plant in Cornwall. Fortis Generation’s only British Columbia asset is a 16-MW run-of-river non-regulated generating plant located near Lillooet. Finally, the U.S. assets include four hydroelectric generating stations with combined capacity of approximately 23 MW.

Fortis Properties (6% of assets)

Fortis Properties was established in 1989 and has grown significantly over the past 20 years. The company currently owns and operates over 2.8 million square feet of commercial real estate located throughout Atlantic Canada. The company also owns 21 hotels, with over 4,000 rooms, throughout Atlantic Canada, Ontario, Manitoba, Alberta, British Columbia and Saskatchewan.

Fortis Inc.

Income statement (C$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	1,146.00	1,453.00	1,474.00	2,726.00	3,903.00	3,741.06	-4.1	3,890.96	4.0	3,923.67	0.8
Operating expenses (ex depn)	(766.00)	(928.00)	(939.00)	(1,904.00)	(2,855.00)	(2,648.96)	-7.2	(2,734.79)	3.2	(2,687.95)	-1.7
EBITDA (UBS)	380.00	525.00	535.00	822.00	1,048.00	1,092.10	4.2	1,156.17	5.9	1,235.71	6.9
Depreciation	(113.00)	(157.00)	(178.00)	(273.00)	(348.00)	(367.67)	5.7	(387.61)	5.4	(416.72)	7.5
Operating income (EBIT, UBS)	267.00	368.00	357.00	549.00	700.00	724.43	3.5	768.56	6.1	818.99	6.6
Other income & associates	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net interest	(110.00)	(137.00)	(168.00)	(299.00)	(363.00)	(365.51)	0.7	(381.50)	4.4	(401.14)	5.1
Abnormal items (pre-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	157.00	231.00	189.00	250.00	337.00	358.92	6.5	387.06	7.8	417.86	8.0
Tax	(48.00)	(70.00)	(32.00)	(36.00)	(65.00)	(58.27)	-10.3	(59.16)	1.5	(61.70)	4.3
Profit after tax	109.00	161.00	157.00	214.00	272.00	300.64	10.5	327.90	9.1	356.16	8.6
Abnormal items (post-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	(18.00)	(24.00)	(10.00)	(21.00)	(27.00)	(31.00)	14.8	(28.00)	-9.7	(26.00)	-7.1
Net income (local GAAP)	91.00	137.00	147.00	193.00	245.00	269.64	10.1	299.90	11.2	330.16	10.1
Net Income (UBS)	91.00	127.00	145.00	185.00	245.00	269.64	10.1	299.90	11.2	330.16	10.1
Tax rate (%)	30.57	30.30	16.93	14.40	19.29	16.24	-15.8	15.29	-5.9	14.76	-3.4
Pre-abnormal tax rate (%)	30.57	30.30	16.93	14.40	19.29	16.24	-15.8	15.29	-5.9	14.76	-3.4

Per share (C$)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	1.00	1.24	1.23	1.25	1.49	1.53	2.5	1.66	8.6	1.80	8.5
EPS (UBS)	1.00	1.16	1.22	1.20	1.49	1.53	2.5	1.66	8.6	1.80	8.5
Net DPS	0.58	0.61	0.70	0.93	1.03	1.03	0.6	1.08	4.4	1.22	13.1
Cash EPS	2.41	2.79	3.12	3.33	3.77	3.72	-1.3	3.96	6.5	4.26	7.5
BVPS	10.48	11.40	10.57	21.57	25.26	18.31	-27.5	18.77	2.5	19.22	2.4

Balance sheet (C$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Cash and equivalents	37.00	33.00	41.00	58.00	66.00	106.00	60.6	106.00	0.0	106.00	0.0
Other current assets	256.00	280.00	368.00	980.00	1,084.00	812.00	-25.1	812.00	0.0	812.00	0.0
Total current assets	293.00	313.00	409.00	1,038.00	1,150.00	918.00	-20.2	918.00	0.0	918.00	0.0
Net tangible fixed assets	2,713.00	3,021.00	4,044.00	7,267.00	7,908.00	8,296.33	4.9	8,898.72	7.3	9,469.00	6.4
Net intangible fixed assets	514.00	512.00	661.00	1,544.00	1,575.00	1,563.00	-0.8	1,563.00	0.0	1,563.00	0.0
Investments / other assets	418.00	470.00	333.00	424.00	545.00	1,193.00	118.9	1,193.00	0.0	1,193.00	0.0
Total assets	3,938.00	4,316.00	5,447.00	10,273.00	11,178.00	11,970.33	7.1	12,572.72	5.0	13,143.00	4.5
Trade payables & other ST liabilities	538.00	423.00	565.00	1,804.00	1,697.00	1,288.00	-24.1	1,288.00	0.0	1,288.00	0.0
Short term debt	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total current liabilities	538.00	423.00	565.00	1,804.00	1,697.00	1,288.00	-24.1	1,288.00	0.0	1,288.00	0.0
Long term debt	1,904.00	2,125.00	2,558.00	4,623.00	4,884.00	5,443.32	11.5	5,911.26	8.6	6,344.94	7.3
Other long term liabilities	139.00	196.00	477.00	688.00	739.00	1,303.50	76.4	1,316.00	1.0	1,328.50	0.9
Total liabilities	2,581.00	2,744.00	3,600.00	7,115.00	7,320.00	8,034.82	9.8	8,515.26	6.0	8,961.44	5.2
Equity & minority interests	1,357.00	1,572.00	1,847.00	3,158.00	3,858.00	3,935.51	2.0	4,057.46	3.1	4,181.55	3.1
Total liabilities & equity	3,938.00	4,316.00	5,447.00	10,273.00	11,178.00	11,970.33	7.1	12,572.72	5.0	13,143.00	4.5

Cash flow (C$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net income	91.00	137.00	147.00	193.00	245.00	269.64	10.1	299.90	11.2	330.16	10.1
Depreciation	113.00	157.00	178.00	273.00	348.00	367.67	5.7	387.61	5.4	416.72	7.5
Net change in working capital	47.00	(10.00)	(37.00)	(117.00)	41.00	59.00	43.9	0.00	-	0.00	-
Other (operating)	9.00	2.00	(27.00)	18.00	15.00	42.50	183.3	12.50	-70.6	22.50	80.0
Net cash from operations	272.00	303.00	263.00	373.00	663.00	756.82	14.2	716.01	-5.4	785.38	9.7
Capital expenditure	(1,032.00)	(512.00)	(669.00)	(2,106.00)	(904.00)	(1,100.00)	21.7	(990.00)	-10.0	(987.00)	-0.3
Net (acquisitions) / disposals	1.00	2.00	8.00	4.00	18.00	1.00	-94.4	0.00	-	0.00	-
Other changes in investments	5.00	43.00	27.00	69.00	32.00	29.00	-	0.00	-	0.00	-
Cash from investing activities	(1,026.00)	(467.00)	(634.00)	(2,033.00)	(854.00)	(1,070.00)	25.3	(990.00)	-7.5	(987.00)	-0.3
Increase/(decrease) in debt	242.00	90.00	310.00	562.00	(147.00)	536.32	-	487.94	-	443.68	-
Share issues / (repurchases)	535.00	135.00	136.00	1,267.00	531.00	32.00	-	0.00	-	0.00	-
Dividends paid	(49.00)	(62.00)	(73.00)	(128.00)	(162.00)	(177.38)	9.5	(186.21)	5.0	(214.32)	15.1
Other cash from financing	(2.00)	(3.00)	8.00	(15.00)	(12.00)	(16.75)	-	(11.75)	-	(11.75)	-
Cash from financing activities	726.00	160.00	379.00	1,680.00	196.00	356.18	81.7	273.99	-23.1	201.62	-26.4
Cash flow chge in cash & equivalents	(28.00)	(4.00)	8.00	20.00	5.00	43.00	-	0.00	-	0.00	-
FX / non cash items	0.00	0.00	0.00	(3.00)	3.00	(3.00)	-95.9	0.00	-	0.00	-50.0
Bal sheet chge in cash & equivalents	(28.00)	(4.00)	8.00	17.00	8.00	40.00	-	0.00	-	0.00	-

	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Core EBITDA	380.00	525.00	535.00	822.00	1,048.00	1,092.10	4.2	1,156.17	5.9	1,235.71	6.9
Maintenance capital expenditure	(190.00)	(262.50)	(267.50)	(411.00)	(524.00)	(546.05)	4.2	(578.09)	5.9	(617.86)	6.9
Maintenance net working capital	0.00	0.00	4.00	9.00	14.00	19.00	35.7	24.00	26.3	29.00	20.8
Operating free cash flow, pre-tax	190.00	262.50	271.50	420.00	538.00	565.05	5.0	602.09	6.6	646.86	7.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Americas

Electric Utilities

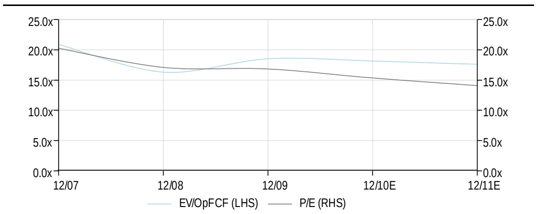
12-month rating	Buy
12m price target	C$29.00

Fortis Inc.

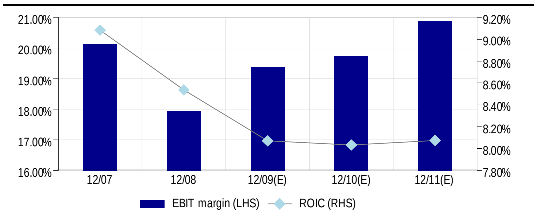
Company profile

Fortis Inc. is the largest investor owned distribution utility in Canada, deriving the majority of its earnings from regulated rate base assets. 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 and commercial real estate in Canada.

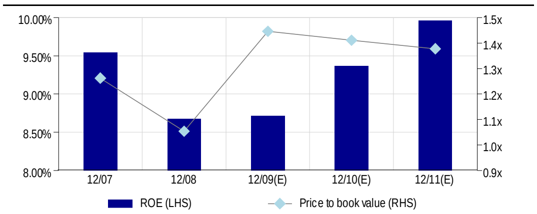
Value (EV/OpFCF & P/E)



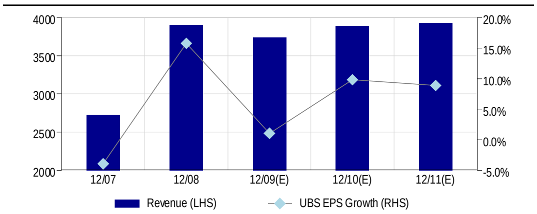
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	17.4	21.8	17.8	17.3	16.0	14.7
P/E (UBS)	17.8	22.7	17.8	17.3	16.0	14.7
P/CEPS	7.3	8.2	7.1	7.1	6.7	6.2
Net dividend yield (%)	3.4	3.4	3.9	3.9	4.1	4.6
P/BV	1.7	1.3	1.1	1.4	1.4	1.4
EV/revenue (core)	3.2	3.2	2.3	2.8	2.8	2.9
EV/EBITDA (core)	9.7	10.7	8.4	9.6	9.5	9.2
EV/EBIT (core)	14.0	16.0	12.6	14.4	14.2	13.9
EV/OpFCF (core)	19.1	20.9	16.3	18.5	18.2	17.6
EV/op. invested capital	1.4	1.5	1.1	1.2	1.1	1.1

Enterprise value (C$m)		12/07	12/08	12/09E	12/10E	12/11E
Average market cap		3,284.11	3,209.07	4,529.79	4,529.79	4,529.79
+ minority interests		115.00	145.00	124.25	132.50	140.75
+ average net debt (cash)		5,389.00	5,431.00	5,813.32	6,281.26	6,714.94
+ pension obligations and other		0.00	0.00	0.00	0.00	0.00
- non-core asset value		0.00	0.00	0.00	0.00	0.00
Core enterprise value		8,788.11	8,785.07	10,467.36	10,943.55	11,385.48

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	34.1	84.9	43.2	-4.1	4.0	0.8
EBITDA (UBS)	32.8	53.6	27.5	4.2	5.9	6.9
EBIT (UBS)	28.6	53.8	27.5	3.5	6.1	6.6
EPS (UBS)	5.5	-3.9	15.8	1.1	9.8	8.9
Cash EPS	13.7	6.8	13.2	-1.3	6.5	7.5
Net DPS	15.6	32.0	10.6	0.6	4.4	13.1
BVPS	24.9	104.0	17.1	-27.5	2.5	2.4

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	33.4	30.2	26.9	29.2	29.7	31.5
EBIT / revenue	23.4	20.1	17.9	19.4	19.8	20.9
Net profit (UBS) / revenue	8.4	6.8	6.3	7.2	7.7	8.4

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	9.9	9.1	8.5	8.1	8.0	8.1
ROIC post tax	-	7.8	6.9	6.8	6.8	6.9
Net ROE	11.3	9.5	8.7	8.7	9.4	10.0

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	2.3	1.8	1.9	2.0	2.0	2.0
Dividend cover (UBS EPS)	1.9	1.4	1.5	1.5	1.6	1.5
Div. payout ratio (%, UBS EPS)	54.0	69.2	66.1	65.8	62.5	64.9
Net debt / EBITDA	5.4	6.1	5.2	5.5	5.6	5.6

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	0.4	0.5	0.5	0.4	0.4	0.4
Revenue / fixed assets	0.4	0.4	0.4	0.4	0.4	0.4
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	0.7	0.8	0.8	0.8	0.8	0.8
Capex / revenue (%)	NM	NM	23.2	29.4	25.4	25.2
Capex / depreciation	5.8	7.7	2.6	3.0	2.6	2.4

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	67.1	65.8	64.3	65.6	66.5	67.2
Net debt (core) / EV	55.74	61.3	61.8	55.5	57.4	59.0

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of C$26.49 on 02 Dec 2009 19:36 EST Market cap(E) may include forecast share issues/buybacks.

Chad Friess

Analyst

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■ Fortis Inc.

Fortis Inc. is the largest investor owned distribution utility in Canada, deriving the majority of its earnings from regulated rate base assets. 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 and commercial real estate in Canada.

■ Statement of Risk

To varying extents across its respective regions, Fortis Inc. is subject to regulatory risk. A substantial portion of the company earnings are based on regulated rates of return, the level of which is subject to regulatory oversight. Shifts in political views towards Fortis' businesses could result in unfavourable changes to the company's permitted rates of return. In addition, interest rates play a significant role in the derivation of regulated ROEs. Thus, reduced interest rates have the potential to compress permitted rates of return.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	44%	39%
Neutral	**Hold/Neutral**	40%	35%
Sell	**Sell**	15%	27%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	33%
Sell	**Sell**	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with the NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

UBS Securities Canada Inc: Chad Friess.

Company Disclosures

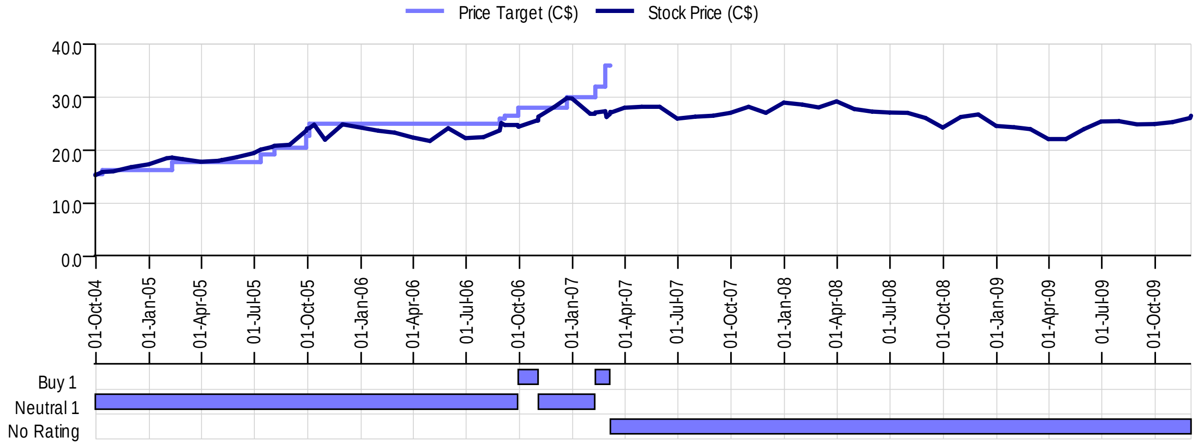
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Fortis Inc.	FTS.TO	Not Rated	N/A	C$26.49	02 Dec 2009

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

The analyst responsible for this report has reviewed the material operations of the issuer and/or met with senior management.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Fortis Inc. (C$)



Source: UBS; as of 02 Dec 2009

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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Fortis Inc.

12-month rating	Neutral
	Prior: Buy
12m price target	C$30.00/US$28.27
	Prior: C$29.00/US$27.33
Price	C$28.39/US$26.75

RIC: FTS.TO BBG: FTS CN

17 December 2009

BCUC decision -- call it a wash

- **Allowed ROE for Terasen raised to 9.50% from 8.47%**

Abandoning the old automatic adjustment mechanism, the British Columbia Utilities Commission (BCUC) announced that the ROE for Terasen Gas (TGI) is now 9.50%, up from 8.47%. In addition, the allowed equity thickness for TGI will be raised to 40%, up from 35%. The BCUC also announced that the spread to FortisBC will remain 40bps, thus raising its allowed ROE from 8.87% to 9.90%.

- **Balanced with removal of PBR, decision is neutral**

Together, the BC companies represent 49% of FTS assets. While today's decision is positive it must be balanced with a previous BCUC announcement that Terasen will no longer be eligible for Performance-Based Rate-Setting, an incentive which has historically generated more than 200 bps in excess ROE. On balance we view the decision as neutral and have made only minor changes to our estimates.

- **Regulatory decisions out of the way, expect dividend announcement**

With regulatory rulings out of the way for FortisAB, NF Power, Terasen and FortisBC, the 2010 earnings outlook has become clearer. As a result we expect FTS's 2010 dividend level to be announced shortly. We forecast 2010 dividends of $1.12/share, an increase of $0.08/share over 2009, reflecting a 65% payout ratio.

- **Valuation: Raise PT to $30 but d/g to Neutral on share price appreciation**

Over the past 3 months FTS has risen 14%, outperforming its peers. With most of the regulatory catalysts now behind and with valuation approaching the historical average, we expect the stock to level off in the near-term. Our target is set at the average of 18.0x 2010 EPS (5 yr avg = 17.2x) and a forecast 3.7% dividend yield.

Highlights (C$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	2,726	3,903	3,741	3,891	3,919
EBIT (UBS)	549	700	724	769	815
Net Income (UBS)	185	245	270	300	328
EPS (UBS, C$)	1.20	1.49	1.53	1.66	1.79
Net DPS (UBS, C$)	0.93	1.03	1.03	1.12	1.21

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	23.4	17.9	19.4	19.8	20.8
ROIC (EBIT) %	9.9	8.5	8.1	8.0	8.0
EV/EBITDA (core) x	9.7	8.4	9.9	9.8	9.5
PE (UBS) x	17.8	17.8	18.6	17.1	15.9
Net dividend yield %	3.4	3.9	3.6	3.9	4.3

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of C$28.39 on 17 Dec 2009 11:53 EST

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Trading data (local/US$)

52-wk range	C$28.39-21.62/US$26.66-16.81
Market cap.	C$4.85bn/US$4.57bn
Shares o/s	171m (COM)
Free float	100%
Avg. daily volume ('000)	411
Avg. daily value (m)	C$10.7

Balance sheet data 12/09E

Shareholders' equity	C$3.14bn
P/BV (UBS)	1.6x
Net Cash (debt)	(C$6.00bn)

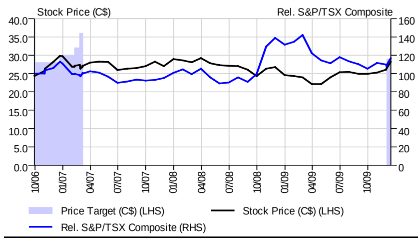
Forecast returns

Forecast price appreciation	+5.7%
Forecast dividend yield	3.9%
Forecast stock return	+9.6%
Market return assumption	5.6%
Forecast excess return	+4.0%

EPS (UBS, C$)

	12/09E			12/08
	From	To	Cons.	Actual
Q1	0.52	0.52	0.52	0.53
Q2	0.32	0.32	0.31	0.20
Q3	0.24	0.24	0.21	0.34
Q4E	0.49	0.49	0.49	0.39
12/09E	1.53	1.53	*1.53*	
12/10E	1.66	1.66	*1.64*	

Performance (C$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

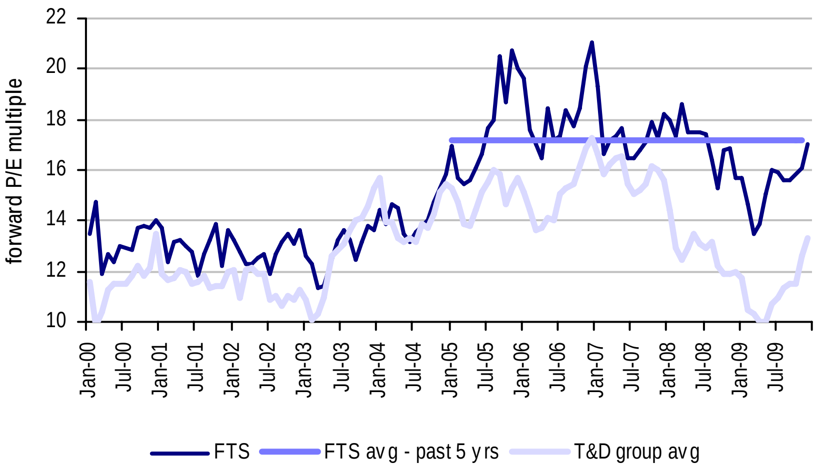
Due to take a breather

Over the past six months Fortis has risen 14%, outperforming all its peers in the distribution utility, integrated utility, and gas utility sectors (see Table 1) which collectively averaged a 6% return over the same period. In our view the outperformance was justified in anticipation of several regulatory decisions which de-risked 2010 earnings and prompted the Street to increase forward estimates.

In response to an increasingly clear 2010 earnings outlook the company's valuation has continued to trend higher and the current level of 17.0x 2010E EPS just shy of the 5-year average of 17.2x (Chart 1). With many of the regulatory catalysts now behind us, we believe further upside to forward estimates and valuation may be limited in the near-term. We note however that an announcement on the 2010 dividend level is expected early in the New Year. Assuming a constant 65% payout ratio, we are calling for a $0.08/share annual increase to $1.12/share.

As a result of a de-risked 2010 EPS outlook, we have increased our target from $29 to $30. Our target is set at the average of 18.0x 2010 EPS and a forecast 3.7% dividend yield. Given the implied return, our rating falls from Buy to Neutral.

Chart 1: Historical forward P/E



Source: FactSet, UBS

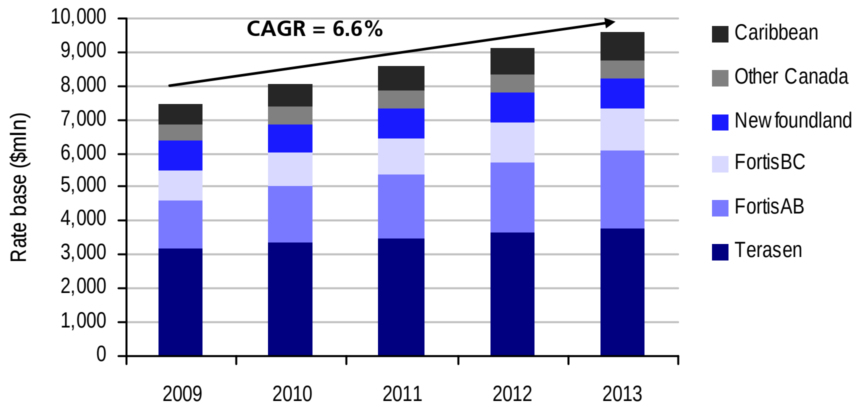
...But the long-term story is intact

Longer-term we believe the company represents a compelling low risk opportunity. Through 2013 we expect the company to grow its rate base at a CAGR of 6.6% (Chart 2). Further upside could come from additional regulatory ruling which raise allowed ROEs. In particular, we highlight FortisAB, which was recently granted an increase to its regulated ROE from 8.51% to 9.00%. With today's decision from the BCUC, we see a strong possibility that the AUC will be open to further discussions in a year's time.

In addition, the company's premium valuation opens to the doors to a number of accretive M&A opportunities. However the key challenge in 2010 will be identifying a willing seller of regulated assets which fit the current risk profile of

Fortis' existing base. Such assets are growing increasingly scarce. At any rate, the company's organic growth profile will absorb all free cash flow. As such, in the absence of upside from higher ROEs or accretive acquisitions we expect EPS and dividends to at least match the company's rate base growth.

Chart 2: Forecasted rate base growth



Source: UBS , company reports

Table 1: Comp sheet – North American Distribution Utilities

		Share		Price	Capitalization (mln)			Leverage		EPS		P/E		EV/EBITDA		Performance (US$ terms)			
		Price	Rating	Target	Market Cap	Net Debt	EV	Debt/ Cap	Debt/ EBITDA	2010	2011	2010	2011	2010	2011	1w	3m	1y	YTD
Regulated Transmission & Distribution Utilities																			
Fortis Inc.	C$	$28.34	Neutral	$30.00	$4,838	$6,004	$10,842	65%	5.5x	$1.66	$1.79	17.1x	15.8x	9.7x	9.5x	2%	14%	27%	32%
ATCO Ltd.	C$	$45.94	Not Rated	-	$2,648	$4,919	$7,566	48%	3.9x	$4.37	$4.50	10.5x	10.2x	5.7x	NA	5%	2%	18%	21%
Canadian Utilities	C$	$43.96	Not Rated	-	$5,519	$3,424	$8,943	50%	2.9x	$3.15	$3.35	14.0x	13.1x	7.4x	NA	2%	5%	13%	9%
CenterPoint Energy Inc.	US$	$14.48	Not Rated	-	$5,653	$9,080	$14,733	84%	4.6x	$1.20	$1.31	12.1x	11.1x	7.0x	NA	3%	12%	16%	15%
Consolidated Edison	US$	$45.33	Neutral	$40.00	$11,543	$11,042	$22,584	52%	4.1x	$3.20	$3.25	14.2x	13.9x	7.5x	6.9x	1%	8%	16%	15%
Northeast Utilities	US$	$25.99	Buy	$26.00	$4,525	$4,871	$9,396	58%	4.1x	$1.90	$2.20	13.7x	11.8x	6.1x	5.5x	4%	6%	15%	7%
NSTAR Inc.	US$	$35.48	Not Rated	-	$3,790	$2,864	$6,653	63%	3.1x	$2.50	$2.63	14.2x	13.5x	6.9x	NA	3%	8%	0%	-3%
PEPCO Holdings Inc.	US$	$16.92	Not Rated	-	$3,749	$5,981	$9,730	59%	5.4x	$1.32	$1.46	12.8x	11.6x	7.9x	NA	-1%	7%	1%	-5%
Average								60%	4.2x			13.6x	12.6x	7.3x	7.3x	2%	8%	13%	11%
Regulated Integrated Utilities																			
Allegheny Energy Inc.	US$	$23.04	Not Rated	-	$3,907	$4,222	$8,129	60%	3.7x	$2.25	$2.56	10.3x	9.0x	6.4x	NA	2%	2%	-27%	-32%
Alliant Energy Corp.	US$	$30.08	Not Rated	-	$3,328	$2,497	$5,824	39%	3.6x	$2.56	$3.00	11.8x	10.0x	6.6x	NA	1%	8%	0%	3%
Ameren Corp.	US$	$27.58	Not Rated	-	$6,534	$7,527	$14,061	53%	3.6x	$2.33	$2.40	11.8x	11.5x	6.5x	NA	2%	7%	-15%	-17%
DPL Inc.	US$	$27.76	Not Rated	-	$3,325	$1,452	$4,776	61%	2.5x	$2.50	$2.62	11.1x	10.6x	7.3x	NA	-2%	0%	32%	22%
Edison International	US$	$35.28	Not Rated	-	$11,495	$10,401	$21,896	56%	2.8x	$3.30	$3.33	10.7x	10.6x	5.2x	NA	-1%	5%	13%	10%
Emera Inc.	C$	$25.06	Not Rated	-	$2,820	$2,792	$5,612	59%	5.0x	$1.50	$1.60	16.7x	15.7x	9.4x	NA	2%	6%	17%	13%
Empire District Electric Company	US$	$18.81	Neutral	$18.00	$574	$783	$1,357	57%	5.1x	$1.31	$1.63	14.3x	11.6x	7.3x	6.3x	0%	5%	13%	8%
FirstEnergy Corp.	US$	$46.46	Not Rated	-	$14,161	$14,483	$28,644	63%	3.8x	$3.60	$4.11	12.9x	11.3x	7.5x	NA	1%	9%	-11%	-4%
PG&E Corporation	US$	$44.97	Not Rated	-	$16,682	$11,543	$28,225	55%	2.7x	$3.40	$3.70	13.2x	12.2x	6.0x	NA	2%	6%	18%	16%
Pinnacle West Capital Co.	US$	$37.30	Not Rated	-	$3,777	$3,739	$7,516	53%	3.8x	$2.93	$2.88	12.8x	13.0x	6.5x	NA	1%	11%	22%	16%
PNM Resources Inc.	US$	$12.22	Not Rated	-	$1,059	$1,858	$2,917	56%	5.2x	$0.71	$1.15	17.2x	10.6x	7.4x	NA	3%	8%	16%	21%
PPL Corporation	US$	$32.36	Buy	$34.00	$12,358	$9,777	$22,135	65%	5.5x	$3.42	$3.33	9.5x	9.7x	7.6x	7.5x	2%	6%	11%	6%
Progress Energy Inc.	US$	$41.13	Neutral	$38.00	$10,493	$12,559	$23,052	57%	4.4x	$3.20	$3.28	12.9x	12.5x	7.1x	7.0x	0%	6%	5%	4%
SCANA Corp.	US$	$37.24	Not Rated	-	$4,585	$4,517	$9,102	59%	4.3x	$3.00	$3.22	12.4x	11.6x	7.7x	NA	1%	6%	9%	5%
NV Energy Inc	US$	$12.40	Not Rated	-	$2,910	$5,463	$8,373	63%	5.7x	$1.09	$1.10	11.4x	11.3x	7.8x	NA	4%	4%	36%	25%
Southern Company	US$	$33.79	Neutral	$30.00	$25,149	$21,860	$47,008	58%	4.1x	$2.38	$2.50	14.2x	13.5x	6.6x	7.5x	0%	6%	-7%	-8%
TECO Energy Inc.	US$	$9.13	Not Rated	-	$345	$175	$520	34%	2.8x	$0.43	$0.51	21.2x	18.1x	7.4x	NA	10%	10%	33%	21%
Wisconsin Energy Corp.	US$	$48.07	Neutral	$43.00	$5,624	$5,125	$10,750	59%	5.3x	$3.71	$3.88	13.0x	12.4x	9.6x	10.0x	2%	6%	18%	15%
Westar Energy, Inc.	US$	$21.83	Neutral	$19.00	$2,388	$2,739	$5,126	45%	5.0x	$1.75	$1.85	12.4x	11.8x	8.0x	8.5x	2%	5%	13%	6%
Average								55%	4.2x			13.1x	11.9x	7.3x	7.8x	2%	6%	10%	7%
Regulated Gas Utilities																			
AGL Resources Inc	US$	$36.65	Buy	$40.00	$2,820	$2,554	$5,374	56%	4.0x	$2.84	$3.06	12.9x	12.0x	8.7x	8.3x	2%	5%	23%	17%
Atmos Energy	US$	$29.18	Neutral	$28.00	$2,691	$2,131	$4,822	49%	3.1x	$2.25	$2.33	13.0x	12.5x	6.9x	6.7x	3%	3%	26%	24%
NiSource Inc.	US$	$15.40	Neutral	$13.50	$4,277	$6,516	$10,793	52%	4.4x	$1.12	$1.10	13.8x	14.0x	8.5x	8.2x	2%	15%	36%	42%
Northwest Natural Gas	US$	$44.42	Buy	$47.00	$1,193	$755	$1,948	49%	3.5x	$2.59	$2.79	17.2x	15.9x	6.5x	6.1x	2%	6%	1%	2%
Southwest Gas	US$	$28.67	Buy	$36.00	$1,297	$1,259	$2,556	53%	3.1x	$2.15	$2.37	13.3x	12.1x	4.8x	4.4x	2%	10%	19%	15%
WGL Holdings	US$	$33.16	Neutral	$33.00	$1,683	$665	$2,348	33%	1.9x	$2.31	$2.48	14.3x	13.4x	8.0x	7.5x	2%	-1%	5%	3%
Average								49%	3.3x			14.1x	13.3x	7.2x	6.9x	2%	6%	18%	17%

Source: UBS, Bloomberg

Table 2: Forecast summary

		2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011	2012
		Dec/09	Mar/10	Jun/10	Sep/10	Dec/10	Dec/10	Mar/11	Jun/11	Sep/11	Dec/11	Dec/11	Dec/12
SEGMENTED EARNINGS													
Regulated businesses													
Terasen Gas	($mm)	$125	$60	$11	$0	$54	$125	$61	$11	-$1	$56	$127	$132
growth y/y	(%)	*5.7%*	*4.0%*	*-19.0%*	*-84.7%*	*-3.8%*	*0.1%*	*1.7%*	*-4.2%*	*170.4%*	*4.2%*	*1.6%*	*4.4%*
FortisAlberta	($mm)	$55	$17	$14	$27	$16	$75	$20	$19	$31	$17	$87	$98
growth y/y	(%)	*19.5%*	*41.6%*	*-15.1%*	*68.6%*	*61.7%*	*35.6%*	*19.5%*	*31.4%*	*14.7%*	*6.8%*	*17.3%*	*11.8%*
FortisBC	($mm)	$36	$15	$9	$10	$9	$43	$17	$10	$10	$10	$46	$47
growth y/y	(%)	*6.6%*	*7.9%*	*28.8%*	*22.9%*	*24.9%*	*18.6%*	*9.7%*	*9.4%*	*5.4%*	*6.9%*	*8.1%*	*0.5%*
Newfoundland Power	($mm)	$33	$8	$11	$7	$9	$35	$9	$10	$7	$9	$35	$36
growth y/y	(%)	*2.5%*	*34.9%*	*-4.1%*	*7.0%*	*2.2%*	*7.1%*	*10.8%*	*-0.9%*	*-8.0%*	*1.7%*	*0.9%*	*1.9%*
Canadian Other	($mm)	$19	$6	$4	$7	$5	$22	$6	$4	$7	$5	$23	$23
growth y/y	(%)	*35.7%*	*20.2%*	*-7.1%*	*45.9%*	*-0.5%*	*15.8%*	*1.7%*	*11.5%*	*-0.9%*	*5.2%*	*3.3%*	*3.0%*
Caribbean Electric	($mm)	$27	$8	-$7	$8	$14	$23	$7	-$5	$9	$14	$26	$29
growth y/y	(%)	*57.0%*	*25.8%*	*-197.9%*	*18.2%*	*108.0%*	*-14.2%*	*-3.6%*	*-26.8%*	*13.2%*	*3.7%*	*13.9%*	*11.6%*
Unregulated businesses	($mm)												
Fortis Generation	($mm)	$18	$4	$3	$3	$4	$15	$6	$3	$3	$5	$17	$15
growth y/y	(%)	*-38.9%*	*-28.7%*	*9.0%*	*-31.5%*	*-15.8%*	*-19.4%*	*29.5%*	*3.5%*	*-1.4%*	*16.4%*	*14.0%*	*-10.8%*
Fortis Properties	($mm)	$24	$3	$7	$10	$5	$24	$3	$7	$10	$5	$25	$26
growth y/y	(%)	*2.4%*	*37.6%*	*-11.9%*	*6.4%*	*6.3%*	*2.8%*	*-2.8%*	*4.7%*	*1.8%*	*5.8%*	*2.9%*	*3.1%*
Consolidated Earnings	($mm)	$270	$105	$36	$57	$102	$300	$114	$45	$62	$108	$328	$349
EPS (basic)	($/share)	$1.57	$0.61	$0.21	$0.33	$0.59	$1.73	$0.65	$0.26	$0.35	$0.62	$1.87	$1.97
EPS (diluted)	($/share)	$1.53	$0.58	$0.21	$0.32	$0.56	$1.66	$0.62	$0.26	$0.34	$0.58	$1.79	$1.88
growth y/y	(%)	*2.5%*	*11.4%*	*-32.4%*	*53.2%*	*12.7%*	*8.7%*	*6.9%*	*21.1%*	*6.3%*	*4.8%*	*7.7%*	*5.0%*
OTHER FINANCIAL													
EBITDA	($mm)	$1,092	$321	$242	$266	$328	$1,156	$343	$262	$281	$345	$1,232	$1,302
Dividends	($/share)	$1.03	$0.28	$0.28	$0.28	$0.28	$1.12	$0.31	$0.31	$0.31	$0.31	$1.21	$1.28
Payout ratio	(%)	66%					65%					65%	65%
Capital spending	($mm)	$1,070	$248	$248	$248	$248	$990	$247	$247	$247	$247	$987	$980
Regulated rate base (YE)	($mm)	$7,452	$7,603	$7,752	$7,899	$8,044	$8,044	$8,188	$8,329	$8,469	$8,607	$8,607	$9,134
growth y/y	(%)	*7.2%*	*8.1%*	*7.9%*	*9.5%*	*7.9%*	*7.9%*	*7.7%*	*7.4%*	*7.2%*	*7.0%*	*7.0%*	*6.1%*

Source: UBS and company reports

Fortis Inc.

Income statement (C$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Revenues	1,146	1,453	1,474	2,726	3,903	3,741	-4.1	3,891	4.0	3,919	0.7
Operating expenses (ex depn)	(766)	(928)	(939)	(1,904)	(2,855)	(2,649)	-7.2	(2,735)	3.2	(2,688)	-1.7
EBITDA (UBS)	380	525	535	822	1,048	1,092	4.2	1,156	5.9	1,232	6.5
Depreciation	(113)	(157)	(178)	(273)	(348)	(368)	5.7	(388)	5.4	(417)	7.5
Operating income (EBIT, UBS)	267	368	357	549	700	724	3.5	769	6.1	815	6.0
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	(110)	(137)	(168)	(299)	(363)	(366)	0.7	(381)	4.4	(401)	5.1
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	157	231	189	250	337	359	6.5	387	7.8	414	6.9
Tax	(48)	(70)	(32)	(36)	(65)	(58)	-10.3	(59)	0.6	(59)	1.5
Profit after tax	109	161	157	214	272	301	10.5	328	9.2	354	7.8
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(18)	(24)	(10)	(21)	(27)	(31)	14.8	(28)	-9.7	(26)	-7.1
Net income (local GAAP)	91	137	147	193	245	270	10.1	300	11.4	328	9.2
Net Income (UBS)	91	127	145	185	245	270	10.1	300	11.4	328	9.2
Tax rate (%)	31	30	17	14	19	16	-15.8	15	-6.7	14	-5.0
Pre-abnormal tax rate (%)	31	30	17	14	19	16	-15.8	15	-6.7	14	-5.0

Per share (C$)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
EPS (local GAAP)	1.00	1.24	1.23	1.25	1.49	1.53	2.5	1.66	8.7	1.79	7.7
EPS (UBS)	1.00	1.16	1.22	1.20	1.49	1.53	2.5	1.66	8.7	1.79	7.7
Net DPS	0.58	0.61	0.70	0.93	1.03	1.03	0.6	1.12	8.2	1.21	8.4
Cash EPS	2.41	2.79	3.12	3.33	3.77	3.72	-1.3	3.96	6.6	4.24	7.1
BVPS	10.48	11.40	10.57	21.57	25.26	18.31	-27.5	18.73	2.3	19.18	2.4

Balance sheet (C$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Cash and equivalents	37	33	41	58	66	106	60.6	106	0.0	106	0.0
Other current assets	256	280	368	980	1,084	812	-25.1	812	0.0	812	0.0
Total current assets	293	313	409	1,038	1,150	918	-20.2	918	0.0	918	0.0
Net tangible fixed assets	2,713	3,021	4,044	7,267	7,908	8,296	4.9	8,899	7.3	9,469	6.4
Net intangible fixed assets	514	512	661	1,544	1,575	1,563	-0.8	1,563	0.0	1,563	0.0
Investments / other assets	418	470	333	424	545	1,193	118.9	1,193	0.0	1,193	0.0
Total assets	3,938	4,316	5,447	10,273	11,178	11,970	7.1	12,573	5.0	13,143	4.5
Trade payables & other ST liabilities	538	423	565	1,804	1,697	1,288	-24.1	1,288	0.0	1,288	0.0
Short term debt	0	0	0	0	0	0	-	0	-	0	-
Total current liabilities	538	423	565	1,804	1,697	1,288	-24.1	1,288	0.0	1,288	0.0
Long term debt	1,904	2,125	2,558	4,623	4,884	5,443	11.5	5,918	8.7	6,352	7.3
Other long term liabilities	139	196	477	688	739	1,304	76.4	1,316	1.0	1,329	0.9
Total liabilities	2,581	2,744	3,600	7,115	7,320	8,035	9.8	8,522	6.1	8,969	5.2
Equity & minority interests	1,357	1,572	1,847	3,158	3,858	3,936	2.0	4,051	2.9	4,174	3.0
Total liabilities & equity	3,938	4,316	5,447	10,273	11,178	11,970	7.1	12,573	5.0	13,143	4.5

Cash flow (C$m)	12/04	12/05	12/06	12/07	12/08	12/09E	% ch	12/10E	% ch	12/11E	% ch
Net income	91	137	147	193	245	270	10.1	300	11.4	328	9.2
Depreciation	113	157	178	273	348	368	5.7	388	5.4	417	7.5
Net change in working capital	47	(10)	(37)	(117)	41	59	43.9	0	-	0	-
Other (operating)	9	2	(27)	18	15	43	183.3	13	-70.6	23	80.0
Net cash from operations	272	303	263	373	663	757	14.2	717	-5.3	783	9.3
Capital expenditure	(1,032)	(512)	(669)	(2,106)	(904)	(1,100)	21.7	(990)	-10.0	(987)	-0.3
Net (acquisitions) / disposals	1	2	8	4	18	1	-94.4	0	-	0	-
Other changes in investments	5	43	27	69	32	29	-	0	-	0	-
Cash from investing activities	(1,026)	(467)	(634)	(2,033)	(854)	(1,070)	25.3	(990)	-7.5	(987)	-0.3
Increase/(decrease) in debt	242	90	310	562	(147)	536	-	494	-	444	-
Share issues / (repurchases)	535	135	136	1,267	531	32	-	0	-	0	-
Dividends paid	(49)	(62)	(73)	(128)	(162)	(177)	9.5	(193)	8.9	(213)	10.3
Other cash from financing	(2)	(3)	8	(15)	(12)	(17)	-	(12)	-	(12)	-
Cash from financing activities	726	160	379	1,680	196	356	81.7	273	-23.2	204	-25.5
Cash flow chge in cash & equivalents	(28)	(4)	8	20	5	43	-	0	-	0	-
FX / non cash items	0	0	0	(3)	3	(3)	-95.9	0	-	0	-50.0
Bal sheet chge in cash & equivalents	(28)	(4)	8	17	8	40	-	0	-	0	-
Core EBITDA	380	525	535	822	1,048	1,092	4.2	1,156	5.9	1,232	6.5
Maintenance capital expenditure	(190)	(263)	(268)	(411)	(524)	(546)	4.2	(578)	5.9	(616)	6.5
Maintenance net working capital	0	0	4	9	14	19	35.7	24	26.3	29	20.8
Operating free cash flow, pre-tax	190	263	272	420	538	565	5.0	602	6.6	645	7.1

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Americas

Electric Utilities

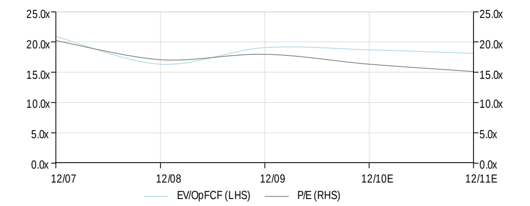
12-month rating	Neutral
12m price target	C$30.00

Fortis Inc.

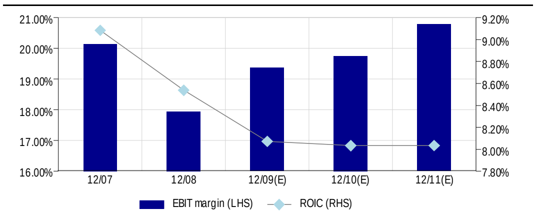
Company profile

Fortis Inc. is the largest investor owned distribution utility in Canada, deriving the majority of its earnings from regulated rate base assets. 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 and commercial real estate in Canada.

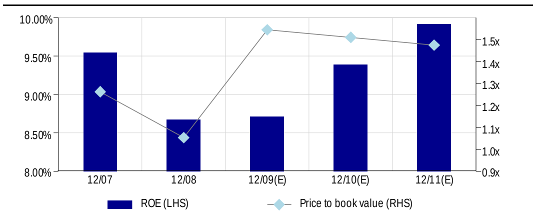
Value (EV/OpFCF & P/E)



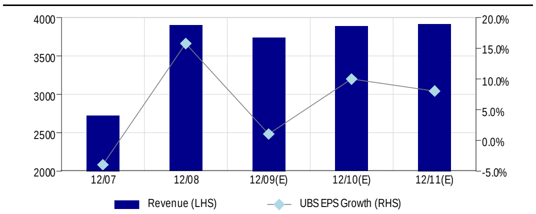
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
P/E (local GAAP)	17.4	21.8	17.8	18.6	17.1	15.9
P/E (UBS)	17.8	22.7	17.8	18.6	17.1	15.9
P/CEPS	7.3	8.2	7.1	7.6	7.2	6.7
Net dividend yield (%)	3.4	3.4	3.9	3.6	3.9	4.3
P/BV	1.7	1.3	1.1	1.6	1.5	1.5
EV/revenue (core)	3.2	3.2	2.3	2.9	2.9	3.0
EV/EBITDA (core)	9.7	10.7	8.4	9.9	9.8	9.5
EV/EBIT (core)	14.0	16.0	12.6	14.9	14.7	14.4
EV/OpFCF (core)	19.1	20.9	16.3	19.1	18.7	18.2
EV/op. invested capital	1.4	1.5	1.1	1.2	1.2	1.2

Enterprise value (C$m)	12/07	12/08	12/09E	12/10E	12/11E
Average market cap	3,284	3,209	4,855	4,855	4,855
+ minority interests	115	145	124	133	141
+ average net debt (cash)	5,389	5,431	5,813	6,288	6,722
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	8,788	8,785	10,792	11,275	11,717

Growth (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue	34.1	84.9	43.2	-4.1	4.0	0.7
EBITDA (UBS)	32.8	53.6	27.5	4.2	5.9	6.5
EBIT (UBS)	28.6	53.8	27.5	3.5	6.1	6.0
EPS (UBS)	5.5	-3.9	15.8	1.1	10.0	8.1
Cash EPS	13.7	6.8	13.2	-1.3	6.6	7.1
Net DPS	15.6	32.0	10.6	0.6	8.2	8.4
BVPS	24.9	104.0	17.1	-27.5	2.3	2.4

Margins (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBITDA / revenue	33.4	30.2	26.9	29.2	29.7	31.4
EBIT / revenue	23.4	20.1	17.9	19.4	19.8	20.8
Net profit (UBS) / revenue	8.4	6.8	6.3	7.2	7.7	8.4

Return on capital (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT ROIC (UBS)	9.9	9.1	8.5	8.1	8.0	8.0
ROIC post tax	-	7.8	6.9	6.8	6.8	6.9
Net ROE	11.3	9.5	8.7	8.7	9.4	9.9

Coverage ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
EBIT / net interest	2.3	1.8	1.9	2.0	2.0	2.0
Dividend cover (UBS EPS)	1.9	1.4	1.5	1.5	1.5	1.5
Div. payout ratio (%, UBS EPS)	54.0	69.2	66.1	65.8	64.7	64.9
Net debt / EBITDA	5.4	6.1	5.2	5.5	5.6	5.6

Efficiency ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Revenue / op. invested capital	0.4	0.5	0.5	0.4	0.4	0.4
Revenue / fixed assets	0.4	0.4	0.4	0.4	0.4	0.4
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
OpFCF / EBIT	0.7	0.8	0.8	0.8	0.8	0.8
Capex / revenue (%)	NM	NM	23.2	29.4	25.4	25.2
Capex / depreciation	5.8	7.7	2.6	3.0	2.6	2.4

Capital structure (%)	5Yr Avg	12/07	12/08	12/09E	12/10E	12/11E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	67.1	65.8	64.3	65.6	66.6	67.2
Net debt (core) / EV	55.74	61.3	61.8	53.9	55.8	57.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of C$28.39 on 17 Dec 2009 11:53 EST Market cap(E) may include forecast share issues/buybacks.

Chad Friess

Analyst

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■ Fortis Inc.

Fortis Inc. is the largest investor owned distribution utility in Canada, deriving the majority of its earnings from regulated rate base assets. 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 and commercial real estate in Canada.

■ Statement of Risk

To varying extents across its respective regions, Fortis Inc. is subject to regulatory risk. A substantial portion of the company earnings are based on regulated rates of return, the level of which is subject to regulatory oversight. Shifts in political views towards Fortis' businesses could result in unfavourable changes to the company's permitted rates of return. In addition, interest rates play a significant role in the derivation of regulated ROEs. Thus, reduced interest rates have the potential to compress permitted rates of return.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	44%	39%
Neutral	**Hold/Neutral**	40%	35%
Sell	**Sell**	15%	27%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	33%
Sell	**Sell**	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities Canada Inc: Chad Friess.

Company Disclosures

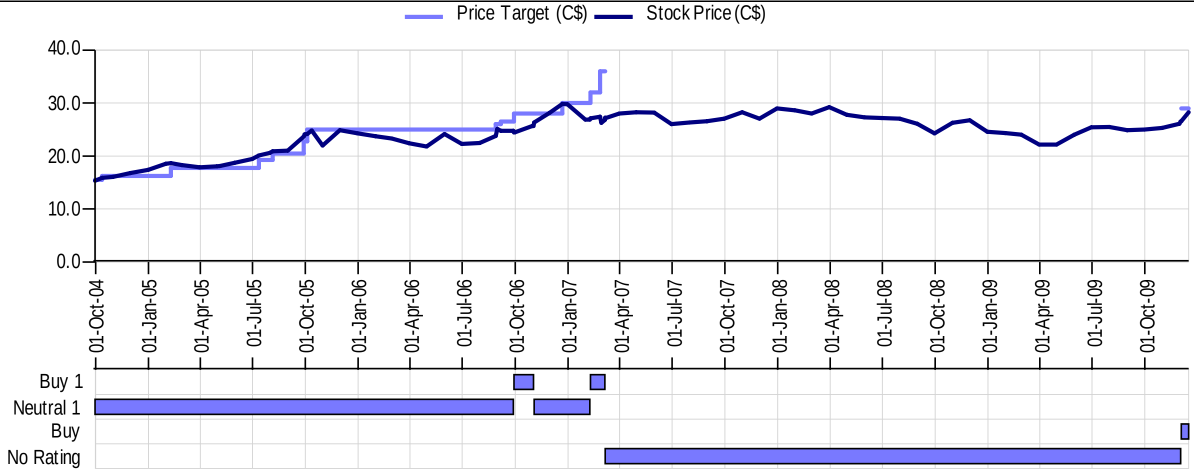
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Fortis Inc.	FTS.TO	Buy	N/A	C$28.29	16 Dec 2009

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

The analyst responsible for this report has reviewed the material operations of the issuer and/or met with senior management.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Fortis Inc. (C$)



Source: UBS; as of 16 Dec 2009

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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