Appendix A
SUPPORTING DOCUMENTS

(Provided in electronic format only due to
document size and in order to conserve paper)

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1. Financial Information

- Annual Financial Statements for the Year-ended December 31, 2014
- Annual Information Form – 2014
- Management Discussion & Analysis for the Year-ended December 31, 2014

FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

Prepared in accordance with United States Generally Accepted Accounting Principles

MANAGEMENT'S REPORT

The accompanying annual consolidated financial statements of FortisBC Energy Inc. (the "Corporation") have been prepared by management, who are responsible for the integrity of the information presented including the amounts that must, of necessity, be based on estimates and informed judgments. These annual consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States.

In meeting its responsibility for the reliability and integrity of the annual consolidated financial statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The systems of the Corporation focus on the need for training of qualified and professional employees and the effective communication of management guidelines and policies. The effectiveness of the internal controls of FortisBC Energy Inc. is evaluated on an ongoing basis.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit and Risk Committee (the "Audit Committee") which is composed of three independent directors and two directors who are officers of related companies. The Audit Committee oversees the external audit of the Corporation's annual consolidated financial statements and the accounting and financial reporting and disclosure processes and policies of the Corporation. The Audit Committee meets with management, the shareholder's auditors and the internal auditor to discuss the results of the external audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Corporation's annual consolidated financial statements are reviewed by the Audit Committee with each of management and the shareholder's auditors before the statements are recommended to the Board of Directors for approval. The shareholder's auditors have full and free access to the Audit Committee.

The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the Corporation's annual consolidated financial statements and to review and report to the Board of Directors on policies relating to the accounting and financial reporting and disclosure processes.

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

The 2014 annual consolidated financial statements were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of FortisBC Energy Inc.

Ernst & Young LLP, independent auditors appointed by the shareholder of FortisBC Energy Inc. upon recommendation of the Audit Committee, have performed an audit of the 2014 annual consolidated financial statements and their report follows.

(Signed by)
Michael Mulcahy
President and Chief Executive Officer

(Signed by)
Michele Leeners
Vice President, Finance and Chief Financial Officer

Vancouver, Canada
February 13, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
FortisBC Energy Inc.

We have audited the accompanying consolidated financial statements of **FortisBC Energy Inc.**, which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of earnings, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **FortisBC Energy Inc.** as at December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Ernst & Young LLP

Vancouver, Canada
February 13, 2015

Chartered Accountants

FORTIS BC

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

ASSETS	**2014**	2013
Current assets		(note 1)
Cash and cash equivalents	**$ 10**	$ 8
Accounts receivable (notes 4 and 21)	**218**	257
Inventories (note 5)	**111**	95
Prepaid expenses	**5**	4
Income taxes receivable	**13**	-
Deferred income taxes (note 17)	**1**	9
Regulatory assets (note 8)	**47**	31
	405	404
Property, plant and equipment (note 6)	**3,675**	3,456
Intangible assets (note 7)	**139**	142
Regulatory assets (note 8)	**751**	681
Other assets (note 11)	**24**	24
Goodwill (note 7)	**913**	913
	$ 5,907	$ 5,620
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Short-term notes (note 20)	**$ 301**	$ 127
Accounts payable and other current liabilities (notes 9 and 21)	**299**	255
Other taxes payable	**38**	45
Current portion of long-term debt (notes 10 and 21)	**105**	30
Current portion of capital lease and finance obligations (note 10)	**6**	7
Regulatory liabilities (note 8)	**33**	39
	782	503
Long-term debt (note 10)	**1,820**	1,895
Capital lease and finance obligations (note 10)	**106**	112
Regulatory liabilities (note 8)	**129**	149
Deferred income taxes (note 17)	**407**	392
Other liabilities (note 12)	**239**	191
	3,483	3,242
Shareholder's equity		
Common shares[(a)] (note 13)	**1,056**	1,056
Additional paid-in capital	**1,245**	1,245
Retained earnings	**112**	66
	2,413	2,367
Non-controlling interest	**11**	11
	2,424	2,378
	$ 5,907	$ 5,620

(a) No par value; 500 million authorized common shares; 313.4 million issued and outstanding at December 31, 2014 and 2013 (notes 1 and 13).

Commitments and Contingencies (notes 22 and 23)

Approved on behalf of the Board:

(Signed by) Harold Calla, Director

(Signed by) Michael Mulcahy, Director

The accompanying notes are an integral part of these consolidated financial statements.

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

	2014	2013
Revenues		(note 1)
Natural gas transmission and distribution	**$ 1,435**	$ 1,378
Other income (note 21)	**54**	50
	1,489	1,428
Expenses		
Cost of natural gas	**646**	600
Operation and maintenance (note 21)	**224**	231
Depreciation and amortization	**193**	185
Property and other taxes	**60**	63
	1,123	1,079
Operating Income	**366**	349
Finance charges (note 15 and 21)	**189**	189
Earnings before income taxes	**177**	160
Income taxes (note 17)	**35**	24
Net earnings	**142**	136
Net earnings attributable to non-controlling interest	**1**	1
Net earnings attributable to controlling interest	**$ 141**	$ 135

FortisBC Energy Inc.
Consolidated Statements of Changes in Equity (US GAAP)
For the years ended December 31
(in millions of Canadian dollars)

	Common Shares[1]	**Additional Paid-in Capital[1]**	**Non-controlling Interest[1]**	**Retained Earnings[1]**	**Total[1]**
As at December 31, 2012	$ 1,056	$ 1,245	$ 11	$ 81	$ 2,393
Net earnings	-	-	1	135	136
Net distribution to Mt. Hayes Storage LP partners	-	-	(1)	-	(1)
Dividends on common shares	-	-	-	(150)	(150)
As at December 31, 2013	**1,056**	**1,245**	**11**	**66**	**2,378**
Net earnings	**-**	**-**	**1**	**141**	**142**
Net distribution to Mt. Hayes Storage LP partners	**-**	**-**	**(1)**	**-**	**(1)**
Dividends on common shares	**-**	**-**	**-**	**(95)**	**(95)**
As at December 31, 2014	**$ 1,056**	**$ 1,245**	**$ 11**	**$ 112**	**$ 2,424**

[1] See note 1 "Description of Business".

The accompanying notes are an integral part of these consolidated financial statements.

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

	2014	2013
Cash flows provided by (used for)		(note 1)
Operating activities		
Net earnings	**$ 142**	$ 136
Adjustments for non-cash items		
Depreciation and amortization	**193**	185
Equity component of allowance for funds used during construction	**(3)**	(2)
Other	**(1)**	1
Changes in long-term regulatory assets and liabilities	**(54)**	(31)
Changes in non-cash working capital (note 16)	**(26)**	4
	251	293
Investing activities		
Property, plant and equipment	**(302)**	(183)
Intangible assets	**(15)**	(18)
Cost of removal	**(15)**	(14)
Contributions in aid of construction	**6**	14
Change in other assets and other liabilities	**5**	7
	(321)	(194)
Financing activities		
Increase in short-term notes	**174**	58
Reduction of capital lease and finance obligations	**(6)**	(28)
Net distribution to non-controlling interest	**(1)**	(1)
Dividends on common shares	**(95)**	(150)
	72	(121)
Net increase (decrease) in cash and cash equivalents	**2**	(22)
Cash and cash equivalents at beginning of year	**8**	30
Cash and cash equivalents at end of year	**$ 10**	$ 8

Supplementary Information to Consolidated Statements of Cash Flows (note 16)

The accompanying notes are an integral part of these consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS

FortisBC Energy Inc. ("FEI" or the "Corporation") is a wholly-owned subsidiary of FortisBC Holdings Inc. ("FHI"), which is a wholly owned subsidiary of Fortis Inc. ("Fortis"), a Canadian public company. The Corporation is the resulting corporation from the amalgamation on December 31, 2014 of FEI, FortisBC Energy (Vancouver Island) Inc. ("FEVI"), FortisBC Energy (Whistler) Inc. ("FEW") and Terasen Gas Holdings Inc. ("TGHI"). Prior to the amalgamation FEI, FEVI, FEW and TGHI were under common control and therefore the amalgamation has been presented on a pooling-of-interest basis, as if the historical financial position and operating results of these corporations had always been amalgamated. Prior period financial and operating information has been restated to present the results of the amalgamated Corporation (unless otherwise specified).

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 967,000 residential, commercial and industrial and transportation customers in more than 125 communities. Major areas served by the Corporation are the Greater Vancouver, Fraser Valley, Thompson, Okanagan, Kootenay, North Central Interior, Vancouver Island, Sunshine Coast and Whistler regions of BC. The Corporation provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of most residential, commercial and industrial customers. Gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States ("US GAAP") for annual financial statements and in accordance with Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"). The consolidated financial statements include the accounts of the Corporation and its subsidiaries and its 85 per cent interest in the Mt. Hayes Limited Partnership ("MHLP"). The Corporation consolidates 100 per cent of its subsidiaries and recognizes 15 per cent of the MHLP as a non-controlling interest. All material inter-company transactions and balances have been eliminated upon consolidation except for those inter-company transactions recovered in rates from customers.

An evaluation of subsequent events through February 13, 2015, the date these consolidated financial statements were available to be issued, was completed to determine whether any circumstances warranted recognition and disclosure of events or transactions in the consolidated financial statements as at December 31, 2014. Subsequent events have been appropriately disclosed in these consolidated financial statements.

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

Regulation

The Corporation is regulated by the British Columbia Utilities Commission ("BCUC"). Pursuant to the *Utilities Commission Act* (British Columbia), the BCUC regulates such matters as tariffs, rates, construction, operations, financing and accounting.

The Corporation's consolidated financial statements have been prepared in accordance with US GAAP, including certain accounting treatments that differ from that for enterprises not subject to rate regulation. The impacts of rate regulation on the Corporation's operations for the years ending December 31, 2014 and 2013 are described in these "Summary of Significant Accounting Policies", and in note 3 "Regulatory Matters", note 6 "Property, Plant and Equipment", note 7 "Goodwill and Intangible Assets", note 8 "Regulatory Assets and Liabilities", note 14 "Employee Future Benefits", note 15 "Finance Charges", and note 17 "Income Taxes".

When the BCUC issues decisions affecting the financial statements, the effects of the decision are usually recorded in the period in which the decision is received. In the event that a regulatory decision is received after the balance sheet date but before the consolidated financial statements are issued, the facts and circumstances are reviewed to determine whether or not it is a recognized subsequent event.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Regulation (continued)

In September 2014, the BCUC issued its decision ("PBR Decision") on FEI's Application for Multi-year Performance Based Ratemaking Plan for 2014 to 2018 ("2014 PBR Application"). As part of the PBR Decision the term of the PBR was extended to 2019. For further discussion on the 2014 PBR Application and PBR Decision, see note 3, "Regulatory Matters".

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects management's best estimate of losses on the accounts receivable balances. The Corporation maintains an allowance for doubtful accounts that is estimated based on a variety of factors including accounts receivable aging, historical experience and other currently available information, including events such as customer bankruptcy and current economic conditions. Interest is charged on overdue accounts receivable balances. Accounts receivable are charged-off in the period in which the receivable is deemed uncollectible.

Regulatory Assets and Liabilities

The BCUC has the general power to include or exclude costs, revenues, losses or gains in the rates of a specified period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs incurred that will be, or are probable to be, recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenue associated with amounts that will be, or are expected to be, refunded to customers through the rate-setting process.

All amounts deferred as regulatory assets and liabilities are subject to regulatory approval. As such, the BCUC could alter the amounts subject to deferral, at which time the change would be reflected in the consolidated financial statements. For regulatory assets and liabilities which are amortized, the amortization is approved by the BCUC. Certain remaining recovery and settlement periods are those expected by management and the actual recovery or settlement periods could differ based on regulatory approval.

Inventories

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

Property, Plant and Equipment

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

Depreciation is based on rates approved by the BCUC and is calculated on a straight-line basis on the investment in property, plant and equipment. As approved in the PBR Decision and effective January 1, 2014, depreciation of property, plant and equipment commences at the beginning of the year following when the asset is available for use. Prior to January 1, 2014, depreciation commenced in the month after the asset was available for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

As approved by the BCUC, pre-amalgamation FEI prior to 2014 and pre-amalgamation FEVI and FEW prior to January 1, 2015, gains and losses on the sale or removal of property, plant and equipment were recorded in a regulatory deferral account for refund to, or recovery from, customers in future rates, subject to regulatory approval. For 2014 the pre-amalgamation FEI and for 2015 the amalgamated FEI, charge gains and losses on the sale or removal of property, plant and equipment to accumulated depreciation, which will be reflected in future depreciation expense when refunded or collected in rates.

As approved by the BCUC, removal costs are collected as a component of depreciation on an accrual basis, with actual removal costs incurred drawing down the accrual balance. Removal costs are the direct costs incurred by the Corporation in taking assets out of service, whether through actual removal of the asset or through disconnection from the transmission or distribution system.

Intangible Assets

Intangible assets are comprised of right of ways and software not directly attributable to the operation of property, plant and equipment and are recorded at cost less accumulated amortization. Included in the cost of intangible assets are all direct expenditures, betterments and replacements and as prescribed by the BCUC, AFUDC. When allowed by the BCUC, regulated operations also capitalize an allowance for equity funds used during construction at approved rates.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is based on rates approved by the BCUC and is calculated on a straight-line basis. As approved in the PBR Decision and effective January 1, 2014, amortization of intangible assets commences at the beginning of the year following when the asset is available for use. Prior to January 1, 2014, amortization commenced in the month after the asset was available for use.

Intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset may be impaired.

The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. No impairment provision has been determined for the years ended December 31, 2014 and 2013.

As approved by the BCUC, pre-amalgamation FEI prior to 2014 and pre-amalgamation FEVI and FEW prior to January 1, 2015, gains and losses on the sale or removal of intangible assets were recorded in a regulatory deferral account for refund to, or recovery from, customers in future rates, subject to regulatory approval. For 2014 the pre-amalgamation FEI and for 2015 the amalgamated FEI, charge gains and losses on the sale or removal of intangible assets to accumulated amortization, which will be reflected in future amortization expense when refunded or collected in rates.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset and eventual disposition. If the carrying amount of an asset exceeds its estimated future cash flows and eventual disposition, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Asset-impairment testing is carried out at the enterprise level to determine if assets are impaired. The recovery of regulated assets' carrying value, including a fair return on capital or assets, is provided through customer rates approved by the BCUC. The net cash inflows for the Corporation are not asset-specific but are pooled for the entire regulated utility. There was no impairment of long-lived assets for the years ended December 31, 2014 and 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. Goodwill is carried at initial cost less any write-down for impairment.

Pursuant to Accounting Standards Codification ("ASC") Topic 350, *Intangibles - Goodwill and Other*, when the Corporation tests goodwill for impairment it has the option, on an annual basis, of performing a qualitative assessment before calculating fair value. If the qualitative factors indicate that fair value is 50 per cent or more likely to be greater than the carrying value, calculation of fair value would not be required.

The Corporation performs an annual internal quantitative assessment and fair value is estimated by an independent external consultant when: (i) management's assessment of quantitative and qualitative factors indicates that fair value is not 50 per cent or more likely to be greater than carrying value; or (ii) the excess of estimated fair value compared to carrying value, as determined by an independent external consultant as of the date of the immediately preceding impairment test, was not significant. Irrespective of the above-noted criteria, the Corporation will have fair value estimated by an independent external consultant, as at the annual impairment date, at a minimum once every three years.

The Corporation performs the annual impairment test as at October 1. In addition, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value of the Corporation was below its carrying value. No such event or changes in circumstances occurred during 2014 or 2013 and there were no impairment provisions required in either year.

As at October 1, 2014, the fair value of the Corporation was estimated by an independent external consultant and estimated fair value was determined to be in excess of carrying value. It was concluded that goodwill was not impaired.

Asset Retirement Obligations

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

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

As the fair value of future removal and site restoration costs for the Corporation's natural gas transmission and distribution systems are not currently determinable as they will be used in perpetuity, the Corporation has not recognized an ARO as at December 31, 2014 and 2013. For regulated operations there is a reasonable expectation that asset retirement costs would be recoverable through future rates.

Revenue Recognition

Natural gas transmission and distribution revenue is billed at rates approved by the BCUC and is bundled to include the cost of transmitting and distributing natural gas. In addition the rate includes customer service as well as other corporate and service functions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Revenues from natural gas sales are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year using rates approved by the BCUC. Natural gas that is consumed but not yet billed to customers is estimated and accrued as revenue at each reporting date. The estimation process for unbilled natural gas consumption will result in adjustments to estimates of natural gas transmission and distribution revenues in the periods they become known.

Employee Future Benefits

The Corporation sponsors a number of post-employment benefit plans. These plans include defined benefit, unfunded supplemental, and various other post-employment benefit ("OPEB") plans.

These plans are accounted for pursuant to ASC Topic 715, *Compensation-Retirement Benefits*. The cost of pensions and OPEBs earned by employees are actuarially determined as an employee accrues service. The Corporation uses the projected benefit pro-rate method based on years of service, management's best estimates of expected returns on plan assets, salary escalation, retirement age, mortality and expected future health-care costs. The discount rate used to value liabilities is based on Corporate AA bond yields with cash flows that match the timing and amount of the expected benefit payments under the plans. The Corporation uses a measurement date of December 31 for all plans.

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

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

The Corporation records the funded or unfunded status of its defined benefit pension plans and OPEB plans on the balance sheet. Unamortized balances relating to past service costs and net actuarial gains and losses have been recognized in regulatory assets and are expected to be recovered from customers in future rates. Subsequent changes to past service costs and net actuarial gains and losses are recognized as an expense, where required by the BCUC, or otherwise as a change in the regulatory asset or liability.

Derivative Financial Instruments and Hedging Activities

The Corporation's natural gas derivative contracts have consisted of natural gas supply contracts which fix the price of natural gas, and other natural gas derivative contracts, which included commodity swaps, options and basis swaps used for hedging activities. The various natural gas derivative contracts used for hedging activities matured during 2014, therefore only the gas supply contracts which fix the price of natural gas remain outstanding as at December 31, 2014. The Corporation does not hold or issue derivative instruments for trading purposes.

The natural gas derivative contracts are recorded at fair value. Any unrealized losses or gains, to the extent that they are recoverable through regulated rates, associated with the change in fair value of these contracts and realized losses or gains associated with the settlement of these contracts were deferred as a regulatory asset or regulatory liability. As such, the natural gas derivative contracts used for hedging activities were not designated as qualifying accounting hedges, but rather served as economic hedges. Generally, the Corporation limits the use of derivative instruments to those that qualify as accounting or economic hedges. Had the BCUC not allowed the deferral of unrealized losses or gains resulting from these hedging activities as regulatory assets or liabilities, the Corporation would designate these contracts as a qualifying cash flow hedge and, to the extent that the cash flow hedges are effective, the unrealized losses or gains would be recognized in accumulated other comprehensive income, net of taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Finance Charges

Costs incurred to arrange debt financing are recognized as other assets and are accounted for using the effective interest method over the life of the related financial liability.

Sales Taxes

In the course of its operations, the Corporation collects sales taxes from its customers. When customers are billed, a current liability is recognized for the sales taxes included on the customer's bill. This liability is settled when the taxes are remitted to the appropriate government authority. The Corporation's revenue excludes the sales taxes.

Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not (greater than a 50 per cent chance) to be realized. The deferred income tax assets and liabilities are measured using enacted income tax rates and laws that will be in effect when the temporary differences are expected to be recovered or settled. As a result of rate regulation, deferred income taxes incurred related to regulated operations have been offset by a corresponding regulatory asset or liability resulting in no impact on net earnings. Current income tax expense or recovery is recognized for the estimated income taxes payable or receivable in the current year.

As approved by the BCUC, the Corporation recovers income tax expense in customer rates based only on income taxes that are currently payable for regulatory purposes, except for certain regulatory asset and liability accounts specifically prescribed by the BCUC. Therefore, current customer rates do not include the recovery of deferred income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in rates when they become payable. An offsetting regulatory asset or liability is recognized for the amount of income taxes that are expected to be collected in rates once they become payable.

Any difference between the expense recognized under US GAAP and that recovered from customers in current rates for income tax expense that is expected to be recovered, or refunded, in future customer rates is subject to deferral treatment as described in note 8 "Regulatory Assets and Liabilities".

The Corporation recognizes a tax benefit if it is more likely than not that a tax position taken or expected to be taken in a tax return will be sustained upon examination by taxing authorities based on the merits of the position. The tax benefit recognized in the financial statements is measured based on the largest amount of benefit that is greater than 50 per cent likely of being realized upon settlement. The difference between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to this guidance represents an unrecognized tax benefit.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense.

Variable Interest Entities

The Corporation has performed a review of the entities with which it conducts business and has concluded that there are no entities that are required to be consolidated or variable interests that are required to be disclosed under the requirements of ASC Topic 810, *Consolidation of Variable Interest Entities*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of the Corporation's financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, regulatory decisions, current conditions and various other assumptions believed to be reasonable under the circumstances. The use of estimates are described in these "Summary of Significant Accounting Policies", in note 8 "Regulatory Assets and Liabilities" and note 23 "Contingencies". Certain estimates are also necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known.

Change in Accounting Estimate

As required by the BCUC, the Corporation capitalizes overhead costs that may not be directly attributable to specific items of property, plant and equipment, but which relate to the overall capital expenditure plan. These capitalized overheads are allocated over constructed property, plant and equipment and are amortized over their estimated services lives. The methodology for calculating and allocating these general expenses to property, plant and equipment is established by the BCUC. As approved in the 2014 PBR Decision and effective January 1, 2014, on a prospective basis, the Corporation's capitalized overhead decreased from 14 per cent to 12 per cent of gross regulated operation and maintenance costs. This change was reflected as an approximately $5 million decrease in property, plant and equipment during 2014 and a corresponding increase to operation and maintenance costs and revenues approved to be collected from customers.

Change in Accounting Policy

As approved in the PBR Decision and effective January 1, 2014, on a prospective basis, depreciation of property, plant and equipment and amortization of intangible assets commences at the beginning of the year following when the asset is available for use. Prior to January 1, 2014, depreciation and amortization commenced in the month after the asset was available for use.

Future Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create ASC Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board ("IASB") to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards ("IFRS") that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. Early adoption is not permitted. The Corporation is assessing the impact that the adoption of this standard will have on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Pronouncements (continued)

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this update are intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related disclosures. This update is effective for annual and interim periods beginning on or after December 15, 2016. Early adoption is permitted. The Corporation is assessing the impact that the adoption of this standard will have on its consolidated financial statements.

3. REGULATORY MATTERS

2014 PBR Application

In June 2013, pre-amalgamation FEI filed its 2014 PBR Application with the BCUC. Pursuant to an Evidentiary Update filed in February 2014, the application assumed a forecast average rate base of approximately $2,778 million for 2014 and requested approval of a delivery rate increase for 2014 of 0.6 per cent determined under a formula approach for operation and maintenance costs and capital costs, and a continuation of this rate setting methodology for a further four years. Effective January 1, 2014, the BCUC provided approval for an interim refundable delivery rate increase of 1.4 per cent as determined in the Evidentiary Update filed in September 2013.

In September 2014, the BCUC issued its PBR Decision on FEI’s 2014 PBR Application. As part of the PBR Decision the term of the PBR was extended to 2019. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.1 per cent each year. The approved PBR Plan also includes a 50/50 sharing of variances (“Earnings Sharing Mechanism”) from the formula-driven operation and maintenance expenses and capital expenditures over the PBR period, and a number of service quality measures designed to ensure FEI maintains service levels. It also sets out the requirements for an annual review process which will provide a forum for discussion between FEI and interested parties regarding its current performance and future activities.

In October 2014, pre-amalgamation FEI filed a PBR Decision Compliance Filing (“Compliance Filing”) with the BCUC which updated the 2014 revenue requirements and rates based on the PBR Decision. The Compliance Filing updated the 2014 average rate base to approximately $2,765 million and the 2014 delivery rate increase to 1.8 per cent, compared to the existing interim delivery rate increase of 1.4 per cent discussed above. FEI has implemented permanent 2014 delivery rates, effective November 1, 2014, to reflect the additional delivery rate increase compared to interim rates. FEI will recover the January 2014 to October 2014 revenue deficiency between interim and permanent rates through a deferral mechanism.

Allowed Return on Equity (“ROE”) and Capital Structure

In February 2012, the BCUC established that a Generic Cost of Capital (“GCOC”) Proceeding would occur.

The BCUC also determined that a second, subsequent stage be added to the GCOC proceeding to determine an appropriate ROE and capital structure for all other regulated utilities in BC, once the benchmark has been established in the first stage of the GCOC Proceeding. FEI has been designated as the benchmark utility. FEVI and FEW had their ROE risk premium and capital structure determined in the second stage.

Pursuant to a BCUC order released in December 2012, effective January 1, 2013, the approved 2012 ROE and capital structure for pre-amalgamation FEI, FEVI and FEW and all other regulated entities in BC that rely on the benchmark utility to establish rates, were to be maintained and made interim. In May 2013, the BCUC issued its decision on the first stage of the GCOC Proceeding. The decision determined that the ROE of the benchmark utility would be set at 8.75 per cent with a 38.5 per cent common equity component, both effective January 1, 2013. The common equity component of capital structure will remain in effect through December 31, 2015. Effective January 1, 2014, the BCUC has also introduced an Automatic Adjustment

3. REGULATORY MATTERS (continued)

Allowed Return on Equity ("ROE") and Capital Structure (continued)

Mechanism ("AAM") to set the ROE on an annual basis for the benchmark utility. The AAM will take effect when the actual long-term Government of Canada bond yield exceeds 3.8 per cent. The AAM will be in effect until December 31, 2015. In January and December 2014, the BCUC confirmed that the necessary conditions for the AAM to be triggered for the 2014 and 2015 ROE respectively had not been met, therefore the benchmark ROE remains at 8.75 per cent for 2015.

Prior to the GCOC Proceeding, both FEVI and FEW had been approved for a common equity component of capital structure of 40 per cent and a ROE risk premium of 50 basis points over the benchmark utility. As a result of the BCUC's decision on the first stage of the GCOC Proceeding, which reduced the ROE of the benchmark utility by 75 basis points, the interim allowed ROE of FEVI and FEW decreased from 10 per cent to 9.25 per cent effective January 1, 2013, while the common equity component of the capital structure remained unchanged at 40 per cent. The 2013 interim allowed ROE and capital structure for FEVI and FEW was subject to potential further change as a result of the second stage of the GCOC Proceeding.

In March 2013, the BCUC initiated the second stage of the GCOC Proceeding. FEVI and FEW filed risk premium and equity ratio evidence in July 2013. In March 2014, the BCUC issued its decision on the second stage of the GCOC Proceeding, setting the common equity component of capital structure for FEVI and FEW at 41.5 per cent effective January 1, 2013. The BCUC reaffirmed for FEVI a ROE risk premium of 50 basis points over the benchmark utility and for FEW set its ROE risk premium at 75 basis points (25 basis points higher than the ROE risk premium that was in place prior to the decision) over the benchmark utility.

The resulting ROE for FEVI of 9.25 per cent and for FEW of 9.5 per cent was effective for 2013 and 2014.

Effective January 1, 2015, the ROE and common equity component of capital structure for the amalgamated FEI will be set to equal the benchmark utility, at 8.75 per cent and 38.5 per cent, respectively.

The BCUC decision on the first stage of the GCOC Proceeding, received in May 2013, directed FEI to file an application to review the 2016 benchmark ROE and common equity component of capital structure by no later than November 30, 2015.

US GAAP

In January 2014, the Ontario Securities Commission ("OSC") issued a relief order which permits the Corporation to continue to prepare its financial statements in accordance with US GAAP, until the earliest of: (i) January 1, 2019; (ii) the first day of the financial year that commences after the Corporation ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the IASB for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation. The OSC relief order effectively replaces and extends the OSC's previous relief order, which was due to expire effective January 1, 2015.

The BCUC had previously approved the Corporation's request to adopt US GAAP for regulatory purposes until December 31, 2014. In May 2014, FEI applied for approval to continue the use of US GAAP for regulatory purposes effective January 1, 2015. In July 2014, the BCUC granted the requested approval, until such time as FEI no longer has an OSC exemption to use US GAAP or is no longer reporting under US GAAP for financial reporting purposes, whichever is earlier.

4. ACCOUNTS RECEIVABLE

($ millions)	**2014**	2013
Accounts receivable – trade	**104**	126
Accrued unbilled revenue	**102**	111
Other	**19**	26
Allowance for doubtful accounts	**(7)**	(6)
	218	257

5. INVENTORIES

($ millions)	**2014**	2013
Gas in storage	**110**	93
Materials and supplies	**1**	2
	111	95

During the year ended December 31, 2014 gas in storage inventories of $646 million (2013 - $600 million) were expensed and reported in cost of natural gas on the consolidated statements of earnings.

6. PROPERTY, PLANT AND EQUIPMENT

2014	**Cost**	**Accumulated Depreciation**	**Book Value**
($ millions)			
Natural gas transmission and distribution systems	**4,527**	**(1,372)**	**3,155**
Plant, buildings and equipment	**331**	**(118)**	**213**
Land	**67**	**-**	**67**
Assets under construction	**240**	**-**	**240**
	5,165	**(1,490)**	**3,675**

2013	Cost	Accumulated Depreciation	Book Value
($ millions)			
Natural gas transmission and distribution systems	4,394	(1,282)	3,112
Plant, buildings and equipment	311	(107)	204
Land	67	-	67
Assets under construction	73	-	73
	4,845	(1,389)	3,456

As allowed by the BCUC, during the year ended December 31, 2014 the Corporation capitalized an allowance for debt and equity funds used during construction at approved rates of $2 million (2013 - $2 million) and $3 million (2013 - $2 million) respectively, and approved capitalized overhead of $33 million (2013 - $38 million), with offsetting inclusions in earnings.

Depreciation of property, plant and equipment for the year ended December 31, 2014 totaled $134 million (2013 - $132 million).

Depreciation of natural gas transmission and distribution systems is recorded on a straight-line basis using an average depreciation rate of 2.61 per cent (2013 - 2.59 per cent). Depreciation of plant, buildings and equipment is recorded on a straight-line basis using a depreciation rate of 6.43 per cent (2013 – 6.51 per cent).

7. GOODWILL AND INTANGIBLE ASSETS

2014	**Cost**	**Accumulated Amortization**	**Book Value**
($ millions)			
Goodwill	**913**	**-**	**913**
Intangible Assets			
Software	**140**	**(60)**	**80**
Land rights	**54**	**-**	**54**
Other	**4**	**(2)**	**2**
Assets under construction	**3**	**-**	**3**
	201	**(62)**	**139**

7. GOODWILL AND INTANGIBLE ASSETS (continued)

2013	Cost	Accumulated Amortization	Book Value
($ millions)			
Goodwill	913	-	913
Intangible Assets			
Software	130	(49)	81
Land rights	54	-	54
Other	4	(2)	2
Assets under construction	5	-	5
	193	(51)	142

On May 17, 2007, Fortis acquired all of the issued and outstanding shares of FHI. The consideration paid for this acquisition has been recorded in the Corporation's financial statements using push-down accounting. In addition to goodwill, the Corporation has recognized additional paid-in capital related to the push-down of the excess purchase price paid by Fortis on acquisition over the fair value of the net assets acquired. There was no impairment of intangible assets and goodwill for the years ended December 31, 2014 and 2013.

During the year ended December 31, 2014 $7 million (2013 - $13 million) of fully amortized software assets were retired.

Indefinite-lived intangible assets, not subject to amortization, consist of land and certain other transmission rights and totaled $54 million as at December 31, 2014 (2013 - $54 million).

Amortization of intangible assets for the year ended December 31, 2014 totaled $18 million (2013 - $19 million), of which nil (2013 – $1 million) was amortized through regulatory assets.

Amortization of software is recorded on a straight-line basis using an average amortization rate of 12.72 per cent (2013 – 13.66 per cent). Amortization of other intangible assets is recorded on a straight-line basis using an amortization rate of 3.50 per cent (2013 - 1.70 per cent).

The following is the estimated amortization expense for each of next five years:

($ millions)	
2015	19
2016	19
2017	19
2018	20
2019	21

8. REGULATORY ASSETS AND LIABILITIES

Based on existing regulatory orders or the expectation of future regulatory orders, the Corporation has recorded the following amounts, net of income tax and amortization where applicable, which are expected to be recovered from or refunded to customers:

($ millions)	**2014**	2013
Regulatory assets		
Regulated asset for deferred income taxes	**406**	379
US GAAP funded status	**149**	109
Energy Efficiency and Conservation program	**66**	52
Deferred losses on disposal of utility capital assets	**37**	33
Natural gas for transportation incentives	**24**	8
Rate stabilization accounts	**22**	13
Customer Care Enhancements	**18**	21
Income taxes recoverable on post-employment benefits	**18**	18
Whistler pipeline contribution	**13**	13
Pension cost variance	**11**	25
Deferred development costs for capital projects	**8**	9
Thermal energy services	**-**	11
Other items	**26**	21
	798	712
Less: current portion of regulatory assets	**47**	31
	751	681

Amortization of regulatory assets for the year ended December 31, 2014 totaled $32 million (2013 - $19 million).

($ millions)	**2014**	2013
Regulatory liabilities		
Rate stabilization accounts	**87**	118
Negative salvage provision	**31**	25
Meter reading and customer service variance	**14**	17
Regulated liability for deferred income taxes	**12**	8
Deferred interest on rate stabilization accounts and gas in storage	**4**	5
Flow-through deferral	**4**	-
Other items	**10**	15
	162	188
Less: current portion of regulatory liabilities	**33**	39
	129	149

Amortization of regulatory liabilities for the year ended December 31, 2014 totaled $11 million (2013 - $15 million).

Regulated Asset / Liability for Deferred Income Taxes

The deferred income taxes on regulated assets and regulated liabilities, and the regulated asset and liability for deferred income taxes, is a result of *ASC Topic 740, Income Taxes* which requires the recognition of deferred income tax liabilities and assets as well as offsetting regulated assets or liabilities.

8. REGULATORY ASSETS AND LIABILITIES (continued)

US GAAP Funded Status

The US GAAP funded status deferral account captures the difference between the carrying value otherwise determined and the funded status of the defined benefit plans and OPEBs as required to be recognized on the Corporation's balance sheet under ASC Topic 715. The amount, which would otherwise be recognized in Accumulated Other Comprehensive Income ("AOCI"), has instead been deferred as a regulatory asset. The regulatory asset balance represents the deferred portion of the expense relating to pensions and OPEBs that is expected to be recovered from customers in future rates as the deferred amounts are included as a component of future net benefit cost.

Energy Efficiency and Conservation Program

The deferral account for the Energy Efficiency and Conservation ("EEC") program relates to costs incurred in relation to programs approved by the BCUC that provide energy efficient incentives to residential and commercial customers. The BCUC has approved the recovery of $28 million in rates over a 10 year period. Starting in 2015, the Corporation has applied for $29 million to be recovered over a 10 year period, and starting in 2016, the Corporation will apply for the remaining $9 million to be recovered over a 10 year period.

Deferred Losses on Disposal of Utility Capital Assets

The deferred losses on disposal of utility capital assets (property, plant and equipment and intangible assets) is a regulatory deferral account that accumulated gains and losses on the sale or removal of utility capital assets from 2010 through 2013 for pre-amalgamation FEI and 2010 through 2014 for pre-amalgamation FEVI and FEW. The BCUC has approved the recovery of these costs in rates over a 10 year period.

For 2014 the pre-amalgamation FEI and for 2015 through 2019 the amalgamated FEI, charge gains and losses on the sale or removal of property, plant and equipment and intangible assets to accumulated depreciation, which will be reflected in future depreciation expense when refunded or collected in rates.

Natural Gas for Transportation Incentives

The deferral for natural gas transportation incentives is comprised of subsidy payments made available to assist customers to purchase natural gas vehicles ("NGV") in lieu of vehicles fueled by diesel as part of the incentive program funding pursuant to the Greenhouse Gas Reductions (Clean Energy) Regulation under the Clean Energy Act. The BCUC has approved recovery in rates over a 10 year period.

Rate Stabilization Accounts

For FEI and FEW prior to the amalgamation on December 31, 2014 and for the amalgamated FEI, there are two primary deferral mechanisms in place to decrease the volatility in rates caused by such factors as fluctuations in gas supply costs and the significant impacts of weather and other changes on use rates. The first mechanism relates to the recovery of all gas supply costs through deferral accounts that capture variances (overages and shortfalls) from forecasts in costs incurred. Balances are either refunded to or recovered from customers via quarterly review and application to the BCUC. Currently under this mechanism, there are two separate deferral accounts; the Commodity Cost Reconciliation Account ("CCRA") and the Midstream Cost Reconciliation Account ("MCRA"). The second mechanism seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use rate for residential and commercial customers throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism ("RSAM").

Beginning in 2010, a Rate Stabilization Deferral Account ("RSDA") was created for FEVI. Until the end of 2014, the RSDA accumulated the difference between the revenues received and the actual cost of service, excluding operation and maintenance cost variances from forecast. FEVI, prior to the amalgamation also had a Gas Cost Variance Account ("GCVA") that accumulated variances between the actual and forecast gas costs, which were flowed through future customer rates.

8. REGULATORY ASSETS AND LIABILITIES (continued)

Rate Stabilization Accounts (continued)

The RSAM and MCRA accounts are either refunded to or recovered from customers in rates over 2 years with actual refunds dependent upon annually approved rates and actual gas consumption volumes. The CCRA account is anticipated to be fully recovered within the next fiscal year. As approved by the BCUC, the ending 2014 GCVA account balance was transferred to the RSDA effective January 1, 2015 and the RSDA account will be returned to customers (excluding those residing on Vancouver Island and the Sunshine Coast and in Whistler) over a period of three years.

At December 31, 2014, the mark-to-market on the natural gas derivative contracts included in the CCRA and GCVA accounts was $11 million (2013 - $3 million) and nil (2013 - $12 million), respectively.

($ millions)	**2014**	2013
Current Assets		
CCRA	**12**	-
GCVA	**3**	13
	15	13
Long-Term Assets		
MCRA	**4**	-
RSAM	**3**	-
	7	-
Total assets	**22**	13
Current Liabilities		
RSAM	**(1)**	(7)
CCRA	**-**	(8)
MCRA	**(8)**	(9)
	(9)	(24)
Long-Term Liabilities		
RSAM	**-**	(14)
MCRA	**-**	(5)
RSDA	**(78)**	(75)
	(78)	(94)
Total liabilities	**(87)**	(118)
Net rate stabilization accounts	**(65)**	(105)

Customer Care Enhancements

The Customer Care Enhancement ("CCE") deferral captures all incremental costs associated with the CCE project that were incurred prior to the project implementation date of January 1, 2012, for the purpose of permitting cost recovery, as well as any costs incurred in 2012 related to the project implementation. The BCUC has approved the recovery of these costs in rates over an 8 year period.

Income Taxes Recoverable on Post-Employment Benefits

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

8. REGULATORY ASSETS AND LIABILITIES (continued)

Whistler Pipeline Contribution

The Whistler pipeline contribution deferral captured the capital contribution from pre-amalgamation FEW to pre-amalgamation FEVI on completion of the natural gas pipeline to Whistler to the extent that FEW toll revenues were less than the marginal cost-of-service of the Whistler Pipeline. FEW was required to make a capital contribution to FEVI to leave the existing FEVI customers unaffected by the construction of the Whistler pipeline. The BCUC approved the recovery of these costs in rates over a 50 year period. Effective January 1, 2015, the costs related to the capital contribution from pre-amalgamation FEW to pre-amalgamation FEVI will be eliminated for rate-setting purposes.

Pension Cost Variance

The pension cost variance account accumulates differences between pension and OPEB expenses that are approved for recovery in rates and the actuarially determined pension and OPEB expense. Amounts relating to FEI are recovered in rates over a 3 year period and amounts relating to pre-amalgamation FEVI were recovered the same year they were incurred.

Deferred Development Costs for Capital Projects

Deferred development costs for capital projects include costs for projects under development that are included in regulated rate-base. The majority of the balance relates to costs incurred in the conversion of pre-amalgamation FEW customers from propane to natural gas. The BCUC has approved the recovery of these costs in rates over a 20 year period.

Thermal Energy Services

The thermal energy services deferral account captured the costs associated with the investment in alternative energy solutions. The BCUC approved this account to be transferred to FortisBC Alternative Energy Services Inc. ("FAES"), a related company under common control, by December 31, 2014 with the balance to be recovered from current and future thermal energy services customers. Refer to note 21 "Related Party Transactions".

Other Items

Regulatory assets and liabilities that have been aggregated in the tables above as other items relate to many deferral accounts. These accounts have either been approved by the BCUC for recovery from or refund to customers or are expected to be approved. The approved amounts are being amortized over various periods depending on the nature of the costs.

Negative Salvage Provision

The negative salvage provision account captures the provision for costs which will be incurred to remove assets from service either through actual removal of the asset or through disconnection from the distribution system. As actual removal costs are incurred, the negative salvage provision account is drawn down. As at December 31, 2014, approximately $21 million (2013 - $21 million) was collected from customers through depreciation expense to offset future removal costs which may be incurred. Actual removal costs incurred for the year ended December 31, 2014 were $15 million (2013 - $14 million).

Meter Reading and Customer Service Variance

The meter reading and customer service variance accounts capture the differences between the expenditures that were approved for recovery in rates and actual expenditures for meter reading services and certain operating costs of the insourced activities related to the CCE project for 2012 and 2013. The BCUC has approved the refund of these costs in rates over a 5 year period starting in 2014.

8. REGULATORY ASSETS AND LIABILITIES (continued)

Deferred Interest on Rate Stabilization Accounts and Gas in Storage

The deferred interest on rate stabilization accounts and gas in storage is the interest calculated on the difference between the actual and forecasted average balance of the rate stabilization accounts and gas in storage multiplied by the composite interest rate. Amounts are returned to customers over the same period as the underlying rate stabilization accounts and over 3 years for the gas in storage deferred interest.

Flow-Through Deferral

For 2014 the pre-amalgamation FEI, and for 2015 through 2019 the amalgamated FEI, has a new BCUC approved flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year. This new deferral account replaced a number of other deferral accounts that existed prior to then, that captured such items as variances in interest rates, insurance, and factors affecting income taxes. In addition to those items, the flow-through deferral account captures variances in margin related to customer growth and industrial margin, and certain other items that previously were not subject to flow-through treatment.

9. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

($ millions)	**2014**	2013
Accounts payable - trade	**99**	50
Gas derivatives	**11**	15
Gas cost payable	**80**	89
Interest payable	**31**	31
Customer deposits	**20**	19
Employee payable	**26**	25
Other	**32**	26
	299	255

10. LONG-TERM DEBT AND CAPITAL LEASE AND FINANCE OBLIGATIONS

($ millions)	**2014**	2013
Long-Term Debt		
Purchase Money Mortgages		
11.80% Series A, due September 30, 2015	**75**	75
10.30% Series B, due September 30, 2016	**200**	200
Unsecured Debentures		
6.95% Series 11, due September 21, 2029	**150**	150
6.50% Series 18, due May 1, 2034	**150**	150
5.90% Series 19, due February 26, 2035	**150**	150
5.55% Series 21, due September 25, 2036	**120**	120
6.00% Series 22, due October 2, 2037	**250**	250
5.80% Series 23, due May 13, 2038	**250**	250
6.55% Series 24, due February 24, 2039	**100**	100
4.25% Series 25, due December 9, 2041	**100**	100
6.05% Series 2008, due February 15, 2038	**250**	250
5.20% Series 2010, due December 6, 2040	**100**	100
Promissory note payable to FHI	**20**	20
Government loan repayable (note 22)	**10**	10
Total long-term debt	**1,925**	1,925
Less: current portion of long-term debt	**105**	30
Long-term debt	**1,820**	1,895

10. LONG-TERM DEBT AND CAPITAL LEASE AND FINANCE OBLIGATIONS (continued)

($ millions)	2014	2013
Capital Lease and Finance Obligations		
Obligation under lease in lease out transactions	**101**	105
Obligations under capital leases at 3.47% (2013 – 3.51%)	**11**	14
Total capital lease and finance obligations	**112**	119
Less: current portion of capital lease and finance obligations	**6**	7
Capital lease and finance obligations	**106**	112

Purchase Money Mortgages and Unsecured Debentures

The Series A and Series B Purchase Money Mortgages are secured equally and rateably by a first fixed and specific mortgage and charge on the Corporation's Coastal Division assets. The debentures are unsecured.

Most of the Corporation's long term debt is redeemable, in whole or in part, at the option of the Corporation, at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption.

Certain of the Corporation's long-term debt obligations have issuance tests that prevent the Corporation from incurring additional long-term debt unless the interest coverage is at least two times available net earnings. In addition, the Corporation's credit facility agreements require maintenance of certain financial covenants such as a maximum percentage of debt to equity. As at December 31, 2014 and 2013, the Corporation was in compliance with these covenants.

Promissory Note Payable to FHI

The pre-amalgamation FEW had promissory notes due to FHI for $20 million bearing interest at 5.108 per cent. The notes were repaid in January 2015.

Obligation Under Lease in Lease Out Transactions

Between 2000 and 2005, the Corporation entered into leasing arrangements whereby certain natural gas distribution assets were leased to certain municipalities and then leased back by the Corporation from the municipalities. The natural gas distribution assets are considered to be integral equipment to real estate assets and as such these transactions have been accounted for as financing transactions. The proceeds from these transactions have been recorded as a financial liability included in capital lease and finance obligations. Lease payments less the portion considered to be interest expense decrease the financial liability. The transactions have implicit interest rates between 7.17 per cent and 8.76 per cent and are being repaid over a 35 year period. Each of the arrangements allow the Corporation, at its option, to terminate the lease arrangements early, after 17 years. If the Corporation exercises this option, the Corporation would pay the municipality an early termination payment which is equal to the carrying value of the obligation on the Corporation's financial statements at that point in time.

Required principal repayments for long-term debt and capital lease and finance obligations over the next five years and thereafter are as follows:

($ millions)	
2015	111
2016	206
2017	6
2018	7
2019	33
Thereafter	1,674
	2,037

11. OTHER ASSETS

($ millions)	2014	2013
Pension assets (note 14)	**3**	2
Long-term debt issue costs	**12**	13
Long-term receivables	**9**	9
	24	24

12. OTHER LIABILITIES

($ millions)	2014	2013
Pension and OPEB liabilities (note 14)	**235**	185
Ministry of Energy and Mines funds	**2**	2
Unrecognized tax benefits (note 17)	**1**	1
Other	**1**	3
	239	191

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

13. SHARE CAPITAL

Authorized Share Capital

The Corporation is authorized to issue 500,000,000 common shares, 100,000,000 first preference shares and 100,000,000 second preference shares, all without par value. The authorized share capital did not change as a result of the amalgamation.

Common Shares

As at December 31, 2013, pre-amalgamation FEI had 64,910,782 issued and outstanding common shares. On December 31, 2014 the Corporation completed a two-step amalgamation of FEI, FEVI, FEW and TGHI to form a new company, FortisBC Energy Inc. In connection with the amalgamation the issued and outstanding common shares changed from 64,910,782 common shares to 313,438,012 common shares. This was effected by cancelling 5,741 issued and outstanding common shares of pre-amalgamation FEVI, cancelling 12,176,175 issued and outstanding common shares of pre-amalgamation FEI, which were held by pre-amalgamation TGHI, and retaining 52,734,597 issued and outstanding shares of pre-amalgamation FEI, retaining 16,671,381 issued and outstanding shares of pre-amalgamation FEW, and retaining 244,032,034 issued and outstanding common shares of pre-amalgamation TGHI.

All share capital amounts have been retroactively adjusted for all prior periods presented for the amalgamation. As such, the issued and outstanding common shares are as follows:

	2014		2013	
	Number of shares	**Amount ($ millions)**	Number of shares	Amount ($ millions)
Outstanding, beginning and end of year	**313,438,012**	**1,056**	313,438,012	1,056

14. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans and supplemental unfunded arrangements. The Corporation also provides post-employment benefits other than pensions for retired employees. The following is a summary of each type of plan.

14. EMPLOYEE FUTURE BENEFITS (continued)

Defined Benefit Pension Plans

The Corporation sponsors a number of defined benefit pension plans. Additionally, the Corporation has a number of closed plans which relate to service prior to 2007 by certain employees. Retirement benefits are based on employees' years of credited service and remuneration. Corporation contributions to the plans are based upon independent actuarial valuations. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were as at December 31, 2012 and December 31, 2013 and the dates of the next required valuations will be as at December 31, 2015 and December 31, 2016.

Supplemental Plans

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

Other Post-Employment Benefits

The Corporation provides certain retired employees with OPEBs that include, depending on circumstances, supplemental health, dental and life insurance coverage. OPEBs are unfunded and the annual net benefit cost is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health-care cost escalation. The most recent actuarial valuation was completed as at December 31, 2011 and the next required valuation will be as at December 31, 2014.

The financial positions of the Corporation's defined benefit pension and supplemental plans and OPEB plans are as follows:

	Defined Benefit Pension and Supplemental Plans		**OPEB Plans**	
($ millions)	**2014**	2013	**2014**	2013
Change in fair value of plan assets				
Balance, beginning of year	**394**	350	**-**	-
Actual return on plan assets	**52**	33	**-**	-
Corporation contributions	**17**	16	**2**	2
Member contributions	**12**	11	**-**	-
Benefit payments	**(18)**	(16)	**(2)**	(2)
Fair value, end of year	**457**	394	**-**	-
Change in projected benefit obligation				
Balance, beginning of year	**465**	450	**112**	116
Member contributions	**12**	11	**-**	-
Current service cost	**14**	17	**3**	4
Interest costs	**22**	18	**5**	5
Benefit payments	**(18)**	(16)	**(2)**	(2)
Actuarial (gain) loss	**59**	(15)	**17**	(11)
Balance, end of year[1]	**554**	465	**135**	112
Unfunded status	**(97)**	(71)	**(135)**	(112)

1. The accumulated benefit obligation for defined benefit pension plans, which does not incorporate future salary level assumptions, was $517 million (2013 - $407 million).

The following table summarizes the employee future benefit assets and liabilities and their classification in the consolidated balance sheets:

	Defined Benefit Pension and Supplemental Plans		**OPEB Plans**	
($ millions)	**2014**	2013	**2014**	2013
Other assets (note 11)	**(3)**	(2)	**-**	-
Other liabilities (note 12)	**100**	73	**135**	112
Net liability	**97**	71	**135**	112

14. EMPLOYEE FUTURE BENEFITS (continued)

The net benefit cost for the Corporation's defined benefit pension and supplemental plans and OPEB plans are as follows:

	Defined Benefit Pension and Supplemental Plans		**OPEB Plans**	
($ millions)	**2014**	2013	**2014**	2013
Service costs	**14**	17	**3**	4
Interest costs	**22**	18	**5**	5
Expected return on plan assets	**(23)**	(22)	**-**	-
Amortization:				
Actuarial losses	**6**	11	**2**	3
Past service costs	**-**	-	**(2)**	(2)
Regulatory Adjustment	**4**	(10)	**(1)**	(4)
Net benefit cost	**23**	14	**7**	6

Defined Benefit Pension Plan Assets

As at December 31, 2014 and 2013, the assets of the Corporation's defined benefit pension plans were invested on a weighted average as follows:

	Target Allocation	**2014**	2013
Equities	**45-55%**	**45%**	47%
Fixed income	**39-54%**	**45%**	42%
Real estate	**0-15%**	**10%**	11%
		100%	100%

The investment policy for defined benefit plan assets is to optimize the risk-return using a portfolio of various asset classes. The Corporation's primary investment objectives are to secure registered pension plans, and maximize investment returns in a cost effective manner while not compromising the security of the respective plans. The pension plans use quarterly rebalancing in order to achieve the target allocations while complying with the constraints of the *Pension Benefits Standards Act* of British Columbia and the *Income Tax Act*. The pension plans utilize external investment managers to execute the investment policy. Assets in the plans are held in trust by independent third parties. The pension plans do not directly hold any shares of the Corporation's parent or affiliated companies.

The fair value measurements of the Corporation's defined benefit pension plan assets by fair value hierarchy level, which are described in further detail in note 19, "Fair Value Measurement" are as follows:

2014	**Level 1**	**Level 2**	**Level 3**	**Total**
($ millions)				
Equities	**207**	**-**	**-**	**207**
Fixed income	**-**	**205**	**-**	**205**
Real estate	**-**	**-**	**45**	**45**
	207	**205**	**45**	**457**

2013	Level 1	Level 2	Level 3	Total
($ millions)				
Equities	183	4	-	187
Fixed income	-	165	-	165
Real estate	-	-	42	42
	183	169	42	394

14. EMPLOYEE FUTURE BENEFITS (continued)

Defined Benefit Pension Plan Assets (continued)

The following table is a reconciliation of changes in the fair value of defined benefit pension plan assets that have been measured using Level 3 inputs for the years ended December 31, 2014 and 2013.

Real Estate

($ millions)	**2014**	2013
Balance, beginning of year	**42**	38
Actual return on plan assets:		
Relating to assets still held at the reporting date	**3**	4
Balance, end of year	**45**	42

There were no transfers into or out of Level 3 during the years ended December 31, 2014 and 2013.

Significant Actuarial Assumptions

The significant weighted average actuarial assumptions used to determine the projected benefit obligation and the net benefit cost are as follows:

	Defined Benefit Pension and Supplemental Plans		**OPEB Plans**	
	2014	2013	**2014**	2013
Projected benefit obligation				
Discount rate at December 31	**4.00%**	4.75%	**4.00%**	4.75%
Rate of compensation increase	**3.00%**	2.92%	**-**	-
Net benefit cost				
Discount rate at January 1	**4.75%**	4.00%	**4.75%**	4.00%
Expected rate of return on plan assets[1]	**6.40%**	6.39%	**-**	-

1. Developed by management with assistance from an independent actuary using a best estimate of expected returns, volatilities and correlations for each class of assets. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.

The assumed health-care cost trend rates for OPEB plans are as follows:

	2014	2013
Health care trend rate:		
Initial rate during first year	**7.00%**	7.50%
Annual rate of decline in trend rate	**0.50%**	0.50%
Ultimate health care cost trend rate	**5.00%**	5.00%
Year ultimate rate reached	**2018**	2018

A one per cent change in assumed health-care cost trend rates would have the following effects on the Corporation's OPEB plans:

2014	**1% Increase in Rate**	**1% Decrease in Rate**
($ millions)		
Increase (decrease) in benefit obligation	**13**	**(9)**
Increase (decrease) in service and interest costs	**1**	**(1)**

14. EMPLOYEE FUTURE BENEFITS (continued)

The following table provides the components recognized as the change in the regulatory asset during the year that would otherwise have been recognized in other comprehensive income for the years ended December 31, 2014 and 2013:

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2014**	2013	**2014**	2013
Net actuarial losses (gains)	**30**	(27)	**16**	(11)
Amortization of actuarial losses	**(7)**	(10)	**(2)**	(3)
Amortization of past service costs	**-**	-	**3**	2
Increase (decrease) in regulatory asset (note 8)	**23**	(37)	**17**	(12)

The following table provides the components of regulatory assets that would otherwise have been recognized in AOCI and have not yet been recognized as components of periodic net benefit cost:

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2014**	2013	**2014**	2013
Net actuarial losses	**103**	80	**55**	41
Past service costs	**(2)**	(2)	**(7)**	(10)
Regulatory asset, end of year (note 8)	**101**	78	**48**	31

Net actuarial losses of $9 million and past service costs of nil will be amortized from regulatory assets into pension net benefit costs during 2015. Net actuarial losses of $3 million and past service costs of $2 million will be amortized from regulatory assets into OPEB net benefit costs in 2015.

The following table provides the amount of benefit payments expected to be made over the next 10 years.

($ millions)	Defined Benefit Pension and Supplemental Plans	OPEB Plans
2015	17	3
2016	18	4
2017	19	4
2018	20	4
2019	21	4
2020-2024	131	28
	226	**47**

See note 22 "Commitments" for expected defined benefit pension funding contributions.

15. FINANCE CHARGES

($ millions)	**2014**	2013
Interest on long-term debt, capital leases and finance obligations	**136**	138
Interest on short-term debt	**55**	53
AFUDC - debt component	**(2)**	(2)
	189	189

16. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

($ millions)	2014	2013
Interest paid	**189**	188
Income taxes paid	**25**	9

Significant Non-Cash Transactions

($ millions)	2014	2013
Mark-to-market of natural gas derivatives	**(4)**	(44)
Capital accruals	**(47)**	(8)
Regulatory assets and regulatory liabilities accruals	**-**	4
Contributions in aid of construction accruals	**(8)**	(3)
Regulated asset for deferred income taxes	**11**	25

Changes in Non-Cash Working Capital

($ millions)	2014	2013
Accounts receivable	**39**	(22)
Inventories	**(16)**	13
Prepaid expenses	**(1)**	(1)
Accounts payable and other current liabilities	**(16)**	(43)
Net income and other taxes payable	**(19)**	15
Net regulatory assets and liabilities	**(22)**	36
Other	**9**	6
	(26)	4

The non-cash investing activities balances as at December 31 were as follows:

($ millions)	2014	2013
Additions to property, plant and equipment and intangible assets included in current liabilities	**61**	14
CIAC included in current assets	**8**	8

17. INCOME TAXES

Deferred Income Taxes

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

($ millions)	2014	2013
Deferred income tax liability (asset)		
Property, plant and equipment	**372**	362
Intangible assets	**37**	35
Regulatory assets	**66**	64
Regulatory liabilities	**(58)**	(70)
Employee future benefits	**(11)**	(8)
Net deferred income tax liability	**406**	383
Classification		
Current deferred income tax asset	**(1)**	(9)
Long-term deferred income tax liability	**407**	392
Net deferred income tax liability	**406**	383

The Canadian federal and BC provincial combined statutory rate changed from 25.0 per cent to 26.0 per cent effective April 1, 2013, resulting from legislation enacted in July 2013. As a result of this change, the statutory tax rate for the year ending December 31, 2013 was changed to 25.75 per cent. This change resulted in an increase in deferred income tax liabilities of approximately $20 million as at the date of enactment, the offset of which has been recognized in regulatory assets.

17. INCOME TAXES (continued)

Provision for Income Taxes

($ millions)	**2014**	2013
Current income taxes expense	**35**	24
Deferred income taxes expense	**23**	30
Regulatory adjustment	**(23)**	(30)
	-	-
Income taxes expense	**35**	24

Variation In Effective Income Tax Rate

Income taxes vary from the amount that would be computed by applying the Canadian federal and BC combined statutory income tax rate of 26.00 per cent (2013 – 25.75 per cent) to earnings before income taxes as shown in the following table:

	2014	2013
Combined statutory income tax rate	**26.00%**	25.75%
($ millions)		
Statutory income tax applied to earnings before income taxes	**46**	41
Preference share dividends	**(13)**	(12)
Items capitalized for accounting but expensed for income tax purposes	**(10)**	(10)
Difference between capital cost allowance and amounts claimed for accounting purposes	**(1)**	(7)
Difference between employee future benefits and amounts expensed for accounting purposes	**3**	1
Difference between regulatory accounting items and amounts claimed for tax purposes	**12**	9
Other	**(2)**	2
Actual income taxes expense	**35**	24
Effective income tax rate	**19.77%**	15.00%

Unrecognized Tax Benefits

The following table summarizes the change in unrecognized tax benefits during 2014 and 2013:

($ millions)	**2014**	2013
Total unrecognized tax benefits, beginning of year	**1**	2
Reductions	**-**	(1)
Total unrecognized tax benefits, end of year	**1**	1

If the total amount of unrecognized tax benefits as at December 31, 2014 of $1 million (2013 - $1 million) were ultimately realized, income tax expense would decrease by approximately nil (2013 - nil) in the future. The Corporation does not expect any payments to be made for unrecognized tax benefits within the next 12 months.

Interest and penalties recognized as income tax expense related to liabilities for unrecognized tax benefits were nil for 2014 (2013 - nil). Interest and penalties accrued in the Corporation's consolidated balance sheets for unrecognized tax benefits as at December 31, 2014 were nil (December 31, 2013 - nil). Taxation years 2009 and prior are no longer subject to examination in Canada.

As at December 31, 2014 the Corporation had no non-capital or capital loss carry forwards.

18. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In the past, the Corporation engaged in price risk management activities to limit the exposure to fluctuations in natural gas prices and to ensure, to the extent possible, that natural gas commodity costs remained competitive against other energy sources. These have typically included the use of derivative instruments which were implemented pursuant to a Price Risk Management Plan ("PRMP") approved by the BCUC. In July 2010, the BCUC ordered a review of the Corporation's PRMP hedging strategy in the context of the *Clean Energy Act (British Columbia)* and the expectation of increased domestic natural gas supply. Following a comprehensive review process, in July 2011, the BCUC directed the Corporation to suspend the majority of its natural gas commodity hedging activities except for the implementation of certain basis swaps. All hedges that had been in place from previously approved PRMPs prior to the suspension of the hedging strategy expired in 2014.

Volume of Derivative Activity

As at December 31, 2014, the Corporation had the following notional volumes of outstanding natural gas commodity derivatives that are expected to be settled as outlined below:

	2015
Natural gas supply contracts (petajoules)	75

Presentation of Derivative Instruments in the Financial Statements

In the Corporation's consolidated balance sheets, derivative instruments are presented on a net basis by counterparty where the right of offset exists.

At December 31, 2014, the Corporation's outstanding derivative balances, which consisted of natural gas supply contract premiums were as follows:

($ millions)	**Gross Derivatives Balance[1]**	**Netting[2]**	**Cash Collateral**	**Total Derivatives Balance**
Natural gas supply contract premiums:				
Accounts payable and other current liabilities	**11**	**-**	**-**	**11**

1. See note 19 for a discussion of the valuation techniques used to calculate the fair value of these instruments.
2. Positions, by counterparty, are netted where the intent and legal right to offset exists.

At December 31, 2013, the Corporation's outstanding derivative balances, which consisted of natural gas supply contract premiums and other natural gas derivative contracts, including commodity swaps, options and basis swaps, were as follows:

($ millions)	Gross Derivatives Balance[1]	Netting[2]	Cash Collateral	Total Derivatives Balance
Natural gas commodity swaps, options, basis swaps and supply contract premiums:				
Accounts payable and other current liabilities	15	-	-	15

1. See note 19 for a discussion of the valuation techniques used to calculate the fair value of these instruments.
2. Positions, by counterparty, are netted where the intent and legal right to offset exists.

The following table shows the cumulative losses at December 31, 2014 and 2013, with respect to all natural gas derivative contracts:

($ millions)	**2014**	2013
Unrealized loss on natural gas commodity swaps, options, basis swaps and supply contract premiums[1,2]	**11**	15

1. Unrealized gains and losses on commodity risk-related derivative instruments are recorded to current regulatory assets or liabilities rather than being recorded to the consolidated statement of earnings.
2. These amounts are fully passed through to customers in rates. Accordingly, net earnings were not impacted by realized amounts on these instruments.

18. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Presentation of Derivative Instruments in the Financial Statements (continued)

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's consolidated statements of cash flows.

19. FAIR VALUE MEASUREMENT

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Corporation is required to record all derivative instruments at fair value except those which would qualify for the normal purchase and normal sale exception.

The three levels of the fair value hierarchy are defined as follows:

Level 1: Fair value determined using unadjusted quoted prices in active markets.
Level 2: Fair value determined using pricing inputs that are observable.
Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Corporation's financial instruments, including derivatives, reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future consolidated earnings or cash flows.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and short-term notes on the consolidated balance sheets of the Corporation approximate their fair values.

In the past, natural gas commodity derivatives, including commodity swaps and options, were used to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. Any resulting gains or losses were recorded in regulatory liabilities or assets in the consolidated balance sheets. The fair value of the natural gas commodity derivatives was calculated using the present value of cash flows based on market prices and forward curves for the commodity cost of natural gas.

The fair values of the natural gas commodity derivatives are estimates of the amounts that the Corporation would receive or pay to terminate the outstanding contracts as at the balance sheet date. None of the natural gas commodity derivatives were designated as hedges of the natural gas supply contracts. However, any changes in the fair value of the natural gas commodity derivatives are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC.

The following table summarizes the fair value measurements of the Corporation's long-term debt and natural gas derivative contracts as of December 31, 2014 and 2013, all of which are Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at their carrying value:

	2014		2013	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt, including current portion[1]	**1,925**	**2,461**	1,925	2,279
Natural gas commodity swaps, options, basis swaps and supply contract premiums[2]	**11**	**11**	15	15

1. Includes unsecured debentures, purchase money mortgages, promissory notes and the current portion of the repayable government loans for which the carrying value is measured at cost and excludes credit facilities. For the purposes of this disclosure, carrying value is used to approximate fair value for the promissory note and the repayable government loans.
2. Included in accounts payable and other current liabilities as at December 31, 2014 and 2013.

19. FAIR VALUE MEASUREMENT (continued)

The fair value of long-term debt is estimated using quoted market prices where available. When quoted market prices are not available, the fair value is determined by discounting the future cash flows of the specific debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

20. FINANCIAL RISK MANAGEMENT

The Corporation is exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

Credit Risk

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

As at December 31, 2014, the Corporation was exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments relating to natural gas supply contracts and to certain off-system sales activities relating to unutilized natural gas supply and/or pipeline and storage capacity. As the Corporation deals with reasonable credit-quality corporations, in accordance with established credit-approval practices, the Corporation does not expect any counterparties to fail to meet their obligations. Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The Corporation uses netting arrangements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist.

In the case of commercial, industrial and transportation customers, credit risk is managed by checking a corporation's creditworthiness and financial strength both before commencing and during the business relationship. For residential customers, creditworthiness is normally ascertained before commencing commodity delivery by an appropriate mix of internal and external information to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis.

The Corporation's credit risk is also mitigated through revenue requirement applications to the BCUC which include a forecast amount for uncollectible accounts receivable.

Liquidity Risk

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

To mitigate this risk, the Corporation has $700 million in syndicated credit facilities available of which $349 million was unused at December 31, 2014 (2013 - $523 million). The $500 million credit facility matures in August 2016 and the $200 million credit facility matures in December 2015.

20. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The following summary outlines the Corporation's bank credit facilities:

($ millions)	**December 31, 2014**	December 31, 2013
Total credit facility	**700**	700
Short-term notes	**(301)**	(127)
Letters of credit outstanding	**(50)**	(50)
Credit facility available	**349**	523

The Corporation targets investment grade credit ratings to maintain capital market access at reasonable interest rates. Debentures issued by the Corporation are rated by DBRS Limited ("DBRS") and Moody's Investors Service ("Moody's"). In June 2014, Moody's affirmed the long-term credit ratings of the Corporation of A1 for secured long-term debt and A3 for unsecured long-term debt and changed the ratings outlook to stable from negative. In January 2015, DBRS affirmed the long-term credit ratings of the Corporation after the completion of the amalgamation on December 31, 2014.

As at December 31, the Corporation's credit ratings were as follows:

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

Market Risk

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

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation's earnings are not materially exposed to changes in the US dollar-to-Canadian dollar exchange rate.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk associated with short-term borrowings and floating rate debt. Regulated interest expense variances from forecast for rate-setting purposes are flowed through future rates using regulatory deferral accounts approved by the BCUC.

Natural Gas Commodity Price Risk

The Corporation is exposed to risks associated with changes in the market price of natural gas as a result of the natural gas derivatives. Mark-to-market adjustments on natural gas derivatives are recoverable from customers through rates.

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

21. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, ultimate parent and other related companies under common control to provide or receive services and materials. The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

The amounts charged to the Corporation's parent and other related parties under common control for the years ended December 31 were as follows:

($ millions)	**2014**	2013
Operation and maintenance expense charged to FortisBC Inc. ("FBC") (a)	**4**	3
Operation and maintenance expense charged to FHI (b)	**1**	1
Other income recovered from FHI (c)	**50**	47
	55	51

(a) The Corporation charged FBC for office rent and management services.

(b) The Corporation charged its parent, FHI for management services, labour and materials.

(c) As part of a tax loss utilization plan ("TLUP"), the Corporation received dividend income from FHI relating to a $1,400 million investment in preferred shares. A TLUP is a series of transactions, whereby the Corporation sets up an investment in an affiliate's preferred shares and issues subordinated debt to that affiliate; these two financial instruments are shown on a net basis. The Corporation receives non-taxable dividend income on the preferred shares and pays tax deductible interest on the debt. The effect of this transaction is to transfer tax losses between affiliated entities.

Related Party Costs

The amounts charged by the Corporation's parent and other related parties under common control for the years ended December 31 were as follows:

($ millions)	**2014**	2013
Operation and maintenance expense charged by FBC (a)	**5**	4
Operation and maintenance expense charged by FHI (b)	**13**	12
Finance charges paid to FHI (c)	**1**	1
Finance charges paid to FHI (d)	**50**	47
	69	64

(a) FBC charged the Corporation for electricity purchases and management services.

(b) FHI charged the Corporation for Board of Director costs, management services, labour and materials.

(c) FHI charged the Corporation interest expense on a $20 million promissory note. During 2013 and 2014 FEW had promissory notes due to FHI bearing interest at 5.108 per cent. The notes were repaid in January 2015.

(d) As part of a TLUP, the Corporation paid FHI interest on $1,400 million (2013 - $1,400 million) of intercompany subordinated debt.

21. RELATED PARTY TRANSACTIONS (continued)

Balance Sheet Amounts

The amounts due from related parties, which are included in accounts receivable on the consolidated balance sheets, and the amounts due to related parties, which are included in accounts payable and other current liabilities and current portion of long-term debt on the consolidated balance sheets, are as follows:

As at December 31	**2014**		2013	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
FHI	**-**	**1**	2	-
Debt due to FHI	**-**	**20**	-	20
FBC	**-**	**1**	-	1
	-	**22**	2	21

In the fourth quarter of 2014, subject to a regulatory order from the BCUC, FEI transferred the thermal energy services deferral account to FAES, for net proceeds of approximately $12 million. The recovery has been shown as a reduction in long-term regulatory assets.

During the year ended December 31, 2014 FEVI borrowed demand notes from Fortis. The demand notes were unsecured, due on demand and FEVI was charged interest that approximated FEVI's cost of short-term borrowing. Final payment of the demand notes occurred during the fourth quarter of 2014.

In late October 2014, FBC loaned $53 million by way of a demand note to FEVI. The demand note was unsecured, due on demand and FEVI was charged interest that approximated FEVI's cost of short-term borrowing. The demand note was repaid in late November 2014.

22. COMMITMENTS

The following table sets forth the Corporation's operating leases, natural gas supply contract obligations and employee defined benefit pension plan funding contributions due in the years indicated:

($ millions)	**Operating Leases**	**Natural Gas Supply Contract Obligations**	**Defined Benefit Pension Plan Funding Contributions**	**Total**
2015	3	194	17	214
2016	3	-	13	16
2017	3	-	-	3
2018	3	-	-	3
2019	2	-	-	2
Thereafter	1	-	-	1
	15	**194**	**30**	**239**

The Corporation has entered into operating leases for certain building space.

The natural gas supply contract obligations as at December 31, 2014, which fix the price of natural gas, are based on current market rates. The measurement of these natural gas supply contract obligations will change based on the change in the value of the derivative which will vary with market prices.

The Corporation sponsors defined benefit pension plans. Under the terms of these plans, the Corporation is required to provide pension funding contributions, including current service, solvency and special funding amounts. The contributions are based on estimates provided under the latest completed actuarial valuation. If the actuarial valuation falls in the next twelve months then the Corporation has provided for an estimate of the contributions for the upcoming year. Employee defined benefit pension plan contributions beyond the date of the next actuarial valuation cannot be accurately estimated.

22. COMMITMENTS (continued)

In addition to items in the table above, the Corporation has issued commitment letters to customers to provide EEC funding under the EEC program approved by the BCUC. As at December 31, 2014, the Corporation had issued $26 million (2013 - $24 million) of commitment letters to customers.

In prior years, FEVI received non-interest bearing, repayable loans from the Federal and BC Provincial governments of $50 million and $25 million respectively, in connection with the construction and operation of the Vancouver Island natural gas pipeline. As approved by BCUC, these loans have been recorded as government grants and have reduced the amounts reported for utility capital assets. The Federal government loan was fully repaid in 2013. In 2014, FEVI made a repayment on the BC Provincial government loan of $10 million. As at December 31, 2014, $15 million remains outstanding on the BC Provincial government loan, of which $10 million has been recognized in current portion of long term debt and $5 million has been charged against property, plant and equipment.

The estimated year of repayment of the BC Provincial government loan is as follows:

($ millions)	
2015	10
2016	5
	15

In January 2012, two unrelated parties collectively purchased a 15 per cent interest in MHLP, which at that time was a wholly owned limited partnership of FEVI. These non-controlling interest owners hold a put option which, if exercised, would oblige the Corporation to purchase the non-controlling interest owners' 15 per cent share in MHLP for cash. For rate-making purposes, this non-controlling interest is considered equity and if FEI was required to purchase this non-controlling interest, FEI would fund the transaction with an equity issuance. Accordingly, the Corporation has presented this redeemable non-controlling interest as equity.

23. CONTINGENCIES

The Corporation was the plaintiff in a BC Supreme Court action against the City of Surrey ("Surrey") in which the Corporation sought the court's determination on the manner in which costs related to the relocation of a natural gas transmission pipeline would be shared between itself and Surrey. The relocation was required due to the development and expansion of Surrey's transportation infrastructure. The Corporation claimed that the parties had an agreement that dealt with the allocation of costs. In turn, Surrey advanced counterclaims including an allegation that the Corporation breached the agreement and that Surrey suffered damage as a result. In December 2013, the Court issued a decision which ordered the Corporation and Surrey to share equally the cost of the pipeline relocation. The Court also decided that Surrey was successful in its counterclaim that the Corporation breached the agreement. In December 2014, the Corporation and Surrey reached a settlement, resolving all pending claims and relief sought.

24. GUARANTEES

The Corporation has letters of credit outstanding at December 31, 2014 totaling $50 million (2013 - $50 million) primarily to support its unfunded supplemental pension benefit plans.

FortisBC Energy Inc.
An indirect subsidiary of Fortis Inc.

Annual Information Form
For the Year Ended December 31, 2014
dated March 13, 2015

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All figures are expressed in Canadian dollars unless otherwise noted.

Except as otherwise stated, the information in this Annual Information Form is given as of December 31, 2014.

FORWARD-LOOKING INFORMATION

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

The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in the 2014 Annual Information Form and the information incorporated herein by reference includes, but is not limited to, statements regarding: the Corporation's expected level of capital expenditures; and the Corporation's expectation that compliance with environmental laws and regulations will not have a material effect on the Corporation's capital expenditures, earnings or competitive position.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to report under United States generally accepted accounting principles ("US GAAP") beyond the Canadian securities regulators exemption to the end of 2018 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; the First Nations' settlement process does not adversely affect the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefits costs; the ability of the Corporation to attract and retain skilled workforces; absence of information technology infrastructure failure; absence of cyber-security failure; no significant decline in interest rates; continued energy demand; the ability to arrange sufficient and cost effective financing; no material adverse ratings actions by credit ratings agencies; the competitiveness of natural gas pricing when compared with alternate sources of energy; continued population growth and new housing starts; the availability of natural gas supply; and the ability to hedge certain risks including no counterparties to derivative instruments failing to meet obligations.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); continued reporting in accordance with US GAAP risk; asset breakdown, operation, maintenance and expansion risk; environment, health and safety matters risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving First Nations; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; cyber-security risk; interest rates risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competiveness and commodity price risk; counterparty credit risk; natural gas supply risk; and, other risks described in this Annual Information Form. For additional information with respect to these risk factors, reference should be made to the section entitled "Risk Factors" in this Annual Information Form, the section entitled "Business Risk Management" in the Corporation's Management Discussion & Analysis for the year ended December 31, 2014 and the other continuous disclosure materials filed from time to time on SEDAR at www.sedar.com, and which are incorporated herein by reference.

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

GLOSSARY

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

"AECO" which is the benchmark price for Alberta natural gas;

"ARO" means asset retirement obligation;

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

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

"Board" means the Board of Directors of FEI;

"CNG" means compressed natural gas;

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

"Corporation" or **"FEI"** means FortisBC Energy Inc.;

"DBRS" means DBRS Limited;

"EMS" means environmental management system;

"FBC" means FortisBC Inc.;

"FHI" means FortisBC Holdings Inc.;

"FEVI" means FortisBC Energy (Vancouver Island) Inc.;

"FEW" means FortisBC Energy (Whistler) Inc.;

"Fortis" means Fortis Inc.;

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

"LNG" means liquefied natural gas;

"Moody's" means Moody's Investors Service;

"NEB" means the National Energy Board;

"PBR" means the performance based rate setting methodology for regulation of public utilities;

"PJ" means petajoule;

"PRMP" means price risk management plan approved by the BCUC;

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

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

"Station 2" is the gas market trading hub in northern British Columbia located on the Spectra pipeline system;

"Sumas" means the price point relating to the Huntingdon gas market trading hub, located on the border of British Columbia;

"TGHI" means Terasen Gas Holdings Inc.;

"TransCanada" means TransCanada Pipelines Limited;

"TSX" means Toronto Stock Exchange;

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

1.0 CORPORATE STRUCTURE

1.1 NAME AND INCORPORATION

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

Most recently on December 31, 2014, the Corporation amalgamated with FEVI, FEW and TGHI and continues to operate under the name FortisBC Energy Inc. Prior to the amalgamation, FEI, FEVI, FEW and TGHI were under common control and therefore the amalgamation has been presented on a pooling-of-interest basis, as if the historical financial position and operating results of these corporations had always been amalgamated. Prior period financial and operating information in this Annual Information Form has been restated to present the results of the amalgamated Corporation (unless otherwise specified).

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

1.2 INTER-CORPORATE RELATIONSHIPS

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

2.0 GENERAL DEVELOPMENT OF THE BUSINESS

2.1 THREE-YEAR HISTORY

Over the past three years the Corporation's Rate Base Assets have grown by approximately 6 per cent. This growth reflects the Corporation's capital expenditures necessary to ensure the ability to provide service, public and employee safety and reliability of supply of natural gas to the Corporation's customer base.

2.2 OUTLOOK

Anticipated capital expenditures by the Corporation for 2015, before contributions in aid of construction and including cost of removal are expected to be approximately $400 million. Capital expenditures include forecast 2015 costs associated with the Tilbury LNG facility expansion project of approximately $170 million. Planned capital expenditures are based on detailed forecasts of energy demand, weather and cost of labour and materials, as well as other factors including economic conditions, which could change and cause actual expenditures to differ from forecasts.

3.0 THE BUSINESS OF FORTISBC ENERGY INC.

3.1 GENERAL

The Corporation is the largest distributor of natural gas in BC serving approximately 967,000 residential, commercial and industrial and transportation customers in more than 125 communities. Major areas served by the Corporation are the Greater Vancouver, Fraser Valley, Thompson, Okanagan, Kootenay, North Central Interior, Vancouver Island, Sunshine Coast and Whistler regions of BC. The Corporation provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of most residential, commercial and industrial customers.

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

FEI holds franchise or operating agreements with most of the incorporated municipalities in which it distributes gas in the interior of BC. The terms of these franchise agreements range from 10 to 21 years. While such franchise or operating agreements are in effect, the municipalities receive franchise fees of three per cent of the gross revenue from customers in the municipality. Historically, approximately one-quarter of these franchise agreements in the interior contained a provision to the effect that at the end of the term the municipality could purchase the distribution system within the municipality as a going concern and at a price equal to the fair value of the business undertaking. If the municipality did not exercise the right to purchase or grant a new franchise or operating agreement, gas utilities would be required under the Act to continue to provide service in the municipality unless the BCUC ordered otherwise. FEI no longer has any franchise agreements in the interior that contain right to purchase provisions. Some of those franchise agreements have expired and in some other cases, an arrangement was developed to enable the transfer of economic risks and rewards of ownership to the municipality, while allowing FEI to continue to operate within the municipality. In the case of Vancouver Island, FEI has agreements with the District of Highlands and the District of Saanich that contain an option allowing each district to purchase the distribution system within its boundaries at a price that is higher of the fair market value of the assets and undertaking as a going concern or the most recent determination of the rate base associated with those assets as approved by the BCUC. However, FEI has recently entered into replacement operating agreements with these districts that do not contain a purchase option. Upon approval of the replacement operating agreements by the BCUC, those options will have expired.

Between 2000 and 2005 the Corporation entered into leasing arrangements whereby certain natural gas distribution assets were leased to certain municipalities and then leased back by the Corporation from the municipalities. The natural gas distribution assets are considered to be integral equipment to real estate assets and as such the transactions have been accounted for as financing transactions. The proceeds from these transactions have been recorded as a financial liability included in capital lease and finance obligations. Lease payments less the portion considered to be interest expense decrease the financial liability. The transactions have implicit interest rates between 7.17 per cent and 8.76 per cent and are being repaid over a 35 year period. Each of the arrangements allow the Corporation, at its option, to terminate the lease arrangements early, after 17 years. If the Corporation exercises this option, the Corporation would pay the municipality an early termination payment which is equal to the carrying value of the obligation on the Corporation's financial statements at that point in time.

The following table compares 2014 and 2013 natural gas revenue, sales and number of customers by customer class:

	Natural Gas Revenue				**Natural Gas Sales Volumes**				**Customers at Year End**			
	2014		**2013**		**2014**		**2013**		**2014**		**2013**	
	$ millions	**%**	**$ millions**	**%**	**PJs**	**%**	**PJs**	**%**	**#**	**%**	**#**	**%**
Residential	807	56	773	56	72	37	75	37	875,623	91	865,148	91
Commercial	434	30	408	30	45	23	47	24	89,204	9	87,999	9
Industrial	39	3	42	3	4	2	5	2	364	-	351	-
Transportation	97	7	89	6	62	32	61	31	2,248	-	2,247	-
Other	58	4	66	5	12	6	12	6	13	-	16	-
Total	1,435	100	1,378	100	195	100	200	100	967,452	100	955,761	100

3.2 GAS PURCHASE, STORAGE AND OFF-SALES AGREEMENTS

(a) Gas Purchase Agreements

In order to acquire supply resources that ensure reliable natural gas deliveries to its customers, FEI purchases natural gas supply from counterparties, which include producers, aggregators, and marketers. These counterparties adhere to standards of counterparty creditworthiness, and contract execution/management policies. FEI contracts for approximately 138 PJs of baseload and seasonal supply, of which the majority is sourced in north east BC and transported on Spectra Energy's Westcoast Pipeline T-South pipeline transportation system. The remainder is sourced in Alberta and transported on TransCanada's pipeline transportation system.

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

(b) Gas Storage and Peak Shaving Arrangements

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

- Supplement contracted baseload and seasonal gas supply in the winter months while injecting excess baseload supply to refill storage in the summer months.
- Mitigate the risk of supply shortages during cooler weather and a peak day.
- Manage the cost of gas during winter months.
- Balance daily supply and demand on the distribution system during periods of peak use that occur over the course of the winter months.

FEI holds approximately 35.5 PJs of total storage capacity. FEI's own Tilbury and Mt. Hayes LNG peak shaving facilities provide on-system storage capacity and deliverability. FEI also contracts for underground storage capacity and deliverability from third parties in north east BC, Alberta and the Pacific Northwest of the United States. On a combined basis, FEI's Tilbury and Mt. Hayes facilities, the contracted storage facilities, and other peaking arrangements can deliver up to 0.74 PJs per day of supply to FEI on the coldest days of the heating season. The heating season typically occurs during the December through February period.

(c) Off-System Sales

FEI engages in off-system sales activities that allow for the recovery or mitigation of costs of any unutilized supply and/or pipeline and storage capacity that is available once customers' daily load requirements are met.

Under the Gas Supply Mitigation Incentive Plan ("GSMIP") revenue sharing model, which is approved by the Commission, FEI can earn an incentive payment for its mitigation activities. Historically, FEI has earned approximately $1 million annually through GSMIP while the remaining savings are credited back to customers through reduced rates. In the gas contract year ending October 31, 2014, FEI earned an incentive payment of approximately $1.2 million.

The current GSMIP program was approved by the Commission following a comprehensive review in 2011. In 2013, the Commission approved an extension of the program until October 31, 2016.

(d) Price Risk Management Plan

In the past, FEI engaged in price risk management activities to limit the exposure to fluctuations in natural gas prices and to ensure, to the extent possible, that natural gas commodity costs remained competitive against other energy sources. These have typically included the use of derivative instruments which were implemented pursuant to a PRMP approved by the Commission. In July 2010, the BCUC ordered a review of FEI's PRMP hedging strategy in the context of the *Clean Energy Act* (British Columbia) and the expectation of increased domestic natural gas supply. Following a comprehensive review process, in July 2011 the BCUC directed FEI to suspend the majority of its natural gas commodity hedging activities except for the implementation of winter Sumas/AECO basis swaps. For winter 2013/14, FEI has reduced its Sumas price exposure risk by purchasing supply only at Station 2 and in Alberta. All hedges that had been in place from previously approved PRMPs prior to the suspension of the hedging strategy, expired in 2014.

(e) Unbundling

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

The program has been in place since November 2004 for commercial customers and November 2007 for residential customers. For the year ended 2014, approximately 7 per cent of eligible commercial customers and 5 per cent of eligible residential customers participated in the program by purchasing their commodity supply from alternate providers.

3.3 OPERATIONS

Operations is comprised of three main functional groups; Transmission (Pipeline) Operations, Plant Operations and Distribution Operations.

(a) Transmission (Pipeline) Operations

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

Transmission assets operated by the group include the interior transmission system mainline, the Southern Crossing Pipeline, the coastal transmission system, transmission pressure lateral pipelines and transmission marine loops.

(b) Plant Operations

The Plant Operations group is responsible for ensuring compressor stations and LNG facilities are operated and maintained in a safe, reliable and cost effective manner. Assets operated by the group include interior, coastal and island compressor stations and LNG plants at Tilbury (Delta) and Mt. Hayes (Vancouver Island).

(c) Distribution Operations

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

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

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

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

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

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

3.4 OTHER OPERATIONS, ASSETS AND ACTIVITIES

(a) Other Operations

Operations support functions are primarily located in the regional centres located throughout the service territory, and include planning, resource management, and dispatching. There are also several centralized Operations support groups located in Surrey including Process Support, the Operations Centre (permits and work closing), Operational Reporting, Claims, Engineering, Asset Management and Records. The support groups provide the necessary expertise to assess work priorities, plan and design work to be completed, establish and maintain processes to be followed, and coordinate who, when and how the work gets completed. They also monitor costs and operational metrics to ensure commitments made to customers, regulators and other stakeholders are met.

(b) Other Assets

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

(c) Other Activities

The Corporation’s other activities are relatively small in comparison to its regulated gas operations but provide an opportunity to leverage the utilization of the Corporation’s utility operation, maintenance and management resources under service contracts to third parties.

3.5 OTHER MATERIAL CORPORATE ISSUES

(a) Insurance

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

(b) Employees

The Corporation employed approximately 1,750 employees as at December 31, 2014. The organized employees of FEI are represented by the IBEW and COPE unions. IBEW represents employees in specified occupations in the areas of transmission and distribution. The term of the current collective agreement with the IBEW is July 10, 2012 to March 31, 2015. The Corporation and IBEW have reached a ratified agreement for a new contract with a term of April 1, 2015 to March 31, 2019.

There are two collective agreements between the Corporation and COPE. The term of the first collective agreement with COPE, representing employees in specified occupations in the areas of administration and operations support is April 1, 2012 to March 31, 2015. The term of the second collective agreement with COPE, representing customer service employees is April 1, 2014 to March 31, 2017.

(c) Specialized Skills and Knowledge

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

(d) Intellectual Property

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

(e) Real Property

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

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

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

(f) Seasonality

Due to the seasonal nature of the Corporation's natural gas transmission and distribution operations and its impact on natural gas consumption patterns, the natural gas transmission and operations of FEI normally generate higher earnings in the first and fourth quarters and lower net earnings in the second quarter, which are partially offset by net losses in the third quarter.

4.0 REGULATION

4.1 OVERVIEW

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

4.2 REVENUE REQUIREMENT

The rate setting process generally has two main elements: revenue requirements and rate design.

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

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

From 2010 through 2013, FEI's revenue requirements were determined based on cost of service regulation; from 2014 to 2019, a PBR Plan will be applied. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.1 per cent each year. The PBR Plan also includes a 50/50 sharing of variances from the formula-driven operations and maintenance expenses and capital expenditures over the PBR period, and a number of service quality measures designed to ensure FEI maintains service levels. It also sets out the requirements for an annual review process which will provide a forum for discussion between FEI and interested parties regarding its current performance and future activities.

When approved by the BCUC, FEI employs deferral accounts to address certain uncontrollable or non-routine items and to match costs incurred to the periods that the costs benefit. Two primary deferral mechanisms currently in place decrease the volatility in rates caused by such factors as fluctuations in gas supply costs and the significant impacts of weather and other changes on use rates. In addition, during the term of the PBR Plan, FEI has a deferral account to flow through variances in the majority of its other costs and revenues, excluding the formulaic operation and maintenance costs.

After revenue requirements have been established, costs are allocated among different classes of energy users/customers and rates are designed to reflect the cost of providing services to each rate class. Before any rate can be put into effect, it must be filed with and approved by the BCUC.

In BC, the regulatory process for revenue requirement determination and rate design involves participation of interested parties, such as customer representatives, other public groups or private individuals.

4.3 REGULATORY DECISIONS AND OUTLOOK

Important regulatory information pertaining to decisions made by the BCUC with respect to FEI, is summarized in the following table.

	2015[2]	2014[3]	2013[3]	2012[3]	2011[3]
Rate Base Assets ($ millions)					
FEI[1]	3,668	2,773	2,777	2,725	2,636
FEVI		806	808	780	729
FEW		39	40	41	43
	3,668	3,618	3,625	3,546	3,408
Deemed common equity component of total capital structure (%)					
FEI	38.50	38.50	38.50	40.00	40.00
FEVI		41.50	41.50	40.00	40.00
FEW		41.50	41.50	40.00	40.00
Allowed rate of return on common equity (%)					
FEI	8.75	8.75	8.75	9.50	9.50
FEVI		9.25	9.25	10.00	10.00
FEW		9.50	9.50	10.00	10.00

Notes:
1. Includes Fort Nelson.
2. 2015 Rate Base Assets are subject to BCUC approval. 2015 figures reflect post-amalgamation FEI.
3. 2011 through 2014 figures reflect pre-amalgamation FEI, FEVI and FEW.

5.0 SAFETY AND ENVIRONMENTAL MATTERS

5.1 GENERAL

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

5.2 ENVIRONMENTAL MANAGEMENT SYSTEM

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

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

5.3 PERMITS, LICENCES AND APPROVALS

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

5.4 ENVIRONMENTAL EXPENDITURES

The Corporation incurs environmental compliance and environmental management system related capital expenditures in connection with capital projects and in connection with ongoing operation and maintenance activities that are not reasonably quantifiable. The Corporation's cost of compliance with environmental laws and regulations did not have a material effect on the operating costs, capital expenditures, earnings or competitive position of the Corporation in 2014 and, based on current laws, facts and circumstances, is not expected to have a material effect on such matters in the future. Operating and capital costs associated with complying with environmental laws and regulations are generally recoverable by the Corporation through rates.

5.5 RELEASES

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

5.6 HAZARDOUS SUBSTANCES

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

Herbicides - The Corporation uses herbicides primarily for the control of incompatible vegetation on rights-of-way, along transmission and distribution lines and on station sites. The Corporation uses an integrated approach toward vegetation management using manual and mechanical cutting, natural competition from compatible vegetation, together with the selective use of herbicides. Patrols occur to monitor vegetation growth and assess appropriate maintenance activities. Site-specific conditions, including tree species, tree density, height, terrain, prevailing wind directions, and adjacent land uses, are considered by the Corporation in determining the appropriate overall vegetation management plan. Herbicides are applied in accordance with applicable federal and provincial legislation, which governs application, notification and reporting.

Other - In addition some facilities and products used in operational activities contain substances that are designated for special treatment under occupational health and safety legislation, such as asbestos, lead and mercury. The Corporation has exposure control plans in place to address situations when these kinds of substances are encountered or utilized.

5.7 SITE INVESTIGATION AND REMEDIATION

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

5.8 AIR EMISSIONS MANAGEMENT AND POLICY

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

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

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

5.9 ASSET RETIREMENT OBLIGATIONS

The Corporation does not currently have any identified AROs and as such no amounts have been recorded as at December 31, 2014. The nature, amount and timing of costs associated with land and environmental remediation and/or removal of assets cannot be reasonably estimated due to the nature of their operation; applicable licences, permits and laws are reasonably expected to be renewed or extended indefinitely to maintain the integrity of the related assets and to ensure the continued provision of service to customers. In the event that environmental issues are identified, or the applicable licences, permits, laws or agreements are terminated, AROs will be recorded at that time provided the costs can be reasonably estimated.

5.10 EMERGENCY PREPAREDNESS AND SAFETY

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

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

6.0 RISK FACTORS

For more information with respect to risks and uncertainties to which the Corporation is subject, see the section entitled "Business Risk Management" in the Corporation's Management Discussion & Analysis for the year ended December 31, 2014, which is filed on SEDAR at www.sedar.com, and is incorporated herein by reference.

7.0 CAPITAL STRUCTURE

FEI's business requires the Corporation to have ongoing access to capital to allow it to build and maintain the gas systems in its service territory. In order to ensure that this access to capital is maintained and in accordance with BCUC requirements, the Corporation targets a long-term capital structure that includes 38.5 per cent equity and 61.50 per cent debt. The cost of capital for regulated utilities in BC is reviewed periodically which can result in a change in the equity component of the Corporation.

7.1 SHARE CAPITAL

The Corporation is authorized to issue 500,000,000 common shares without par value, 100,000,000 first preference shares without par value of which 3,000,000 have been designated as 8.625 per cent cumulative redeemable retractable first preference shares without par value, 50 have been designated as cumulative redeemable perpetual first preference shares without par value, 40 have been designated as cumulative redeemable non-convertible perpetual first preference shares without par value, 3,000,000 have been designated as 7.10 per cent cumulative redeemable retractable first preference shares without par value and 3,000,000 have been designated as 6.32 per cent cumulative redeemable first preference shares without par value, none of which are issued and 100,000,000 second preference shares without par value. As at December 31, 2014, 313,438,012 common shares were issued and outstanding. Fortis indirectly owns all of the issued common shares through its wholly-owned subsidiary, FHI.

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

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

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

7.2 DIVIDEND POLICY

The declaration and payment of dividends is at the discretion of the Board and will be influenced by ongoing capital structure management. In 2014, FEI paid $95.0 million in dividends, compared with $150.0 million in 2013 and $95.0 million in 2012. As part of its approval of the acquisition of Terasen Inc. by Fortis, the BCUC imposed a number of conditions intended to ring-fence FEI from its parent corporation. These restrictions include a prohibition on the payment of dividends unless FEI has in place at least as much common equity as that deemed by the BCUC for rate-making purposes. FEI's dividend policy is intended to ensure that FEI maintains at least as much common equity as that deemed by the BCUC for rate-making purposes.

8.0 CREDIT RATINGS

The following table discloses the Corporation's credit ratings as of December 31, 2014:

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

In June 2014, Moody's affirmed the long-term credit ratings of the Corporation of A1 and A3 and changed the rating outlook to stable from negative. In January 2015, DBRS affirmed the long-term credit ratings of the Corporation after the completion of the amalgamation on December 31, 2014.

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

Securities issued by FEI are rated by DBRS and Moody's. FEI paid each of these agencies a maintenance fee to provide ratings during 2014 and 2013, but did not pay for or receive any other services from the agencies during those years. The ratings assigned to securities issued by FEI are reviewed by these agencies on an ongoing basis. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. DBRS rates debt instruments by rating categories ranging from AAA which represents the highest quality of securities, to D which represents the lowest quality of securities rated. Moody's rates debt instruments by rating categories ranging from Aaa which represents the highest quality of securities to C which represents the lowest quality of securities.

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

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

9.0 MARKET FOR SECURITIES

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

10.0 DIRECTORS AND OFFICERS

10.1 DIRECTORS

The following table sets forth the name, province or state, and country of residence of each director of the Corporation, his or her respective position and office with the Corporation as at the date of filing of this Annual Information Form. In addition this table sets forth each director's principal occupation during the five preceding years, and the period during which he or she has served as a director of the Corporation and when his or her term expires:

NAME AND RESIDENCE	TERM AS A DIRECTOR (4)	PRINCIPAL OCCUPATION FOR THE FIVE PRECEDING YEARS
Harold G. Calla(1) British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	Chair of the First Nations Financial Management Board.
Brenda Eaton(1) British Columbia, Canada	Commencing 2009. Term expires at the next annual general meeting.	Corporate Director; additionally Chair, Seaterra Commission; prior thereto Chair, BC Housing to April 2012.
Ida J. Goodreau(2) British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	Corporate Director; additionally Adjunct Professor, Sauder School of Business, University of British Columbia.
David G. Hutchens (1) Arizona, USA	Commencing January 2015. Term expires at the next annual general meeting.	President & Chief Executive Officer ("CEO"), UNS Energy Corporation and additionally President & CEO, Tucson Electric Power Company since May 2014; prior thereto Chief Operation Officer ("COO") of Tucson Electric Power Company since August 2013; prior thereto President of Tucson Electric Power Company since December 2011; prior thereto Vice President of Tucson Electric Power Company.
Michael A. Mulcahy British Columbia, Canada	Commencing 2014. Term expires at the next annual general meeting.	President & CEO of the Corporation and additionally of FortisBC Inc. since August 2014; prior thereto Executive Vice President, Human Resources, Customer & Corporate Services of the Corporation and additionally of FortisBC Inc. since November 2011; prior thereto Executive Vice President, Customer & Corporate Services of the Corporation and additionally of FortisBC Inc. since July 2010; prior thereto Vice President, Customer & Corporate Services of FortisBC Inc.
Barry V. Perry(2) Newfoundland and Labrador, Canada	Commencing 2007. Term expires at the next annual general meeting.	President & CEO of Fortis Inc. since January 2015; prior thereto President of Fortis Inc. since July 2014; prior thereto Vice President, Finance & Chief Financial Officer ("CFO") of Fortis Inc.

NAME AND RESIDENCE	TERM AS A DIRECTOR [4]	PRINCIPAL OCCUPATION FOR THE FIVE PRECEDING YEARS
David R. Podmore[2][3] British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	Chairman & CEO, Concert Properties Ltd.
Christopher F. Scott [2] British Columbia, Canada	Commencing 2013. Term expires at the next annual general meeting.	Corporate Director; additionally Consultant to First Nations Bands since 2011; prior thereto First Nations Liaison & COO of Osoyoos Indian Band Dev. Corp.; and additionally Owner/Operator of Premium Varietal Vineyard.
Karl W. Smith [1] Newfoundland and Labrador, Canada	Commencing 2014. Term expires at the next annual general meeting.	Executive Vice President & CFO of Fortis Inc. since June 2014; prior thereto President & CEO of FortisAlberta Inc.
John C. Walker [2] British Columbia, Canada	Commencing 2007. Term expires at the next annual general meeting.	Executive Vice President, Western Canadian Operations of Fortis Inc. since August 2014; prior thereto President & CEO of the Corporation since July 2010; and additionally and prior thereto President & CEO of FortisBC Inc.
Janet P. Woodruff [1] British Columbia, Canada	Commencing 2013. Term expires at the next annual general meeting.	Corporate Director; additionally Consultant since 2011; prior thereto Vice President & Special Advisor of BC Hydro since 2010.

Notes:

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

10.2 OFFICERS

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

NAME AND RESIDENCE	OFFICE HELD	PRINCIPAL OCCUPATION FOR THE FIVE PRECEDING YEARS
Michael A. Mulcahy British Columbia, Canada	President & CEO	President & CEO of the Corporation and additionally of FortisBC Inc. since August 2014; prior thereto Executive Vice President, Human Resources, Customer & Corporate Services of the Corporation and additionally of FortisBC Inc. since November 2011; prior thereto Executive Vice President, Customer & Corporate Services of the Corporation and additionally of FortisBC Inc. since July 2010; prior thereto Vice President, Customer & Corporate Services of FortisBC Inc.
Roger A. Dall'Antonia British Columbia, Canada	Executive Vice President, Customer Service & Regulatory Affairs	Executive Vice President, Customer Service & Regulatory Affairs of the Corporation and additionally of FortisBC Inc. since August 2014; prior thereto Vice President, Strategic Planning, Corporate Development & Regulatory Affairs of the Corporation and additionally of FortisBC Inc., since January, 2012; prior thereto Vice President, Finance & CFO & Treasurer of the Corporation since July 2010; prior thereto Vice President, Corporate Development & Treasurer of the Corporation.
Doyle Sam British Columbia, Canada	Executive Vice President, Operations & Engineering	Executive Vice President, Operations & Engineering of the Corporation and additionally of FortisBC Inc. since February 2014; prior thereto Executive Vice President, Network Services, Engineering & Generation of the Corporation and additionally of FortisBC Inc. since February 2013; prior thereto Vice President, Engineering & Generation of the Corporation and additionally FortisBC Inc. since November 2011; prior thereto Vice President, Engineering & Operations of FortisBC Inc.
Cynthia M. Des Brisay British Columbia, Canada	Vice President, Energy Supply & Resource Development	Vice President, Energy Supply & Resource Development of the Corporation and additionally of FortisBC Inc. since February 2011; prior thereto Vice President, Energy Supply & Gas Transmission of the Corporation and additionally of FortisBC Inc. since July 2010; prior thereto Vice President, Gas Supply & Transmission of the Corporation.

NAME AND RESIDENCE	OFFICE HELD	PRINCIPAL OCCUPATION FOR THE FIVE PRECEDING YEARS
Jody D. Drope British Columbia, Canada	Vice President, Human Resources & Environment, Health and Safety	Vice President, Human Resources & Environment, Health and Safety of the Corporation and additionally of FortisBC Inc. since November 2014; prior thereto Chief Human Resources Officer of the Corporation and additionally of FortisBC Inc. since November 2010; prior thereto Human Resources Manager of FortisBC Inc.
Michele I. Leeners British Columbia, Canada	Vice President, Finance & CFO	Vice President, Finance & CFO of the Corporation since January, 2012; and additionally Vice President, Finance & CFO of FortisBC Inc.
Douglas L. Stout British Columbia, Canada	Vice President, Market Development & External Relations	Vice President, Market Development & External Relations of the Corporation and additionally of FortisBC Inc. since August 2014; prior thereto Vice President, Energy Solutions & External Relations of the Corporation and additionally of FortisBC Inc. since July 2010; prior thereto Vice President, Marketing & Business Development of the Corporation.
Dennis A. Swanson British Columbia, Canada	Vice President, Corporate Services	Vice President, Corporate Services of the Corporation and additionally of FortisBC Inc. since November 2014; prior thereto Director, Regulatory Affairs of the Corporation and additionally of FortisBC Inc.
Monic D. Pratch British Columbia, Canada	Corporate Secretary	Chief Privacy Officer, Corporate Secretary & Counsel of the Corporation and of FortisBC Inc. since November 2014; prior thereto Chief Privacy Officer & Counsel of the Corporation and additionally of FortisBC Inc. since February 2011; prior thereto Counsel of the Corporation and additionally of FortisBC Inc. since May 2010; prior thereto Associate Lawyer of Duncan Craig LLP.
Debra G. Nelson British Columbia, Canada	Assistant Corporate Secretary	Assistant Corporate Secretary and Manager, Corporate Compliance and Secretariat of the Corporation; and additionally since July 2010, Assistant Corporate Secretary of FortisBC Inc.

10.3 CONFLICTS OF INTEREST

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

11.0 EXECUTIVE COMPENSATION

The Corporation’s Statement of Executive Compensation is attached as Schedule “A”.

12.0 SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The Corporation does not have a compensation plan under which securities of the Corporation are authorized for issuance. See “Executive Compensation –Stock Option Plan” in Schedule “A” of this Annual Information Form for a description of the Fortis 2012 Stock Option Plan.

13.0 INDEBTEDNESS OF EXECUTIVE OFFICERS, DIRECTORS, AND EMPLOYEES

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

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

14.0 INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

For more information with respect to the Corporation’s material transactions with related parties, see the section entitled “Related Party Transactions” in the Corporation’s Management Discussion & Analysis for the year ended December 31, 2014, which is filed on SEDAR at www.sedar.com, and is incorporated herein by reference.

15.0 MATERIAL CONTRACTS

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

16.0 LEGAL PROCEEDINGS

FEI was the plaintiff in a BC Supreme Court action against the City of Surrey (“Surrey”) in which FEI sought the court’s determination on the manner in which costs related to the relocation of a natural gas transmission pipeline would be shared between itself and Surrey. The relocation was required due to the development and expansion of Surrey’s transportation infrastructure. FEI claimed that the parties had an agreement that dealt with the allocation of costs. In turn, Surrey advanced counterclaims including an allegation that FEI breached the agreement and that Surrey suffered damage as a result. In December 2013, the Court issued a decision which ordered FEI and Surrey to share equally the cost of the pipeline relocation. The Court also decided that Surrey was successful in its counterclaim that FEI breached the agreement. In December 2014, FEI and Surrey reached a settlement, resolving all pending claims and relief sought.

17.0 TRANSFER AGENTS AND REGISTRARS

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

18.0 INTERESTS OF EXPERTS

Ernst & Young LLP, Chartered Accountants is the auditor of the Corporation and was appointed effective as at July 26, 2007 and each year thereafter. The Corporation's auditor, Ernst & Young LLP, has prepared the audit report attached to the audited consolidated financial statements for the Corporation's financial year ended December 31, 2014. Ernst & Young LLP remains independent with respect of the Corporation within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

19.0 ADDITIONAL INFORMATION

Additional financial information is also provided in the Corporation's financial statements for the financial year ended December 31, 2014, and management's discussion and analysis of such financial results. A copy of such documents and additional information relating the Corporation is contained on SEDAR at www.sedar.com.

SCHEDULE "A" - EXECUTIVE COMPENSATION

A. COMPENSATION DISCUSSION AND ANALYSIS

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

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

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

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

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

Each of the components is discussed further in the following sections of this Schedule "A".

REPORT ON CORPORATE GOVERNANCE

Governance Committee

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

With regards to executive compensation matters, the responsibilities of the Governance Committee include reviewing and making recommendations to the Board regarding:

- the adequacy and form of compensation of directors;
- the appointment and compensation of executive officers;
- the overall effectiveness of the senior management team including the CEO; and
- the development of policy for orderly succession to senior positions and targets used by the Corporation to measure performance for compensation purposes.

Additionally, the Governance Committee believes that the Corporation's compensation regime appropriately takes into account the performance of the Corporation and the contribution of the President & CEO and other executive officers of the Corporation toward that performance.

The mandate of the Governance Committee includes making recommendations to the Board with respect to the governance and management of the pension plans and designating executive officers for purposes of participation in supplemental pension plans. In regards to non-union pension matters, the Governance Committee appoints the auditor for the pension plan financial statements. The Board establishes or terminates pension plans, is the fiduciary and administrator for the plans and approves the governance structure, major plan design changes and the mandate of the Governance Committee.

The Corporation recognizes the importance of appointing knowledgeable and experienced individuals to the Governance Committee. The Governance Committee composition includes members that have the necessary background and skills to provide effective oversight of corporate governance and executive compensation, including adherence with sound risk management principles.

To enable the Governance Committee to fulfill its mandate, all Governance Committee members have significant senior leadership and/or governance experience. More specifically, a majority of the membership of the Governance Committee has direct operational or functional experience overseeing compensation policies and practices at large organizations similar in complexity to FEI.

The members of the Governance Committee are Ida J. Goodreau, Barry V. Perry, David R. Podmore, John C. Walker and Christopher F. Scott. These directors are independent directors with the exception of Barry V. Perry, President & CEO of Fortis Inc. and John C. Walker, Executive Vice President, Western Canadian Operations of Fortis Inc.

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

Compensation Review Framework

Annual Review

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

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

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

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

Competitive Positioning

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

Compensation Risk Considerations

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

External Compensation Risk Mitigating Controls

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

Internal Compensation Risk Mitigating Controls

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

Annual Salary	• Annual salaries are targeted approximately at market median levels and as such do not encourage excessive risk-taking.
Short-Term Incentives	• ***Board Discretion***: The Governance Committee retains the discretion to make upwards or downwards adjustments to the prescribed incentive payout formulas and actual payouts based on its assessment of the risk assumed to generate financial results, circumstances that may have influenced individual performance, as well as external factors that may have impacted the Corporation's financial performance. • ***Award Cap:*** Short-term incentives awarded to executives are capped at 150 per cent of targeted annual incentive; however, the Governance Committee retains the discretion to award up to a maximum of 200 per cent of targeted annual incentive in recognition of individual response to exceptional challenges or opportunities and may make deviations in appropriate circumstances.
Mid-Term Compensation	• ***Performance Share Units ("PSUs"):*** PSUs are granted to participants ("Participant"), as defined in the 2013 FEI Performance Share Unit Plan. Participants, including NEOs are awarded PSUs to promote a greater alignment of interests between the senior management of the Corporation and the shareholders of Fortis, foster the growth and success of the business of the Corporation and Fortis in accordance with the vision of both the Corporation and Fortis, and ensure that management is focused on both the Corporation's and Fortis' business objectives.

	Awarding PSUs to NEOs also strengthens the proportion of total deferred compensation to salary and incentive compensation in the overall pay mix. The grant is determined using a formula composed of base salary, salary level and market price of the Fortis common shares.
Long-Term Compensation	• ***Stock Option Grants Linked Directly to Stock Ownership Requirements***: Share ownership for any eligible person as defined by the 2012 Fortis Inc. Stock Option Plan ("Eligible Person"), including NEOs, is encouraged through Fortis' Executive Compensation Policy, whereby the options granted each year to any Eligible Person are limited to the lesser of the number of options prescribed to that particular position and the minimum number of shares actually owned by the individual since the beginning of the previous calendar year. While minimum share holdings are not formally prescribed by policy, tying the number of stock options grants to the Eligible Person's share holdings has achieved high levels of executive ownership. • ***Anti-Hedging Policy***: The Corporation's executive officers are not permitted to hedge against declines in the market value of equity securities received as compensation.

Compensation Consultants

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

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

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

The following table sets forth information concerning fees paid by the Corporation to compensation consultants in 2013 and 2014.

Type of Fee by Consultant	2013 Consultant Fees ($)	2014 Consultant Fees ($)
Executive Compensation Consulting	-	-
All Other Fees (1)	15,425	27,757

Note:

1. Fees paid to Towers Watson related to pension, benefits and market data.

Elements of Total Compensation

Total annual compensation for the executive officers involves a significant proportion that is at risk due to the use of short-term, mid-term and long-term incentive components. The total annual compensation includes both the cash compensation paid to the executive officers in the year and an estimated compensation for the mid-term and long-term incentive components. The mid-term incentive components are valued as notional units, based on the average market price of Fortis stock during the last 5 trading days of the prior year. The estimated value of the long-term incentive components is determined using the Black-Scholes pricing model at the date of grant.

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

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

Compensation Element *(Eligibility)*	Description	Compensation Objectives
Annual Base Salary and Annual Incentive		
Annual Base Salary *(all NEOs)*	Salary is a market-competitive, fixed level of compensation.	Attract and retain highly qualified executives. Motivate strong business performance.
Annual Incentive *(all NEOs)*	Combined with salary, the target level of annual incentive is intended to provide executives with a market-competitive total cash opportunity. Annual incentive payout depends on individual and corporate performance.	Attract and retain highly qualified executives. Motivate strong business performance. Compensation dependent on individual and corporate performance. Simple to communicate and administer.
Mid-term Equity Based Incentive		
Performance Share Units *(all NEOs)*	Equity grant value based on performance and retention objectives. Grant value is converted to the number of units granted by dividing the planned value by the predetermined, formulaic planning price. At the end of the 3 year performance period, performance is assessed against the pre-defined objectives. Payment of the accumulated PSU balance (inclusive of notional dividends) at the price determined pursuant to the plan. Paid in cash upon completion of the 3 year performance period.	Align executive and shareholder interests. Attract and retain highly qualified executives. Encourage strong long-term business performance. Balance compensation for short and long-term strategic results. Compensation dependent on corporate performance. Encourages sustained, mid-term growth by linking a portion of compensation to mid-term performance. Simple to communicate and administer.
Long-term Equity Based Incentive		
Stock Options *(all NEOs)*	Annual equity grants are made in the form of stock options. The amount of annual grant will be dependent on the level of the executive and their current share ownership levels. Planned grant value is converted to the number of shares granted by dividing the planned value by the pre-determined, formulaic planning price derived using the Black-Scholes Option Pricing Model. Options vest over a 4 year period.	Align executive and shareholder interests. Attract and retain highly qualified executives. Encourage strong long-term business performance. Balance compensation for short and long-term strategic results. Simple to communicate and administer.

Compensation Element *(Eligibility)*	**Description**	**Compensation Objectives**
Pension Plans		
Defined Benefit Pension Plan (*certain NEOs)*	Payout upon retirement based on the number of years of credited service and actual pensionable earnings.	Attract and retain highly qualified executives. Simple to communicate and administer.
Registered Retirement Savings Plan ("RRSP") *(certain NEOs)*	Contribution to a RRSP equal to 6.5 per cent of a member's base salary which is matched by the member up to the maximum annual contribution limit allowed by the Canada Revenue Agency.	Attract and retain highly qualified executives. Simple to communicate and administer.
Defined Contribution: Supplemental Employee Retirement Plan ("SRP" or "SERP") *(all NEOs)*	Accrual of 13 per cent of base salary and annual incentive in excess of the Canada Revenue Agency annual limit. At time of retirement, paid in one lump sum or in equal payments up to 15 years.	Attract and retain highly qualified executives. Simple to communicate and administer.

Annual Base Salary

Annual base salaries paid to the Corporation's NEOs are determined by the Board upon recommendation by the Governance Committee and are established annually by reference to the range of salaries paid by comparable Canadian commercial industrial companies and are targeted to the median of the comparator group.

Annual Incentive

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

Corporate performance is determined with reference to the performance of the Corporation relative to weighted targets in respect to financial, safety, customer satisfaction and regulatory performance. There were six targets in 2014 which included (i) net earnings (30.0 per cent weighting); (ii) an all injury frequency rate which measures how safely the Corporation operates (10.0 per cent weighting); (iii) recordable vehicle incidents (10.0 per cent weighting); (iv) customer satisfaction of which measures a customer survey score (12.5 per cent weighting); (v) public contacts with pipelines (12.5 per cent weighting); and (vi) regulatory performance (25.0 per cent weighting). Net earnings are primarily based on regulated earnings which are representative of the achieved return on equity based on the allowed return on equity as approved by the BCUC.

Individual performance is determined with reference to individual contribution to corporate objectives, elements of which are subjective. For the former President & CEO, 80 per cent of the annual cash bonus was based on corporate targets and 20 per cent was based upon personal targets. For the current President & CEO, 70 per cent of the annual cash bonus is based on corporate targets and 30 per cent is based upon personal targets. For each of the other NEOs, 50 per cent of the annual cash bonus is based upon corporate targets and

50 per cent is based upon personal targets. At the discretion of the Board, executives may be awarded up to an additional 50 per cent of target incentive pay in recognition of exceptional performance contributions.

Performance Share Unit Plan

The 2013 FEI Performance Share Unit Plan ("PSU Plan") was established and adopted by FEI as of January 1, 2013. The PSU Plan is administered by FEI which grants PSUs, determined as a specified percentage of the Participant's annual base salary divided by the volume-weighted average trading price of Fortis common shares. Payment will be made 3 years after the grant date in an amount of 0-120 per cent of the number of PSUs accumulated, including reinvestment of notional dividends, as determined appropriate by FEI upon measurement of Fortis performance over such 3 year period in comparison to similar publicly traded industry participants. The payment is based on the number of PSUs outstanding, multiplied by the volume-weighted average trading price of the Fortis common shares determined by dividing the total value of the Fortis common shares traded on the TSX during the last 5 trading days immediately preceding the date of grant by the total volume of the Fortis common shares traded on the TSX during such 5 trading days.

In 2014, the former President & CEO of the Corporation was granted units having a market value at the time of grant equal to 75 per cent of his base salary. The current President & CEO and Executive Vice President, Operations & Engineering were granted units having a market value at the time of grant equal to 20 per cent of their base salary. Each of the other NEOs was granted units having a market value at the time of grant equal to 10 per cent of such NEO's base salary. Each Participant's unit account shall be credited with additional units equal to the "dividend equivalent" when a cash dividend is paid on common shares of Fortis.

Stock Option Plan

The 2012 Stock Option Plan was approved by the shareholders of Fortis on May 4, 2012 for the purposes of granting options in the common shares of Fortis to certain eligible persons, which includes the Corporation's NEOs (the "Eligible Persons") in order to encourage increased share ownership by key employees as an incentive to maximize shareholder value. The directors of Fortis or any of its subsidiaries are not eligible to participate in the 2012 Stock Option Plan. No options may be granted under the 2012 Stock Option Plan if, together with any other security based compensation arrangement established or maintained by Fortis, such granting of options could result, at any time, in (i) the number of Fortis common shares issuable to insiders of Fortis, at any time, exceeding 10 per cent of the issued and outstanding Fortis common shares and, (ii) the number of common shares issued to insiders of Fortis, within any one year period, exceeding 10 per cent of the issued and outstanding Fortis common shares.

The 2012 Stock Option Plan is administered by Fortis. Pursuant to the 2012 Stock Option Plan, the determination of the exercise price of options is made by the Human Resources Committee of Fortis at a price not less than the volume weighted average trading price of the common shares of Fortis determined by dividing the total value of the Fortis common shares traded on the TSX during the last 5 trading days immediately preceding the date by the total volume of the Fortis common shares traded on the TSX during such 5 trading days. The Human Resources Committee of Fortis determines: (i) which Eligible Persons are granted options; (ii) the number of Fortis common shares covered by each option grant based on the salary level of an Eligible Person; (iii) the price per share at which Fortis common shares may be purchased; (iv) the time when the options will be granted; (v) the time when the options will vest; and (vi) the time at which the options will be exercisable (up to 10 years from the date of grant). Options granted under the 2012 Stock Option Plan are personal to the Eligible Person and not assignable, other than by testate succession or the laws of decent and distribution. In the event that a person ceases to be an Eligible Person, the 2012 Stock Option Plan will no longer be available to such person. The grant of options does not confer any right upon an Eligible Person to continue employment or to continue to provide services to FEI.

Options granted pursuant to the 2012 Stock Option Plan have a maximum term of 10 years from the date of grant and the options will vest over a period of not less than 4 years from the date of grant, provided that no option will vest immediately upon being granted. Options granted pursuant to the 2012 Stock Option Plan will expire no later than 3 years after the termination, death or retirement of an Eligible Person.

Eligible Persons are granted stock options based on salary levels. In 2014, the former President & CEO of the Corporation was granted an option entitling him to purchase that number of common shares of Fortis having a market value at the time of grant equal to 400 per cent of his base salary. The current President & CEO and each of the other NEOs were granted an option entitling each NEO to purchase that number of Fortis common shares having a market value at the time of grant equal to 150 per cent of such NEO's base salary, however, where a NEO has been granted options for 5 or more prior years, the maximum number of shares for which options will be granted in any calendar year will not exceed the minimum number of shares held by the NEO since the beginning of the previous year.

The 2012 Stock Option Plan provides that notwithstanding provisions in the plan to the contrary, no option may be amended to reduce the option price below the option price as of the date the option is granted.

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

B. SUMMARY COMPENSATION TABLE

The following table sets forth information concerning the annual, mid-term and long-term compensation earned for services rendered in respect of each of the individuals who served as the CEO or CFO during the most recently completed financial year and the three most highly compensated executive officers of the Corporation during the most recently completed financial year.

Name and principal position	**Year**	**Salary ($)**	**Share based awards ($)(3)**	**Option based awards ($)(4)**	**Annual incentive plans ($)(5)**	**Pension value ($)(6)**	**All other compensation ($)(7)**	**Total compensation ($)(8)(9)(10)**
Michael A. Mulcahy President & CEO(1)	2014 2013 2012	349,167 298,500 290,000	61,996 59,702 -	53,416 52,144 53,450	247,000 190,000 175,000	57,987 49,645 50,915	31,847 28,008 21,374	801,413 677,999 590,739
Michele I. Leeners Vice President, Finance & CFO	2014 2013 2012	270,000 260,000 243,600	27,013 26,013 -	46,525 45,419 44,895	178,000 170,000 165,700	45,065 43,431 39,683	12,833 15,351 15,236	579,436 560,214 509,114
Doyle Sam Executive Vice President, Operations & Engineering	2014 2013 2012	310,000 287,900 264,000	61,996 57,596 -	53,416 50,283 48,651	197,000 190,000 159,700	52,865 46,278 44,285	14,426 24,846 24,472	689,703 656,903 541,108
Douglas L. Stout Vice President, Market Development & External Relations	2014 2013 2012	290,000 283,700 275,546	28,990 28,357 -	49,971 49,563 50,806	203,000 190,000 162,500	50,265 46,096 46,485	2,998 7,546 6,575	625,224 605,262 541,912
Roger A. Dall'Antonia Executive Vice President, Customer Service & Regulatory Affairs	2014 2013 2012	276,250 260,000 243,345	27,013 26,013 -	40,101 42,947 44,895	190,000 170,000 165,700	45,788 43,431 39,485	20,648 25,313 14,583	599,800 567,704 508,098
John C. Walker Former President & CEO(2)	2014 2013 2012	320,833 535,600 520,000	412,495 401,713 -	252,720 249,458 255,530	217,443 400,000 400,000	142,426 138,773 135,539	13,443 64,661 44,615	1,359,360 1,790,205 1,355,684

Notes:

1. President & CEO effective August 1, 2014.
2. President & CEO to July 31, 2014. All amounts are calculated as at July 31, 2014 with the exception of Pension. Pension value is at December 31, 2014 in recognition of Mr. Walker's continued service with Fortis Inc.
3. Represents the cash value of the 2014 PSUs granted in the year based on the volume-weighted average trading price of the Fortis common shares traded on the TSX during the last 5 trading days immediately preceding the date of grant. The volume-weighted average trading price used was determined to be $30.42.
4. Represents the fair value of options granted by Fortis to acquire common shares of Fortis. The fair value of $4.21 for 2012, $3.91 for 2013 and $3.53 for 2014 options were determined at the date of grant using the Black-Scholes Option Pricing Model.

5. Represents amounts awarded under the Corporation's short-term non-equity incentive program in recognition of FEI and FBC's respective corporate performances and the individual's performance for the reported year and paid in the following year.
6. Represents compensation paid or accrued related to defined benefit, defined contribution, RRSP and the SERP.
7. Includes, where applicable the aggregate of amounts paid by FEI, FBC or FHI for payment in lieu of vacation, employees' savings plan, insurance premiums, employee share purchase dividend, interest benefit from employee share purchase plan loans and flexible benefit plan taxable cash. Only includes perquisites, including property or other personal benefits provided to an NEO that are not generally available to all employees, and that are in the aggregate worth of $50,000 or more, or are worth 10 per cent or more of an NEO's salary.
8. Amounts reported represent amounts payable by FBC for Mr. Mulcahy, Ms. Leeners, Mr. Sam and Mr. Walker's services to FEI and other FortisBC companies. FEI proportionately reimburses FBC for their services.
9. Amounts reported represent amounts paid by FEI for Mr. Stout's service to FEI and other FortisBC companies. FBC proportionately reimburses FEI for his service.
10. Amounts reported represent amounts paid by FHI for Mr. Dall'Antonia's service to FEI and other FortisBC companies. FEI proportionately reimburses FHI for his service.

There is a written employment contract between the Corporation and Mr. Stout which contains the basic provisions of employment including, among other things, base salary, short-term incentive bonus, vacation and benefits, Mr. Dall'Antonia has a written employment agreement with FHI which includes similar basic provisions. Mr. Mulcahy, Ms. Leeners, Mr. Sam and Mr. Walker do not have a written employment contract with the Corporation, FBC or FHI.

C. INCENTIVE PLAN AWARDS

The following table sets details of unexercised in-the-money options and PSUs held by each NEO. The aggregate value of the options is based on the difference between the Fortis share price at December 31, 2014 of $38.96 and the exercise price of the options. The aggregate value of the PSUs is based on the Fortis share price at December 31, 2014 of $38.96.

		Option Based Awards				**Share Based Awards**		
Name	**Year option granted**	**Number of securities underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($)**	**Number of shares or units that have not vested (#)**	**Market or payout value of share based awards that have not vested ($)**	**Market or payout value of vested share based awards not paid out or distributed ($)**
Michael A. Mulcahy	2006	12,751	22.94	28-Feb-16	204,271	–	–	–
	2009	12,004	22.29	11-Mar-16	200,107	–	–	–
	2010	12,516	27.36	1-Mar-17	145,186	–	–	–
	2011	12,792	32.95	2-Mar-18	76,880	–	–	–
	2012	12,696	34.27	4-May-22	59,544	–	–	–
	2013	13,336	33.58	19-Mar-23	71,748	1,758.000	68,492	–
	2014	15,132	30.73	24-Feb-24	124,536	2,038.073	79,403	–
		91,227			**882,272**	**3,796.073**	**147,895**	

		Option Based Awards				Share Based Awards		
Name	**Year option granted**	**Number of securities underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($)**	**Number of shares or units that have not vested (#)**	**Market or payout value of share based awards that have not vested ($)**	**Market or payout value of vested share based awards not paid out or distributed ($)**
Michele I. Leeners	2010	12,612	27.36	1-Mar-17	146,299	–	–	–
	2011	10,700	32.95	2-Mar-18	64,307	–	–	–
	2012	10,664	34.27	4-May-22	50,014	–	–	–
	2013	11,616	33.58	19-Mar-23	62,494	766.000	29,843	–
	2014	13,180	30.73	24-Feb-24	108,471	887.000	34,558	
		58,772			**431,585**	**1,653.000**	**64,401**	
Doyle Sam	2008	54	28.27	26-Feb-15	577	–	–	–
	2010	12,612	27.36	1-Mar-17	146,299	–	–	–
	2011	11,428	32.95	2-Mar-18	68,682	–	–	–
	2012	11,556	34.27	4-May-22	54,198	–	–	–
	2013	12,860	33.58	19-Mar-23	69,187	1,696.000	66,076	–
	2014	15,132	30.73	24-Feb-24	124,536	2,038.073	79,403	
		63,642			**463,479**	**3,734.073**	**145,479**	
Douglas L. Stout	2009	3,232	22.29	11-Mar-16	53,877	–	–	–
	2010	14,364	27.36	1-Mar-17	166,622	–	–	–
	2011	12,188	32.95	2-Mar-18	73,250	–	–	–
	2012	12,068	34.27	4-May-22	56,599	–	–	–
	2013	12,676	33.58	19-Mar-23	68,197	835.000	32,532	–
	2014	14,156	30.73	24-Feb-24	116,504	953.292	37,140	
		68,684			**535,049**	**1,788.292**	**69,672**	
Roger A. Dall'Antonia	2010	11,788	27.36	1-Mar-17	136,741	–	–	–
	2011	10,700	32.95	2-Mar-18	64,307	–	–	–
	2012	10,664	34.27	4-May-22	50,014	–	–	–
	2013	10,984	33.58	19-Mar-23	59,094	766.000	29,843	–
	2014	11,360	30.73	24-Feb-24	93,493	887.548	34,579	
		55,496			**403,649**	**1,653.548**	**64,422**	
John C. Walker(1)	2011	60,700	32.95	2-Mar-18	364,807	–	–	–
	2012	60,696	34.27	4-May-22	284,664	–	–	–
	2013	63,800	33.58	19-Mar-23	343,244	11,829.000	460,858	–
	2014	71,592	30.73	24-Feb-24	589,202	13,559.757	528,288	
		256,788			**1,581,917**	**25,388.757**	**989,146**	**-**

Note:

1. Amounts reflect value of options vested prior to July 31, 2014.

The following table sets forth the value of option based awards, share based awards and non-equity incentive plan compensation vested or earned by the NEO during the most recently completed financial year. The aggregate value of the option based awards vested during the year is based on the difference between the Fortis share price on the vesting date of any options that vested during 2014 and the exercise price of the options.

Name	Option based awards value vested during 2014 ($)(2)	Share based awards value during 2014 ($)(3)	Non-equity incentive plan compensation value earned during 2014 ($)
Michael A. Mulcahy	7,510	-	247,000
Michele I. Leeners	7,567	-	178,000
Doyle Sam	7,567	-	197,000
Douglas L. Stout	8,618	-	203,000
Roger A. Dall'Antonia	7,073	-	190,000
John C. Walker(1)	25,330	-	217,443

Notes:

1. Amounts reflect value of options vested prior to July 31, 2014.
2. No value was attributed to options that were out-of-the-money on the vesting date.
3. No share based award payments were realized or paid in 2014.

D. PENSION PLAN BENEFITS

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

Name	Number of years credited service (#)	Annual benefits payable ($)		Opening present value of DB obligation ($)	Compensatory change ($)	Non-compensatory change ($)	Closing present value of DB obligation ($)
		At year end	At age 65				
John C. Walker(1)	31.66	104,436	115,445	1,173,672	38,281	271,691	1,483,644
Douglas L. Stout(2)	0.42	2,000	2,000	25,000	-	4,000	29,000

Notes:

1. Amounts reflect value as at December 31, 2014 in recognition of Mr. Walker's continued service with Fortis Inc.
2. Mr. Stout ceased to accrue further service under the FHI Plan and the FHI SRP effective May 31, 2007.

The information shown in the defined benefit pension plan table above has been calculated using the valuation method and actuarial assumptions described in the pension note in the respective pension plan sponsor's annual financial statements for 2014.

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

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

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

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

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

Name	**Accumulated value at start of year ($)**	**Compensatory ($)**	**Accumulated value at year end ($)[(2)]**
Michael A. Mulcahy	420,528	45,852	485,752
Michele I. Leeners	213,639	32,930	254,407
Doyle Sam	232,147	40,730	281,485
Douglas L. Stout	487,000	38,000	571,000
Roger A. Dall'Antonia	151,353	33,653	190,830
John C. Walker[(1)]	1,294,514	104,145	1,470,564

Notes:

1. Amounts reflect value as at December 31, 2014 in recognition of Mr. Walker’s continued service with Fortis Inc.
2. Includes non-compensatory amount, including regular investment earnings on contributions, which are not included as a separate column in the table above.

Each of Mr. Mulcahy, Ms. Leeners, Mr. Sam, Mr. Stout and Mr. Dall’Antonia participate in an RRSP which requires the NEO to contribute to a self-directed RRSP equal to 6.5% of the individual’s annual base salary which is matched by the corporation that employs them, up to the maximum contribution limit allowed by the Canada Revenue Agency. In 2014, the respective corporations that employ each of the NEOs contributed $12,135 for each of the NEO’s participating in the defined contribution retirement plan.

In addition, Mr. Mulcahy, Ms. Leeners, Mr. Sam, Mr. Stout, Mr. Dall’Antonia and Mr. Walker participate in a defined contribution supplemental employee retirement plan (the “DC SERP”). The DC SERP provides for the accrual by the respective corporations who employ each of the NEOs of an amount equal to 13 per cent of the annual base earnings of the NEO. This accrual is in excess of the allowed Canada Revenue Agency limit to a notional account which accrues interest equal to the rate of a 10-year Government of Canada Bond plus a premium of 0 per cent to 3 per cent dependent upon years of service. At the time of retirement, the notional amounts accumulated under the DC SERP may be paid to the NEO in one lump sum or in equal payments up to 15 years.

In addition, Mr. Stout also participates in the M&E Plan’s corresponding non-registered supplemental plan, the FEI Supplemental Retirement Plan (the “M&E SRP”). The M&E SRP provides the portion of the pension promise that cannot be paid from the M&E Plan because of limits imposed by the Income Tax Act. The M&E SRP was frozen effective December 31, 2006.

Lastly, Mr. Stout also participates in the FHI Plan's corresponding non-registered supplemental plan, the Supplemental Pension Plan for Employees of FHI (the "FHI SRP"). The FHI SRP is designed to provide the executives with the portion of the pension promise which cannot be paid from the FHI Plan because of limits imposed by the Income Tax Act. As the executives are members of the FHI Plan, they are automatically members of the FHI SRP.

E. TERMINATION AND CHANGE OF CONTROL BENEFITS

The discussion below sets out the terms of the employment contracts that trigger benefits arising from termination and/or change of control as of January 1, 2014 for all NEOs with the exception of Mr. Mulcahy, Ms. Leeners, Mr. Sam and Mr. Walker.

There are no contracts, agreements, plans or arrangements that provide for payments to Mr. Mulcahy, Ms. Leeners, Mr. Sam and Mr. Walker at, following or in connection with any termination. There are written employment contracts between the Corporation and Mr. Stout and between FHI and Mr. Dall'Antonia that contain similar basic provisions dealing with termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of FHI or the Corporation or a change in a NEO's responsibilities (excluding perquisites and other personal benefits if the aggregate of this compensation is less than $50,000). Hereinafter, FEI will be referred to as the "employing corporation" for Mr. Stout and FHI will be referred to as "employing corporation" for Mr. Dall'Antonia.

Executive Employment Contracts – NEOs

1. Termination Without Cause

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

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

Executive	Amount
Douglas L. Stout	$176,250
Roger A. Dall'Antonia	$167,850

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

Executive	Salary	Incentive
Douglas L. Stout	$580,000	$352,500
Roger A. Dall'Antonia	$570,000	$335,700

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

Executive	Pension & Benefits	Per cent
Douglas L. Stout	$279,750	30%
Roger A. Dall'Antonia	$271,710	30%

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

Executive	**Amount**
Douglas L. Stout	$29,000
Roger A. Dall'Antonia	$28,500

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

2. Termination by Executive for Good Reason

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

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

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

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

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

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

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

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

F. DIRECTOR COMPENSATION

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

The following table sets forth the aggregate amounts of individual director compensation which were proportionately paid by FEI, FHI and FBC in 2014.

Name	**Fees earned ($)**	**All other compensation[7] ($)**	**Total ($)**
Barry V. Perry	50,000	4,000	54,000
Brenda Eaton	48,750	3,000	51,750
Christopher F. Scott	46,250	4,000	50,250
David R. Podmore	48,750	2,000	50,750
H. Stanley Marshall(1)	85,000	4,000	89,000
Harold G. Calla(2)	56,750	2,000	58,750
Ida J. Goodreau(3)	52,750	4,000	56,750
Janet P. Woodruff	48,750	2,000	50,750
John C. Walker	19,451	1,000	20,451
Karl W. Smith(4)	8,201	1,000	9,201
Linda S. Petch(5)	12,500	1,000	13,500
Steven V. Lant (6)	40,549	3,000	43,549

Notes:

1. Chair of the Board to December 31, 2014.
2. Chair of the Audit & Risk Committee
3. Chair of the Governance Committee
4. Appointed to the Board of Directors November 1, 2014.
5. Director to March 31, 2014
6. Director to October 31, 2014
7. All other compensation includes $1,000 for travel time for each group of meetings attended in person outside the director's regional area of residence.

FortisBC Energy Inc.
Management Discussion & Analysis
For the Year Ended December 31, 2014
Dated February 19, 2015

The following FortisBC Energy Inc. ("FEI" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. Financial information for 2014 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") and is presented in Canadian dollars unless otherwise specified. The MD&A should be read in conjunction with the Corporation's annual audited consolidated financial statements and notes thereto for the year ended December 31, 2014, with 2013 comparatives, prepared in accordance with US GAAP.

In this MD&A, FEVI refers to FortisBC Energy (Vancouver Island) Inc., FEW refers to FortisBC Energy (Whistler) Inc., TGHI refers to Terasen Gas Holdings Inc., FAES refers to FortisBC Alternative Energy Services Inc., FHI refers to the Corporation's parent, FortisBC Holdings Inc., FBC refers to FortisBC Inc., and Fortis refers to the Corporation's ultimate parent, Fortis Inc.

FORWARD LOOKING STATEMENT

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

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation's estimated costs for the Tilbury Liquefied Natural Gas ("LNG") Facility Expansion Project and associated in-service date; estimated costs and in-service date of the Lower Mainland Intermediate Pressure System upgrade; expectations to meet interest payments on outstanding indebtedness from operating cash flows; the Corporation's expected level of capital expenditures and its expectations to finance those capital expenditures through credit facilities, equity injections from FHI and debenture issuances; the Corporation's expectations for employee future benefit costs; the Corporation's belief that changes in consumption levels and changes in the commodity cost of natural gas do not materially impact earnings as a result of regulatory deferral accounts; and the forecast average rate base for 2015.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2018 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; the First Nations' settlement process does not adversely affect the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefits costs; the ability of the Corporation to attract and retain skilled workforces; absence of information technology infrastructure failure; absence of cyber-security failure; no significant decline in interest rates; continued energy demand; the ability to arrange sufficient and cost effective financing; no material adverse ratings actions by credit ratings agencies; the competitiveness of natural gas pricing when compared with alternate sources of energy; continued population growth and new housing starts; the availability of natural gas supply; and the ability to hedge certain risks including no counterparties to derivative instruments failing to meet obligations.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); continued reporting in accordance with US GAAP risk; asset breakdown, operation, maintenance and expansion risk; environment, health and safety matters risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving First Nations; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; cyber-security risk; interest rate risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competiveness and commodity price risk; counterparty credit risk; natural gas supply risk; and, other risks described in the Corporation's most recent Annual Information Form. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.

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

CORPORATE AMALGAMATION AND OVERVIEW

In February 2014, the British Columbia Utilities Commission ("BCUC") approved the amalgamation of FEI, FEVI, FEW and TGHI, subject to the consent of the Lieutenant Governor in Council. The BCUC approved the adoption of common rates for natural gas delivery to all customers except those in the Fort Nelson service area and approved the phase-in to common rates over a three year period. The amalgamation received the consent of the Lieutenant Governor in Council in May 2014 and was effected on December 31, 2014.

The Corporation is the resulting corporation from the amalgamation on December 31, 2014 of FEI, FEVI, FEW and TGHI. Prior to the amalgamation FEI, FEVI, FEW and TGHI were under common control and therefore the amalgamation has been presented on a pooling-of-interest basis, as if the historical financial position and operating results of these corporations had always been amalgamated. Prior period financial and operating information has been restated to present the results of the amalgamated Corporation (unless otherwise specified).

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 967,000 residential, commercial and industrial and transportation customers in more than 125 communities. Major areas served by the Corporation are the Greater Vancouver, Fraser Valley, Thompson, Okanagan, Kootenay, North Central Interior, Vancouver Island, Sunshine Coast and Whistler regions of BC. The Corporation provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of most residential, commercial and industrial customers. Gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

The Corporation is regulated by the BCUC. Pursuant to the *Utilities Commission Act* (British Columbia), the BCUC regulates such matters as tariffs, rates, construction, operations, financing and accounting.

The Corporation operates primarily under a cost of service regulation as prescribed by the BCUC. The Corporation applies to the BCUC for approval of annual revenue requirements based on forecast costs of service, including, but not limited to, natural gas supply costs, operating expenses, depreciation and amortization, income taxes, interest on debt and a return on equity ("ROE"). Starting in 2014, through 2019, the regulatory framework includes some performance-based rate setting attributes.

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

REGULATION

Customer Rates and Quarterly Gas Cost Changes

The Corporation's customer rates are based on estimates and forecasts. In order to manage the risk of forecast error associated with some of these estimates, to manage volatility in rates, and to match costs with benefits, a number of regulatory deferral accounts are in place.

For FEI and FEW prior to the amalgamation on December 31, 2014 and for the amalgamated FEI, there are two primary deferral mechanisms in place to decrease the volatility in rates caused by such factors as fluctuations in gas supply costs and the significant impacts of weather and other changes on use rates. The first mechanism relates to the recovery of all gas supply costs through deferral accounts that capture variances (overages and shortfalls) from forecasts in costs incurred. Balances are either refunded to or recovered from customers via quarterly review and application to the BCUC. Currently under this mechanism, there are two separate deferral accounts; the Commodity Cost Reconciliation Account ("CCRA") and the Midstream Cost Reconciliation Account ("MCRA"). The second mechanism seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use rate for residential and commercial customers throughout the year. This mechanism is called the Revenue Stabilization Adjustment Mechanism ("RSAM").

Beginning in 2010, a Rate Stabilization Deferral Account ("RSDA") was created for FEVI. Until the end of 2014, the RSDA accumulated the difference between the revenues received and the actual cost of service, excluding operation and maintenance cost variances from forecast. FEVI, prior to the amalgamation also had a Gas Cost Variance Account ("GCVA") that accumulated variances between the actual and forecast gas costs, which were flowed through future customer rates.

The RSAM and MCRA accounts are either refunded to or recovered from customers in rates over 2 years with actual refunds dependent upon annually approved rates and actual gas consumption volumes. The CCRA account is anticipated to be fully recovered within the next fiscal year. As approved by the BCUC, the ending 2014 GCVA balance was transferred to the RSDA effective January 1, 2015 and the RSDA account will be returned to customers (excluding those residing on Vancouver Island and the Sunshine Coast and in Whistler) over a period of three years.

For 2014 the pre-amalgamation FEI, and for 2015 through 2019 the amalgamated FEI, has a new BCUC approved flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year. This new deferral account replaced a number of other deferral accounts that existed prior to then, that captured such items as variances in interest rates, insurance and factors affecting income taxes. In addition to those items, the flow-through deferral account captures variances in margin related to customer growth and industrial margin, and certain other items that previously were not subject to flow through treatment.

Customer rates include both the delivery charge, and the commodity and midstream charges. The commodity cost of natural gas and midstream costs are passed through to customers without mark-up.

In addition to annual delivery rate changes, the Corporation reviews natural gas and propane commodity and midstream charges every three months with the BCUC in order to ensure the rates charged to customers are sufficient to cover the cost of purchasing natural gas and contracting for midstream resources such as third-party pipeline or storage capacity.

The table below shows the residential rate changes since January 1, 2013 for a typical Lower Mainland residential customer:

	2013				**2014**				
	Jan 1	April 1	July 1	Oct 1	**Jan 1**	**April 1**	**July 1**	**Oct 1**	**Nov 1**
Effective rate per gigajoule	$9.36	$9.36	$10.00	$9.36	**$9.69**	**$11.06**	**$11.06**	**$10.20**	**$10.22**
Percentage change in rate	1.6%	-	6.8%	(6.4%)	**3.5%**	**14.1%**	-	**(7.8%)**	**0.2%**

When comparing December 31, 2014 to December 31, 2013, an average bill for a Lower Mainland residential customer increased by approximately 9.2 per cent, due to an increase in natural gas and midstream costs and an increase in delivery rates.

Until December 31, 2014, FEVI customers had a bundled rate that had remained unchanged since January 1, 2010.

Application for Multi-year Performance Based Ratemaking Plan for 2014 to 2018 ("2014 PBR Application")

In June 2013, pre-amalgamation FEI filed its 2014 PBR Application with the BCUC. Pursuant to an Evidentiary Update filed in February 2014, the application assumed a forecast average rate base of approximately $2,778 million for 2014 and requested approval of a delivery rate increase for 2014 of 0.6 per cent determined under a formula approach for operation and maintenance costs and capital costs, and a continuation of this rate setting methodology for a further four years. Effective January 1, 2014, the BCUC provided approval for an interim refundable delivery rate increase of 1.4 per cent as determined in the Evidentiary Update filed in September 2013.

In September 2014, the BCUC issued its PBR Decision on FEI's 2014 PBR Application. As part of the PBR Decision the term of the PBR was extended to 2019. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.1 per cent each year. The approved PBR Plan also includes a 50/50 sharing of variances ("Earnings Sharing Mechanism") from the formula-driven operation and maintenance expenses and capital expenditures over the PBR period, and a number of service quality measures designed to ensure FEI maintains service levels. It also sets out the requirements for an annual review process which will provide a forum for discussion between FEI and interested parties regarding its current performance and future activities.

In October 2014, pre-amalgamation FEI filed a PBR Decision Compliance Filing ("Compliance Filing") with the BCUC which updated the 2014 revenue requirements and rates based on the PBR Decision. The Compliance Filing updated the 2014 average rate base to approximately $2,765 million and the 2014 delivery rate increase to 1.8 per cent, compared to the existing interim delivery rate increase of 1.4 per cent discussed above. FEI has implemented permanent 2014 delivery rates, effective November 1, 2014, to reflect the additional delivery rate increase compared to interim rates. FEI will recover the January 2014 to October 2014 revenue deficiency between interim and permanent rates through a deferral mechanism.

In January 2015, FEI filed for approval of its 2015 rates under the PBR Decision. This filing assumes a forecast average rate base of approximately $3,656 million (excluding the separately approved rate base of approximately $12 million for Fort Nelson) and requests approval of a customer delivery rate increase of approximately 2 per cent determined under the PBR Plan formula approach for operation and maintenance costs, and capital costs. The regulatory process to review the application will continue through 2015, with a decision on the final rate increase expected in the second quarter of 2015.

Allowed ROE and Capital Structure

In February 2012, the BCUC established that a Generic Cost of Capital ("GCOC") Proceeding would occur.

The BCUC also determined that a second, subsequent stage be added to the GCOC proceeding to determine an appropriate ROE and capital structure for all other regulated utilities in BC, once the benchmark has been established in the first stage of the GCOC Proceeding. FEI has been designated as the benchmark utility. FEVI and FEW had their ROE risk premium and capital structure determined in the second stage.

Pursuant to a BCUC order released in December 2012, effective January 1, 2013, the approved 2012 ROE and capital structure for pre-amalgamation FEI, FEVI and FEW and all other regulated entities in BC that rely on the benchmark utility to establish rates, were to be maintained and made interim. In May 2013, the BCUC issued its decision on the first stage of the GCOC Proceeding. The decision determined that the ROE of the benchmark utility would be set at 8.75 per cent with a 38.5 per cent common equity component, both effective January 1, 2013. The common equity component of capital structure will remain in effect through December 31, 2015. Effective January 1, 2014, the BCUC has also introduced an Automatic Adjustment Mechanism ("AAM") to set the ROE on an annual basis for the benchmark utility. The AAM will take effect when the actual long-term Government of Canada bond yield exceeds 3.8 per cent. The AAM will be in effect until December 31, 2015. In January and December 2014, the BCUC confirmed that the necessary conditions for the AAM to be triggered for the 2014 and 2015 ROE respectively had not been met, therefore the benchmark ROE remains at 8.75 per cent for 2015.

Prior to the GCOC Proceeding, both FEVI and FEW had been approved for a common equity component of capital structure of 40 per cent and a ROE risk premium of 50 basis points over the benchmark utility. As a result of the BCUC's decision on the first stage of the GCOC Proceeding, which reduced the ROE of the benchmark utility by 75 basis points, the interim allowed ROE of FEVI and FEW decreased from 10 per cent to 9.25 per cent effective January 1, 2013, while the common equity component of the capital structure remained unchanged at 40 per cent. The 2013 interim allowed ROE and capital structure for FEVI and FEW was subject to potential further change as a result of the second stage of the GCOC Proceeding.

In March 2013, the BCUC initiated the second stage of the GCOC Proceeding. FEVI and FEW filed risk premium and equity ratio evidence in July 2013. In March 2014, the BCUC issued its decision on the second stage of the GCOC Proceeding, setting the common equity component of capital structure for FEVI and FEW at 41.5 per cent effective January 1, 2013. The BCUC reaffirmed for FEVI a ROE risk premium of 50 basis points over the benchmark utility and for FEW set its ROE risk premium at 75 basis points (25 basis points higher than the ROE risk premium that was in place prior to the decision) over the benchmark utility.

The resulting ROE for FEVI of 9.25 per cent and for FEW of 9.5 per cent was effective for 2013 and 2014.

Effective January 1, 2015, the ROE and common equity component of capital structure for the amalgamated FEI will be set to equal the benchmark utility, at 8.75 per cent and 38.5 per cent, respectively.

The BCUC decision on the first stage of the GCOC Proceeding, received in May 2013, directed FEI to file an application to review the 2016 benchmark ROE and common equity component of capital structure by no later than November, 30, 2015.

US GAAP

In January 2014, the Ontario Securities Commission ("OSC") issued a relief order which permits the Corporation to continue to prepare its financial statements in accordance with US GAAP, until the earliest of: (i) January 1, 2019; (ii) the first day of the financial year that commences after the Corporation ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the International Accounting Standards Board ("IASB") for the mandatory application of a standard within International Financial Reporting Standards ("IFRS") specific to entities with activities subject to rate regulation. The OSC relief order effectively replaces and extends the OSC's previous relief order, which was due to expire effective January 1, 2015.

The BCUC had previously approved the Corporation's request to adopt US GAAP for regulatory purposes until December 31, 2014. In May 2014, FEI applied for approval to continue the use of US GAAP for regulatory purposes effective January 1, 2015. In July 2014, the BCUC granted the requested approval, until such time as FEI no longer has an OSC exemption to use US GAAP or is no longer reporting under US GAAP for financial reporting purposes, whichever is earlier.

Directions to the BCUC

In November 2013, the BC Provincial government issued an Order of the Lieutenant Governor in Council ("2013 OIC") directing the BCUC to allow the Corporation to expand its Tilbury LNG Facility ("Tilbury Expansion Project") at Tilbury Island in Delta, BC. The 2013 OIC set out a number of requirements for the BCUC as follows:

- to exempt the Tilbury Expansion Project from a Certificate of Public Convenience and Necessity ("CPCN") process;
- to impose an upper limit of $400 million on capital costs related to the Tilbury Expansion Project; and
- to allow for recovery of the costs of the Tilbury Expansion Project from customers.

In December 2014, the BC Provincial government issued an Order of the Lieutenant Governor in Council ("2014 OIC") amending directions to the BCUC in the 2013 OIC. The 2014 OIC sets out a number of requirements for the BCUC as follows:

- to allow the Tilbury Expansion Project to proceed in two phases (Phase 1A and Phase 1B respectively), with Phase 1B proceeding if the Corporation obtains long-term sales contracts, taking a minimum 70 per cent of the liquefaction capacity of the Phase 1B, on average, for the first 15 years of its operation;

- to impose an upper limit of $400 million of capital costs plus construction carrying costs on each phase of the Tilbury Expansion Project;
- to exempt from a CPCN process the pipeline and compression facilities that would supply a third party operated LNG facility near Squamish, BC should such facility proceed;
- to exempt from a CPCN process the Coastal Transmission System ("CTS") projects which consist of four transmission line projects, three of which increase the Corporations pipeline capacity within the Lower Mainland and one to increase the capacity to the Corporation's Tilbury LNG Facility;
- to provide the methodologies for regulatory treatment of certain of the costs of these various projects; and
- to provide clarifications on certain items in the 2013 OIC.

Lower Mainland Intermediate Pressure System Upgrade CPCN

In December 2014, the Corporation filed a CPCN Application to replace certain sections of intermediate pressure pipeline segments within the Greater Vancouver area. The anticipated cost of the project is approximately $250 million with an expected in-service date of 2018. The BCUC has established a regulatory preliminary review process for this application.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter			Year		
Periods Ended December 31	**2014**	2013	Variance	**2014**	2013	Variance
Gas sales (petajoules)	**59**	68	(9)	**195**	200	(5)
($ millions)						
Revenue	**452**	475	(23)	**1,489**	1,428	61
Expenses						
Cost of natural gas	**208**	214	(6)	**646**	600	46
Operation and maintenance	**60**	71	(11)	**224**	231	(7)
Depreciation and amortization	**48**	46	2	**193**	185	8
Property and other taxes	**14**	17	(3)	**60**	63	(3)
	330	348	(18)	**1,123**	1,079	44
Operating income	**122**	127	(5)	**366**	349	17
Finance charges	**53**	63	(10)	**189**	189	-
Earnings before income taxes	**69**	64	5	**177**	160	17
Income taxes	**12**	8	4	**35**	24	11
Net earnings	**57**	56	1	**142**	136	6
Net earnings attributable to non-controlling interest	**-**	**-**	-	**1**	1	-
Net earnings attributable to controlling interest	**57**	56	1	**141**	135	6

Gas Sales

For the three and twelve months ended December 31, 2014, gas sales volumes were lower compared to the corresponding period in 2013 primarily due to lower consumption by residential, commercial and transportation customers as a result of warmer weather.

Net Earnings Attributable to Controlling Interest

The Corporation reported net earnings of $57 million for the three months ended December 31, 2014 and net earnings of $141 million for the twelve months ended December 31, 2014, compared to net earnings of $56 million and net earnings of $135 million in the corresponding periods of 2013.

Pre-amalgamation FEI earnings for 2014 and 2013 were based on an allowed ROE of 8.75 per cent and a deemed equity component of capital structure of 38.5 per cent, which resulted from the BCUC decision on the first stage of the GCOC Proceeding received in May 2013.

FEVI and FEW were previously approved for a risk premium of 50 basis points over the benchmark utility. As a result of the BCUC's decision on the first stage of the GCOC Proceeding received in May 2013, which reduced the ROE of the benchmark utility by 75 basis points, the interim allowed ROE for FEVI and FEW correspondingly deceased by 75 basis points to 9.25 per cent effective January 1, 2013, while the deemed equity component of the capital structure remained unchanged. The allowed ROE and capital structure for FEVI and FEW was subject to further change as a result of the second stage of the GCOC Proceeding. As a result of the BCUC's decision on the second stage of the GCOC Proceeding received in the first quarter of 2014, the allowed ROE for 2013 and 2014 for FEVI was set at 9.25 per cent and for FEW was set at 9.5 per cent, effective January 1, 2013. The deemed equity component for FEVI and FEW increased to 41.5 per cent effective January 1, 2013 from 40.0 per cent previously.

The FEVI and FEW negative effect of the first stage of the GCOC decision was reflected in the second, third and fourth quarters of 2013, while the positive effect of the second stage of the GCOC decision retroactive back to January 1, 2013 was reflected in 2014.

The increase in net earnings of $1 million for the three months ended December 31, 2014, as compared to December 31, 2013, was primarily due to operation and maintenance expense savings, net of the regulated Earnings Sharing Mechanism as prescribed by the PBR Decision, and higher allowance for funds used during construction ("AFUDC"), partially offset by the effects of the flow-through deferral amounts and lower tax savings from the current year's tax loss utilization plan ("TLUP"). The TLUP in 2014 was wound-up in November 2014 whereas the TLUP in 2013 was wound-up in December 2013.

The increase in net earnings of $6 million for the twelve months ended December 31, 2014, as compared to December 31, 2013, was primarily due to 2014 reflecting the GCOC stage one and two decisions compared to 2013 reflecting only the GCOC stage one decision, higher AFUDC and higher tax savings from the current year's TLUP.

As part of the TLUP, the Corporation received dividend income from FHI relating to a $1,400 million (2013 - $1,400 million) investment in preferred shares. A TLUP is a series of transactions, whereby the Corporation sets up an investment in an affiliate's preferred shares and issues subordinated debt to that affiliate; these two financial instruments are shown on a net basis. The Corporation receives non-taxable dividend income on the preferred shares and pays tax deductible interest on the debt. The effect of this transaction is to transfer tax losses between affiliated entities.

Revenue and Cost of Natural Gas

For the three months ended December 31, 2014, revenues decreased by $23 million, while for the twelve months ended December 31, 2014 revenues increased by $61 million, respectively, compared to the corresponding periods in 2013.

Lower revenues for the three months ended December 31, 2014 are primarily due to lower gas sales, the effects of flow-through deferral amounts, including the Earnings Sharing mechanism, and lower revenue from the current year's TLUP, partially offset by higher commodity costs and delivery rates and higher equity component of AFUDC.

Higher revenues for the twelve months ended December 31, 2014 are primarily due to higher commodity costs and delivery rates, higher revenue from the current year's TLUP and higher equity component of AFUDC, partially offset by lower gas sales and the effects of flow-through deferral amounts, including the Earnings Sharing mechanism.

For the three months ended December 31, 2014, cost of natural gas decreased by $6 million compared to the corresponding period in 2013 primarily due to lower gas sales, partially offset by higher costs for natural gas.

For the twelve months ended December 31, 2014, cost of natural gas increased by $46 million compared to the corresponding period in 2013 primarily due to higher costs for natural gas, partially offset by lower gas sales.

Operation and Maintenance Expense

For the three months and twelve months ended December 31, 2014, operation and maintenance expense decreased by $11 million and $7 million, respectively, compared to the corresponding periods in 2013. The decrease in operation and maintenance expense was primarily due to lower contracting costs and lower wage expense, partially offset by higher pension and other post-employment costs and a reduction in the allowed regulated rate of overhead capitalization as a result of the PBR Decision.

Depreciation and Amortization

For the three and twelve months ended December 31, 2014, depreciation and amortization expense increased by $2 million and $8 million, respectively, compared with the corresponding periods in 2013. The increase was due to higher amortization of regulatory asset deferral accounts and higher depreciation expense due to the increase in the depreciable asset base of the Corporation.

As approved by the BCUC, effective January 1, 2014, depreciation of property, plant and equipment and amortization of intangible assets commences the year after the asset is available for use. Prior to January 1, 2014, depreciation and amortization commenced in the month after the asset was available for use.

Finance Charges

For the three months ended December 31, 2014, finance charges decreased by $10 million compared to the corresponding period in 2013. The decrease was primarily a result of the timing of the current year's TLUP which generated lower interest expense in the fourth quarter of 2014 compared to the same period in 2013.

For the twelve months ended December 31, 2014, finance charges were comparable with the corresponding period in 2013, as higher interest expense from the current year's TLUP was offset by higher debt component of AFUDC and lower interest expense for pre-amalgamation FEVI due to lower short-term interest rates in the current year compared to 2013.

Income Taxes

For the three and twelve months ended December 31, 2014, income tax expense increased by $4 million and $11 million, respectively, compared to the corresponding periods in 2013.

The increase in income tax expense for the three months was mainly due to the current year's TLUP which generated a lower income tax recovery in the fourth quarter of 2014 compared to the fourth quarter of 2013.

The increase in income tax expense for the twelve months was mainly due to lower deductible temporary differences, higher pre-tax earnings and higher taxable permanent differences, partially offset by the current year's TLUP which generated a higher income tax recovery in 2014 compared to the TLUP that was in place during 2013.

Net Earnings Attributable to Non-Controlling Interest

The Corporation, through its wholly owned subsidiary Mt. Hayes (GP) Ltd., owns an 85 per cent interest in the Mt. Hayes Limited Partnership ("MHLP").

For the three and twelve months ended December 31, 2014, the net earnings attributable to non-controlling interest was comparable with the corresponding periods in 2013.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at December 31, 2014 compared to December 31, 2013:

Balance Sheet Item	**Increase** ($ millions)	**Explanation**
Property, plant and equipment	**219**	The increase was primarily due to $302 million in capital expenditures incurred during 2014, changes in non-cash capital accruals of $47 million, and changes in non-cash contributions in aid of construction accruals of $8 million, partially offset by depreciation expense of $134 million.
Short-term notes	**174**	The increase was primarily due to an increase in the borrowings for investment in property, plant and equipment.
Regulatory assets	**86**	The increase in regulatory assets was primarily due to an increase in the US GAAP funded status deferral amount relating to the difference between the carrying value and the funded status of the Corporation's defined benefit plans and other post-employment benefit ("OPEB") plans due to a lower discount rate used in 2014, the offset of which is recognized in other liabilities, and a higher regulated asset for deferred income taxes due to an increase in temporary timing differences.
Other liabilities	**48**	See regulatory assets explanation above.
Accounts payable and other current liabilities	**44**	The increase was primarily due to an accrual for costs related to the Tilbury Expansion Project.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Years Ended December 31	**2014**	2013	Variance
($ millions)			
Cash flows provided by (used for):			
Operating activities	**251**	293	(42)
Investing activities	**(321)**	(194)	(127)
Financing activities	**72**	(121)	193
Net increase (decrease) in cash and cash equivalents	**2**	(22)	24

Operating Activities

Cash flows provided by operating activities were $42 million lower in 2014 compared to 2013 primarily due to changes in long-term regulatory assets and liabilities and working capital.

Investing Activities

Cash used for investing activities was $127 million higher in 2014 compared to 2013 primarily due to increased property, plant and equipment expenditures.

Financing Activities

Cash provided by financing activities was $72 million in 2014, compared to cash used for financing activities of $121 million in 2013. The variance of $193 million was primarily due to an increase in short-term notes to finance the increased investment in property, plant and equipment which was partially offset by a decrease in dividends paid in 2014 as compared to 2013. Dividends in 2013 included a one-time dividend to reduce the common equity component of the pre-amalgamation FEI capital structure to 38.5 per cent as a result of the BCUC decision on the first stage of the GCOC Proceeding.

During 2014, the Corporation paid common share dividends of $95 million (2013 - $150 million) to its parent company, FHI.

Contractual Obligations

The following table sets forth the Corporation's contractual obligations due in the years indicated:

As at December 31, 2014	Total	Due Within 1 Year	Due in Year 2	Due in Year 3	Due in Year 4	Due in Year 5	Due After 5 Years
($ millions)							
Interest on long-term debt	2,176	126	117	96	96	96	1,645
Debt retirement [1]	1,925	105	200	-	-	-	1,620
Natural gas supply contract obligations	194	194	-	-	-	-	-
Capital lease and finance obligations	112	6	6	6	7	33	54
Defined benefit pension plan funding contributions	30	17	13	-	-	-	-
Operating leases	15	3	3	3	3	2	1
Government loan	5	-	5	-	-	-	-
Totals	4,457	451	344	105	106	131	3,320

1. Included in debt retirement is $10 million of the FEVI government loan that was reclassed to current portion of long-term debt as it is due within 1 year.

The natural gas supply contract obligations as at December 31, 2014, which fix the price of natural gas, are based on current market rates. The measurement of these natural gas supply contract obligations will change based on the change in the value of the derivative which vary with market prices.

Between 2000 and 2005, the Corporation entered into leasing arrangements whereby certain natural gas distribution assets were leased to certain municipalities and then leased back by the Corporation from the municipalities. The natural gas distribution assets are considered to be integral equipment to real estate assets and as such these transactions have been accounted for as financing transactions. The proceeds from these transactions have been recorded as a financial liability included in capital lease and finance obligations. Lease payments less the portion considered to be interest expense decrease the financial liability. The transactions have implicit interest rates between 7.17 per cent and 8.76 per cent and are being repaid over a 35 year period. Each of the arrangements allow the Corporation, at its option, to terminate the lease arrangements early, after 17 years. If the Corporation exercises this option, the Corporation would pay the municipality an early termination payment which is equal to the carrying value of the obligation on the Corporation's financial statements at that point in time.

The Corporation sponsors defined benefit pension plans. Under the terms of these plans, the Corporation is required to provide pension funding contributions, including current service, solvency and special funding amounts. The contributions are based on estimates provided under the latest completed actuarial valuations. If the actuarial valuation falls in the next twelve months, then the Corporation has provided for an estimate of the contributions for the upcoming year. Employee defined benefit pension plan contributions beyond the date of the next actuarial valuation cannot be accurately estimated.

The Corporation has entered into operating leases for certain building space.

In prior years, FEVI received non-interest bearing, repayable loans from the Federal and BC Provincial governments of $50 million and $25 million respectively, in connection with the construction and operation of the Vancouver Island natural gas pipeline. As approved by BCUC, these loans have been recorded as government grants and have reduced the amounts reported for utility capital assets. The Federal government loan was fully repaid in 2013. As at December 31, 2014, $15 million remains outstanding on the BC Provincial government loan, of which $10 million has been recognized in current portion of long term debt and $5 million has been charged against property, plant and equipment.

In addition to the items in the table above, the Corporation has issued commitment letters to customers to provide Energy Efficiency and Conservation ("EEC") funding under the EEC Program approved by the BCUC. As at December 31, 2014, the Corporation had issued $26 million of commitment letters to customers.

In January 2012, two unrelated parties collectively purchased a 15 per cent equity interest in the MHLP, which at the time was a wholly owned limited partnership of FEVI. These non-controlling interest owners hold a put option which, if exercised, would oblige the Corporation to purchase the non-controlling interest owners' 15 per cent share in MHLP for cash. For rate-making purposes, this non-controlling interest is considered equity and if FEI was required to purchase this non-controlling interest, FEI would fund the transaction with an equity issuance. Accordingly, the Corporation has presented this redeemable non-controlling interest as equity.

Capital Structure

The Corporation's principal business of regulated natural gas transmission and distribution requires ongoing access to capital in order to allow the Corporation to fund the maintenance, replacement and expansion of infrastructure. The amalgamated Corporation effective January 1, 2015 will maintain a capital structure in line with the deemed capital structure approved by the BCUC at 38.5 per cent equity and 61.5 per cent debt. Prior to the amalgamation and effective for 2013 and 2014 the capital structure was: FEI – 38.5 per cent equity and 61.5 per cent debt, FEVI and FEW – 41.5 per cent equity and 58.5 per cent debt.

Credit Ratings

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

The table below summarizes the ratings assigned to the Corporation's various securities as at December 31, 2014:

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

In June 2014, Moody's affirmed the long-term credit ratings of the Corporation of A1 for secured long-term debt and A3 for unsecured long-term debt and changed the ratings outlook to stable from negative.

In January 2015, DBRS affirmed the long-term credit ratings of the Corporation after the completion of the amalgamation on December 31, 2014.

Projected Capital Expenditures

The Corporation has estimated 2015 capital expenditures before contributions in aid of construction and including cost of removal of approximately $400 million. Capital expenditures include forecast 2015 costs associated with the Tilbury Expansion Project Phase 1A of approximately $170 million. The 2015 capital expenditures are necessary to provide service, public and employee safety and reliable transmission and distribution of natural gas to the Corporation's customer base.

Tilbury Expansion Project Phase 1A

In October 2014, FEI began construction on the expansion of its Tilbury LNG Facility in Delta, BC. The Tilbury Expansion Project Phase 1A is estimated to cost approximately $400 million plus construction carrying costs and will include a second LNG tank and a new liquefier, both expected to be in service by the end of 2016. The Tilbury Expansion Project is further discussed in the "Regulation - Directions to the BCUC" section of this MD&A.

Cash Flow Requirements

The Corporation's working capital requirements fluctuate seasonally based on natural gas consumption. Given the regulated nature of its business, the Corporation is able to maintain negative working capital balances. The Corporation maintains adequate committed credit facilities.

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

The Corporation's ability to service its debt obligations and pay dividends on its common shares is dependent on the financial results of the Corporation. Depending on the timing of cash payments, borrowings under the Corporation's credit facility may be required from time to time to support the servicing of debt and payment of dividends. The Corporation may have to rely upon the proceeds of new debenture issuances to meet its principal debt obligations when they come due.

Credit Facilities

As at December 31, 2014, the Corporation had $700 million in syndicated credit facilities available of which $349 million was unused. The $500 million credit facility matures in August 2016 and the $200 million credit facility matures in December 2015.

The following summary outlines the Corporation's credit facilities:

($ millions)	**December 31, 2014**	December 31, 2013
Total credit facility	**700**	700
Short-term notes	**(301)**	(127)
Letters of credit outstanding	**(50)**	(50)
Credit facility available	**349**	523

Dividend Restrictions

As part of its approval of the acquisition of FHI by Fortis, the BCUC imposed a number of conditions intended to ring-fence the Corporation from FHI. These restrictions included a prohibition on the payment of dividends unless the Corporation has in place at least as much common equity as that deemed by the BCUC for rate-making purposes. As a result of the decision issued by the BCUC, the Corporation must maintain a percentage of common equity to total capital that is at least as much as that determined by the BCUC from time to time for rate-setting purposes. In 2014 and 2013, none of these restrictions constrained the distribution of FEI earnings not otherwise needed for reinvestment.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2014, the Corporation had no material off-balance sheet arrangements, with the exception of letters of credit outstanding of $50 million (2013 - $50 million).

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, ultimate parent and other related companies under common control to provide or receive services and materials. The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

The amounts charged to the Corporation's parent and other related parties under common control for the years ended December 31 were as follows:

($ millions)	**2014**	2013
Operation and maintenance expense charged to FBC (a)	**4**	3
Operation and maintenance expense charged to FHI (b)	**1**	1
Other income recovered from FHI (c)	**50**	47
	55	51

(a) The Corporation charged FBC for office rent and management services.

(b) The Corporation charged its parent, FHI for management services, labour and materials.

(c) As part of a TLUP, the Corporation received dividend income from FHI relating to a $1,400 million investment in preferred shares.

Related Party Costs

The amounts charged by the Corporation's parent and other related parties under common control for the years ended December 31 were as follows:

($ millions)	**2014**	2013
Operation and maintenance expense charged by FBC (a)	**5**	4
Operation and maintenance expense charged by FHI (b)	**13**	12
Finance charges paid to FHI (c)	**1**	1
Finance charges paid to FHI (d)	**50**	47
	69	64

(a) FBC charged the Corporation for electricity purchases and management services.

(b) FHI charged the Corporation for Board of Director costs, management services, labour and materials.

(c) FHI charged the Corporation interest expense on a $20 million promissory note. During 2013 and 2014 FEW had promissory notes due to FHI bearing interest at 5.108 per cent. The notes were repaid in January 2015.

(d) As part of a TLUP, the Corporation paid FHI interest on $1,400 million (2013 - $1,400 million) of inter-company subordinated debt.

Balance Sheet Amounts

The amounts due from related parties, which are included in accounts receivable on the consolidated balance sheets, and the amounts due to related parties which are included in accounts payable and other current liabilities and current portion of long-term debt on the consolidated balance sheets, are as follows:

As at December 31	**2014**		2013	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
FHI	**-**	**1**	2	-
Debt due to FHI	**-**	**20**	-	20
FBC	**-**	**1**	-	1
	-	**22**	2	21

In the fourth quarter of 2014, subject to a regulatory order from the BCUC, FEI transferred the thermal energy services deferral account to FAES, for net proceeds of approximately $12 million. The recovery has been shown as a reduction in long-term regulatory assets.

During the year ended December 31, 2014 FEVI borrowed demand notes from Fortis. The demand notes were unsecured, due on demand and FEVI was charged interest that approximated FEVI's cost of short term borrowing. Final payment of the demand notes occurred during the fourth quarter of 2014.

In late October 2014, FBC loaned $53 million by way of a demand note to FEVI. The demand note was unsecured, due on demand and FEVI was charged interest that approximated FEVI's cost of short-term borrowing. The demand note was repaid in late November 2014.

BUSINESS RISK MANAGEMENT

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

Regulatory Approval and Rate Orders

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

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

Rate applications that reflect cost of service and establish revenue requirements are subject to either a public hearing process which may be oral or written, or a negotiated settlement. The BCUC has approved a PBR rate-setting methodology for the Corporation for a term of 2014 through 2019, after an extensive public hearing process. Rates during this term will be determined through a review process which occurs on an annual basis. There can be no assurance that the rate orders issued will permit the Corporation to recover all costs actually incurred and to earn the expected rate of return.

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

There is legislation in BC which enables the BCUC to impose administrative monetary penalties on the Corporation, its officers and directors upon finding contravention of a BCUC order, rule, or standard. The penalty amount varies depending on the nature of the violation and it is not recoverable from customers.

Continued Reporting in Accordance with US GAAP

In January 2014, the OSC issued a relief order which permits the Corporation to continue to prepare its financial statements in accordance with US GAAP, until the earliest of: (i) January 1, 2019; (ii) the first day of the financial year that commences after the Corporation ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the IASB for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation. In July 2014, the BCUC approved the Corporation’s request to continue to use US GAAP for regulatory purposes effective January 1, 2015. This regulatory approval is granted until such time that the Corporation no longer has an OSC exemption to use US GAAP or is no longer reporting under US GAAP for financial reporting purposes, whichever is earlier. If the OSC relief does not continue as detailed above, the Corporation would then be required to become a United States Securities and Exchange Commission (“SEC”) Issuer in order to continue reporting under US GAAP or adopt IFRS.

The IASB has recently released an interim, optional standard on Regulatory Deferral Accounts and continues to work on a project focusing on accounting specific to rate-regulated activities. It is not yet known when this project will be completed or whether IFRS will, as a result, include a permanent mandatory standard to be applied by entities with activities subject to rate regulation. In the absence of a permanent standard for rate-regulated activities, adopting IFRS would result in volatility in the Corporation’s earnings as compared to that which would otherwise be recognized under US GAAP.

Asset Breakdown, Operation, Maintenance and Expansion

The Corporation’s assets require on-going maintenance, replacement and expansion. Accordingly, to ensure the continued performance of the physical assets, the Corporation determines expenditures that should be made to maintain, replace and expand the assets. The Corporation could experience service disruptions and increased costs if it is unable to maintain, replace or expand its asset base. The inability to recover, through approved rates, capital expenditures that the Corporation believes are necessary to maintain, replace, expand and remove its assets, the failure by the Corporation to properly implement or complete approved capital expenditure programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Corporation's results of operations and financial position.

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

Environment, Health and Safety Matters

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

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

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

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

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

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

Weather and Natural Disasters

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

Permits

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

Underinsured and Uninsured Losses

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

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

First Nations

The Corporation provides service to customers on First Nations lands and maintains gas facilities on lands that are subject to land claims by various First Nations. A treaty negotiation process involving various First Nations and the Governments of BC and Canada is underway, but the basis upon which settlements might be reached in the Corporation's service areas is not clear. Furthermore, not all First Nations are participating in the process. To date, the policy of the Government of BC has been to endeavor to structure settlements without prejudicing existing rights held by third parties such as the Corporation. However, there can be no certainty that the settlement process will not have a material adverse effect on the Corporation's results of operations and financial position.

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

Labour Relations

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

The inability to maintain, or to renew, the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes, that are not provided for in approved rates and that could have a material adverse effect on the Corporation's results of operations and financial position.

Employee Future Benefits

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

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

Net benefit cost variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Human Resources

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

Information Technology Infrastructure

The ability of the Corporation to operate effectively is dependent upon managing and maintaining information systems and infrastructure that support the operation of distribution, transmission and storage facilities; provide customers with billing and consumption information; and support the financial and general operating aspects of the business. The reliability of the communication infrastructure and supporting systems are also necessary to provide important safety information. System failures could have a material adverse effect on the Corporation.

Cyber-Security

The Corporation operates critical energy infrastructure in its respective service territories and, as a result, is exposed to the risk of cyber-security violations. Unauthorized access to corporate and information technology systems due to hacking, viruses and other causes could result in service disruptions and system failures. In addition, in the normal course of operation, the Corporation requires access to confidential customer data, including personal and credit information, which could be exposed in the event of a security breach. A security breach could have a material adverse effect on the Corporation's results of operations and financial position.

Interest Rates

The Corporation is exposed to interest rate risks associated with floating rate debt and refinancing of its long-term debt. Regulated interest expense variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position

While the current determination of the allowed ROE is set for the Corporation, until December 31, 2015, future proceedings to determine its ROE may consider the general level of interest rates as a factor for setting the ROE. If interest rates continue to remain at historically low levels, the allowed ROE may also decrease. The continuation of a low interest rate environment could adversely affect the Corporation's ability to earn a reasonable ROE, which in turn, could have a material adverse effect on the Corporation's results of operations and financial position.

Impact of Changes in Economic Conditions

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

Capital Resources and Liquidity

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

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

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

Competitiveness and Commodity Price Risk

Prior to 2000, natural gas consistently enjoyed a substantial competitive advantage when compared with alternative sources of energy in BC. However, since the majority of electricity prices in BC were set based on the historical average cost (primarily hydroelectric dams) of production, rather than based on market forces, natural gas' competitive advantage was substantially eroded during the next decade. More recently, there has been upward pressure on electricity rates in BC largely due to new investment required in the electric generation and transmission sector. In addition, the growth in North American natural gas supply, primarily from shale gas production, has resulted in a lower natural gas price environment. These factors have helped to improve natural gas competiveness on an operating basis. Nevertheless, upfront capital cost differences between electricity and natural gas equipment for hot water and space heating applications continue to present a challenge for the competiveness of natural gas on a fully-costed basis.

The Corporation employs various strategies to mitigate the exposure of customers' commodity rates to natural gas price volatility including supply diversity, natural gas storage, deferral account and rate setting mechanisms, and rate structures. The Corporation has also in the past used hedging tools involving derivative instruments. In 2011 the BCUC directed the Corporation to discontinue its hedging program while any pre-existing hedges were managed to expiry ending in 2014. The absence of such financial hedging tools may result in the Corporation's customers being more exposed to market price volatility on a go forward basis.

Government policy has also impacted the competitiveness of natural gas in BC. The Government of BC has introduced changes to energy policy including greenhouse gas emission reduction targets and a consumption tax on carbon-based fuels. However, the Government of BC has yet to introduce carbon tax on imported electricity generated through the combustion of carbon-based fuels. The impact of these changes in energy policy may have a material impact on the competitiveness of natural gas relative to non-carbon based energy sources or other energy sources.

There are other competitive challenges that are impacting the penetration of natural gas into new housing stock such as green attributes of the energy source, and type of housing stock being built. In recent years, the Corporation has experienced a decline in the percentage of new homes installing natural gas compared with the total number of dwellings being built throughout BC.

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

A severe and prolonged increase in commodity costs could materially affect the Corporation despite regulatory measures available for compensating for changes in commodity costs. There can be no assurance that the current BCUC approved flow through mechanisms in place allowing for the flow through of the natural gas supply costs, will continue in the future as they are dependent on future regulatory decisions and orders. An inability to flow through the full cost of natural gas could have a material adverse effect on the Corporation's results of operations and financial position.

Counterparty Credit Risk

The Corporation is exposed to credit risk in the event of non-performance by counterparties. The Corporation deals with reasonable credit-quality institutions in accordance with established credit approval practices. To date the Corporation has not experienced any material counterparty defaults and does not expect any counterparties to fail to meet their obligations; however, the credit quality of counterparties, can change rapidly.

Natural Gas Supply

The Corporation is dependent on a limited selection of pipeline and storage providers, particularly in the Lower Mainland, Interior and Vancouver Island. Regional market prices, particularly at the Sumas market hub, have been higher than prices elsewhere in North America during peak winter periods when regional pipeline and storage resources become constrained to serve the demand for natural gas in BC and the US Pacific Northwest.

In addition, the Corporation is highly dependent on a single source transmission pipeline. In the event of a prolonged service disruption on the Spectra transmission system, the Corporation's residential customers could experience outages, thereby affecting revenues and incurring costs to safely relight customers. The Corporation uses LNG peak shaving facilities to mitigate this risk by providing short-term on-system supply during cold weather spells or emergency situations.

Developments are occurring in the region that may increase the demand for gas supply from BC. These include an increase in pipeline capacity to deliver gas from BC to markets outside of BC and the potential development of large scale LNG facilities to export gas to Asian markets. BC has significant natural gas resources that are expected to be sufficient to meet incremental demand requirements and to continue to supply existing markets. It is uncertain at this time, however, how the pace and location of infrastructure development to connect production to new and existing markets could impact the Corporation's access to supply at fair market prices.

There can be no assurance that the current BCUC approved flow through mechanisms in place allowing for the flow through of the natural gas supply costs, will continue in the future, as they are dependent on future regulatory decisions and orders. An inability to flow through the full cost of natural gas could have a material adverse effect on the Corporation's results of operations and financial position.

CHANGE IN ACCOUNTING ESTIMATE

As required by the BCUC, the Corporation capitalizes overhead costs that may not be directly attributable to specific items of property, plant and equipment, but which relate to the overall capital expenditure plan. These capitalized overheads are allocated over constructed property, plant and equipment and are amortized over their estimated services lives. The methodology for calculating and allocating these general expenses to property, plant and equipment is established by the BCUC. As approved in the 2014 PBR Decision and effective January 1, 2014, on a prospective basis, the Corporation's capitalized overhead decreased from 14 per cent to 12 per cent of gross regulated operation and maintenance costs. This change was reflected as an approximately $5 million decrease in property, plant and equipment during 2014 and a corresponding increase to operation and maintenance costs and revenues approved to be collected from customers.

CHANGE IN ACCOUNTING POLICY

As approved in the PBR Decision and effective January 1, 2014, on a prospective basis, depreciation of property, plant and equipment and amortization of intangible assets commences at the beginning of the year following when the asset is available for use. Prior to January 1, 2014, depreciation and amortization commenced in the month after the asset was available for use.

FUTURE ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The amendments in this update create Accounting Standard Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the IASB to improve financial reporting by creating common revenue recognition guidance for US GAAP and IFRS that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This update is effective for annual and interim periods beginning on or after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. Early adoption is not permitted. FEI is assessing the impact that the adoption of this standard will have on its consolidated financial statements.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in this update are intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related disclosures. This update is effective for annual and interim periods beginning on or after December 15, 2016. Early adoption is permitted. FEI is assessing the impact that the adoption of this standard will have on its consolidated financial statements.

FINANCIAL INSTRUMENTS

Fair Value Estimates

The following table summarizes the fair value measurements of the Corporation's long-term debt and natural gas derivative contracts as of December 31, 2014 and December 31, 2013, all of which are Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at their carrying value:

	2014		2013	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt, including current portion[1]	**1,925**	**2,461**	1,925	2,279
Natural gas commodity swaps, options, basis swaps and supply contract premiums[2]	**11**	**11**	15	15

1. Includes unsecured debentures, purchase money mortgages, promissory notes and the current portion of the repayable government loans for which the carrying value is measured at cost and excludes credit facilities. For the purposes of this disclosure, carrying value is used to approximate fair value for the promissory note and the repayable government loans.
2. Included in accounts payable and other current liabilities as at December 31, 2014 and 2013.

The fair values of the Corporation's financial instruments, including derivatives, reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment.

At December 31,2014, the Corporation's outstanding derivative balances, which consisted of natural gas supply contract premiums were as follows:

($ millions)	**Gross Derivatives Balance[1]**	**Netting[2]**	**Cash Collateral**	**Total Derivatives Balance**
Natural gas supply contract premiums:				
Accounts payable and other current liabilities	**11**	**-**	**-**	**11**

1. See the December 31, 2014 consolidated financial statements for a discussion of the valuation techniques used to calculate the fair value of these instruments.
2. Positions, by counterparty, are netted where the intent and legal right to offset exists.

At December 31, 2013, the Corporation's outstanding derivative balances, which consisted of natural gas supply contract premiums and other natural gas derivative contracts, including commodity swaps, options and basis swaps, were as follows:

($ millions)	Gross Derivatives Balance[1]	Netting[2]	Cash Collateral	Total Derivatives Balance
Natural gas commodity swaps, options, basis swaps and supply contract premiums:				
Accounts payable and other current liabilities	15	-	-	15

1. See the December 31, 2013 consolidated financial statements for a discussion of the valuation techniques used to calculate the fair value of these instruments.
2. Positions, by counterparty, are netted where the intent and legal right to offset exists.

The following table shows the cumulative losses at December 31, 2014 and 2013, with respect to all natural gas derivative contracts:

($ millions)	**2014**	2013
Unrealized loss on natural gas commodity swaps, options, basis swaps and supply contract premiums [1,2]	**11**	15

1. Unrealized gains and losses on commodity risk-related derivative instruments are recorded to current regulatory assets or liabilities rather than being recorded to the consolidated statement of earnings.
2. These amounts are fully passed through to customers in rates. Accordingly, net earnings were not impacted by realized amounts on these instruments.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's consolidated financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates and judgments are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are recorded in the period they become known.

Regulation

Generally, the accounting policies of the Corporation's regulated operations are subject to examination and approval by the regulatory authority, the BCUC. These accounting policies may differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using US GAAP for entities not subject to rate regulation. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process and have been recorded based on previous, existing or expected regulatory orders or decisions. Certain estimates are necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the regulatory authority for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are reported in earnings in the period in which they become known. As at December 31, 2014, the Corporation recorded $798 million in current and long-term regulatory assets (2013 - $712 million) and $162 million in current and long-term regulatory liabilities (2013 - $188 million).

Depreciation and Amortization

Depreciation property, plant and equipment and amortization of intangibles, by their nature, are an estimate based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2014, the Corporation's property, plant and equipment and intangible assets were $3,814 million, or approximately 65 per cent of total assets, compared to $3,598 million, or approximately 64 per cent of total assets, as at December 31, 2013. Changes in depreciation and amortization rates can have a significant impact on the Corporation's depreciation and amortization expense.

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

Goodwill and Indefinite-Lived Intangible Assets Impairment Assessment

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. Goodwill is carried at initial cost less any write-down for impairment. As at December 31, 2014, goodwill totaled $913 million (2013 - $913 million).

To test goodwill for impairment, the Corporation performs an annual internal quantitative assessment and fair value is estimated by an independent external consultant when: (i) management's assessment of quantitative and qualitative factors indicates that fair value is not 50 per cent or more likely to be greater than carrying value; or (ii) the excess of estimated fair value compared to carrying value, as determined by an independent external consultant as of the date of the immediately preceding goodwill impairment test, was not significant. Irrespective of the above noted criteria, the Corporation will have fair value estimated by an independent external consultant, as at the annual impairment date, at a minimum once every three years.

In addition to the annual impairment test, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value was below its carrying value.

As at October 1, 2014, the fair value of the Corporation was estimated by an independent external consultant and estimated fair value was determined to be in excess of carrying value. It was concluded that goodwill of the Corporation was not impaired.

Indefinite-lived intangible assets not subject to amortization consist of land and certain other transmission rights and totaled $54 million as at December 31, 2014 (2013 - $54 million).

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset may be impaired.

The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Based on the Corporation's assessment it was concluded the indefinite-lived intangible assets of the Corporation were not impaired.

Employee Future Benefits

The Corporation's defined benefit pension plans, supplemental pension arrangements and OPEB plans are subject to judgments utilized in the actuarial determination of the net benefit cost and related obligation. The main assumptions utilized by management in determining net benefit cost and obligation are the discount rate for the projected benefit obligation and the expected long-term rate of return on plan assets.

The assumed long-term rate of return on the defined benefit pension plan assets, for the purpose of determining pension net benefit cost for 2014, was 6.40 per cent, which is comparable to the 6.39 per cent assumed long-term rate of return used for 2013.

The assumed discount rate, used to measure the Corporation's projected pension benefit obligations on the measurement date of December 31, 2014, was 4.00 per cent, down from 4.75 per cent used on December 31, 2013. The decrease in discount rates reflects the decreased credit spreads and cost of capital on investment grade corporate bonds.

The long-term rate of return is based on the expected average return of the assets over a long period given the relative asset mix. The discount rate is determined with reference to the current market rate of interest on high quality debt instruments with cash flows that match the time and amount of expected benefit payments.

The Corporation expects net benefit pension cost for 2015 related to its defined benefit pension plans, prior to regulatory adjustments, to be approximately $4 million higher than in 2014. The higher net benefit pension cost is primarily due to the effect of the decrease in the discount rates effective December 31, 2014, partially offset by increased investment returns.

The following table provides the sensitivities associated with a 100 basis point change in the expected long-term rate of return on plan assets and discount rate on 2014 net benefit pension cost and the projected pension benefit obligation recorded in the Corporation's consolidated financial statements:

Increase (decrease) ($ millions)	**Net Benefit Cost**	**Projected Benefit Obligation**
1% increase in the expected rate of return	(4)	-
1% decrease in the expected rate of return	2	(21)
1% increase in the discount rate	(10)	(111)
1% decrease in the discount rate	13	132

The above table reflects the changes before the effect of any regulatory deferral mechanism approved by the BCUC. The Corporation currently has in place BCUC approved mechanisms to defer variations in pension net benefit costs from forecast net benefit costs, used to set customer rates, as a regulatory asset or liability.

Other significant assumptions applied in measuring pension net benefit cost and/or the projected pension benefit obligation were the average rate of compensation increase, assumed rates of retirement and assumed rates of mortality. The Corporation's OPEB plans are also subject to judgments utilized in the actuarial determination of the OPEB net benefit cost and related projected benefit obligation. Except for the assumption of the expected long-term rate of return on plan assets, the above assumptions, along with health care cost trends, were also utilized by management in determining OPEB plan net benefit cost and projected benefit obligation.

As at December 31, 2014, the Corporation had a pension projected benefit net liability of $97 million (2013 - $71 million) and an OPEB projected benefit liability of $135 million (2013 - $112 million). During 2014, the Corporation recorded pension and OPEB net benefit cost, inclusive of regulatory adjustments, of $30 million (2013 - $20 million).

Asset Retirement Obligations ("AROs")

In measuring the fair value of AROs, the Corporation is required to make reasonable estimates concerning the method of settlement and settlement dates associated with the legally obligated asset retirement costs. The Corporation does not currently have any identified AROs for which amounts have been recorded as at December 31, 2014 and 2013. The nature, amount and timing of costs associated with land and environmental remediation and/or removal of assets cannot be reasonably estimated due to the nature of their operation; and applicable licenses, permits and laws are reasonably expected to be renewed or extended indefinitely to maintain the integrity of the related assets and to ensure the continued provision of service to customers. In the event that environmental issues are identified, or the applicable licenses, permits, laws or agreements are terminated, AROs will be recorded at that time provided the costs can be reasonably estimated.

Revenue Recognition

The Corporation recognizes revenue on an accrual basis. Recording revenue on an accrual basis requires use of estimates and assumptions. Customer bills are issued throughout the month based on meter readings or estimates that establish natural gas consumption by customers since the last meter reading. The unbilled revenue accrual for the period is based on estimated natural gas sales to customers for the period since the last meter reading at the approved rates. The development of the sales estimates requires analysis of consumption on a historical basis in relation to key inputs such as the current price of natural gas, population growth, economic activity, weather conditions and system losses. The estimation process for accrued unbilled natural gas consumption will result in adjustments to natural gas revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2014, the amount of accrued unbilled revenue recorded in accounts receivable was approximately $102 million (2013 - $111 million) on annual natural gas transmission and distribution revenues of $1,435 million (2013 - $1,378 million).

Income Taxes

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

Contingencies

Contingencies are described in the "Business Outlook" section of this MD&A.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth audited financial information for the years ended December 31, 2014, 2013 and 2012. The financial information has been prepared in accordance with US GAAP. These results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Years ended December 31	**2014**	2013	2012
($ millions)			
Revenues	**1,489**	1,428	1,475
Net earnings attributable to controlling interest	**141**	135	145
Total assets	**5,907**	5,620	5,609
Current and long-term debt[1]	**1,925**	1,925	1,939
Common dividends paid	**95**	150	95

1. Excludes short term notes

2014/2013 – Revenues increased $61 million over 2013 and net earnings increased $6 million over 2013. For a discussion of the reasons for the increase in revenues and net earnings, refer to the "Consolidated Results of Operations" section of this MD&A. The increase in total assets was mainly due to capital expenditures (including those related to the Tilbury Expansion Project) and increased regulatory assets relating to deferred income taxes and defined benefit pension plans and OPEBs. Current and long-term debt is comparable to the prior year. Dividends in 2013 included a one-time dividend to reduce the common equity component of the pre-amalgamation FEI capital structure to 38.5 per cent as a result of the BCUC decision on the first stage of the GCOC Proceeding.

2013/2012 – Revenues decreased $47 million over 2012 and net earnings decreased $10 million over 2012. Revenues decreased due to lower cost of natural gas in 2013 compared to 2012. Revenue and earnings decreased due to the decrease in the allowed ROE and deemed equity component of capital structure for 2013 compared to 2012. Total assets and current and long-term debt are comparable to the prior year. Dividends in 2013 included a one-time dividend to reduce the common equity component of the pre-amalgamation FEI capital structure to 38.5 per cent as a result of the BCUC decision on the first stage of the GCOC Proceeding.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2013 through December 31, 2014. The information has been obtained from the Corporation's unaudited interim consolidated financial statements which, in the opinion of management, have been prepared in accordance with US GAAP. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarter Ended	**Revenue**	**Net Earnings (Loss) Attributable to Controlling Interest**
($ millions)		
December 31, 2014	452	57
September 30, 2014	237	(6)
June 30, 2014	287	12
March 31, 2014	513	78
December 31, 2013	475	56
September 30, 2013	214	(11)
June 30, 2013	246	6
March 31, 2013	493	84

Due to the seasonal nature of the Corporation's natural gas transmission and distribution operations and its impact on, natural gas consumption patterns, the natural gas transmission and distribution operations of FEI normally generate higher net earnings in the first and fourth quarters and lower net earnings in the second quarter, which are partially offset by net losses in the third quarter. As a result of the seasonality, interim earnings are not indicative of earnings on an annual basis.

March 2014/2013 - Net earnings were lower primarily due to a lower allowed ROE and equity component of the capital structure and higher income taxes. The GCOC stage one decision reducing the allowed ROE and equity component of capital structure although effective January 1, 2013, was received in May 2013.

June 2014/2013 - Net earnings were higher primarily due to the retroactive negative impact of the GCOC stage one decision reflected in the second quarter of 2013 relating to the first quarter of 2013.

September 2014/2013 - The lower net loss was primarily due to the higher tax savings from the current year's TLUP. The TLUP in 2014 was put in place in the second quarter whereas the TLUP in 2013 was put in place in the third quarter.

December 2014/2013 – Net earnings were higher primarily due to operation and maintenance expense savings, net of the regulated Earnings Sharing Mechanism and higher AFUDC partially offset by the effects of the flow-through deferral amounts and lower tax savings from the current year's TLUP. The TLUP in 2014 was wound-up in November 2014 whereas the TLUP in 2013 was wound-up in December 2013.

BUSINESS OUTLOOK

Collective Agreements

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expires on March 31, 2019. IBEW represents employees in specified occupations in the areas of transmission and distribution.

There are two collective agreements between the Corporation and Local 378 of the Canadian Office and Professional Employees Union ("COPE"). The first collective agreement representing employees in specified occupations in the areas of administration and operations support expires March 31, 2015. The second collective agreement representing customer service employees expires on March 31, 2017.

Contingencies

The Corporation was the plaintiff in a BC Supreme Court action against the City of Surrey ("Surrey") in which the Corporation sought the court's determination on the manner in which costs related to the relocation of a natural gas transmission pipeline would be shared between itself and Surrey. The relocation was required due to the development and expansion of Surrey's transportation infrastructure. The Corporation claimed that the parties had an agreement that dealt with the allocation of costs. In turn, Surrey advanced counterclaims including an allegation that the Corporation breached the agreement and that Surrey suffered damage as a result. In December 2013, the Court issued a decision which ordered the Corporation and Surrey to share equally the cost of the pipeline relocation. The Court also decided that Surrey was successful in its counterclaim that the Corporation breached the agreement. In December 2014, the Corporation and Surrey reached a settlement, resolving all pending claims and relief sought.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A the Corporation had issued and outstanding 313,438,012 common shares, all of which are owned by FHI, a directly wholly-owned subsidiary of Fortis.

The Corporation is an indirect wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

Additional information about FortisBC Energy Inc., including its Annual Information Form, is available on SEDAR at www.sedar.com.

For further information, please contact:

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2. Credit Agency Reports for the utility and corporate parent since 2011:

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

- Debt Rating
  - Rating Agency reports include annual debt ratings – See reports
- Schedule showing the history of any debt rating changes since 2002
  - See Schedule – “Changes in Rating Since 2002”
- Interest Coverage Ratio and other agency’s key debt ratio since 2011
  - Rating Agency reports include key ratios – See reports

Rating Report

Report Date:
September 19, 2011

Previous Report
July 22, 2010

Insight beyond the rating.

FortisBC Energy Inc.

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The Company

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia (B.C. or the Province, rated AA (high)), serving approximately 846,000 customers and representing approximately 90% of the province's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI, rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc. (FTS, rated A (low)).

Commercial Paper Limit

$500 million

Recent Actions

September 16, 2011
Confirmed

March 1, 2011
Name Change

Rating

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

Rating Rationale

On September 16, 2011, DBRS confirmed the MTNs & Unsecured Debentures and Purchase Money Mortgages ratings of FortisBC Energy Inc. (FEI or the Company, formerly known as Terasen Gas Inc.) at "A", and its Commercial Paper rating at R-1 (low). The trends are Stable. The ratings reflect FEI's low business risk operations within a stable regulatory environment and franchise area, strong ring-fencing provisions, as well as its relatively sound financial profile and credit metrics compared with peers. The ratings also reflect the Company's relatively low allowed ROE, loss of performance-based rate (PBR) incentive earnings, ongoing exposure to volume risk from its industrial and transportation segments and the continued challenge of natural gas' long-term competitiveness vis-à-vis alternative energy sources.

FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) are expected to file an application in the Fall of 2011 to amalgamate the three utility subsidiaries under FortisBC Holdings Inc. (FHI, rated BBB (high)). The amalgamation will require the British Columbia Utilities Commission's (BCUC) approval and the Government of British Columbia's consent to proceed. At this time, DBRS anticipates that the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI provided that there are no material changes that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model. DBRS notes that FEI's current contribution to FHI's overall earnings is approximately 75% and anticipates that the bulk of the amalgamated entity's earnings will continue to be derived from FEI. Should the potential amalgamation proceed, DBRS may re-examine any impacts to FEI and the consolidated utility's credit profile as a result of changes to the capital structure or ROE. (Continued on page 2.)

Rating Considerations

Strengths

(1) Low business risk operations within a stable regulatory environment
(2) Strong regulatory ring-fencing provisions
(3) Stable financial profile and credit metrics
(4) Strong franchise area, with a predictable customer base

Challenges

(1) ROE level and loss of performance-based rate (PBR) incentive earnings
(2) Volume exposure in the industrial and transportation segments
(3) Long-term competitiveness of natural gas relative to alternative energy sources

Financial Information

	LTM Jun. 30th	*For the year ended December 31st*				
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
EBIT Interest Coverage[(1)]	1.9x	2.1x	1.9x	1.9x	1.9x	2.0x
% Debt in Capital Structure[(1)]	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
Cash Flow/Total Debt[(1)]	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash Flow/CapEx	1.1x	1.1x	1.2x	1.4x	1.3x	1.5x
Net Income before Extra. (C$ millions)	74	93	87	92	70	68
Operating Cash Flow (C$ millions)	176	177	170	166	146	160

(1) Includes operating leases

FortisBC Energy Inc.

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Rating Rationale (Continued from page 1.)

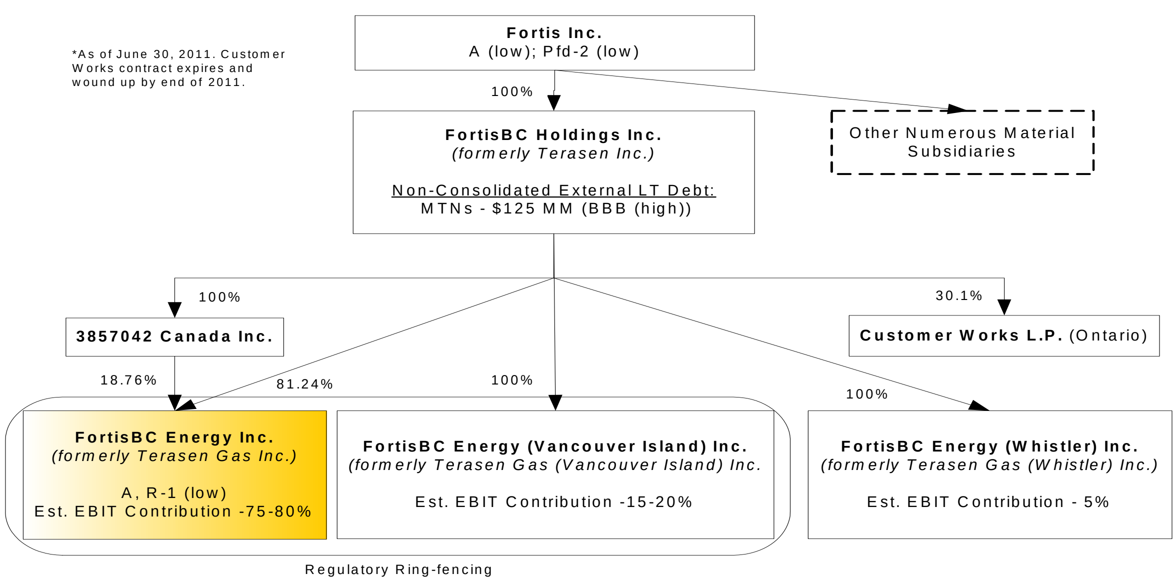
The regulatory environment in which FEI operates continues to provide for a number of cost-recovery mechanisms that, when combined with the general rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. In July 2011, the BCUC approved FEI's December 2010 application to provide fuelling station infrastructure and services but denied the Company's request for a general tariff for the provision of natural gas for vehicles unless certain contractual conditions are met. Earlier in May 2011, FEI filed its 2012-2013 Revenue Requirements and Delivery Rate Application (RRA) in which the Company forecasted a rate increase of approximately 2.8% to 3.0% based on an average rate base of roughly $2,740 million to $2,900 million. The outcome is anticipated in the first quarter of 2012.

FEI's operating performance and credit metrics have historically been stable and are expected to continue to remain consistent. Additionally, due to increases in both the approved ROE and equity thickness as a result of regulatory changes in 2009, DBRS anticipates a continued modest lift in the Company's EBIT coverage and cash flow-to-debt metrics, despite the loss of PBR-related earnings. Despite these increases, FEI's key metrics are expected to remain moderately lower than those of similarly rated gas distribution companies, however, DBRS believes that FEI's relatively weaker financial profile is offset by the predictable, low-risk business profile of the Company's business.

The Company is expected to continue to generate minimal-to-modest free cash flow deficits over the medium term due to the need to replace and refurbish existing infrastructure (which is expected to go into the rate base in a timely manner) and respond to modest customer growth. DBRS expects that FEI will continue to finance any deficits with a combination of bank debt, long-term debt issuances and dividend management.

The Company, in conjunction with its holding company, FHI, and its ultimate parent, Fortis Inc. (FTS, rated A (low)), intends to transition to U.S. GAAP, as opposed to IFRS, in January 2012. The BCUC has approved FEI's request to adopt U.S. GAAP to be used for regulatory reporting purposes from January 1, 2012 to December 31, 2014 but has directed the Company to re-apply by September 1, 2014 for approval of its regulatory accounting standard effective January 1, 2015. DBRS anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis.

Simplified Organization Chart*



Rating Considerations Details

Strengths

(1) FEI's low-risk regulated operations are located in a stable regulatory environment which allows the Company to generate predictable earnings and cash flow to sustain and grow its business. Moreover, FEI operates under a full cost-of-service recovery framework and utilizes deferral accounts which further stabilizes earnings and enables the Company to adjust for the recovery/refund of any shortfalls/overages of natural gas costs from/to customers. FEI is not exposed to commodity costs (subject to a degree of recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) The regulatory ring-fencing imposed by the BCUC on FEI as a condition of the acquisition of FHI by FTS requires, among other conditions: (1) maintenance of the BCUC-approved capital structure; (2) no common dividend payment without BCUC approval if the payment would violate the first condition; (3) no financial support or guarantees for its non-regulated businesses or affiliates; and (4) no transactions with affiliates that would violate BCUC guidelines, policies or directives. The intent of the BCUC decision is to ensure that public interest is protected and that FEI, along with FEVI, will continue to operate as separate, stand-alone entities without undue parental influence.

(3) FEI has historically maintained a stable balance sheet and credit metrics, with some modest improvement attributable to the regulatory changes in 2009. While the EBIT coverage and cash flow-to-debt ratios have improved and are expected to remain at more modestly favourable levels, they remain on the lower end for an A rating compared with its gas distribution peers. However, DBRS remains comfortable with FEI's rating given the inherent low risk nature of its business, and the stability its credit metrics have shown over time.

(4) FEI serves a customer base of approximately 846,000, located in a stable franchise area that includes the City of Vancouver. The customer mix is comprised mainly of residential and commercial customers, which account for roughly 90% of the Company's distribution revenue. Although, there is no volume risk (although there is a degree of recovery lag) associated with these customer segments, DBRS expects the customer growth trend to continue to decline, with fewer new housing starts and a shift in the housing mix to more multi-family dwellings. FEI is expected to focus on retaining customers through expanded energy conservation and efficiency programs in order to offset the growth trend.

Challenges

(1) FEI's earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (electricity as the primary competitor) in British Columbia. Despite the significant increases in natural gas prices through 2008, natural gas continued to maintain a competitive advantage over electricity in terms of pricing. While gas prices have since retreated, it is expected that under reasonable gas price assumptions, FEI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to British Columbia Hydro & Power Authority (BC Hydro). This current pricing environment improves both FEI's competitiveness and reduces its working capital and liquidity requirements.

(2) The Company is exposed to forecast variances related to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes and 5% of revenues but are not eligible for inclusion in the revenue stabilization deferral account. However, this volume risk is mitigated by the fact that usage by these segments is less likely to be significantly affected by weather and is therefore more predictable. FEI also annually surveys its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk are the fixed demand charges derived from this segment.

(3) In 2009, the BCUC terminated the automatic ROE adjustment formula and set the approved level at 9.50%, however, the ROE had been below 9% for the prior three years, negatively affecting earnings and cash flows. Additionally, under the prior PBR mechanism, FEI shared earnings above or below the allowed ROE on a 50/50 basis with customers. The loss of PBR earnings has largely offset the credit positive impact of the ROE increase.

Regulation

Regulatory Overview

The Company is located in the Province of British Columbia (B.C. or the Province, rated AA (high)) and is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service methodology. Under this system, the Company must apply to the BCUC for approval to recover its forecasted cost-of-service from customers through rates. Typically, FEI's cost of service includes the cost of purchased gas, transportation and distribution, operating, maintenance and administrative expenses (OM&A), depreciation of facilities, interests, income, and other taxes and ROE. Accordingly, FEI's rates are based on estimates of items such as natural gas sales volumes, the cost of natural gas and interest rates.

In order to manage the forecast risks associated with these estimates, the Company employs a number of regulatory deferral accounts to mitigate potential impacts:

- **Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):** Any differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. Consequently, FEI is minimally exposed to recovery lag since balances are expected to be fully recovered or refunded within the next fiscal year, however, prices are adjusted on a quarterly basis to better reflect prevailing gas commodity prices thereby mitigating the impact of recovery lag.
- **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer use throughout the year and subsequently recovered in rates over three years. The RSAM stabilizes revenues from residential and commercial customers but variances by large-volume industrial transportation and sales customers, which account for 45% of FEI's total throughput, are not included in this deferral account. However, FEI's exposure to volume risk is mitigated by the predictability in usage of these customer segments that are also less likely to be significantly affected by weather.
- FEI also utilizes short- and long-term interest rate deferral accounts to assist in absorbing the impact of interest rate fluctuations.

FEI is presently operating under a Negotiated Settlement Agreement (NSA) that allows changes to the BCUC-determined ROE (set at 9.50% for 2011) and common equity levels (set at 40.00% for 2011) to be incorporated into rates. Established in late 2009 when the BCUC determined that the ROE adjustment mechanism under which FEI operated no longer applied, the NSA set FEI's rates for 2010 and 2011 but does not include the PBR mechanism that was in effect from 2004 to 2009. Previously under the PBR, the Company's O&M costs as well as base-capital expenditures were subject to an incentive formula that reflected increasing costs due to customer growth and inflation, less a productivity factor.

The PBR had provided for a 50/50 sharing mechanism of earnings above or below the allowed ROE that was set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium was adjusted annually by 75% of the difference between 5.25% and the forecast yield. The common equity component of the capital structure was set at 35.01%; the BCUC has since increase FEI's equity level to 40.00% and the Company received a $125 million equity injection in January 2010 to align its capital structure with this revision. While the loss of the PBR income would have negatively affected FEI's financial results, this was largely offset by an improvement in regulatory allowed ROE (to 9.50% from the 8.43% that would otherwise have been in effect) and equity thickness (from 35.01% to 40%).

Regulatory Ring-Fencing

The regulatory ring-fencing imposed by the BCUC as a condition of the acquisition of FEI by FTS in April 2007 (a continuation of the ring fencing imposed upon acquisition of the former Terasen Inc. by KMI in December 2005) is intended to ensure that public interest is protected and that FEI and FEVI will continue to operate as separate, stand-alone entities without undue parental influence.

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Earnings and Outlook

Consolidated Income Statement

(C$ millions)	*LTM Jun. 30th* 2011	2010	*For the year ended December 31st* 2009	2008	2007	2006
Net Revenue	566	572	526	513	507	517
EBITDA	296	317	297	292	293	301
EBIT	207	226	214	214	215	217
Gross Interest Expense	106	104	109	111	108	106
Pre-tax Income	103	123	106	103	108	112
Income Tax	29	30	19	12	38	44
Core Net Income (before Extra.)	74	93	87	92	70	68
Net Income	74	93	87	92	78	68
Return on Avg. Common Eq. (before Extra.	7.2%	9.8%	9.9%	10.4%	7.9%	7.8%
EBIT Margin (Net of Gas Costs)	36.5%	39.4%	40.7%	41.7%	42.3%	42.0%
Rate Base	2,634	2,540	2,547	2,510	2,484	2,516
Approved common equity	40.00%	40.00%	35.01%	35.01%	35.01%	35.00%
Allowed ROE*	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%

* 8.47% for first six months of 2009, 9.50% for second six months

Summary

Much of the recent modest improvement in FEI's earnings is attributable to the 2009 BCUC decision to increase both the Company's common equity component and approved ROE. Notwithstanding these increases, FEI's earnings continue to remain relatively predictable due to the Company's core segment of residential and commercial customers that comprise the majority of its margin while its industrial customers are typically under contract and are less susceptible to the weather. Moreover, FEI continues to maintain very stable EBITDA and EBIT levels that are reflective of modest net additions to its customer base, increases in its rate base and an established approved equity component, all largely offset by relatively low allowed ROE levels.

Historically, FEI's gas distribution segment has accounted for more than 50% of total throughput volumes and roughly 90% of total revenues. Throughputs for this segment exhibit stability, and any volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates. However, the growth in multi-family housing continues to negatively impact net customer additions as the use of natural gas is less prevalent within these dwellings.

FEI's transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of FEI's total throughput volumes and less than 10% of total revenues. Although these segments expose the Company to a degree of volume risk, the exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments. Interest expense has been relatively stable over the past five years due to fairly consistent levels of total debt.

Outlook

The Company's earnings are anticipated to continue at their modestly higher levels due to the impact of the higher equity component and approved ROE, offset by the negative impact of the loss of incentive earnings upon expiry of the PBR mechanism. DBRS expects that over the medium term, as typical of a mature gas distribution utility, FEI will continue to generate relatively stable earnings, with some variability related to allowed ROE, population growth, new housing starts and customer conversions.

Over the longer term, FEI's earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While FEI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position may weaken should gas prices increase significantly for a prolonged period of time, potentially negatively impacting FEI's financial and credit profile. The competitiveness of natural gas may also be affected by the provincial consumption tax on carbon-based fuels.

Financial Profile

Cash Flow Statement

(C$ millions)	LTM Jun. 30th 2011	For the year ended December 31st 2010	2009	2008	2007	2006
Net Income (before Extra.)	92	93	87	92	70	68
Depreciation & Amortization	89	91	83	78	79	84
Other Non-cash Adjustments	(4)	(7)	0	(4)	(3)	8
Operating Cash Flow	176	177	170	166	146	160
CapEx	(161)	(157)	(139)	(123)	(108)	(109)
Common Dividends	(82)	(84)	(67)	(100)	(111)	(40)
Free Cash Flow Before W/C Changes	(67)	(64)	(36)	(57)	(73)	12
Working Captial Changes	56	(15)	16	33	(28)	83
Net Free Cash Flow	(11)	(79)	(20)	(24)	(101)	95
Acquisitions/Divestitures	0	0	0	14	0	0
Other adjustment/comprehensive	0	0	0	14	0	0
Cash Flow Before Financing	176	177	170	166	146	160
Net Change in Debt Financing	(0)	(24)	6	(5)	89	(98)
Net change in Pref. Share Financing	0	0	0	0	0	0
Net Equity in Financing	0	125	0	0	0	0
Net Change in Cash	1	9	(7)	8	(1)	(9)
Total Adjusted Debt (C$ million)[(1)]	1,576.0	1,713.3	1,738.9	1,734.4	1,738.6	1,657.6
Cash Flow/Total Debt[(1)]	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
% Debt in Capital Structure[(1)]	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
EBIT Interest Coverage[(1)]	1.9	2.1	1.9	1.9	1.9	2.0
Dividend Payout Ratio	111.0%	90.1%	76.8%	109.3%	158.0%	58.5%

(1) Includes operating leases

Summary

As with FEI's earnings, the recent modest increase in the Company's stable cash flow from operations is attributable to the regulatory increases to the ROE and equity thickness in 2009. Dividends will continue to be maintained in line with FEI's BCUC-approved capital structure as, pursuant to the BCUC-imposed ring-fencing conditions, FEI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes.

Key cash-flow metrics remain moderately lower than those of similarly rated gas distribution peers, however, DBRS believes that FEI's relatively weaker financial profile is offset by the predictable, low-risk business profile of the Company's business and notes that the stability of FEI's coverage metrics continues to be a key factor in its ratings.

Outlook

Historically, FEI's financial profile has been stable and is expected to remain relatively consistent over the medium term, with a continued modest lift in the Company's cash flow-to-debt metrics as a result of the regulatory changes in 2009 and despite the loss of PBR-related earnings. The Company is expected to continue to generate minimal-to-modest free cash flow deficits over the medium term due to the need to replace and refurbish existing infrastructure (which is expected to go into the rate base in a timely manner) and respond to modest customer growth. Capital expenditures are expected to be approximately $180 million annually over the short- to medium-term and DBRS expects that any deficits are to be financed with a combination of the Company's $500 million revolving bank facility ($411.8 million of which was available at June 30, 2011) and long-term debt issuances.

Long term, DBRS believes that, under current reasonable gas and electricity price assumptions, FEI will remain competitive relative to alternative energy sources and anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis. Moreover, DBRS anticipates that the planned amalgamation and associated rate harmonization of FEI, FEVI and FEW will not impact the credit profile of FEI provided that the there are no material changes to the consolidated utility that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model.

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Long-Term Debt and Liquidity

DBRS views FEI's liquidity as sufficient for its funding requirements. The Company's $500 million, five-year unsecured committed revolving credit facility with a syndicate of banks matures in August 2013 and $411.8 million was unutilized as at June 30, 2011. The credit facility is primarily used to support FEI's $500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Typically, gas inventory levels and working capital requirements peak in the fall and winter seasons and decline in the spring and summer.

FEI's debt-repayment schedule is negligible in the near term:

As at June 30, 2011

(C$ millions)	2011	2012	2013	2014	2015	Thereafter	Total
Long-Term Debt	2.6	2.6	2.6	2.6	77.5	1,370.0	1,457.9

DBRS notes that FEI's bond indenture contains an EBIT-to-interest coverage test that must be observed in order for the Company to issue additional indebtedness. To allow FEI to issue debt with a maturity term longer than 18 months, EBIT for the 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest.

FortisBC Energy Inc.

Report Date:
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FortisBC Energy Inc.

(Consolidated)

Balance Sheet

(C$ millions)	As at Jun. 30th	As at the year ended Dec. 31st				As at Jun. 30th	As at the year ended Dec. 31st		
Assets	**2011**	**2010**	**2009**	**2008**	**Liabilities & Equity**	**2011**	**2010**	**2009**	**2008**
Cash	9	15	6	13	Short-term Debt	40	178	204	239
Accounts Receivable	231	298	277	346	Long-term Debt Due within 1 Year	3	3	2	62
Inventories	80	136	149	192	Accounts Payable	280	358	337	366
Prepaid Expenses & Other	14	11	23	3	Tax Payable	65	37	42	66
Rate Stabilization Accounts	61	96	69	54	Rate Stabilization Accounts	33	4	12	24
					Other LT Liabilities & Deferred Credits	5	12	0	0
Current Assets	395	557	524	608	**Current Liabilities**	427	591	597	755
Net Fixed Assets	2,476	2,466	2,423	2,357	Long-Term Debt	1,444	1,442	1,440	1,340
Rate Stabilization Accounts	0	0	0	0	Deferred Credits	167	149	181	138
Deferred Charges	0	0	0	40	Deferred Taxes	282	280	271	1
Long-Term Investments	492	461	423	104	Common Equity	1,044	1,023	881	875
Total	3,364	3,484	3,370	3,109	**Total**	3,364	3,484	3,370	3,109

Ratio Analysis	*LTM Mar. 31st*	*For the year ended December 31st*				
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
Liquidity Ratios						
Current Ratio	0.93x	0.94x	0.88x	0.80x	0.65x	0.65x
Accum. Depr./Gross Fixed Assets	N/A	25.4%	24.2%	23.4%	23.4%	23.5%
Cash Flow/Total Debt(1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash Flow/CapEx	1.09x	1.13x	1.22x	1.35x	1.35x	1.47x
Cash Flow-Dividend/CapEx	0.58x	0.59x	0.74x	0.54x	0.33x	1.11x
Debt in Capital Structure(1)	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
Approved common equity	40.00%	40.00%	35.01%	35.01%	35.01%	35.00%
Common Div. Payout (before Extra.)	111.0%	90.1%	76.8%	109.3%	158.0%	58.5%
Coverage Ratios						
EBIT/Interest Expense(1)	1.9x	2.1x	1.9x	1.9x	1.9x	2.0x
EBITDA/Interest Expense(1)	2.7x	2.9x	2.6x	2.5x	2.6x	2.8x
Fixed-Charge Coverage(1)	1.9x	2.1x	1.9x	1.8x	1.9x	1.9x
Debt/EBITDA	5.3x	5.4x	5.9x	5.9x	5.9x	5.5x
Profitability Ratios						
EBIT Margin, excl. Cost of Gas	36.5%	39.4%	40.7%	41.7%	42.3%	42.0%
Net Margin excl. Preferred Dividends	13.1%	16.3%	16.5%	17.9%	13.8%	13.2%
Return on Avg. Equity (before Prefs)	7.2%	9.8%	9.9%	10.4%	7.9%	7.8%
Allowed ROE(2)	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%
Operating Statistics						
Customer Growth	N/A	0.8%	0.6%	1.1%	1.2%	1.3%
Op. Costs/Avg. Customer (C$ millions)	731	353	316	306	303	318
Rate Base (C$ millions)	2,634	2,540	2,547	2,510	2,484	2,516
Rate Base Growth	N/A	-0.3%	1.5%	1.0%	-1.3%	4.6%

(1) Includes operating leases

(2) 8.47% for first six months of 2009, 9.50% for second six months

FortisBC Energy Inc.

Report Date:
September 19, 2011

Operating Statistics	*For the year ended December 31st*				
	2010	**2009**	**2008**	**2007**	**2006**
Throughput Volumes					
Residential	65.2	72.7	78.5	74.9	68.7
Commercial	38.8	42.4	44.1	42.3	38.4
Small industrial	2.6	3.0	3.1	3.4	3.8
Large industrial	0.1	0.2	0.1	0.2	0.2
Total Natural Gas Sales Volumes	106.7	118.3	125.8	120.8	111.1
Transportation Service	54.9	54.0	57.3	62.3	62.3
Throughput Under Fixed-price Contracts	33.0	36.0	39.6	36.8	36.8
Total Throughputs (PJs)	194.6	208.3	222.7	219.9	210.2
Customers					
Residential	762,496	755,660	750,838	742,882	733,598
Commercial	81,366	81,274	81,012	79,717	79,113
Small industrial	236	251	284	297	325
Large industrial	25	31	33	40	40
Transportation	2,111	2,075	2,059	2,041	1,956
Total (thousands)*	846,234	839,291	834,226	824,977	815,032

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

FortisBC Energy Inc.

Report Date:
September 19, 2011

Ratings

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

Rating History

Debt Rated	Current	2010	2009	2008	2007	2006
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- FortisBC Holdings Inc., Rating Report, September 19, 2011.

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

Rating Report

Report Date:
February 29, 2012

Previous Report
September 19, 2011

Insight beyond the rating.

FortisBC Energy Inc.

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The Company

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 852,000 customers (December 2011) and representing approximately 90% of the province's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI, rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc.

Commercial Paper Limit

$500 million

Recent Actions

September 16, 2011
Confirmed

March 1, 2011
Name Change

Rating

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

Rating Update

DBRS has confirmed the Medium-Term Notes (MTNs) & Unsecured Debentures (Debentures) and secured Purchase Money Mortgages (PMMs) ratings of FortisBC Energy Inc. (FEI or the Company) at "A", and its Commercial Paper rating at R-1 (low). The trends are Stable. The MTNs and Debentures have the same rating as the PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (17% of the total); and (2) DBRS does not expect FEI to issue additional PMMs in the future. The rating confirmation reflects FEI's low-risk business with predominantly regulated operations in an economically strong area, a solid financial profile and a reasonable regulatory environment.

FEI's low-risk business is underpinned by its regulated gas transmission and distribution operations (virtually all of FEI's earnings) and sizable customer base (852,000 or 90% of the province's natural gas users). Competition in the Company's franchise area remains limited to electricity, with FEI retaining a competitive operating cost advantage reflecting the current low natural gas price environment. The regulatory framework in British Columbia is viewed as reasonable in terms of cost recovery, returns on equity (ROE of 9.5%) and capital structure (40%). Although FEI's ROE and capital structure could be affected in 2013 due to a regulatory review (see Regulation), DBRS does not expect the outcome of the regulatory review to have a material impact on the Company's earnings and cash flow.

The Company's financial profile remained relatively stable in 2011, with solid debt-to-capital and interest coverage metrics. This was supported by stronger cash flow and the $125 million equity issuance in 2010 (due to a 5% increase in deemed equity). The cash flow-to-debt metric, despite being slightly weaker than DBRS's "A" rating guidelines, has consistently improved since 2007. FEI is expected to generate negative free cash flow in 2012 as a result of capital spending ($195 million in 2012), which is mainly due to its Customer Care Enhancement Project (CCE). DBRS expects FEI to continue to finance the deficits by managing its dividend payouts and equity issuances to the parent, as well as debt issuances, and maintaining its debt-to-capital ratio in line with the current rating. In the absence of an adverse regulatory decision on its ROE and capital structure, beyond what DBRS has expected, FEI's credit metrics are expected to remain relatively stable, supported by higher earnings and cash flow.

Rating Considerations

Strengths
(1) Low business risk and reasonable regulation
(2) Economically strong service territory
(3) Stable and solid financial profile
(4) A large customer base

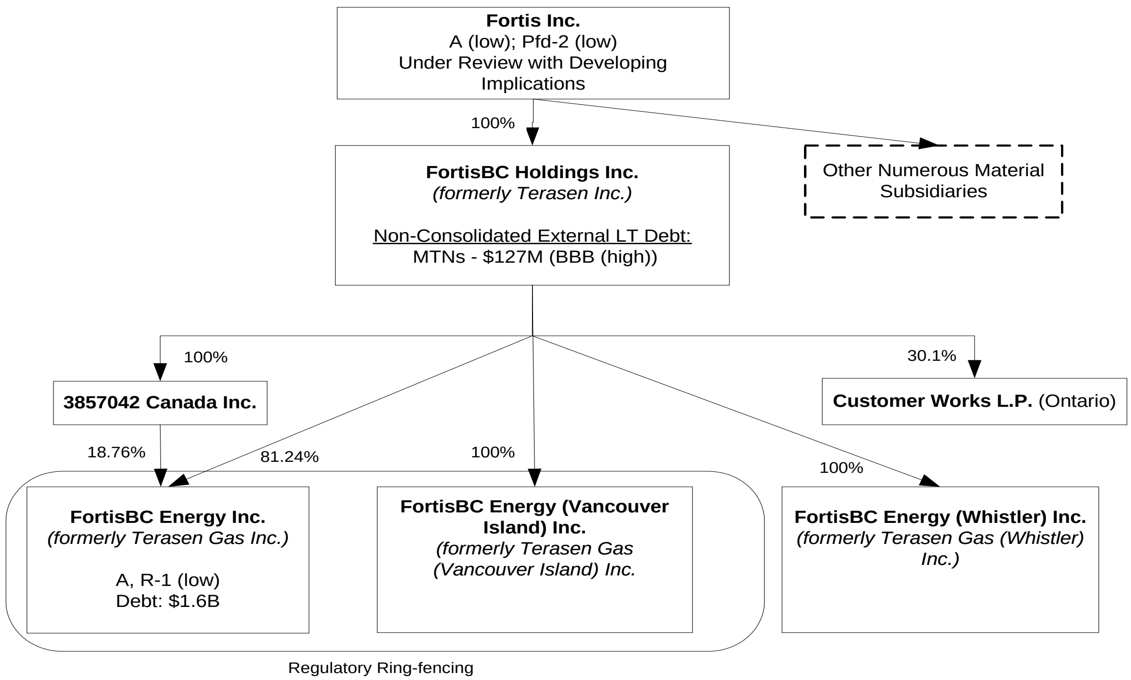
Challenges
(1) Volume risk
(2) No access to the equity market
(3) Potential change in ROE and deemed equity
(4) Competition from electricity

Financial Information

FortisBC Energy Inc. (FEI)	For the year ended December 31st					
	2011	2010	2009	2008	2007	2006
EBIT gross interest coverage (1)	2.21	2.20	2.00	1.97	2.04	2.10
% debt in capital structure (1)	62.0%	62.6%	66.4%	66.4%	66.5%	64.7%
Cash flow/Total debt (1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash flow/Capex	1.13	1.13	1.22	1.35	1.35	1.47
Net income before extra. items (C$ millions)	102	93	87	92	73	68
Cash flow from operations (C$ millions)	191	177	170	166	146	160

(1) Adjusted for operating leases.

Simplified Organization Chart



Potential Amalgamation

FortisBC Energy Inc, FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. filed an application in the fall of 2011 to amalgamate the three utility subsidiaries under FortisBC Holdings Inc. (FHI, rated BBB (high)). The application was temporarily suspended in late 2011. At this time, DBRS believes the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI, provided that there are no material changes that will negatively affect its rate base and/or its current business model or ROE and capital structure.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Rating Considerations Details

Strengths
(1) **Low business risk**: FEI's operations are predominantly regulated, as most of its earnings are generated from the natural gas transmission and distribution businesses. The competition is limited to other forms of energy (electricity). The regulatory framework in British Columbia is reasonable with respect to cost recovery and returns on investment. FEI is not exposed to commodity costs as natural gas costs are passed on to the customers, with quarterly adjustments.

(2) **Economically strong franchise:** FEI operates in an economically strong service area that includes the City of Vancouver. The customer mix is weighted toward residential and commercial customers (roughly 90% of distribution revenues, 54% of throughput), whose consumption is less sensitive to economic conditions.

(3) **Solid credit metrics:** FEI has maintained its capital structure in line with the regulatory structure (required by the regulator). The current debt-to-capital level of 60% and EBIT interest coverage of 2.2 times (x) are commensurate with its current rating range. DBRS notes that FEI's cash flow-to-debt ratio was slightly weaker than the "A" rating guidelines. However, this ratio has improved consistently since 2007.

(4) **A large customer base:** FEI had a large customer base of approximately 852,000 at the end of 2011. This represented approximately 90% of natural gas users in the province. The large customer base allows the Company to operate more efficiently and carry on large capital projects that are not feasible for utilities with a smaller customer base.

Challenges
(1) V**olume risk:** The Company is exposed to volume risk on industrial and transportation customers, who accounted for approximately 46% of the Company's total throughput in 2011 (over 5% of revenue). These customers' usage is sensitive to economic conditions (such as the pulp and paper industries).

(2) **No direct access to the public equity market:** FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts to the parent and through equity issuances to the parent, as well as other debt issuances. When deemed equity changed in 2010, increasing from 35% to 40%, the Company issued $125 million in equity to the parent to maintain its capital structure in line with the regulator's requirement. The company's current rating incorporates DBRS's expectation that the parent will continue to provide financing support in the future if required.

(3) **Generic Cost of Capital Proceeding (GCCP):** The British Columbia Utilities Commission (BCUC) is initiating a GCCP, in which it will review setting the cost of capital for a benchmark low-risk utility (such as FEI) and establishing a return on equity automatic adjustment mechanism. This could have a material impact on FEI's ROE and deemed equity.

(4) **Competitive environment:** Natural gas distribution operators in British Columbia face more intense competition from electricity than other provinces in Canada (except Québec) due to low power costs in the province. However, FEI currently benefits from a low gas price environment, which is expected to remain low for the foreseeable future.

Regulation

Overview: DBRS views the regulatory framework in British Columbia as reasonable, as it allows FEI to earn a reasonable return on its capital investment and to recover prudently incurred operating costs. In addition, the Company does not have exposure to gas price risk since costs are generally passed through to the customers, subject to a reasonable regulatory lag. FEI is regulated by the BCUC.

- The BCUC uses a future test year to establish rates for a utility. FEI forecasts the volume of gas to be sold, gas supply costs and all operating costs that are incurred in the test year.
- Based on the forecast, the BCUC will set rates to permit FEI to collect all of its forecast costs.
- FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two:

(1) Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):
- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates.
- Forecast gas prices are adjusted on a quarterly basis, mitigating the impact of the recovery lag.

(2) Revenue Stabilization Adjustment Mechanism (RSAM):
- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following three years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial transportation and sales customers, which account for approximately 45% of FEI's total throughput, are not included in this deferral account. However, these customers' usage is more predictable and less likely to be significantly affected by weather, even though it is sensitive to economic conditions.

Rate Design
- Prior to 2010, FEI operated under a performance-based rate plan (PBR).
- In 2010 and 2011, FEI operated under a Negotiated Settlement Agreement (NSA), during which time the Company's ROE and deemed equity were at 9.50% and 40%, respectively.
- Variances in certain operating expenses, including property taxes and changes in tax rates are deferred until the next rate application.
- The Company may apply from time to time for rate changes should it incur costs that are beyond its control.
- The current ROE and the capital structure are expected to remain the same until amended by the BCUC.
- In late 2011, the BCUC notified FEI that it plans to initiate a GCCP in 2012. This proceeding may result in a change in ROE and capital structure for FEI.
- In 2011, FEI filed an application for its 2012-2013 revenue requirements and delivery rates (2012-2013 RRA). The application forecast an average rate base of $2,760 million for 2012 and $2,820 million for 2013. The forecast for a higher rate base reflects significant capital projects related to system integrity and reliability.
- The 2012-2013 RRA seeks a 3% increase in burn-tip rates for 2012 and a 3.1% increase for 2013.
- Rates, including interim delivery and midstream rates, for FEI residential customers increased by 3% effective January 2012 (compared to the preceding quarter) for Lower Mainland, Frazer Valley, Interior, North and the Kootenays, which included the 2012-2013 RRA request on the interim basis.

Regulatory Ring-Fencing
- The regulatory ring-fencing imposed on FEI by the BCUC at the time Fortis Inc. acquired FEI in 2007 (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in December 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence.
- One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Earnings and Outlook

Consolidated Income Statement: FEI	For the year ended December 31st					
(C$ millions)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
EBITDA	323	317	297	292	293	301
EBIT	233	226	214	214	215	217
Gross interest expense	108	104	109	111	108	106
Pre-tax income	129	123	106	103	108	112
Income tax	27	30	19	12	35	44
Net income before extra. items	102	93	87	92	73	68
Reported net income	102	93	87	92	78	68
Return on avg. common equity	9.8%	9.8%	9.9%	10.4%	8.2%	7.8%
Rate Base	2,634	2,540	2,547	2,510	2,484	2,516
Approved common equity	40.0%	40.0%	35.0%	35.0%	35.0%	35.0%
Allowed ROE	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%

Summary

- Earnings in 2011 continued to benefit from the 2009 ROE and capital structure decision, which established higher ROE and deemed equity for 2010 and 2011, compared with previous years.
- Higher transportation volumes to the forestry and mining sectors also contributed to higher earnings in 2011. Although the forestry sector has stabilized recently, it remains very sensitive to economic conditions.
- Volume usage volatility as a result of changes in weather conditions is mitigated by the RSAM, which allows FEI to defer variances due to changes in usage rates, to be recovered/refunded over the subsequent three years.

Outlook

- The Company's 2012 earnings are expected to increase modestly as the rate base continues to grow, reflecting ongoing capital expenditures.
- The BCUC is initiating the GCCP in 2012, which could have a negative impact on FEI's earnings; however, DBRS does not expect the outcome of this regulatory review to have a material impact on the Company's earnings.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Financial Profile

Consolidated Cash Flow Statement: FEI	For the year ended December 31st					
(C$ millions)	2011	2010	2009	2008	2007	2006
Net income before extra. items	102	93	87	92	73	68
Depreciation & amortization	89	91	83	78	79	84
Deferred income taxes/Other	(1)	(7)	0	(4)	(5)	8
Cash flow from operations	191	177	170	166	146	160
Dividends paid	(85)	(84)	(67)	(100)	(111)	(40)
Capex	(169)	(157)	(139)	(123)	(108)	(109)
Free cash flow before WC	(63)	(64)	(36)	(57)	(73)	11
Changes in working capital (WC)	95	(15)	16	33	(28)	83
Net free cash flow	32	(79)	(20)	(24)	(101)	95
Acquisitions	0	0	0	0	0	0
Assets sales/Divestitures	0	0	0	14	0	0
Net changes in equity	0	125	0	0	0	0
Net changes in debt	(12)	(24)	6	(5)	89	(98)
Other/Adjustments by DBRS	(17)	(13)	7	22	11	(7)
Change in cash	2	9	(7)	7	(1)	(9)
(C$ millions)						
EBITDA ($ millions)	323	317	297	292	293	301
Total debt ($ millions)(1)	1,709	1,712	1,737	1,733	1,740	1,652
Total debt in capital structure	60.5%	61.3%	65.2%	65.2%	65.2%	63.4%
Total debt in capital structure (1)	62.0%	62.6%	66.4%	66.4%	66.5%	64.7%
Cash flow/Total debt (1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
EBIT gross interest coverage (1)	2.21	2.20	2.00	1.97	2.04	2.10
Total debt/EBITDA (1)	5.30	5.41	5.85	5.94	5.94	5.49
Capex/Depreciation	1.89	1.72	1.68	1.57	1.38	1.30
Dividend payout ratio	83.4%	90.1%	76.8%	109.3%	152.1%	58.5%

(1) Adjusted for operating leases.

Summary

- Cash flow from operations has increased steadily since 2007, reflecting the Company's growing rate base.
- Capital investments to support load growth and system reliability have also increased considerably over this period. This, combined with high dividend payouts (an average of 85% over the last four years), has resulted in cash flow deficits (before working capital).
- DBRS notes that a large swing in working capital in 2011 was a result of changes in deferred accounts.
- The Company continued to manage its dividend payouts and equity issuances so that its capital structure is in line with the conditions imposed by the BCUC, which stipulates that FEI must maintain its capital structure in line with the regulatory structure.
- When the deemed equity was raised to 40% in 2010 from 35% in 2009, the Company issued $125 million in equity to its parent to finance cash flow deficits and to comply with the 40% equity structure.
- As a result, FEI's credit metrics improved moderately in 2010 and remained stable in 2011.
- Despite the improvement, the cash flow-to-debt ratio remained slightly weaker than the "A" rating range. However, the other two key credit metrics (debt-to-capital ratio and EBIT interest coverage) were commensurate with the current rating.

Outlook

- Cash flow deficits are expected to continue as capital expenditures are expected to remain high at $195 million for 2012 (estimate) largely due to the CCE Project. DBRS expects the Company to continue to finance its capital expenditures by managing dividends and equity issuances to the parent as well as other debt issuances and maintaining its capital structure in line with its current rating range.
- In the absence of any adverse regulatory decisions affecting ROE or capital structure, DBRS expects FEI's credit metrics to remain relatively stable in 2012.

Long-Term Debt and Liquidity

Liquidity

Facilities	Committed	Drawn/LC	Available	Expiry
(C$ millions)				
Syndicated unsecured credit facility	500	113.2	386.8	Aug-13

- The credit facility is primarily used to support FEI's $500 million commercial paper (CP) program.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter. DBRS views FEI's liquidity as sufficient for its funding requirements during the peak period.

Debt Maturity Schedule

Debt Maturities	2012	2013	2014	2015	2016	Thereafter	Total
(C$ millions)							
Long-term	2.9	2.9	2.9	77.8	202.9	1,256.0	1,545.4
Short-term	65.0						65.0
Total	67.9	2.9	2.9	77.8	202.9	1,256.0	1,610.4
% of total	4%	0%	0%	5%	13%	78%	100%

- The Company's near-term refinancing risk remains modest, as the debt maturity schedule is light until 2016 when over $200 million (or 13%) of total debt will be due.
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

Debt Instruments	2011	2010
(C$ millions)		
Credit facilities	65	178
Secured Purchase Money Mortgages	275	275
Unsecured Debentures and MTNs	1,270	1,173
Capital leases	15	13
Total	1,624	1,639
Less: Current portion and LT issue costs	(14)	(16)
Total	1,610	1,623

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (only 17% of the total); and (2) DBRS does not expect FEI to issue new PMMs in the future.
- The bank facility is unsecured but ranks equally with the Company's secured debt.
- In December 2011, FEI issued $100 million of unsecured MTNs, maturing in 2041. The net proceeds were used to repay a credit facility and for general corporate purposes.

FortisBC Energy Inc.

Report Date:
February 29, 2012

FortisBC Energy Inc.

Balance Sheet (C$ millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2011**	**2010**	**2009**	**Liabilities & Equity**	**2011**	**2010**	**2009**
Cash & equivalents	17	15	6	S.T. borrowings	65	178	204
Accounts receivable	238	298	277	Current portion L.T.D.	3	3	2
Inventories	101	136	149	Accounts payable	304	358	337
Others	82	108	92	Deferred tax	0	1	8
				Others	58	51	45
Total Current Assets	**439**	**557**	**524**	**Total Current Liabilities**	**430**	**591**	**597**
Net fixed assets	2,513	2,466	2,423	Long-term debt (L.T.D.)	1,543	1,442	1,440
Future income tax assets	0	0	0	Deferred income taxes	304	280	271
Goodwill & intangibles	117	95	83	Other L.T. liabilities	177	149	181
Investments & others	435	366	340	Shareholders equity	1,050	1,023	881
Total Assets	**3,503**	**3,484**	**3,370**	**Total Liab. & SE**	**3,503**	**3,484**	**3,370**

Balance Sheet & Liquidity & Capital Ratios	For the year ended December 31st **2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Current ratio	1.02	0.94	0.88	0.80	0.65	0.65
Net debt in capital structure	60.3%	61.1%	65.1%	65.0%	65.1%	63.3%
Total debt in capital structure	60.5%	61.3%	65.2%	65.2%	65.2%	63.4%
Total debt in capital structure (1)	62.0%	62.6%	66.4%	66.4%	66.5%	64.7%
Cash flow/Net debt	12.0%	11.0%	10.3%	10.2%	8.9%	10.3%
Cash flow/Total debt	11.8%	10.9%	10.3%	10.1%	8.9%	10.3%
Cash flow/Total debt (1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash flow/Capex	1.13	1.13	1.22	1.35	1.35	1.47
(Cash flow - Dividends)/Capex	0.62	0.59	0.74	0.54	0.33	1.11
Deemed common equity	40.0%	40.0%	35.0%	35.0%	35.0%	35.0%
Dividend payout ratio	83.4%	90.1%	76.8%	109.3%	152.1%	58.5%
Coverage Ratios (times)						
EBIT gross interest coverage	2.17	2.17	1.96	1.92	1.99	2.05
EBITDA gross interest coverage	3.00	3.04	2.72	2.62	2.72	2.84
Fixed-charges coverage	2.17	2.17	1.96	1.92	1.99	2.05
Debt/EBITDA	4.99	5.13	5.55	5.62	5.62	5.18
EBIT gross interest coverage (1)	2.21	2.20	2.00	1.97	2.04	2.10
Profitability Ratios						
EBITDA margin	23.8%	23.2%	20.7%	17.5%	19.2%	19.7%
EBIT margin	17.2%	16.6%	14.9%	12.8%	14.1%	14.2%
Profit margin	7.5%	6.8%	6.0%	5.5%	4.8%	4.5%
Return on equity	9.8%	9.8%	9.9%	10.4%	8.2%	7.8%
Return on capital	6.5%	6.2%	6.2%	6.4%	5.5%	5.1%
Allowed ROE	9.5%	9.5%	9.0%	8.6%	8.4%	8.8%

(1) Adjusted for operating leases.

FortisBC Energy Inc.

Report Date:
February 29, 2012

Ratings

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

Rating History

Debt Rated	Current	2011	2010	2009	2008	2007
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- FortisBC Holdings Inc., Rating Report, February 29, 2012.

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

Rating Report

Report Date:
August 8, 2012

Previous Report
February 29, 2012

Insight beyond the rating.

FortisBC Energy Inc.

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The Company

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 835,000 customers (at the end of Q2 2012) and representing approximately 90% of the province's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI, rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc.

Commercial Paper Limit

$500 million

Recent Actions

February 29, 2012
Confirmed

Rating

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

Rating Update

The credit profile of FortisBC Energy Inc. (FEI or the Company) has remained Stable, based on Q2 2012 results and the latest regulatory development. The Medium-Term Notes (MTNs) & Unsecured Debentures (Debentures) have the same rating as the Purchase Money Mortgages (PMMs) based on the following: (1) the outstanding amount of the PMMs is not significant (17% of the total); and (2) DBRS does not expect FEI to issue additional PMMs in the future. The rating reflects FEI's low-risk business with predominantly regulated operations in an economically strong area, a solid financial profile and a reasonable regulatory environment.

FEI's low-risk business is underpinned by its regulated gas transmission and distribution operations (virtually all of FEI's earnings) and sizable customer base (835,000 or 90% of the province's natural gas users at the end of Q2 2012). Competition in the Company's franchise area remains primarily electricity, with FEI currently having a competitive operating cost advantage due to the current low natural gas price environment. The regulatory framework in British Columbia is viewed as reasonable in terms of cost recovery, returns on equity (ROE of 9.5%) and capital structure (40%). However, the Company's ROE and deemed equity could be affected in 2013 due to a regulatory review (see Regulation). Any regulatory change that may have a significant negative impact on FEI's earnings and cash flow could weaken the Company's credit profile.

The change to US GAAP from Canadian GAAP (effective January 2012) does not have a material impact on the Company's credit profile. The Company's financial profile remained relatively stable in Q2 2012, with solid credit metrics. The decline in EBIT-interest coverage reflects higher interest expenses from "lease-in lease-out arrangements" under US GAAP. This ratio remained stable at above 2.00x under historical Canadian GAAP. FEI is expected to generate negative free cash flow in 2012 as a result of capital spending ($224 million in 2012), which is mainly due to sustaining capital projects. DBRS expects FEI to continue to finance the deficits by managing its dividend payouts and equity issuances to the parent, as well as debt issuances, and maintaining its debt-to-capital ratio in line with the current rating. In the absence of an adverse regulatory decision on its ROE and capital structure beyond what DBRS has expected, FEI's credit metrics are expected to remain relatively stable, supported by higher earnings and cash flow.

Rating Considerations

Strengths
(1) Low business risk and reasonable regulation
(2) Economically strong service territory
(3) Stable and solid financial profile
(4) A large customer base

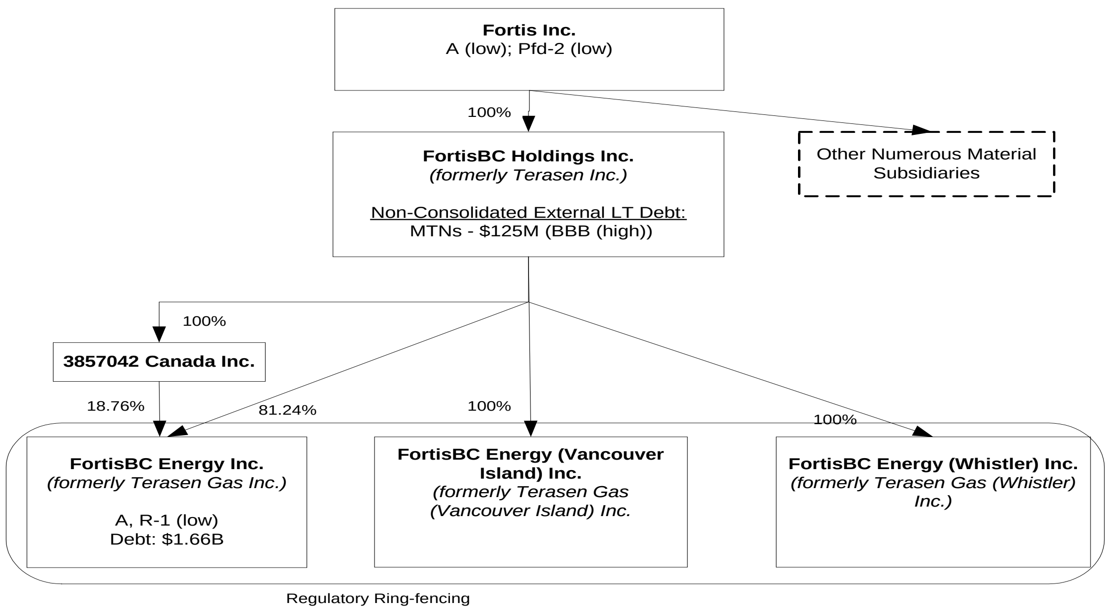
Challenges
(1) Volume risk
(2) Indirect access to the equity market
(3) Potential change in ROE and deemed equity
(4) Competition from electricity

Financial Information

FortisBC Energy Inc. (FEI)	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP
	12 mos.	**For the year ended December 31**				
(CA$ millions)	**Jun. 30. 12**	**2011**	**2011**	**2010**	**2009**	**2008**
EBIT gross interest coverage (1)	1.58	1.57	2.21	2.20	2.00	1.97
Total debt in capital structure (2)	59.6%	62.6%	62.0%	62.6%	66.4%	66.4%
Cash flow/Total debt	12.8%	11.5%	11.8%	10.9%	10.3%	10.1%
Cash flow/Capex	1.28	1.19	1.13	1.13	1.22	1.35
Net income before extra. items	115	110	102	93	87	92
Cash flow from operations	215	201	191	177	170	166

(1) Adjusted for operating leases. (2) Adjusted for Goodwill and "lease- in lease-out" under US GAAP.

Simplified Organization Chart as of June 30, 2012



Potential Amalgamation

FortisBC Energy Inc, FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. filed an application in in April 2012 for common rates and amalgamation across the combined service area. The amalgamation would require the approval of the British Columbia Utilities Commission (BCUC) and consent of the Government of British Columbia.

At this time, DBRS believes the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI, provided that there are no material changes that will negatively affect its rate base and/or its current business model or ROE and capital structure.

Transition to US GAAP

- Effective January 1, 2012, FEI retroactively adopted US GAAP with the restatement of the comparative reporting period. The major impact on key credit ratios in this report reflects the following changes:
  (1) Total assets increased by $951 million due primarily to increases in goodwill, regulatory assets and fixed assets due to the application of push-down accounting.
  (2) Total liabilities increased by $202 million due mainly to increases in long-term liabilities as a result of lease-in lease-out arrangements.
  (3) The equity base increased by approximately $750 million. The increase was a result of push-down accounting in connection with the Fortis acquisition in 2007.
- The change in accounting reporting did not have a material impact on the credit profile of the Company.

Rating Considerations Details

Strengths

(1) **Low business risk.** FEI's operations are predominantly regulated, as most of its earnings are generated from the natural gas transmission and distribution businesses. The competition is limited to other forms of energy (electricity). The regulatory framework in British Columbia is reasonable with respect to cost recovery and returns on investment. FEI is not exposed to commodity costs as natural gas costs are passed on to the customers, with quarterly adjustments.

(2) **Economically strong franchise.** FEI operates in an economically strong service area that includes the City of Vancouver. The customer mix is weighted toward residential and commercial customers (roughly 90% of distribution revenues, 54% of throughput), whose consumption is less sensitive to economic conditions.

(3) **Solid credit metrics.** FEI has maintained its capital structure in line with the regulatory structure (required by the regulator). The current debt-to-capital level of 60% and EBIT interest coverage over of 2.00 times (x) (adjusted for goodwill and "lease-in lease-out" arrangement under US GAAP) are commensurate with its current rating range. DBRS notes that FEI's cash flow-to-debt ratio has improved consistently since 2007 and was in line with the "A" rating category for the 12 months ended June 30, 2012.

(4) **A large customer base.** FEI had a large customer base of approximately 835,000 at the end of Q2 2012. This represented approximately 90% of natural gas users in the province.

Challenges

(1) V**olume risk.** The Company is exposed to volume risk on industrial and transportation customers, who accounted for approximately 46% of the Company's total throughput in 2011 (over 5% of revenue). These customers' usage is sensitive to economic conditions (such as the pulp and paper industries).

(2) **Indirect access to the public equity market.** FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts to the parent and through equity issuances to the parent, as well as other debt issuances. When deemed equity changed in 2010, increasing from 35% to 40%, the Company issued $125 million in equity to the parent to maintain its capital structure in line with the regulator's requirement. The company's current rating incorporates DBRS's expectation that the parent will continue to provide financing support in the future if required.

(3) **Generic Cost of Capital Proceeding (GCOC Proceeding).** In April 2012, the BCUC issued a final scoping document identifying the items that will be reviewed as part of GCOC Proceeding, which includes, among other things: (a) the cost of capital for a benchmark low-risk utility effective January 2013; and (b) if it is determined by the GCOC Proceeding that a ROE automatic adjustment mechanism is warranted, it would be implemented January 2014. The decision is expected in Q1 2013. The GCOC Proceeding could have a negative impact on FEI's earnings.

(4) **Competitive environment.** Natural gas distribution operators in British Columbia face more intense competition from electricity than other provinces in Canada (except Québec) due to low power costs in the province. However, FEI currently benefits from a low gas price environment, which is expected to remain low for the foreseeable future.

Regulation

Overview

DBRS views the regulatory framework in British Columbia as reasonable, as it allows FEI to earn a reasonable return on its capital investment and to recover prudently incurred operating costs. In addition, the Company does not have exposure to gas price risk since costs are generally passed through to the customers, subject to a reasonable regulatory lag. FEI is regulated by the BCUC.

- The BCUC uses a future test year to establish rates for a utility. FEI forecasts the volume of gas to be sold, gas supply costs and all operating costs that are incurred in the test year.
- The BCUC will set rates to permit FEI to collect all of its approved forecast costs.
- FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

(1) Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):

- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates.
- Forecast gas prices are adjusted on a quarterly basis for the commodity rates, mitigating the impact of the recovery lag.

(2) Revenue Stabilization Adjustment Mechanism (RSAM):

- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following three years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial transportation and sales customers, which account for approximately 46% of FEI's total throughput (2011), are not included in this deferral account. However, these customers' usage is more predictable and less likely to be significantly affected by weather, even though it is sensitive to economic conditions.

Rate Design

- Prior to 2010, FEI operated under a performance-based rate plan (PBR).
- In 2010 and 2011, FEI operated under traditional cost-of-service rate making.
- In April 2012, the BCUC issued a decision on the FortisBC Utilities (collectively consisting of FEI, FEVI and FEW) 2012/2013 Revenue Requirement Application (RRA).
- The final delivery rate increase effective January 1, 2012, was 4.2% (a decrease of approximately 1.4% as compared to FEI's existing interim delivery rates for 2012).
- The difference between interim rates and final rates will be refunded to customers starting June 1, 2012.
- From 2010 through 2012, the Company's ROE and deemed equity were at 9.50% and 40%, respectively.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time Fortis Inc. acquired FEI in 2007 (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Report Date:
August 8, 2012

Earnings and Outlook

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Consolidated Income Statement: FEI	**12 mos.**	**For the year ended December 31**				
(CA$ millions)	**Jun. 30. 12**	**2011**	**2011**	**2010**	**2009**	**2008**
EBITDA	354	333	323	317	297	292
EBIT	243	241	233	226	214	214
Gross interest expense	158	158	108	104	109	111
Pre-tax income	129	127	129	123	106	103
Income tax	13	16	27	30	19	12
Net income before extra. items	115	110	102	93	87	92
Reported net income	115	110	102	93	87	92
Return on equity	7.9%	7.8%	9.8%	9.8%	9.9%	10.4%
Regulated mid-year rate base	2,725	2,634	2,634	2,540	2,547	2,510
Approved deemed equity	40%	40.0%	40.0%	40.0%	35.0%	35.0%
Allowed ROE	9.50%	9.50%	9.50%	9.50%	8.99%	8.62%

Summary

- Earnings in 2011 and the 12 months ended June 30, 2012 (LTM 2012) continued to benefit from the 2009 ROE and capital structure decision, which established higher ROE and deemed equity for post 2009 years, and a modestly higher rate base.
- Volume usage volatility as a result of changes in weather conditions is mitigated by the RSAM, which allows FEI to defer variances due to changes in usage rates, to be recovered/refunded over the subsequent three years.

Outlook

- The Company's 2012 earnings are expected to increase modestly as the rate base continues to grow, reflecting ongoing capital expenditures.
- Although the decision on the current GCOC Proceeding could have a negative impact on FEI's future earnings, DBRS does not expect the impact to be significant.

Financial Profile

Consolidated Cash Flow Statement: FEI	USGAAP 12 mos.	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP
		For the year ended December 31				
(CA$ millions)	Jun. 30. 12	2011	2011	2010	2009	2008
Net income before extra. items	115	110	102	93	87	92
Depreciation & amortization	111	92	89	91	83	78
Deferred income taxes/Other	(11)	(1)	(1)	(7)	0	(4)
Cash flow from operations	215	201	191	177	170	166
Dividends paid	(85)	(85)	(85)	(84)	(67)	(100)
Capex	(167)	(169)	(169)	(157)	(139)	(123)
Free cash flow before WC	(37)	(53)	(63)	(64)	(36)	(57)
Changes in working capital (WC)	83	85	95	(15)	16	33
Net free cash flow	45	31	32	(79)	(20)	(24)
Assets sales/Divestitures	0	0	0	0	0	14
Net changes in equity	65	0	0	125	0	0
Net changes in debt	55	(16)	(12)	(24)	6	(5)
Other/Adjustments by DBRS	(29)	(14)	(17)	(13)	7	22
Change in cash	137	2	2	9	(7)	7
Total debt	1,670	1,737	1,610	1,623	1,647	1,640
Total debt in capital structure	46.9%	49.1%	60.5%	61.3%	65.2%	65.2%
Total debt in capital structure (1)	59.6%	62.6%	62.0%	62.6%	66.4%	66.4%
Cash flow/Total debt	12.8%	11.5%	11.8%	10.9%	10.3%	10.1%
EBIT gross interest coverage (2)	1.58	1.57	2.21	2.20	2.00	1.97
Total debt/EBITDA	4.72	5.22	4.99	5.13	5.55	5.62
Capex/Depreciation	1.51	1.84	1.89	1.72	1.68	1.57
Dividend payout ratio	73.8%	77.1%	83.4%	90.1%	76.8%	109.3%

(1) Adjusted for Goodwill and "lease- in lease-out" under US GAAP (2) Adjusted for operating leases.

Summary

- Cash flow from operations has increased steadily, reflecting the Company's growing earnings.
- Capital investments to support load growth and system reliability have also increased considerably over this period. This, combined with high dividend payouts (an average of 85% over the last four years), has resulted in cash flow deficits (before working capital).
- The Company continued to manage its dividend payouts and equity issuances so that its capital structure is in line with the conditions imposed by the BCUC, which stipulates that FEI must maintain its capital structure in line with the regulatory structure.
- When deemed equity changed in 2010, increasing to 40% from 35%, the Company issued $125 million in equity to its parent to maintain its capital structure in-line with the regulatory requirement.
- FEI's credit metrics remained stable in 2011 and LTM 2012 and were commensurate with the current rating.
- The transition to US GAAP reduced the debt-to-capital ratio to below 50% due mainly to push-down accounting for regulatory assets and goodwill, which resulted in increases in the equity base (approximately $750 million) and long-term liabilities of $202 million. These changes did not affect the Company's credit profile.
- DBRS notes that EBIT-interest coverage is below 2.00x under US GAAP but would remain at over 2.00x under historical Canadian GAAP.

Outlook

- Cash flow deficits are expected to continue as capital expenditures are expected to remain high at approximately $224 million in 2012 (DBRS estimate) largely due to the sustaining capital program. DBRS expects that FEI continues to finance its capex by managing dividends and equity issuances to the parent as well as other debt issuances and maintaining its capital structure in line with its current rating range.

FortisBC Energy Inc.

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Long-Term Debt and Liquidity

Liquidity

Credit Facilities (June 30, 2012)	Committed	Drawn/LC	Available	Expiry
($ millions)				
Syndicated unsecured credit facility	500	51	449	Aug-14
Total	500	51	449	

- The credit facility is primarily used to support FEI's $500 million commercial paper (CP) program.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter.
- DBRS views FEI's liquidity as sufficient for its funding requirements during the peak period, given its stable cash flow and modest long-term debt due in the near term.

Long-Term Debt Maturity Schedule

- The Company's near-term refinancing risk remains modest, as the debt maturity schedule is light until 2016 when over $200 million (or 13%) of total debt will be due (see the debt maturity table in our February 29, 2012, report).
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

Debt Instruments	2011	2010
(C$ millions)		
Credit facilities	65	178
Secured Purchase Money Mortgages	275	275
Unsecured Debentures and MTNs	1,270	1,173
Capital leases	15	13
Total	1,624	1,639
Less: Current portion and LT issue costs	(14)	(16)
Total	1,610	1,623

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (only 17% of the total); and (2) DBRS does not expect FEI to issue new PMMs in the future.
- The bank facility is unsecured but is rated equally with the Company's secured and unsecured debt.
- In December 2011, FEI issued $100 million of unsecured MTNs, maturing in 2041. The net proceeds were used to repay short-term borrowings and for general corporate purposes.

FortisBC Energy Inc.

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Balance Sheet	USGAAP	USGAAP	CGAAP		USGAAP	USGAAP	CGAAP
(CA$ millions)	Jun. 30	Dec. 31	Dec. 31		Jun. 30	Dec. 31	Dec. 31
Assets	2012	2011	2011	**Liabilities & Equity**	2012	2011	2011
Cash & equivalents	146	17	17	S.T. borrowings	0	65	65
Accounts receivable	144	238	238	Current portion L.T.D.	7	7	3
Inventories	75	101	101	Accounts payable	217	304	304
Rate stabilization account	19	69	69	Others	69	38	39
Others	21	13	13	Rate stabilization account	45	19	19
Total Current Assets	405	439	439	**Total Current Liabilities**	338	433	430
Net fixed assets	2,582	2,573	2,513	LT debt/Capital leases	1,663	1,665	1,543
Goodwill	769	769	0	Deferred income taxes	304	298	304
Intangibles	122	117	117	Other L.T. liabilities	230	238	155
Other assets	578	557	435	Rate stabilization account	31	22	22
				Shareholders' equity	1,890	1,799	1,050
Total Assets	4,456	4,454	3,503	**Total Liab. & SE**	4,456	4,454	3,503

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Balance Sheet &	**12 mos.**	**For the year ended December 31**				
Liquidity & Capital Ratios	**Jun. 30. 12**	**2011**	**2011**	**2010**	**2009**	**2008**
Current ratio	1.20	1.01	1.02	0.94	0.88	0.80
Total debt in capital structure	46.9%	49.1%	60.5%	61.3%	65.2%	65.2%
Total debt in capital structure (1)	59.6%	62.6%	62.0%	62.6%	66.4%	66.4%
Cash flow/Total debt	12.8%	11.5%	11.8%	10.9%	10.3%	10.1%
Cash flow/Total debt (2)	12.1%	10.9%	11.2%	10.3%	9.8%	9.6%
Cash flow/Capex	1.28	1.19	1.13	1.13	1.22	1.35
(Cash flow - dividends)/Capex	0.78	0.68	0.62	0.59	0.74	0.54
Approved deemed equity	40.0%	40.0%	40.0%	40.0%	35.0%	35.0%
Dividend payout ratio	73.8%	77.1%	83.4%	90.1%	76.8%	109.3%
Coverage Ratios (times)						
EBIT gross interest coverage	1.53	1.52	2.17	2.17	1.96	1.92
EBITDA gross interest coverage	2.23	2.10	3.00	3.04	2.72	2.62
Fixed-charge coverage	1.80	1.78	2.17	2.17	1.96	1.92
Debt/EBITDA	4.72	5.22	4.99	5.13	5.55	5.62
EBIT gross interest coverage (2)	1.58	1.57	2.21	2.20	2.00	1.97
Profitability Ratios						
EBITDA margin	27.8%	24.6%	23.8%	23.2%	20.7%	17.5%
EBIT margin	19.1%	17.8%	17.2%	16.6%	14.9%	12.8%
Profit margin	9.1%	8.2%	7.5%	6.8%	6.0%	5.5%
Return on equity	7.9%	7.8%	9.8%	9.8%	9.9%	10.4%
Return on capital	7.2%	7.0%	6.5%	6.2%	6.2%	6.4%
Allowed ROE	9.5%	9.5%	9.5%	9.5%	9.0%	8.6%

(1) Adjusted for Goodwill and "lease- in lease-out" under USGAAP

(2) Adjusted for operating leases.

FortisBC Energy Inc.

Report Date:
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Ratings

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

Rating History

Debt Rated	Current	2011	2010	2009	2008	2007
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- FortisBC Holdings Inc., February 29, 2012.

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

Rating Report

Report Date:
March 18, 2013
Previous Report
August 8, 2012

Insight beyond the rating.

FortisBC Energy Inc.

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The Company
FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 841,000 customers (at the end of 2012) and representing approximately 90% of British Columbia's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI; rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc. (rate A (low)).

Commercial Paper Limit
$500 million

Rating

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

Rating Update

DBRS has confirmed the ratings of FortisBC Energy Inc. (FEI or the Company) as listed above. The Medium-Term Notes (MTNs) and Unsecured Debentures (Debentures) have the same rating as the Purchase Money Mortgages (PMMs) based on the following: (1) the outstanding amount of the PMMs is not significant (16% of the total); and (2) DBRS does not expect FEI to issue additional PMMs in the future. The ratings reflect FEI's low-risk business, predominantly regulated operations in an economically strong area, strong financial profile and reasonable regulatory environment.

FEI's low-risk business is underpinned by its regulated gas transmission and distribution operations (virtually all of FEI's earnings) and large customer base (approximately 841,000 or 90% of British Columbia's natural gas users at the end of 2012). Competition in the Company's franchise area remains primarily electricity, with FEI currently having a competitive operating cost advantage due to the current low natural gas price environment. The regulatory framework in British Columbia is viewed as reasonable in terms of cost recovery, returns on equity (ROE of 9.5%) and capital structure (40% equity). However, the Company's ROE and deemed equity could be affected in 2013 and beyond due to a regulatory review (see Regulation). Any regulatory change that may have a significant negative impact on FEI's earnings and cash flow could weaken the Company's credit profile.

The change to U.S. GAAP from Canadian GAAP, effective January 2012, did not have any rating implications (see Transition to U.S. GAAP). In addition, free cash flow, key credit metrics and debt leverage remained relatively stable in 2012. The Company expects to spend approximately $194 million on capital expenditures (capex) in 2013. DBRS expects FEI to continue to maintain its debt-to-capital ratio in line with the current rating category. In the absence of an adverse regulatory decision on FEI's ROE and capital structure, DBRS expects FEI's credit metrics to remain relatively stable, supported by higher earnings and cash flow.

Rating Considerations

Strengths
(1) Low business risk and reasonable regulation
(2) Economically strong service territory
(3) Stable and strong financial profile
(4) Large customer base

Challenges
(1) Volume risk
(2) Indirect access to the equity market
(3) Uncertain ROE and capital structure
(4) Competition from electricity

Financial Information

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
FortisBC Energy Inc.	**For the year ended December 31st**				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
EBIT gross interest coverage (1)	2.03	2.08	2.20	2.00	1.97
% debt in capital structure (1) (2)	58.9%	62.6%	62.6%	66.4%	66.4%
Cash flow/Total debt	13.9%	11.1%	10.9%	10.3%	10.1%
Net income before extra. Items	112	110	93	87	92
Cash flow from operations	237	193	177	170	166

(1) Adjusted for operating leases. (2) Certain US GAAP adjustments in 2012 and 2011 (see Transition to US GAAP on page 3) have been adjusted for comparative purposes.

Rating Considerations Details

Strengths

(1) **Low business risk and reasonable regulation.** FEI's generates virtually all of its earnings from its natural gas transmission and distribution operations, where competition is limited to other forms of energy (electricity). The regulatory framework in British Columbia is reasonable with respect to cost recovery and returns on investment. FEI is not exposed to commodity costs as natural gas costs are passed on to the customers, with quarterly adjustments.

(2) **Economically strong service territory.** FEI operates in an economically strong service area that includes the City of Vancouver. The customer mix is weighted toward residential and commercial customers (roughly 89% of distribution revenues and 61% of throughput for the year-end 2012), whose consumption is less sensitive to economic conditions.

(3) **Stable and strong financial profile.** FEI has maintained its capital structure in line with the approved regulatory capital structure. The debt-to-capital of 58.9% (adjusted for goodwill and "lease-in lease-out" arrangement under US GAAP) and EBIT interest coverage of 2.03 times (x) in 2012 are commensurate with its current rating category. DBRS notes that FEI's cash flow-to-debt ratio has improved consistently since 2008 and was in line with the "A" rating category in 2012.

(4) **Large customer base.** FEI had a large customer base of approximately 841,000 at the end of 2012. This represented approximately 90% of natural gas users in British Columbia.

Challenges

(1) V**olume risk.** The Company is exposed to volume risk on industrial, transportation and other customers, who accounted for approximately 39% of the Company's total throughput in 2012 (around 11% of revenue). The usage of these customers, such as those in the pulp and paper industries, is sensitive to economic conditions.

(2) **Indirect access to the public equity market.** FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts to the parent and through equity issuances to the parent, as well as other debt issuances. The company's current rating incorporates DBRS's expectation that the parent will continue to provide equity financing support in the future.

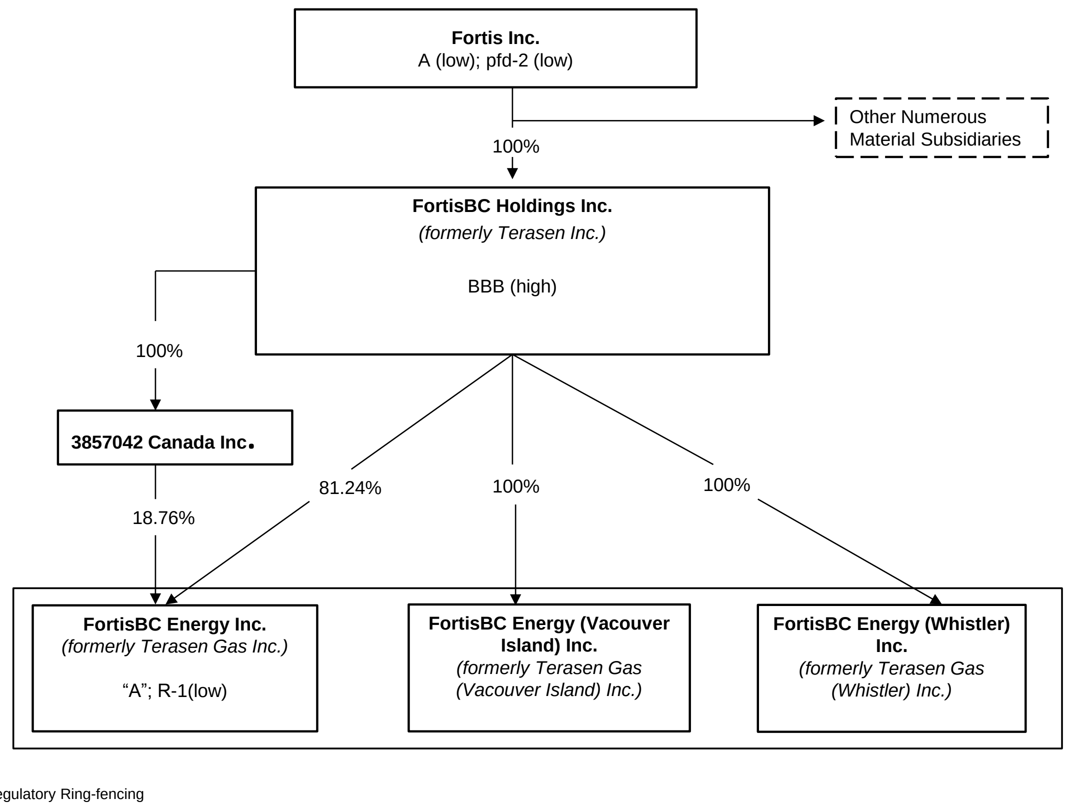
(3) **Uncertain ROE and capital structure.** In April 2012, the BCUC issued a final scoping document identifying the items that will be reviewed as part of Generic Cost of Capital (GCOC) Proceeding, which includes, among other things: (1) the cost of capital for a benchmark low-risk utility effective January 2013; and (2) whether a ROE automatic adjustment mechanism is warranted, which would be implemented January 2014. The decision is expected mid-year 2013. The GCOC decision could have a negative impact on FEI's earnings in 2013 and beyond.

(4) **Competition from electricity.** Natural gas distribution operators in British Columbia face more intense competition from electricity than other provinces in Canada (except Québec) due to the low power costs in British Columbia.

FortisBC Energy Inc.

Report Date:
March 18, 2013

Simplified Organization Chart as of December 31, 2012



Amalgamation Update

In April 2012 FEI, together with FEVI and FEW, applied to the BCUC for the necessary approvals to amalgamate the three utilities and implement postage stamp rates across the service territories served by the amalgamated entity, effective January 1, 2014. The evidentiary portion of the proceeding was closed in October 2012 and a decision was received in February 2013. In its decision, the BCUC denied the request to implement postage stamp rates and as a result, the companies will not be proceeding with an amalgamation.

Transition to US GAAP

- Effective January 1, 2012, FEI adopted US GAAP and has restated the comparative reporting period. The major impact on key credit ratios in this report reflects the following changes as at December 31, 2011:
  (1) Total assets increased by approximately $951 million due primarily to increases in regulatory assets, plant and equipment and goodwill in accordance with US GAAP.
  (2) Total liabilities increased by approximately $202 million due primarily to increases in long-term debt and capital lease obligations and pension liabilities in accordance with US GAAP.
  (3) The equity base increased by approximately $750 million. The increase was due primarily to the application of push-down accounting, which was effective May 17, 2007 as a result of the Fortis acquisition.
- DBRS has adjusted for goodwill and "lease-in lease-out" arrangements for the debt-to-capital ratio under US GAAP for comparative purposes.
- The transition from Canadian GAAP to US GAAP did not have an impact on the current ratings.

Earnings and Outlook

Consolidated Income Statement	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
	For the year ended December 31st				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
EBITDA (1)	369	333	317	297	292
EBIT (1)	241	241	226	214	214
Gross interest expense (1)	119	118	104	109	111
Pre-tax income	123	126	123	106	103
Income tax	11	16	30	19	12
Net income before extra. items	112	110	93	87	92
Reported net income	112	110	93	87	92
Return on avg. common equity (2)	10.4%	10.7%	9.8%	9.9%	10.4%
Rate Base	2,717	2,636	2,540	2,547	2,510
Approved common equity	40.0%	40.0%	40.0%	35.0%	35.0%
Allowed ROE	9.50%	9.50%	9.50%	8.99%	8.62%

(1) Less inter-company interest payments.

(2) Certain US GAAP adjustments in 2012 and 2011 (see Transition to US GAAP on page 3) have been adjusted for comparative purposes.

2012 Summary

- Earnings were higher in 2012 primarily due to the increased rate base, higher margin from industrial customers, higher contribution from the current year tax loss utilization plan and lower-than-forecast operation and maintenance expenditures.
  - However, these were partially offset by lower margins associated with lower-than-forecast customer additions in 2012 and lower capitalized allowance for funds used during construction compared to the same period in 2011.
- Volume usage volatility as a result of changes in weather conditions is mitigated by the revenue stabilization adjustment mechanism (RSAM), which allows FEI to defer variances due to changes in usage rates, to be recovered/refunded over the subsequent three years.

2013 Outlook

- The Company's 2013 earnings are expected to increase modestly as the rate base continues to grow, reflecting ongoing capex.
- Although the decision on the current GCOC Proceeding could have a negative impact on FEI's future earnings, DBRS does not expect the impact to be significant.

FortisBC Energy Inc.

Report Date:
March 18, 2013

Financial Profile

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Consolidated Cash Flow Statement	**For the year ended December 31st**				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
Net income before extra. items	112	110	93	87	92
Depreciation & amortization	128	92	91	83	78
Deferred income taxes/Other	(3)	(9)	(7)	0	(4)
Cash flow from operations	237	193	177	170	166
Dividends paid	(85)	(85)	(84)	(67)	(100)
Capex	(160)	(169)	(157)	(139)	(123)
Free cash flow before WC	(8)	(61)	(64)	(36)	(57)
Changes in working capital (WC)	14	84	(15)	16	33
Changes in regulatory assets & liabilities	(31)	(10)	0	0	0
Net free cash flow	(25)	13	(79)	(20)	(24)
Acquisitions	0	0	0	0	0
Assets sales/Divestitures	0	0	0	0	14
Net changes in equity	65	0	125	0	0
Net changes in debt	(36)	(15)	(24)	6	(5)
Other/Adjustments by DBRS	1	4	(13)	7	22
Change in cash	5	2	9	(7)	7
Total debt	1,701	1,737	1,623	1,647	1,640
Total debt in capital structure	47.4%	49.1%	61.3%	65.2%	65.2%
Total debt in capital structure (1) (2)	58.9%	62.6%	62.6%	66.4%	66.4%
Cash flow/Total debt	13.9%	11.1%	10.9%	10.3%	10.1%
EBIT gross interest coverage (1)	2.03	2.08	2.20	2.00	1.97
Total debt/EBITDA	4.61	5.22	5.13	5.55	5.62
Capex/Depreciation	1.25	1.84	1.72	1.68	1.57
Dividend payout ratio	75.9%	77.3%	90.1%	76.8%	109.3%

(1) Adjusted for operating leases.

(2) Certain US GAAP adjustments in 2012 and 2011 (see Transition to US GAAP on page 3) have been adjusted for comparative purposes.

2012 Summary

- Cash flow from operations has increased steadily, reflecting the Company's growing earnings.
- Capital investments to support load growth and system reliability have also increased considerably over the past few years. This, combined with high dividend payouts (an average payout ratio of 86% of earnings over the last five years), has resulted in free cash flow deficits.
  - The Company continued to manage its dividend payouts and equity issuances so that its capital structure is in line with the conditions imposed by the BCUC, which stipulates that FEI must maintain its capital structure in line with the regulatory structure.
- In April 2012, the Company issued $65 million in equity to its parent due to a higher rate base in 2012 compared to 2011, as a result of capital projects going into service in early 2012.
- FEI's credit metrics remained stable in 2012 and were commensurate with the current rating.

2013 Outlook

- Free cash flow deficits are expected to continue as capex is expected to be approximately $194 million in 2013, before contributions in aid of construction, largely due to the sustaining capital program.
- DBRS expects FEI to continue to finance its capex through dividend management and equity and debt issuances in a manner that maintains its capital structure in line with its current rating range.

FortisBC Energy Inc.

Report Date:
March 18, 2013

Long-Term Debt and Liquidity

Liquidity

Credit Facilities (December 31, 2012)	Committed	Short-Term Notes	Letters of Credit	Available	Expiry
(CA$ millions)					
Syndicated unsecured credit facility	500	33	51	416	Aug-14
Total	500	33	51	416	

- The credit facility is primarily used to support FEI's $500 million commercial paper program.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter.
- DBRS views FEI's liquidity as sufficient for its funding requirements during the peak period, given its stable cash flow and modest long-term debt due in the near term.

Long-Term Debt, Capita Lease & Finance Obligations Maturity Schedule

(CA$ millions)	2013	2014	2015	2016	2017	Thereafter
Debt instruments	7.0	7.0	82.0	207.0	7.0	1,358.0
% of total	0%	0%	5%	12%	0%	81%

- The Company's near-term refinancing risk remains modest, as the debt maturity schedule is light until 2016 when approximately $207 million (or 12%) of total debt will be due.
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

Debt Instruments	2012	2011
(CA$ millions)		
Secured Purchase Money Mortgages	275	275
Unsecured Debentures and MTNs	1,270	1,270
Capital lease and finance obligation	123	127
Total	1,668	1,672
Credit facilities	33	65
Less: Current portion	(7)	(7)
Total	1,694	1,730

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (only around 16% of the total debt); and (2) DBRS does not expect FEI to issue new PMMs in the future.
- The bank facility is unsecured but is rated equally with the Company's secured and unsecured debt.

Regulation

Overview

DBRS views the regulatory framework in British Columbia as reasonable, as it allows FEI to earn a reasonable return on its capital investment and to recover prudently incurred operating costs. In addition, the Company does not have exposure to gas price risk since costs are generally passed through to the customers, subject to a reasonable regulatory lag. FEI is regulated by the BCUC.

- The BCUC uses a future test year to establish rates for a utility. FEI forecasts the volume of gas to be sold, gas supply costs and all operating costs that are incurred in the test year.
- The BCUC will set rates to permit FEI to collect all of its approved forecast costs.
- FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

(1) Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account:

- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates.
- Forecast gas prices are adjusted on a quarterly basis for the commodity rates, mitigating the impact of the recovery lag.

(2) Revenue Stabilization Adjustment Mechanism:

- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following three years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial, transportation and other customers, which account for approximately 39% of FEI's total throughput (2012), are not included in this deferral account. However, these customers' usage is more predictable and less likely to be significantly affected by weather, even though it is sensitive to economic conditions.

Rates

- Prior to 2010, FEI operated under a performance-based rate plan.
- In 2010 through 2012, FEI operated under traditional cost-of-service rate making.
- In April 2012, the BCUC issued a decision on the FortisBC Utilities (collectively consisting of FEI, FEVI and FEW) 2012/2013 Revenue Requirement Application.
  - The final delivery rate increase effective January 1, 2012, was 4.2% (a decrease of approximately 1.4% as compared to FEI's existing interim delivery rates for 2012).
  - The difference between interim rates and final rates was refunded to customers starting June 1, 2012.
- From 2010 through 2012, the Company's ROE and deemed equity were at 9.50% and 40%, respectively.

Generic Cost of Capital Proceeding

- In April 2012, the BCUC issued a final scoping document identifying the items that will be reviewed as part of GCOC Proceeding.
  - These include, among other things: (1) the cost of capital for a benchmark low-risk utility effective January 2013; and (2) whether a ROE automatic adjustment mechanism is warranted, which would be implemented January 2014.
  - The decision is expected mid-year 2013 and could have a negative impact on FEI's earnings in 2013 and beyond.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time Fortis Inc. acquired FEI in 2007 (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Report Date:
March 18, 2013

FortisBC Energy Inc.

Balance Sheet	USGAAP	USGAAP	CGAAP		USGAAP	USGAAP	CGAAP
(CA$ millions)	**Dec. 31**	**Dec. 31**	**Dec. 31**		**Dec. 31**	**Dec. 31**	**Dec. 31**
Assets	**2012**	**2011**	**2010**	**Liabilities & Equity**	**2012**	**2011**	**2010**
Cash & equivalents	22	17	15	S.T. borrowings	33	65	178
Accounts receivable	205	238	298	Current portion of debt	7	7	3
Inventories	95	101	136	Accounts payable	226	304	358
Current regulatory assets	28	73	0	Current regulatory liabilities	35	23	0
Others	16	13	108	Others	32	38	53
Total Current Assets	**366**	**442**	**557**	**Total Current Liabilities**	**333**	**437**	**591**
Net fixed assets	2,604	2,573	2,466	Long-term debt	1,661	1,665	1,442
Deferred income taxes	0	0	0	Deferred income taxes	309	298	280
Goodwill & intangibles	890	886	95	Regulatory liabilities	55	54	0
Regulatory assets	561	514	0	Other L.T. liabilities	194	185	149
Investments & others	22	23	366	Shareholders equity	1,891	1,799	1,023
Total Assets	**4,443**	**4,438**	**3,484**	**Total Liab. & SE**	**4,443**	**4,438**	**3,484**

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Balance Sheet &	**For the year ended December 31st**				
Liquidity & Capital Ratios	**2012**	**2011**	**2010**	**2009**	**2008**
Current ratio	1.10	1.01	0.94	0.88	0.80
Total debt in capital structure	47.4%	49.1%	61.3%	65.2%	65.2%
Total debt in capital structure (1) (2)	58.9%	62.6%	62.6%	66.4%	66.4%
Cash flow/Total debt	13.9%	11.1%	10.9%	10.3%	10.1%
Cash flow/Total debt (1)	13.8%	10.5%	10.3%	9.8%	9.6%
Cash flow/Capex	1.48	1.14	1.14	1.13	1.22
(Cash flow - Dividends)/Capex	0.95	0.64	0.59	0.74	0.54
Approved common equity	40.0%	40.0%	40.0%	35.0%	35.0%
Dividend payout ratio	75.9%	77.3%	90.1%	76.8%	109.3%
Coverage Ratios (times)					
EBIT gross interest coverage	2.03	2.04	2.17	1.96	1.92
EBITDA gross interest coverage	3.10	2.82	3.04	2.72	2.62
Fixed-charges coverage	2.03	2.04	2.17	1.96	1.92
Debt/EBITDA	4.61	5.22	5.13	5.55	5.62
EBIT gross interest coverage (1)	2.03	2.08	2.20	2.00	1.97
Profitability Ratios					
EBITDA margin	60.0%	56.5%	55.3%	56.4%	57.0%
EBIT margin	39.2%	40.9%	39.4%	40.7%	41.7%
Profit margin	18.2%	18.7%	16.3%	16.5%	17.9%
Return on avg. common equity (2)	10.4%	10.7%	9.8%	9.9%	10.4%
Return on capital (2)	7.3%	7.1%	6.2%	6.2%	6.4%
Allowed ROE	9.5%	9.5%	9.5%	9.0%	8.6%

(1) Adjusted for operating leases.
(2) Certain US GAAP adjustments in 2012 and 2011 (see Transition to US GAAP on page 3) have been adjusted for comparative purposes.

FortisBC Energy Inc.

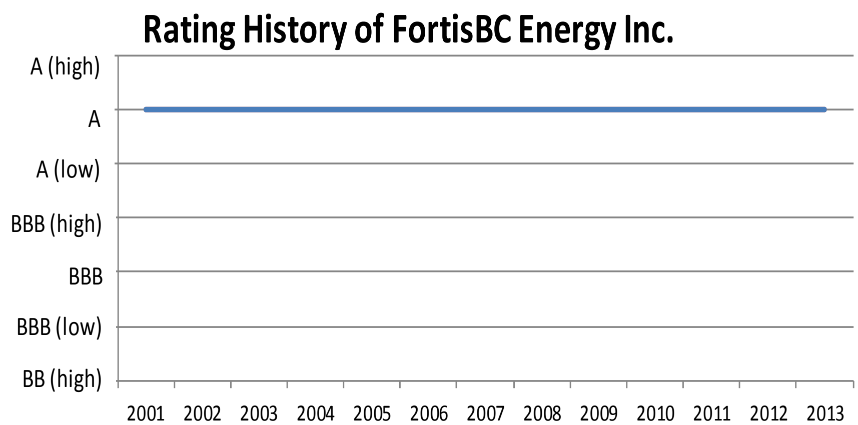
Report Date:
March 18, 2013

Ratings

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

Rating History

Debt Rated	Current	2012	2011	2010	2009	2008
Issuer Rating	A	A	NR	NR	NR	NR
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)



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

Rating Report
Report Date:
March 18, 2014
Previous Report
March 18, 2013

Insight beyond the rating.

FortisBC Energy Inc.

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The Company

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 850,000 customers (at the end of 2013) and representing approximately 85% of British Columbia's natural gas users (95% after the amalgamation). The Company is 100% owned by FortisBC Holdings Inc. (FHI; rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc.

Commercial Paper Limit

$500 million

Ratings

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

Rating Update

DBRS has confirmed the ratings of FortisBC Energy Inc. (FEI or the Company) as listed above. The Medium-Term Notes (MTNs) and Unsecured Debentures (Debentures) have the same rating as the Purchase Money Mortgages (PMMs), based on the following: (1) the outstanding amount of the PMMs is not significant (16% of total debt) and (2) DBRS does not expect FEI to issue additional PMMs in the future. The ratings reflect FEI's good financial profile, low-risk business underpinned by its regulated distribution operation in an economically strong area, and a reasonable regulatory environment.

On February 26, 2014, the British Columbia Utilities Commission (BCUC) issued a decision on FortisBC Energy Utilities' (the FEU) Application for Amalgamation and Rate Design (the Decision). The FEU comprises FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW). DBRS viewed the Decision as credit neutral to FEI (for more information, see DBRS press release dated February 26, 2014).

FEI's business risk is reflective of an "A" rating category, supported by the following factors: (1) FEI, as a regulated natural gas distributor, has no exposure to gas price risk and (2) FEI serves a large customer base in an economically strong franchise area. In May 2013, the BCUC issued a decision on the first stage of the Generic Cost of Capital (GCOC) Proceeding. In the decision, the benchmark utility's (which is determined to be FEI) return on equity (ROE) would be set at 8.75% and deemed equity at 38.5%, both effective January 1, 2013 and unchanged in 2014 (ROE and deemed equity in 2012 were 9.50% and 40%, respectively). This unfavourable decision negatively affects FEI's earnings. In June 2013, FEI filed a Multi-Year Performance Based Ratemaking (PBR) Plan for 2014 through 2018. The BCUC approved a refundable interim increase for 2014 of 1.4%, with a final decision expected in Q3 2014. FEI's large customer base should allow FEI to maintain a good level of efficiency during the PBR period, in which an annual delivery rate increase is set under a formula approach for operating and capital costs.

FEI's credit metrics remained in the "A" rating range. FEI's 2014 capex is estimated to increase to nearly $300 million (including cost of removal) before customer contributions. This increase is largely associated with the Tilbury LNG Facility Expansion Project (See the Tilbury Project Section). DBRS expects FEI to prudently fund its 2014 capex program and maintain its credit metrics in line with DBRS's "A" rating range.

Rating Considerations

Strengths
(1) Relatively low business risk
(2) Economically strong service territory
(3) Good financial profile
(4) Large customer base

Challenges
(1) Volume risk
(2) Uncertainty about the PBR Plan
(3) Indirect access to the equity market
(4) Competition from electricity

Financial Information

	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
FortisBC Energy Inc.		**For the year ended December 31st**			
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
EBIT gross interest coverage (1)	1.99	2.03	2.08	2.20	2.00
% debt in capital structure (1) (2)	60.3%	58.9%	62.6%	62.6%	66.4%
Cash flow/Total debt	14.3%	13.9%	11.1%	10.9%	10.3%
Net income before extra. Items	104	112	110	93	87
Cash flow from operations	251	237	193	177	170

(1) Adjusted for operating leases.
(2) Certain US GAAP adjustments in 2013, 2012 and 2011 have been adjusted for comparative purposes (see P6).

Rating Considerations Details

Strengths

(1) **Relatively low business risk.** FEI's business risk is viewed as relatively low, supported by the following factors: (a) FEI generates virtually all of its earnings from its regulated natural gas distribution and transportation operations, where competition is limited to other forms of energy (electricity); (b) FEI is not exposed to commodity price risk as natural gas costs are passed on to the customers, with adjustments made through quarterly review and application to the BCUC; and (c) volatility in usage by residential and commercial customers caused by the impact of the weather is mitigated through a deferral account (see Regulation Section). DBRS notes that the May 2013 BCUC decision on the first stage of the GCOC Proceeding was unfavourable. The decision determined that the ROE would be set at 8.75% and the deemed equity component at 38.5% for a benchmark utility, which was determined to be FEI, both effective January 1, 2013.

(2) **Economically strong service territory.** FEI operates in an economically strong service area that includes the City of Vancouver. The customer mix is weighted toward residential and commercial customers, whose consumption is less sensitive to economic conditions.

(3) **Good financial profile.** FEI has maintained its capital structure in line with the approved regulatory capital structure. All of the Company's credit metrics at the end of 2013 were indicative of the "A" rating category. These metrics are expected to remain stable going into 2014, as the Company is expected to continue to finance its future capex and maintain its balance-sheet leverage in line with the regulatory approved capital structure.

(4) **Large customer base.** FEI had a large customer base of approximately 850,000 at the end of 2013. This represented approximately 85% of natural gas users in British Columbia (BC) (95% after the amalgamation of FEI, FEVI and FEW).

Challenges

(1) V**olume risk.** The Company is exposed to volume risk on industrial, transportation and other customers, who accounted for approximately 38% of the Company's total throughput in 2013. The usage of these customers, such as those in the pulp and paper industries, is sensitive to economic conditions.

(2) **Uncertain outcome of the PBR plan.** There are uncertainties regarding the regulatory decision on the PBR plan for the 2014-2018 period. In June 2013, the Company filed an application for a multi-year performance based ratemaking plan. The BCUC is in the process of reviewing the application, with a decision expected in Q3 2014. There are no assurances that the rate orders to be issued will allow FEI to recover all costs actually incurred to provide utility services and to earn the expected ROE. Should the decision on the PBR plan be unfavourable with respect to the recovery of operating & maintenance cost and capital investment, it could have a negative impact on FEI's cash flow and credit metrics.

(3) **Indirect access to the public equity market.** FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts and equity issuances to the parent, as well as other debt issuances. The Company's current rating incorporates DBRS's expectation that the parent will continue to provide equity financing support in a timely manner if required.

(4) **Competition from electricity.** Natural gas distribution operators in British Columbia face more intense competition from electricity than other provinces in Canada (except Québec), due to the low power costs in British Columbia. DBRS notes that the electricity retail rates in BC are expected to increase considerably over the next two years, thereby potentially reducing the competition.

FortisBC Energy Inc.

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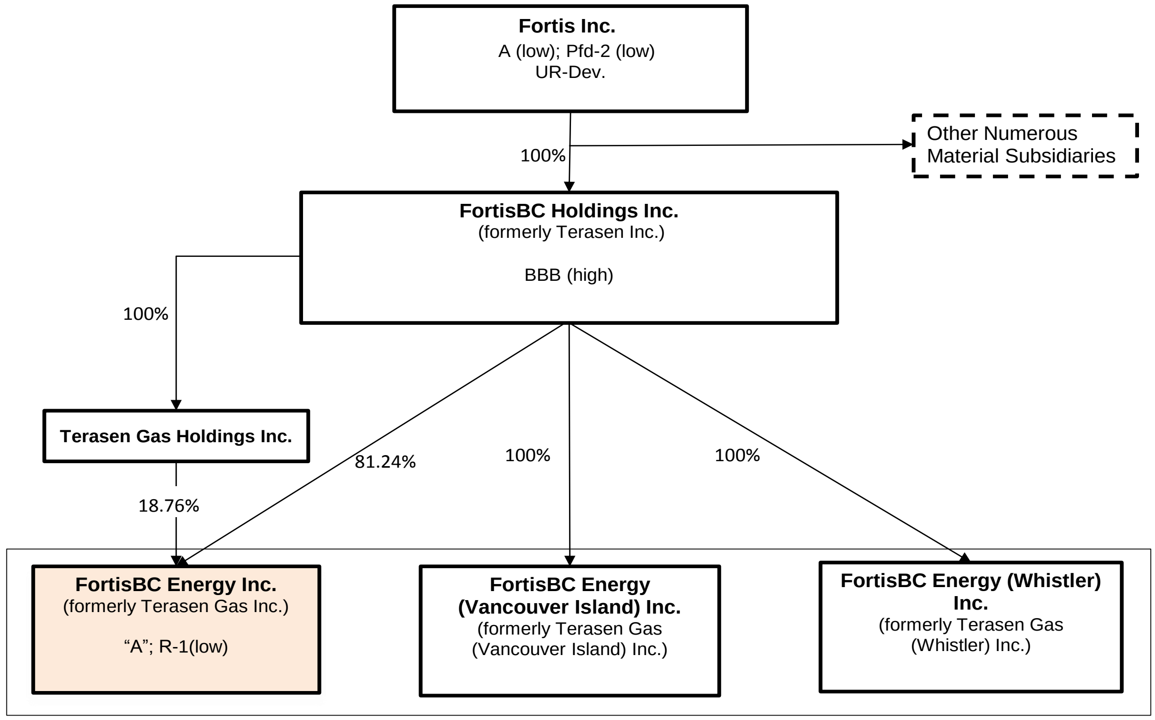
Simplified Organization Chart as of December 31, 2013



Amalgamation Update

- On February 26, 2014, the British Columbia Utilities Commission (BCUC) issued a decision on FortisBC Energy Utilities' (the FEU) Application for Amalgamation and Rate Design (the Decision). The FEU comprises FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW).
- DBRS viewed the Decision as credit neutral to FEI, reflecting the following factors:
  (1) The business risk profile of the amalgamated entity would not significantly change from FEI's current business risk level. This reflects the fact that the amalgamated entity will have a modestly larger customer base than FEI and that risk attributable to the small size of FEVI and FEW, combined with their higher rates, will be eliminated following the amalgamation.
  (2) The BCUC recommends that the return on equity (ROE) and capital structure remain the same for the amalgamated entity as for FEI; however, the final determination as to the appropriate ROE and capital structure is deferred to the Generic Cost of Capital (GCOC) Proceeding.
- See DBRS press release dated February 26, 2014, for further details.

The Tilbury LNG Facility Expansion Project

In November 2013, an Order in Council (Special Direction) was signed by the Province to allow FEI to expand its LNG facilities at Tilbury Island (BC) (the Expansion Project). The Special Direction set out a number of requirements for the BCUC as follows:

(1) The Expansion Project is exempt from a Certificate of Public Convenience and Necessity (CPCN) process; and
(2) The upper limit for the cost related to the expansion project is $400 million; and
(3) FEI is allowed to recover the cost of the Expansion Project from customers.

The Expansion Project is expected to provide incremental cash flow once it is put in service, expected to be in 2016.

Earnings and Outlook

FortisBC Energy Inc.	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
Consolidated Income Statement	**For the year ended December 31st**				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
EBITDA (1)	382	369	333	317	297
EBIT (1)	234	241	241	226	214
Gross interest expense (1)	118	119	118	104	109
Pre-tax income	118	123	126	123	106
Income tax	14	11	16	30	19
Net income before extra. items	104	112	110	93	87
Reported net income	104	112	110	93	87
Return on avg. common equity (2)	9.4%	10.4%	10.7%	9.8%	9.9%
Rate Base	2,777	2,725	2,636	2,540	2,547
Approved common equity	38.5%	40.0%	40.0%	40.0%	35.0%
Allowed ROE	8.75%	9.50%	9.50%	9.50%	8.99%

(1) Less inter-company interest payments.
(2) Certain US GAAP adjustments in 2013, 2012 and 2011 have been adjusted for comparative purposes (see P6).

2013 Summary

- **Overall:** Net earnings were lower in 2013, negatively affecting the interest coverage metrics (see next page), though the impact was modest. Lower earnings reflected the following factors:
  (1) Lower allowed ROE (8.75% in 2013 versus 9.50% in 2012), lower equity portion of the capital structure (38.5% in 2013 versus 40% in 2012), lower than forecast margin for transportation customers and higher income taxes.
  (2) The decrease is partially offset by lower than forecast finance charges, lower operation and maintenance expenses, higher rate base and higher allowance for funds during construction.
- Volume usage volatility as a result of changes in weather conditions is mitigated by the revenue stabilization adjustment mechanism (RSAM), which allows FEI to defer variances due to changes in usage rates, to be recovered/refunded over the subsequent three years. The Company has applied for these amounts to be recovered in rates over two years, starting January 2014. RSAM only applies to residential and commercial customers.

2014 Outlook

- 2014 earnings are expected to increase modestly as the rate base continues to grow, while the ROE and deemed equity component remain the same as they were in 2013.
- Effective January 2014, the BCUC approved for a 1.4% increase in interim rates to be refundable. The final decision on the 2014-2018 PBR Plan is expected in Q3 2014.

Financial Profile

FortisBC Energy Inc.	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
Consolidated Cash Flow Statement	**For the year ended December 31st**				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Net income before extra. items	104	112	110	93	87
Depreciation & amortization	148	128	92	91	83
Deferred income taxes/Other	(1)	(3)	(9)	(7)	0
Cash flow from operations	251	237	193	177	170
Dividends paid	(131)	(85)	(85)	(84)	(67)
Capex	(159)	(159)	(169)	(157)	(139)
Free cash flow before WC	(39)	(7)	(61)	(64)	(36)
Changes in working capital (WC)	8	14	84	(15)	16
Changes in regulatory assets & liabilities	(29)	(17)	(10)	0	0
Net free cash flow	(60)	(10)	13	(79)	(20)
Acquisitions	0	0	0	0	0
Assets sales/Divestitures	0	0	0	0	0
Net changes in equity	0	65	0	125	0
Net changes in debt	50	(36)	(15)	(24)	6
Other/Adjustments by DBRS	(12)	(14)	4	(13)	7
Change in cash	(22)	5	2	9	(7)
Total debt	1,751	1,701	1,737	1,623	1,647
Total debt in capital structure	48.4%	47.4%	49.1%	61.3%	65.2%
Total debt in capital structure (1) (2)	60.3%	58.9%	62.6%	62.6%	66.4%
Cash flow/Total debt	14.3%	13.9%	11.1%	10.9%	10.3%
EBIT gross interest coverage (1)	1.99	2.03	2.08	2.20	2.00
Total debt/EBITDA	4.58	4.61	5.22	5.13	5.55
Dividend payout ratio	126.0%	75.9%	77.3%	90.1%	76.8%

(1) Adjusted for operating leases.
(2) Certain US GAAP adjustments in 2013, 2012 and 2011 have been adjusted for comparative purposes (see P6).

2013 Summary

- FEI's financial profile remained relatively stable in 2013, with slightly higher debt leverage, modestly lower interest coverage ratio, but stronger cash flow ratios. All credit metrics remained within DBRS's "A" rating category.
- Despite lower earnings (as discussed in the Earnings Section), cash flow increased modestly in 2013 over 2012, largely reflecting high depreciation as the rate base grew.
- While capex remained stable in 2013, dividends increased to maintain FEI's capital structure to be in line with the regulatory capital structure.

2014 Outlook

- 2014 capex before contributions in aid of construction and including cost of removal is estimated to be approximately $296 million, which is much higher than the amount spent in the previous two years. As a result, the free cash flow deficits are expected to continue.
- Approximately $100 million is expected to be allocated to the Expansion Project. The project has a capex limit of $400 million (set by a Special Direction issued by the Province) and is expected to be in service in 2016.
- DBRS expects FEI to continue to finance its capex through dividend management and equity and debt issuances in a manner that maintains its credit metrics in line with "A" rating range.

Long-Term Debt and Liquidity

Liquidity

Credit Facilities (December 31, 2013)	Committed	Short-Term Notes	Letters of Credit	Available	Expiry
(CA$ millions)					
Syndicated unsecured credit facility	500	87	50	363	Aug-2015
Total	500	87	50	363	

- The unsecured credit facility is primarily used to support FEI's $500 million commercial paper program.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter.
- DBRS views FEI's liquidity as sufficient for its funding requirements during the peak period, given its stable cash flow and a low natural gas price environment.

Long-Term Debt, Capital Lease & Finance Obligations Schedule

(CA$ millions)	2014	2015	2016	2017	2018	Thereafter	Total
Amount due	7	82	207	7	34	1,327	1,664.0
% of total	0%	5%	12%	0%	2%	80%	100%

- The Company's near-term refinancing risk remains modest, as the debt maturity schedule is light until 2016, when approximately $207 million (or 12%) of total debt will be due.
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

Debt Instruments	2013	2012
(CA$ millions)		
Secured Purchase Money Mortgages (PMMs)	275	275
Unsecured Debentures and MTNs	1,270	1,270
Capital lease and finance obligation	119	123
Total	1,664	1,668
Credit facilities	87	33
Less: Current portion	(7)	(7)
Total	1,744	1,694

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) the outstanding amount of the PMMs is viewed as not significant; and (2) DBRS does not expect FEI to issue new PMMs in the future.

Transition to US GAAP

- Effective January 1, 2012, FEI adopted US GAAP and has restated the comparative reporting period. The major impact on key credit ratios in this report reflects the following changes as at December 31, 2011:
  (1) Total assets increased by approximately $951 million due primarily to increases in regulatory assets, plant and equipment and goodwill in accordance with US GAAP.
  (2) Total liabilities increased by approximately $202 million due primarily to increases in long-term debt and capital lease obligations and pension liabilities in accordance with US GAAP.
  (3) The equity base increased by approximately $750 million. The increase was due primarily to the application of push-down accounting, which was effective May 17, 2007 as a result of the Fortis acquisition.
- DBRS has adjusted for goodwill and "lease-in lease-out" arrangements for the debt-to-capital ratio under US GAAP for comparative purposes.

Regulation

Overview

FEI operated under a traditional cost-of-service (COS) methodology from 2010 through 2013. Under this methodology, FEI was allowed to have an opportunity to recover its prudently-incurred operating and maintenance costs and prudently-incurred capital investment. In addition, the BC regulatory framework allows FEI to pass on all gas supply costs to customers (subject to reasonable regulatory lag) and to implement deferral accounts to mitigate the volatility of weather impact and gas price fluctuation.

Future test year

- Under the traditional COS methodology, the BCUC uses a future test year to establish rates for a utility. FEI forecasts the volume of gas to be sold, gas supply costs and all operating costs that are incurred in the test year. The BCUC will then set rates to permit FEI to collect all of its approved forecast costs.

Deferral Accounts

FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

(1) Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):

- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates. Forecast gas prices are adjusted on a quarterly basis for commodity rates, mitigating the impact of recovery lag.

(2) Revenue Stabilization Adjustment Mechanism (RSAM):

- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following three years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial, transportation and other customers are not included in this deferral account. However, these customers' usage is more predictable and less likely to be significantly affected by weather, even though it is sensitive to economic conditions.
- The RSAM and MCRA accounts are currently recovered/refunded in rates over three years. FEI has applied to the BCUC, requesting these amounts to be recovered/refunded over two years. The CCRA is anticipated to be fully recovered within the next fiscal year.

Generic Cost of Capital Proceeding (GCOC)

- In May 2013, the BCUC issued a decision on the first stage of the GCOC Proceeding, which determined that FEI's ROE and deemed equity would be set at 8.75% and 38.5% respectively, both effective January 1, 2013.
- Effective January 2014, the BCUC introduced an Automatic Adjustment Mechanism (AAM) to set the ROE on an annual basis. The AAM will be in effect if the actual long-term Government of Canada (GOC) bond yield exceeds 3.8%. The AAM did not take effect in 2014, since the GOC bond yield in October 2013 did not exceed the 3.8% threshold. As a result, the ROE for FEI in 2014 remains at 8.75%.

The 2014-2018 Performance Based Ratemaking (PBR) Plan

- In June 2013, FEI filed an application for a PBR Plan for 2014 through 2018.
- The PBR application assumes a forecast average rate base of approximately $2,778 million for 2014 and requests approval of a delivery rate increase of 1.4%, based on a formula approach for operating and capital costs and a continuation of this rate setting methodology through 2018.
- The BCUC approved for a 1.4% interim refundable rate increase, effective January 1, 2014. A decision on FEI's PBR application is expected to be rendered in Q3 2014.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time of Fortis Inc.'s 2007 acquisition of FEI (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Report Date:
March 18, 2014

FortisBC Energy Inc.

Balance Sheet (US GAAP)

(CA$ millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2013**	**2012**	**2011**	**Liabilities & Equity**	**2013**	**2012**	**2011**
Cash & equivalents	0	22	17	S.T. borrowings	87	33	65
Accounts receivable	228	205	238	Current portion of debt	7	7	7
Inventories	81	95	101	Accounts payable	221	226	304
Current regulatory assets	18	28	73	Current regulatory liabilities	39	35	23
Others	13	16	13	Others	40	32	38
Total Current Assets	**340**	**366**	**442**	**Total Current Liabilities**	**394**	**333**	**437**
Net fixed assets	2,651	2,604	2,573	Long-term debt	1,657	1,661	1,665
Intangible assets	122	121	117	Deferred income taxes	327	309	298
Goodwill	769	769	769	Regulatory liabilities	55	55	54
Regulatory assets	560	561	514	Other L.T. liabilities	167	194	185
Others	22	22	23	Shareholders equity	1,864	1,891	1,799
Total Assets	**4,464**	**4,443**	**4,438**	**Total Liab. & SE**	**4,464**	**4,443**	**4,438**

Balance Sheet &	**For the year ended December 31st**				
Liquidity & Capital Ratios	**2013**	**2012**	**2011**	**2010**	**2009**
Current ratio	0.86	1.10	1.01	0.94	0.88
Total debt in capital structure	48.4%	47.4%	49.1%	61.3%	65.2%
Total debt in capital structure (1) (2)	60.3%	58.9%	62.6%	62.6%	66.4%
Cash flow/Total debt	14.3%	13.9%	11.1%	10.9%	10.3%
Cash flow/Total debt (1)	14.2%	13.8%	10.5%	10.3%	9.8%
Cash flow/Capex	1.58	1.49	1.14	1.13	1.22
(Cash flow - Dividends)/Capex	0.75	0.96	0.64	0.59	0.74
Approved common equity	38.5%	40.0%	40.0%	40.0%	35.0%
Dividend payout ratio	126.0%	75.9%	77.3%	90.1%	76.8%
Coverage Ratios (times)					
EBIT gross interest coverage	1.98	2.03	2.04	2.17	1.96
EBITDA gross interest coverage	3.24	3.10	2.82	3.04	2.72
Fixed-charges coverage	1.98	2.03	2.04	2.17	1.96
Debt/EBITDA	4.58	4.61	5.22	5.13	5.55
EBIT gross interest coverage (1)	1.99	2.03	2.08	2.20	2.00
Profitability Ratios					
EBITDA margin	60.3%	60.0%	56.5%	55.3%	56.4%
EBIT margin	37.0%	39.2%	40.9%	39.4%	40.7%
Profit margin	16.4%	18.2%	18.7%	16.3%	16.5%
Return on avg. common equity (2)	9.4%	10.4%	10.7%	9.8%	9.9%
Return on capital (2)	6.9%	7.3%	7.1%	6.2%	6.2%
Allowed ROE	8.75%	9.5%	9.5%	9.5%	9.0%

(1) Adjusted for operating leases.
(2) Certain US GAAP adjustments in 2013, 2012 and 2011 have been adjusted for comparative purposes (see P6).

FortisBC Energy Inc.

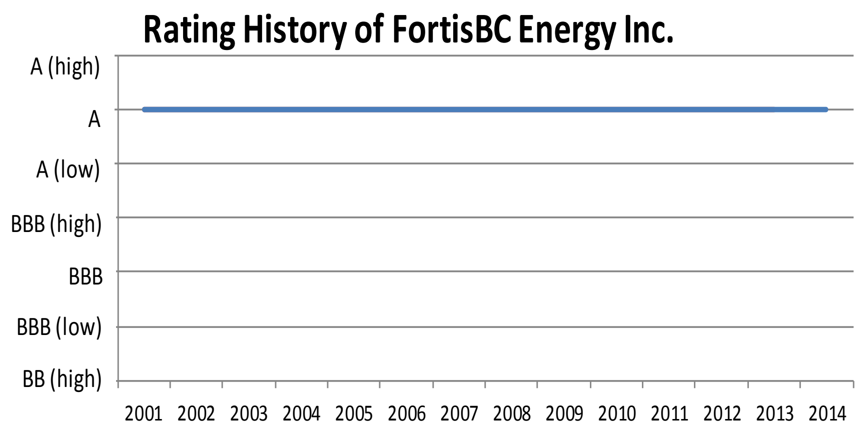
Report Date:
March 18, 2014

Ratings

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

Rating History

Debt Rated	Current	2013	2012	2011	2010	2009
Issuer Rating	A	A	A	NR	NR	NR
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)



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

Rating Report

FortisBC Energy Inc.

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DBRS
Insight beyond the rating.

Ratings

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

Rating Update

On January 6, 2015, DBRS Limited (DBRS) confirmed the Issuer Rating as well as the MTNs & Unsecured Debentures and Purchase Money Mortgages ratings of FortisBC Energy Inc. (FEI or the Company) at "A" and its Commercial Paper rating at R-1 (low). All trends are Stable. The rating confirmation follows the completion of the amalgamation of FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI), FortisBC Energy (Whistler) Inc. (FEW) and Terasen Gas Holdings Inc. (the Amalgamation) on December 31, 2014. The amalgamated entity is known as FortisBC Energy Inc. (FEI). The confirmation is based on DBRS's view that the Amalgamation will not have a material impact on FEI's credit profile, reflecting the following factors:

(1) The business risk profile of the amalgamated entity would not be materially different from FEI's pre-amalgamation business risk level. The amalgamated entity will have a larger customer base than FEI's pre-amalgamation customer base, and the risk previously attributable to FEVI's and FEW's competitive position and smaller size is eliminated.

(2) The British Columbia Utilities Commission (BCUC) has approved the adoption of common rates to be phased in over a three-year period for natural gas delivery to all customers of the amalgamated entity except those in the Fort Nelson, British Columbia, service area.

(3) The BCUC issued its decision on FEI's multi-year Performance Based Ratemaking Plan Application in September 2014 (the multi-year PBR). The term of the multi-year PBR was extended to 2019. The multi-year PBR incorporates a mechanism for improving operating efficiencies, with operation and maintenance costs as well as base capital expenditures (capex) being subject to a formula during the PBR period. The BCUC also approved a 50/50 sharing of variances from the formula-driven expenditures over the PBR period.

(4) Starting in 2015, the new amalgamated entity will have a return on equity (ROE) of 8.75% and a deemed equity component of the capital structure of 38.5%, which is unchanged from 2014 for FEI. As a result, FEI's financial metrics are expected to remain within DBRS's "A" rating guidelines.

Financial Information (DOES NOT RECOGNIZE THE RETROACTIVE EFFECT OF THE AMALGAMATION)

FortisBC Energy Inc.	9 months	9 months	12 months	For the year ended December 31st		
(CA$ millions)	**Sep. 30. 14**	**Sep. 30. 13**	**Sep. 30. 14**	**2013**	**2012**	**2011**
EBIT gross interest coverage [1]	1.82	1.74	2.05	1.99	2.03	2.08
% debt in capital structure [1]	61.4%	59.7%	61.4%	60.3%	58.9%	62.6%
Cash flow/Total debt	12.9%	12.9%	14.3%	14.3%	13.9%	11.1%
Cash flow/Capex	1.20	1.66	1.27	1.58	1.49	1.14
Net income before extra. items	59	57	106	104	112	110
Cash flow from operations	177	166	262	251	237	193

1 Adjusted for operating leases.

Issuer Description

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 960,000 customers. The Company is a 100% indirectly owned subsidiary of Fortis Inc. (rated A (low)).

Rating Considerations

Strengths

1. Relatively low business risk.
FEI's business risk is viewed as relatively low, supported by the following factors: (a) FEI generates virtually all of its earnings from its regulated natural gas distribution and transportation operations, where competition is limited to other forms of energy (electricity); (b) FEI is not exposed to commodity price risk, as natural gas costs are passed on to the customers, with adjustments made through quarterly review and application to the BCUC; and (c) volatility in usage by residential and commercial customers caused by the impact of weather is mitigated through a deferral account (see Regulation Section).

2. Economically strong service territory.
FEI, post-amalgamation, operates in the Greater Vancouver, Fraser Valley, Thompson, Okanagan, Kootenay, North Central Interior, Vancouver Island, Sunshine Coast and Whistler regions.

3. Good financial profile.
FEI has maintained its capital structure in line with the approved regulatory capital structure. All of the Company's credit metrics as of September 30, 2014, were indicative of the "A" rating category. These metrics are expected to remain stable following the Amalgamation, as the Company is expected to continue to finance its future capex and maintain its balance-sheet leverage in line with the regulatory approved capital structure.

4. Larger customer base.
Following the amalgamation completed on December 31, 2014, FEI has a larger customer base of approximately 960,000 customers compared with the FEI pre-amalgamation customer base of 852,000 customers (as at September 30, 2014). The customer mix is weighted toward residential and commercial customers, whose consumption is less sensitive to economic conditions.

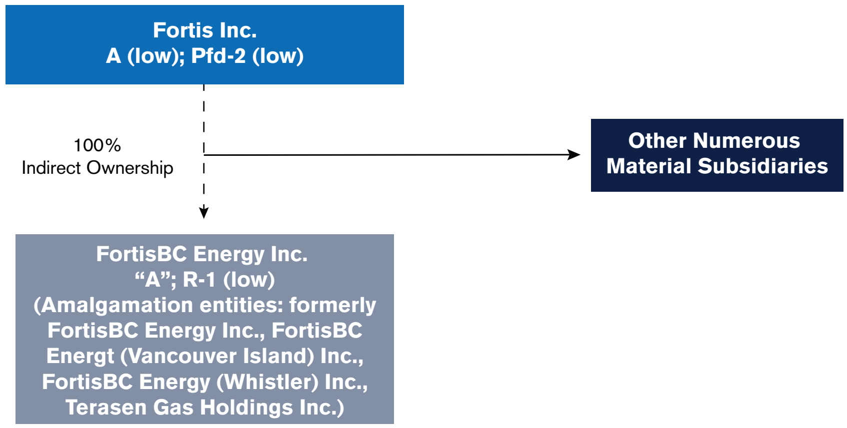
Challenges

1. Tilbury Expansion Project execution risk.
The Company started construction on the expansion of its Tilbury LNG facility (the Tilbury Project) in October 2014. The capital cost of the Tilbury Project is estimated to be approximately $400 million, which is the upper limit set by the Province of British Columbia (the Province) through an Order in Council. Any significant cost overruns above the upper limit may not be recovered through customer rates. The Tilbury Project is expected to be in service in the second half of 2016.

2. Indirect access to the public equity market.
FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts and equity issuances to the parent as well as through debt issuances. The Company's current rating incorporates DBRS's expectation that the parent will continue to provide equity financing support in a timely manner if required.

3. Competition from electricity.
FEI faces more intense competition from electricity in British Columbia than other provinces in Canada (except Québec) because of the low power costs in the Province. DBRS notes that the electricity retail rates in the Province are expected to increase considerably over the next few years, thereby potentially reducing the competition.

Simplified Organization Chart as of January 1, 2015



Amalgamation Update

On December 31, 2014, the amalgamation of FEI, FEVI, FEW and Terasen Gas Holdings Inc. was completed. As part of the approval of the Amalgamation, the BCUC approved the adoption of common rates to be phased in over a three-year period for natural gas delivery to all customers of the new amalgamated entity (known as FEI) except those in the Fort Nelson service area. The ROE and the deemed equity component of the capital structure for the new amalgamated entity is 8.75% and 38.5%, respectively.

The Tilbury LNG Facility Expansion Project

In November 2013, an Order in Council (Special Direction) was signed by the Province to allow FEI to expand its LNG facilities at Tilbury Island, British Columbia. The Special Direction set out a number of requirements for the BCUC as follows:

1. The Tilbury Project is exempt from a Certificate of Public Convenience and Necessity (CPCN) process;
2. The upper limit for the costs related to the expansion project is $400 million; and
3. FEI is allowed to recover the cost of the Tilbury Project from customers.

In October 2014, FEI started construction of the Tilbury Project. The Company will add a second LNG tank and a new liquefier, both expected to be in service in the second half of 2016.

Earnings and Outlook (DOES NOT RECOGNIZE THE RETROACTIVE EFFECT OF THE AMALGAMATION)

Consolidated Income Statement	9 months	9 months	12 months	For the year ended December 31st		
(CA$ millions)	**Sep. 30. 14**	**Sep. 30. 13**	**Sep. 30. 14**	**2013**	**2012**	**2011**
EBITDA 1	280	264	398	382	369	333
EBIT 1	161	154	241	234	241	241
Gross interest expense 1	89	89	118	118	119	118
Pre-tax income	74	66	126	118	123	126
Income tax	15	9	20	14	11	16
Net income before extra. items	59	57	106	104	112	110
Reported net income	59	57	106	104	112	110
Rate base	N/A	N/A	2,765	2,777	2,725	2,636
Approved common equity	38.5%	38.5%	38.5%	38.5%	40.0%	40.0%
Allowed ROE	8.75%	8.75%	8.75%	8.75%	9.50%	9.50%

1 Less inter-company interest payments.

2014 Summary

- In general, earnings in 2014 largely reflected (1) ROE (8.75% in 2014), (2) the deemed equity component of capital structure (38.5% in 2014) and (3) the size of the average rate base for the year (approximately $2,765 million for 2014).
- During the PBR period (2014–2019), earnings will also reflect a 50/50 sharing of variances from the formula-driven operation and maintenance costs, and base capex.

2015 Outlook

- Earnings for 2015 are expected to increase after the Amalgamation as a result of the consolidation of FEI's rate base with FEVI and FEW, while the ROE and deemed equity component of the amalgamated entity will remain the same as FEI's in 2014.

Financial Profile (DOES NOT RECOGNIZE THE RETROACTIVE EFFECT OF THE AMALGAMATION)

Consolidated Cash Flow Statement	9 months	9 months	12 months	For the year ended December 31st		
(CA$ millions)	**Sep. 30. 14**	**Sep. 30. 13**	**Sep. 30. 14**	**2013**	**2012**	**2011**
Net income before extra. items	59	57	106	104	112	110
Depreciation & amortization	119	110	157	148	128	92
Deferred income taxes/Other	(1)	(1)	(1)	(1)	(3)	(9)
Cash flow from operations	177	166	262	251	237	193
Dividends paid	(57)	(84)	(104)	(131)	(85)	(85)
Capex	(159)	(124)	(194)	(159)	(159)	(169)
Free cash flow before WC	(39)	(42)	(36)	(39)	(7)	(61)
Changes in working capital (WC)	23	49	(18)	8	14	84
Changes in regulatory assets & liabilities	(61)	(56)	(34)	(29)	(17)	(10)
Net free cash flow	(77)	(49)	(88)	(60)	(10)	13
Acquisitions	0	0	0	0	0	0
Assets sales/Divestitures	0	0	0	0	0	0
Net changes in equity	0	0	0	0	65	0
Net changes in debt	78	13	115	50	(36)	(15)
Other/Adjustments by DBRS	3	17	(26)	(12)	(14)	4
Change in cash	4	(19)	1	(22)	5	2
Total debt	1,829	1,713	1,829	1,751	1,701	1,737
Total debt in capital structure	49.5%	47.9%	49.5%	48.4%	47.4%	49.1%
Total debt in capital structure 1	61.4%	59.7%	61.4%	60.3%	58.9%	62.6%
Cash flow/Total debt	12.9%	12.9%	14.3%	14.3%	13.9%	11.1%
EBIT gross interest coverage 1	1.82	1.74	2.05	1.99	2.03	2.08
Total debt/EBITDA	6.53	6.49	4.60	4.58	4.61	5.22
Dividend payout ratio	96.6%	147.4%	98.1%	126.0%	75.9%	77.3%

1 Adjusted for operating leases.

2014 Summary

- FEI's financial profile remained relatively stable in 2014 compared with 2013, with a slightly higher debt leverage and a modestly stronger interest coverage ratio.
- All credit metrics for the 12 months ended September 30, 2014, remained within DBRS's "A" rating category.
- Cash deficit was considerably higher than 2013 as a result of higher capex for the year. The increase in capex was largely due to the Tilbury Project.
- The Company financed its 2014 capex program primarily by issuing short-term notes.

2015 Outlook

- Capex in 2015 is expected to be higher than 2014 due to the Tilbury Project and the impact of the Amalgamation.
- DBRS expects FEI's cash flow metrics to be under pressure until the Tilbury Project is in service (expected in the second half of 2016), as free cash flow deficits are expected to persist. However, DBRS expects FEI to maintain its capital structure within the range set by the regulator.

Long-Term Debt and Liquidity (PRIOR TO RECOGNIZING THE IMPACT OF THE AMALGAMATION)

Liquidity

Credit Facilities (As at September 30, 2014)

(CA$ millions)	Committed	Short-Term Notes	Letters of Credit	Available	Expiry
Syndicated unsecured credit facility	500	170	50	280	Aug-2016
Total	**500**	**170**	**50**	**280**	

- The unsecured credit facility is primarily used to support FEI's $500 million commercial paper program. In July 2014, the credit facility maturity was extended to August 2016 with substantially similar terms.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter.
- As at September 30, 2014, FEI had $280 million available under its credit facility. FEI's liquidity should be sufficient to finance the Company's short-term operating needs.

Long-Term Debt, Capital Lease & Finance Obligations Schedule

As of September 30, 2014 (CA$ millions)	Due within 1 Year	Due in Year 2	Due in Year 3	Due in Year 4	Due in Year 5	Thereafter	Total
Amount due	82	206	6	7	33	1,325	1,659
% of total	5%	12%	0%	0%	2%	80%	100%

- The Company's near-term refinancing risk remains modest with $206 million of debt due in 2016.
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

(CA$ millions)	Sep. 30, 2014	2013
Secured Purchase Money Mortgages (PMMs)	275	275
Unsecured Debentures and MTNs	1,270	1,270
Capital lease and finance obligations	114	119
Total	**1,659**	**1,664**
Credit facilities	170	87
Less: Current portion	(252)	(94)
Total	**1,577**	**1,657**

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) The outstanding amount of the PMMs is viewed as not significant; and (2) DBRS does not expect FEI to issue new PMMs in the future.
- The PMMs consist of $75 million of Series A notes and $200 million of Series B notes. Series A will mature in September 2015, and Series B will mature in September 2016.

Regulation

Regulation Update

FEI currently operates under a Performance Based Ratemaking (PBR) plan through 2019. FEI had previously operated under a traditional cost-of-service (COS) methodology, which ended December 31, 2013.

- The approved PBR plan incorporates an incentive mechanism for improving operating efficiencies. During the PBR period, operation and maintenance costs and base capex are subject to a formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity improvement factor of 1.1% each year. It also includes a 50/50 sharing of variances from the formula-driven expenditures over the PBR period, and a number of service quality measures.
- In September 2014, the BCUC issued the PBR Decision on FEI's PBR Application. The term of the PBR was extended to 2019. In October 2014, FEI filed a PBR Decision Compliance filing. The 2014 average rate base was updated to approximately $2,765 million, and the 2014 delivery rate increased to 1.8% as compared with the interim delivery rate increase of 1.4%. FEI implemented permanent 2014 delivery rates in November 2014 to reflect the additional delivery rate increase compared with the interim rates and will recover the January 2014 to October 2014 revenue deficiency through a deferral mechanism.

Deferral Accounts

FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

1. Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):

- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates. Forecast gas prices are adjusted on a quarterly basis for commodity rates, mitigating the impact of recovery lag.

2. Revenue Stabilization Adjustment Mechanism (RSAM):

- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following two years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial, transportation and other customers are not included in this deferral account. However, they are also recovered through a deferral mechanism starting in 2014 as part of the PBR Decision.
- The RSAM and MCRA accounts are currently recovered/refunded in rates over two years. The CCRA is anticipated to be fully recovered within the next fiscal year.

Generic Cost of Capital Proceeding (GCOC Proceeding)

- In May 2013, the BCUC issued a decision on the first stage of the GCOC Proceeding, which determined that FEI's ROE and deemed equity would be set at 8.75% and 38.5%, respectively, both in effect until December 31, 2015.
- Effective January 2014, the BCUC introduced an Automatic Adjustment Mechanism (AAM) to set the ROE on an annual basis. The AAM will be in effect if the actual long-term Government of Canada (GOC) bond yield exceeds 3.8%. The AAM will be in effect until December 31, 2015. The AAM did not take effect in 2014, since the GOC bond yield in October 2013 did not exceed the 3.8% threshold. As a result, the ROE for FEI in 2014 remained at 8.75%.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time of Fortis Inc.'s 2007 acquisition of FEI (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Balance Sheet (Does not recognize the retroactive effect of the Amalgamation)

(CA$ millions)	Sep. 30	Dec. 31	Dec. 31		Sep. 30	Dec. 31	Dec. 31
Assets	**2014**	**2013**	**2012**	**Liabilities & Equity**	**2014**	**2013**	**2012**
Cash & equivalents	4	0	22	S.T. borrowings	170	87	33
Accounts receivable	96	228	205	Current portion of debt	82	7	7
Inventories	129	81	95	Accounts payable	284	221	226
Current regulatory assets	15	18	28	Current regulatory liabilities	14	39	35
Others	20	13	16	Others	0	40	32
Total Current Assets	**264**	**340**	**366**	**Total Current Liabilities**	**550**	**394**	**333**
Net fixed assets	2,766	2,651	2,604	Long-term debt	1,577	1,657	1,661
Intangible assets	121	122	121	Deferred income taxes	334	327	309
Goodwill	769	769	769	Regulatory liabilities	41	55	55
Regulatory assets	596	560	561	Other L.T. liabilities	170	167	194
Others	22	22	22	Shareholders equity	1,866	1,864	1,891
Total Assets	**4,538**	**4,464**	**4,443**	**Total Liab. & SE**	**4,538**	**4,464**	**4,443**

FortisBC Energy Inc.

Balance Sheet & Liquidity & Capital Ratios	9 months	9 months	12 months	For the year ended December 31st		
(Does not recognize the retroactive effect of the Amalgamation)	**Sep. 30. 14**	**Sep. 30. 13**	**Sep. 30. 14**	**2013**	**2012**	**2011**
Current ratio	0.48	0.80	0.48	0.86	1.10	1.01
Total debt in capital structure	49.5%	47.9%	49.5%	48.4%	47.4%	49.1%
Total debt in capital structure 1	61.4%	59.7%	61.4%	60.3%	58.9%	62.6%
Cash flow/Total debt	12.9%	12.9%	14.3%	14.3%	13.9%	11.1%
Cash flow/Total debt 1	12.8%	12.8%	14.2%	14.2%	13.8%	10.5%
Cash flow/Capex	1.20	1.66	1.27	1.58	1.49	1.14
(Cash flow - Dividends)/Capex	0.82	0.82	0.77	0.75	0.96	0.64
Approved common equity	38.5%	38.5%	38.5%	38.5%	40.0%	40.0%
Dividend payout ratio	96.6%	147.4%	98.1%	126.0%	75.9%	77.3%
Coverage Ratios (times)						
EBIT gross interest coverage	1.81	1.73	2.04	1.98	2.03	2.04
EBITDA gross interest coverage	3.15	2.97	3.37	3.24	3.10	2.82
Fixed-charges coverage	1.81	1.73	2.04	1.98	2.03	2.04
Debt/EBITDA	6.53	6.49	4.60	4.58	4.61	5.22
EBIT gross interest coverage 1	1.82	1.74	2.05	1.99	2.03	2.08
Profitability Ratios						
EBITDA margin	61.0%	60.0%	61.0%	60.3%	60.0%	56.5%
EBIT margin	35.1%	35.0%	37.0%	37.0%	39.2%	40.9%
Profit margin	12.9%	13.0%	16.3%	16.4%	18.2%	18.7%
Return on avg. common equity	7.2%	6.9%	9.7%	9.4%	10.4%	10.7%
Return on capital	5.9%	6.0%	6.9%	6.9%	7.3%	7.1%
Allowed ROE	8.75%	8.75%	8.75%	8.75%	9.5%	9.5%

1 Adjusted for operating leases.

Rating History

Debt Rated	Current	2014	2013	2012	2011	2010	2009
Issuer Rating	A	A	A	A	NR	NR	NR
MTNs & Unsecured Debentures	A	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $500 million.

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

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

MOODY'S INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 21 Jul 2011

Vancouver, British Columbia, Canada

Ratings

Category	**Moody's Rating**
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

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William L. Hess/New York	212.553.3837

Key Indicators

[1]**FortisBC Energy Inc.**

	[2]**LTM**	**2010**	**2009**	**2008**	**2007**	**2006**
(CFO Pre-W/C + Interest) / Interest Expense	**2.7x**	**2.7x**	**2.6x**	**2.5x**	**2.4x**	**2.5x**
(CFO Pre-W/C) / Debt	**11.3%**	**10.6%**	**10.2%**	**9.8%**	**8.8%**	**10.1%**
(CFO Pre-W/C - Dividends) / Debt	**5.4%**	**5.9%**	**6.5%**	**4.2%**	**2.5%**	**7.7%**
Debt / Book Capitalization	**57.3%**	**59.1%**	**61.8%**	**68.4%**	**66.8%**	**65.2%**

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended March 31, 2011

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk, cost-of-service regulated gas transmission and distribution utility

Weak financial metrics balanced by a supportive regulatory environment

Strong regulatory ring-fencing mechanisms insulate company from its weaker parent

Sufficient liquidity resources

Corporate Profile

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia and one of the largest gas local distribution companies (LDC) in Canada. FEI is regulated on a cost-of-service basis by the British Columbia Utilities Commission (BCUC).

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company. FHI is a holding company which also holds 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

FEI's A3 senior unsecured rating and stable outlook reflect its low-risk LDC business model and supportive regulatory environment which are balanced by its weak financial metrics. We recognize that the weakness of FEI's financial metrics relative to similarly rated U.S. peers is largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. We believe that FEI's weak financial profile is balanced by its relatively low business risk as a gas LDC and the by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically. We expect FEI's financial profile to strengthen modestly in 2012 and 2013. Regulatory ring-fencing mechanisms effectively insulate FEI from its weaker parent companies, FHI and FTS. Growth in FEI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. FEI maintains sufficient liquidity resources.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas LDCs to be at the low end of the risk spectrum within the universe of regulated utilities. Similarly, we believe that regulated utilities, which are permitted the opportunity to recover their costs and earn an allowed return, have lower business risk than unregulated companies that do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like FEI to be among the lowest risk corporate entities.

We consider Canada to have more supportive regulatory and business environments than other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia (BC) is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings in BC tend to be less adversarial than those in other jurisdictions and decisions tend to be timely and balanced. The supportiveness of the BC regulatory environment is also evidenced by the fact that FEI benefits from the existence of a number of BCUC-approved deferral, or true up, mechanisms. These mechanisms limit FEI's exposure to forecast error with respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, FEI is required to obtain a certificate of public convenience and necessity (CPCN) from the BCUC prior to undertaking any capital project in excess of $5 million. In our view, this process reduces the risk that FEI would be denied the opportunity to recover the cost of its capital investments. We believe these qualitative factors balance FEI's weak financial profile.

Growth in FEI's franchise area tends to be relatively predictable and capital spending is generally stable and modest in the context of FEI's asset base and depreciation expense. That said, we expect capital spending to be higher in 2011 than it has been in recent years. This reflects certain non-recurring or infrequently occurring projects such as the development of a new customer care system and the upgrading of a major river crossing. Notwithstanding higher capital spending in 2011, we anticipate that FEI will continue to finance its capital spending with a prudent combination of internally generated funds, additional term debt and equity injections from FTS as required.

FINANCIAL METRICS EXPECTED TO STRENGTHEN MODESTLY IN 2012 and 2013

FEI's financial metrics are materially weaker than those of its A3 rated global gas utility peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, UGI Utilities and its sister company, FEVI. We recognize that FEI's weaker financial metrics are largely a function of the deemed equity and allowed ROE approved by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions.

We expect FEI's cash flow to increase in 2012 and 2103 due to higher levels of non-cash depreciation and amortization expense that will be collected in revenues. The largest driver of the higher depreciation will be FEI's customer care enhancement project which is slated to be placed into service in 2012. We anticipate that these changes will cause CFO pre-WC + Interest / Interest (Cash Flow Interest Coverage) to approach 3x in 2012 and 2013 versus the mid 2x range in recent years. Similarly, we anticipate CFO pre-WC / Debt will exceed 10% in the future versus its approximately 10% level in the past few years.

POTENTIAL AMALGAMATION OF FEI, FEVI AND FEW LIKELY CREDIT NEUTRAL

FEI has indicated that during 2011 it intends to apply to the BCUC to amalgamate FEI, FEVI and FEW and harmonize rates across the amalgamated utility. In an amalgamation scenario, the senior unsecured debt of FEI and FEVI would rank pari passu and be supported by the combined cash flow of the amalgamated utility. While the timing and outcome of the planned amalgamation application are unknown at this time, we expect that amalgamation and rate harmonization would be credit neutral to FEI provided that there are no reductions in deemed equity levels or allowed ROE or increases in the fundamental business risks borne by the amalgamated utility.

STRONG REGULATORY RING-FENCING INSULATES FEI FROM PARENT, FHI

We believe that FEI's ring-fencing is very good relative to that of its peers outside of BC. FEI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, FEI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause FEI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support any non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate FEI from the greater financial and business risks of its parents, FHI and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow us to evaluate FEI's credit profile on a stand-alone basis.

Liquidity Profile

We expect FEI's liquidity will be sufficient to meet its funding requirements over the next four quarters.

We expect FEI to generate approximately $215 million of CFO pre-WC during the 12 months ending June 30, 2012. After dividends in the range of $85 million and capital expenditures and working capital changes of approximately $255 million, we expect FEI to be free cash flow (FCF) negative by approximately $125 million. FEI has no material scheduled debt maturities during the twelve months ending June 30, 2012 resulting in a funding requirement of approximately $125 million.

We estimate availability under FEI's credit agreement to be roughly $380 million which exceeds our $125 million estimate of the company's funding requirement.

FEI's $500 million syndicated committed revolving facility matures August 2013 and is available to support its $500 million commercial paper (CP) program and for general corporate purposes. The company is currently well below the debt to total capitalization ratio covenant (maximum

75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

Although utilization of FEI's credit facility was limited to roughly $134 million at March 31, 2011, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of FEI's credit facility. For instance, at the end of the third quarter of 2008, availability under FEI's $500 million credit facility was only about $175 million. We recognize that FEI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit FEI's exposure to short-term interest rate volatility. However, we believe that FEI's financial flexibility can become somewhat constrained, particularly, when material debt maturities fall within the peak storage season. Although FEI has no significant debt maturities until September 2015, the BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities is expected to increase the volatility of FEI's cash flow and increase FEI's liquidity requirements. This decision is directionally negative for credit but, at this time, not material enough to impact our rating or outlook.

Rating Outlook

The stable outlook is predicated on FEI's low business risk as a regulated gas LDC, our expectation that FEI's regulatory environment will continue to be supportive and our belief that FEI's financial profile will continue to improve modestly through 2013. The outlook also reflects our belief that if FEI, FEVI and FEW ultimately amalgamate, the amalgamation and rate harmonization would be credit neutral for FEI's credit profile.

What Could Change the Rating - Up

We consider an upward revision in FEI's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if FEI could demonstrate a sustainable improvement in its credit metrics. All else being equal, at the A2 senior unsecured level, Moody's would expect FEI's Cash Flow Interest Coverage to exceed 4x and CFO pre-WC / Debt to be above 19%.

What Could Change the Rating - Down

Notwithstanding FEI's low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, a sustained weakening of FEI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% combined with a less supportive and predictable regulatory framework would likely result in a downgrade of FEI's rating. This could occur if gas were to lose its competitive advantage over electricity in British Columbia due Provincial policies favouring non-carbon emitting energy sources or other factors.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**Current**		[3]**Moody's 12-18 month Forward View As of 07/20/2011**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Aa		Aa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.6x	Ba1	2.6x-2.8x	Ba1/Baa3
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	10.2%	Ba2	9%-11%	Ba2/Ba1
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	5.5%	Ba2	5%-7%	Ba2/Ba1
e) Debt/Capitalization (3 Year Avg) (7.5%)	62.9%	Ba3	57%-60%	Ba2/Ba1
Rating:				
a) Indicated Baseline Credit Assessment from Methodology Grid		A3		A3
b) Actual Baseline Credit Assessment Assigned		A3		A3

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Financial ratios reflect three year averages for 2008, 2009 and 2010. [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 04 Oct 2012

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

Analyst	Phone
David Brandt/Toronto	416.214.3864
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Key Indicators

[1]**FortisBC Energy Inc.**

	[2]LTM	2011	2010	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	2.9x	2.8x	2.7x	2.6x	2.5x	2.4x
(CFO Pre-W/C) / Debt	11.6%	11.2%	10.6%	10.2%	9.8%	8.8%
(CFO Pre-W/C - Dividends) / Debt	7.1%	6.5%	5.9%	6.5%	4.2%	2.5%
Debt / Book Capitalization	47.3%	59.3%	59.1%	61.8%	68.4%	66.8%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended June 30, 2012 reflect changes to US-GAAP whereas prior years are reported under Canadian GAAP. Goodwill is included on FEI's balance sheet with the most notable impact on Debt/Book Capitalization ratios

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk, cost-of-service regulated gas transmission and distribution utility

Relatively weak financial metrics balanced by a supportive regulatory environment

Potential amalgamation of FortisBC Energy Inc. with its sister LDCs

Strong regulatory ring-fencing mechanisms insulate company from its parent holding company

Good liquidity

Corporate Profile

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia and one of the largest gas local distribution companies (LDC) in Canada. FEI is regulated on a cost-of-service basis by the British Columbia Utilities Commission (BCUC).

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company. FHI is a holding company which also holds 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW).

SUMMARY RATING RATIONALE

FEI's A3 senior unsecured rating and stable outlook reflect its low-risk LDC business model and the generally supportive regulatory environment offset by its relatively weak financial metrics. We recognize that the weakness of FEI's financial metrics relative to similarly rated U.S. peers is largely a function of the lower deemed equity and ROE permitted by the BCUC. We believe that FEI's weak financial profile is balanced by its relatively low business risk as a gas LDC and by the supportiveness of regulatory environments in Canada generally and in British Columbia specifically. Regulatory ring-fencing mechanisms effectively insulate FEI from its parent company, FHI, and FTS. Growth in FEI's franchise area tends to be relatively predictable and capital spending is not expected to tax the company's resources. FEI maintains sufficient liquidity resources.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas LDCs to be at the low end of the risk spectrum within the universe of regulated utilities. Similarly, we believe that regulated utilities, which are permitted the opportunity to recover their costs and earn an allowed return, have lower business risk than unregulated companies that do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like FEI to be among the lowest risk corporate entities.

The supportiveness of the BC regulatory environment is evidenced by the fact that FEI benefits from the existence of a number of BCUC-approved deferral, or true up, mechanisms. These mechanisms limit FEI's exposure to forecast error with respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, FEI is required to obtain a certificate of public convenience and necessity (CPCN) from the BCUC prior to undertaking any capital project in excess of $5 million. In our view, this process reduces the risk that FEI would be denied the opportunity to recover the cost of its capital investments. We believe these qualitative factors balance FEI's weak financial profile.

Growth in FEI's franchise area tends to be relatively predictable and capital spending is generally stable and modest in the context of FEI's asset base and depreciation expense.

FINANCIAL METRICS EXPECTED TO STRENGTHEN MODESTLY IN 2012 and 2013

FEI's financial metrics are materially weaker than those of its A3 rated global gas utility peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, UGI Utilities and its sister company, FEVI. We recognize that FEI's weaker financial metrics are largely a function of the deemed equity and allowed ROE approved by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions.

We expect FEI's cash flow to increase in 2012 and 2013 due to higher levels of non-cash depreciation and amortization expense that will be collected in revenues. The largest driver of the higher depreciation will be FEI's customer care enhancement project placed into service this year. We anticipate that these changes will cause CFO pre-WC + Interest / Interest (Cash Flow Interest Coverage) to approach 3x in 2012 and 2013. The change in the Debt/Book Capitalization ratio is merely a function of US-GAAP accounting rules as goodwill associated with the Fortis Inc. acquisition in 2007 is now recognized as an asset on FEI's balance sheet with an offset to paid-in capital.

POTENTIAL AMALGAMATION OF FEI, FEVI AND FEW LIKELY CREDIT NEUTRAL

FEI applied earlier this year to the BCUC to amalgamate FEI, FEVI and FEW and harmonize rates across the amalgamated utility with a decision expected in early 2013. In an amalgamation scenario, the senior unsecured debt of FEI and FEVI would rank pari passu and be supported by the combined cash flow of the amalgamated utility. We expect that amalgamation and rate harmonization would be credit neutral to FEI provided that there are no reductions in deemed equity levels or allowed ROEs or increases in the fundamental business risks borne by the amalgamated utility.

STRONG REGULATORY RING-FENCING INSULATES FEI FROM PARENT, FHI

We believe that FEI's ring-fencing is very strong relative to that of its peers outside of BC. FEI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, FEI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause FEI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate FEI from the financial and business risks of its parent, FHI, and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allows us to evaluate FEI's credit profile on a stand-alone basis.

Liquidity Profile

We consider FEI's liquidity resources to be good at the end of Q2 2012.

FEI is expected to generate approximately $240 million of CFO pre-WC during the 12 months ending June 30, 2013. After dividends in the range of $85 million and capital expenditures and working capital changes of approximately $200 million, we expect FEI to be free cash flow (FCF) negative by approximately $45 million. FEI has no material scheduled debt maturities during the next twelve months..

At the end of Q2 FEI had $449 million available under its $500 million syndicated credit facility, well in excess of our estimated funding requirement.

The $500 million facility is available to support FEI's $500 million commercial paper (CP) program and for general corporate purposes. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement.

We recognize that FEI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit FEI's exposure to short-term interest rate volatility. However, we believe that FEI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season. Although FEI has no significant debt maturities until September 2015, the BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities is expected to increase the volatility of FEI's cash flow and increase FEI's liquidity requirements. This decision is directionally negative for credit but, at this time, not material enough to impact our rating or outlook.

Rating Outlook

The stable rating outlook reflects our expectation of stable operating results and our belief that FEI's regulatory environment will continue to be supportive. The outlook also reflects our belief that if FEI, FEVI and FEW ultimately amalgamate, the amalgamation and rate harmonization would be credit neutral for FEI's credit profile.

What Could Change the Rating - Up

The rating could be positively impacted if FEI demonstrates a sustainable improvement in its credit metrics. All else being equal, at the A2 senior unsecured level, Moody's would expect FEI's Cash Flow Interest Coverage to exceed 4x and CFO pre-WC / Debt to be above 19% on a sustainable basis.

What Could Change the Rating - Down

Notwithstanding FEI's low risk business profile, its financial profile is considered relatively weak at the A3 senior unsecured rating level. Accordingly, a sustained weakening of FEI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% combined with a less supportive and predictable regulatory framework would likely result in a downgrade of FEI's rating.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**Current**		**[3]Moody's 12-18 month Forward View As of September 2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.8x	Baa	2.8x-3.0x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	12%	Ba	11% - 13%	Ba
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	7%	Ba	7% - 9%	Ba
e) Debt/Capitalization (3 Year Avg) (7.5%)	53%	Baa	48% - 50%	Ba
Rating:				
a) Indicated Baseline Credit Assessment from Methodology Grid		A3		A3
b) Actual Baseline Credit Assessment Assigned				A3

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended June 30, 2012 [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 26 Jun 2013

Vancouver, British Columbia, Canada

Ratings

Category	**Moody's Rating**
Outlook	Negative
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Negative
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Negative
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]**FortisBC Energy Inc.**

	2012	[2]**2011**	**2010**	**2009**
(CFO Pre-W/C + Interest) / Interest Expense	**2.4x**	**2.2x**	**2.7x**	**2.6x**
(CFO Pre-W/C) / Debt	**14.1%**	**11.2%**	**10.6%**	**10.2%**
(CFO Pre-W/C - Dividends) / Debt	**9.2%**	**6.5%**	**5.9%**	**6.5%**
Debt / Book Capitalization	**45.3%**	**47.4%**	**59.1%**	**61.8%**
Source: Moody's Financial Metrics TM				

[1] All ratios are calculated using Moody's Standard Adjustments. [2] 2011 Key Indicators reflect the company's retrospective changes due to adoption of US GAAP, effective January 1, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low business risk utility in a supportive regulatory environment

Weak financial metrics are expected to decline further

Adequate liquidity and manageable capex

Corporate Profile

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia and one of the largest gas local distribution companies (LDC) in Canada. FEI is regulated on a cost-of-service basis by the British Columbia Utilities Commission (BCUC).

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI; Baa2 negative) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company, headquarted in St. John's, NL. FHI also owns 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 negative) and FortisBC Energy (Whistler) Inc. (FEW, not rated).

SUMMARY RATING RATIONALE

FEI's A3 senior unsecured rating reflects its low-risk LDC business model and the generally supportive regulatory environment in British Columbia. As an LDC, FEI is able to produce stable and predictable cash flow from operations, which are supported by the regulated revenues approved by the BCUC and its cost of service ratemaking model. FEI's rating reflects a relatively high use of leverage, and the historically weak financial metrics for an A3 utility, especially when compared to US peers that typically earn higher returns on a more equity rich capital structure. The BCUC's recent generic cost of capital decision (GCOC), which reduced both FEI's allowed ROE level and equity component for rates, is likely to weaken the company's financial metrics further and is the impetus for the company's negative ratings outlook.

DETAILED RATING CONSIDERATIONS

LOW RISK OPERATIONS IN A SUPPORTIVE REGULATORY ENVIRONMENT

FEI's investment grade rating is primarily supported by the revenue and cost recovery certainty provided by a regulated business model and monopoly service territory. The BCUC offers a cost of service based regulatory compact, which allows FEI to generate a predictable amount of cash flow, supporting its relatively modest capital program for a stable residential customer base.

We view the BC regulatory framework to be similar in its framework to a strong US jurisdiction, due to similar procedural and legal processes and supportive cost recovery features, including a forward looking test year, deferral accounting for certain costs and timely decisions from the commission. The deferral, or true-up, mechanisms limit FEI's exposure to forecast error are in respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, FEI is required to obtain a certificate of public convenience and necessity (CPCN) from the BCUC prior to undertaking any capital project in excess of $5 million. In our view, this process reduces the risk that FEI would be denied the opportunity to recover the cost of its capital investments. This is also similar to US processes, which include CPCNs and integrated resource plans.

The primary areas where Canadian regulation is viewed as less credit supportive than other jurisdictions, includes the lower allowed ROE levels and lower equity component of the rate structure. In general, the US maintains 10% (or slightly below) allowed ROEs for integrated, transmission and distribution (T&D) and LDC companies, with capital structures that approximate a 50/50 balance of debt and equity. Furthermore, most states in the US have trended toward implementing various riders or trackers that allow utilities to automatically recover certain costs (e.g., environmental capex, lost margin due to efficiencies or customer conservation, infrastructure replacement, etc.) on a timely basis (most are annual true-ups) and in between general rate case proceedings. The FortisBC utilities do not benefit from many of these interim recovery features, though future test years can often obviate the need for some of these mechanisms and FEI does have annual true-ups for efficiency (rate stabilization accounts) that occur outside of the rate setting process, a credit positive.

WEAK FINANCIALS VERSUS US PEERS

FEI's cash flow to debt metrics have been steadily increasing since 2009, with CFO pre-WC to debt growing from 10% in 2009 to 14% in 2012. Despite this improvement, the 2010-2012 average CFO pre-WC interest coverage of 2.5x and CFO pre-WC to debt of 12% compares unfavorably to A3 rated LDC companies in the US, which have averaged over 6.0x CFO pre-WC interest coverage and nearly 25% CFO pre-WC to debt, respectively, over the same time horizon. Even the Baa1 US LDC companies have been able to produce over 5.0x and nearly 23% CFO pre-WC to debt from 2010-2012.

BCUC's GENERIC COST OF CAPITAL OUTCOME WILL NEGATIVELY IMPACT FINANCIAL METRICS

In May 2013, the BCUC issued a final order in Stage 1 of its GCOC, which included a reduction of FEI's (the benchmark utility) common equity ratio to 38.5% from 40.0%, and a reduction in allowed ROE of 8.75% from 9.50%. The decision also re-established an automatic adjustment formula (AAM) which considers changes to utility bond spreads and the 30 year Government of Canada bond yields to determine the benchmark ROE on an annual basis, for years 2014 and 2015. Though the AAM could provide automatic lift to allowed ROE's in times of rising interest rates, a credit positive, our expectation is that the impact of the GCOC is likely to reduce future cash flow generation of FEI.

Given the GCOC's downward revision to ROE and equity layer, we expect that FEI's CFO pre-WC to debt will reverse the trajectory seen in recent years and fall below 13% over the intermediate-term. Although this expected financial profile is more in line with more highly levered Canadian peers, the degree of BCUC regulatory support may not be of sufficient strength to support FEI's A3 unsecured rating, while exhibiting cash flow to debt metrics that are borderline investment grade, according to our Regulated Electric and Gas Utilities Rating Methodology.

In June 2013, FEI filed an application seeking approval of a five-year performance based ratemaking plan, which would offer formula-driven spending cap on O&M and capital expenditures, and other components will be reset each year, along with actual rates. The plan, if approved, would be a credit positive; however, the degree of the impact will depend upon what is actually implemented by the BCUC.

DENIED AMALGAMATION OF FEI, FEVI AND FEW HAS NO CREDIT IMPACT FOR FEI

In 2012, FEI, FEVI and FEW filed a joint application with the BCUC to amalgamate and harmonize rates across the. In February 2013, the BCUC issued a decision which denied the application, citing a desire to maintain the status quo, which had previously determined utility rates based on causality (i.e., appropriate rates applied to a given utility based upon its respective and specific needs). The commission noted that the amalgamation would result in significant and unfair cross subsidization of FEVI and FEW customers by the customers of FEI and FortisBC Energy Inc. Fort Nelson Service Area (not rated).

The amalgamation denial is negative to FEVI, whose customers would have benefitted from the subsidization effects. FEVI now faces significant rate increases on the heels of a large capex program and the end of governmental subsidies. The amalgamation denial is credit neutral to FEI, as it will simply maintain its independent rate structure and eliminates the potential for higher rates as a result of the cross subsidization effects.

Liquidity Profile

For LTM 1Q13, FEI produced about $200 million of adjusted CFO compared to $165 million of capital expenditures and $65 million of dividends. We expect a similar amount of free cash flow deficit (approximately $30 million) over the course of 2013, as the company continues with a stable capital plan and upstream dividends with an eye toward maintaining its BCUC allowed capital structure.

FEI's external liquidity is supported by a $500 million facility maturing in August 2014, which supports its $500 million commercial paper program. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. As of March 31, 2013, there was $449 available under the facility.

We recognize that FEI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit FEI's exposure to short-term interest rate volatility, specifically on gas inventories. However, we believe that FEI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season and especially since the BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities. Although we expect a sustained period of low natural gas prices, this philosophical change is viewed negatively from a credit perspective and could increase the volatility of FEI's cash flow and increase its liquidity requirements.

FEI has only small amounts of debt amortization (approximately $7 million) over the near-term and $75 million maturing in September 2015.

Rating Outlook

The negative rating outlook primarily reflects our expectation for FEI's financial profile to decline over the intermediate-term as reduced ROE and equity levels are likely to result in lower cash flow production and negatively impact CFO to debt metrics.

What Could Change the Rating - Up

It is not likely that FEI's rating will experience upward movement over the near-term. However, if BCUC support were to improve and financial metrics of CFO pre-WC interest coverage were to exceed 4.0x and CFO pre-WC to debt were to be above 19% on a sustainable basis, that would have a positive credit impact.

What Could Change the Rating - Down

A determination that the BCUC has become a less supportive and predictable regulatory framework would likely result in a downgrade of FEI's rating, but today, we still view the regulator as supportive to long-term credit quality. The recent reduction in allowed ROE and the equity component in the capitalization is viewed as the regulator exercising its authority over the utility monopoly's profitability, and not as a sign of a more contentiousness environment. Ratings could also fall if sustained CFO pre-WC to debt metrics fall below 12%.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities [1][2]	**Current 12/31/2012**		[3]**Moody's 12-18 month Forward View As of Date Published**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.4x	Ba	2.5 - 2.8x	Ba
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	12%	Ba	12.5 -13.5%	Ba
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	7%	Ba	7.5 - 9%	Ba
e) Debt/Capitalization (3 Year Avg) (7.5%)	50%	Baa	46 - 50%	Baa
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		A3		A3

Source: Moody's Financial Metrics TM

[1] All ratios are calculated using Moody's Standard Adjustments. [2] Based on financial data as of 12/31/2012. [3] This represents Moody's forward view; not the view of the issuer.

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MOODY'S INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 15 Jul 2014

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]**FortisBC Energy Inc.**

	3/31/2014(L)	12/31/2013	12/31/2012	[2]12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	2.5x	2.5x	2.4x	2.2x	2.7x
CFO pre-WC / Debt	14.9%	14.8%	14.1%	11.2%	10.6%
CFO pre-WC - Dividends / Debt	6.8%	7.1%	9.2%	6.5%	5.9%
Debt / Capitalization	42.7%	43.9%	44.5%	47.4%	59.1%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics [2] 2011 Key Indicators reflect the company's retrospective changes due to adoption of US GAAP, effective January1, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Credit supportive regulatory environment

Stable cash flow and weak financial metrics

Transition to PBR expected to have minimal credit implications

Amalgamation credit neutral to FEI

FEI is independent of ultimate parent, Fortis Inc

Corporate Profile

FortisBC Energy Inc. (FEI), headquartered in Vancouver, is the largest gas local distribution company (LDC) in British Columbia serving about 850,000 customers, over 90% of which are residential. FEI is regulated by the British Columbia Utilities Commission (BCUC). From 2010 to 2013, FEI's revenue requirement was determined under cost of service regulation. For the 2014-2018 period, FEI has proposed a return to performance based regulation (PBR), which was previously in effect from 2004 to 2009.

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI; Baa2 stable) which, in turn, is wholly owned by Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company. FHI also owns 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 stable) and FortisBC Energy (Whistler) Inc. (FEW, not rated).

SUMMARY RATING RATIONALE

FEI's credit quality is driven by its credit supportive regulatory environment and its monopoly position. The company has a long term track record of earning its allowed return on equity and its cash flow continues to be highly predictable. This is offset by the company's weak financial metrics, with limited headroom at the current rating level, that are primarily a product of the allowed return on equity and its equity ratio.

DETAILED RATING CONSIDERATIONS

CREDIT SUPPORTIVE REGUALTORY ENVIRONMENT

FEI's investment grade rating is driven by its credit supportive regulatory environment and its monopoly position. Rates are typically set using a cost of service framework and a forward test year that enables the company to recover its costs and earn an allowed return established by the regulator, resulting in stable cash flow. The company has a track record of passing through its commodity costs in rates and has no direct exposure to commodity price risk and limited volume risk. To the extent that these and many other costs differ from forecast values, deferral or true up mechanisms limit exposure to forecast error. As a result the company has a long track record of earning the return on equity (ROE) established by the regulator.

For capital projects in excess of $5 million the company requires a certificate of public convenience and necessity (CPCN) that reduces the probability of cost disallowances, a credit positive. For large capital projects, the company receives a weighted average cost of capital in rates for financing costs incurred during construction; however, depreciation charges only begin once projects are complete and added to rate base. We do not believe the company has experienced any material cost disallowances. Decisions from the regulator tend to be reasonably predictable, consistent and transparent with a consultative approach. We have noted regulatory lag in some recent decisions, but the company has generally received interim rates as requested, mitigating some lag effects. Generally, when utility or other stakeholders materially disagree with some aspects of decisions, they have been successful in asking the regulator to review and vary its decisions with final outcomes acceptable to all parties as evidenced by a lack of court challenges. The company has access to the courts to challenge regulatory decisions, although we do not believe this has happened since the utility was acquired by Fortis Inc. The legislative and judicial underpinnings of the regulatory framework continue to be stable.

The company benefits from a monopoly position. We believe that its customers, who are primarily residential, continue to have the capacity and willingness to pay their bills.

STABLE CASH FLOW AND WEAK FINANCIAL METRICS

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of the company's rate base, its deemed capital structure (38.5% equity layer effective 1/1/2013 - 12/31/2015), the allowed return on equity (currently 8.75%) and depreciation. The ROE contains an automatic adjustment mechanism for 2014 and 2015 that increases rates in case of rising interest rates - because of ongoing low interest rates 2014 does not qualify for an adjustment. We have incorporated into our analysis that the company continues to perform broadly in line with our expectations, including an assumption that the company will earn its allowed ROE. We expect the company's dividend policy net of any equity injections will maintain the deemed capital structure. The company is forecast to have limited financial metric headroom at the current rating. Planned large capital projects are expected to place some downward pressure on credit metrics, i.e., Tilbury LNG Expansion Project and the pipeline to serve the Woodfibre LNG (being developed at FEVI) because depreciation cash flow will not begin until these projects are in operation.

As a result, we forecast that credit metrics will decline somewhat until these projects are completed in 2016-17 and then improve modestly from the nadir that occurs prior to the in-service dates. This forecasted weakness is incorporated in the current rating.

TRANSITION TO PBR EXPECTED TO HAVE MINIMAL CREDIT IMPLICATIONS

FortisBC utilities have submitted detailed PBR proposals for both FEI and FBC for the period 2014-2018. We have assumed that it does not represent a material change in risk and that the company continues to earn its allowed ROE. The proposed PBR plan is broadly similar to the previous PBR plan and would have both an annual and mid-term review. FEI's proposal would set controllable O&M and non-CPCN (CPCN includes large capital projects that currently require regulatory pre-approval) capex by formula with substantial costs remaining as pass through items. The proposal contains a proposed symmetrical earnings sharing mechanism on up to 200bps and is subject to meeting service quality targets. Performance above or below the allowed ROE by more than 200bps would trigger an automatic review of the PBR plan. There are no proposed changes to key deferral accounts. While we don't expect it, a key risk to the proposal is that the regulator adopts very difficult efficiency targets within the formula. The PBR plan does not propose to modify support for CPCN capex. A final decision on the PBR is expected from the regulator in Q3 or Q4 2014. FEI previously operated under a PBR framework from 2004 to 2009 during which it earned its allowed ROE each year.

AMALGAMATION CREDIT NEUTRAL TO FEI

In February of 2014 the regulator determined that the amalgamation of FEI, FEVI and FEW is in the public interest. As a result we expect FEI, FEVI and FEW will report as a consolidated entity under the FEI name beginning Dec. 31, 2014. Current unsecured debt at FEVI will be assumed by FEI and will rank pari passu with existing FEI unsecured debt following amalgamation. FEVI and FEW are smaller utilities and they will benefit from the increase in scale that comes with the amalgamation with FEI. Their rates will decline as their higher costs are shared across a much larger customer base. Amalgamation is largely neutral to FEI as the increase in its customers' rates as a result of amalgamation are modest and will not affect its ability to recover its revenue requirement. Rate harmonization among the utilities will take place over a three year period. FEI's allowed ROE of 8.75% and an equity thickness of 38.5% would remain unchanged following amalgamation. FEVI's pipeline to serve Woodfibre LNG Expansion will place some modest additional pressure on FEI's amalgamated credit metrics during construction, a credit negative.

FEI IS INDEPENDENT OF ULTIMATE PARENT FORTIS INC

We consider FEI to be operationally and financially independent of ultimate parent Fortis Inc, although the company may periodically rely on its parent for equity injections to maintain its capital structure in line with the regulator's established parameters. Rate base of FortisBC companies accounts for over 45% of FTS's total rate base, although this will decline with Fortis Inc's planned acquisition of UNS Energy Corporation, expected to close at the end of 2014. We expect that Fortis Inc. would provide extraordinary support to FEI if required, provided that the parent had the economic incentive to do so. We believe that the parent will continue to have sufficient resources to provide support, if required. At March 31, 2014, FTS had a $1 billion committed revolving corporate facility at the FTS corporate level, of which $824 million was unused. Ring fencing provisions at FEI limit the ability of Fortis Inc to upstream cash, although we do not believe the parent would seek to increase leverage above levels established by the regulator.

Liquidity Profile

FEI has adequate liquidity.

For LTM 1Q14, FEI had negative free cash flow of $81 million as a result of $227 million CFO, $136 million dividends and $172 million capex. With the slated Tilbury LNG Expansion Project from 2014 to 2016, we estimate annual negative free cash flow at $110-140 million in 2014 on the basis of about $300 million capex and reduced annual dividends from the 2013 level. FEI is expected to manage dividend payouts and parent equity injections to maintain the equity layer close to the approved level of 38.5% along with its capex spending and borrowing profile. We expect FEI to raise additional debt post amalgamation to support both the Tilbury and Woodfibre projects.

FEI's has a $500 million syndicated credit facility maturing on August 24, 2015 that supports its $500 million commercial paper program. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. As of March 31, 2014, there was $403 million available under the facility.

FEI has limited near term debt obligations in the next 12-18 months: $75 million of debt maturity in September 2015 and $7 million capital lease obligation. The next material maturity is in September 2016 when $200 million of debt retires.

Rating Outlook

The stable outlook is based on our expectation of a stable regulatory environment and stable, albeit weak financial metrics with ongoing limited headroom at the current rating level.

What Could Change the Rating - Up

Given the ongoing forecast weakness in credit metrics an upgrade is unlikely. We could upgrade the company with a material sustained improvement in financial metrics, including CFO pre W/C to debt in the mid to high teens.

What Could Change the Rating - Down

While we don't expect it several factors could lead to a downgrade. For example, an unexpected, material adverse regulatory decision or forecast sustained deterioration in credit metrics including CFO/pre-W/C to debt of less than 11%.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2014**		[3][4]**Moody's 12-18 Month Forward ViewAs of June 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	2.4x	Ba	2.4 - 2.8x	Ba
b) CFO pre-WC / Debt (3 Year Avg)	13.9%	Baa	11 - 14%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	8.4%	Baa	6 - 9%	Ba
d) Debt / Capitalization (3 Year Avg)	44.1%	A	45 - 48%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view, not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures. [4] Moody's forward view is based on FEI's post-amalgamation financial projections

section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 20 Jul 2015

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]**FortisBC Energy Inc.**

	3/31/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
CFO pre-WC + Interest / Interest	2.8x	2.8x	2.7x	2.5x	2.3x
CFO pre-WC / Debt	15.0%	14.4%	15.1%	14.5%	11.2%
CFO pre-WC - Dividends / Debt	9.1%	10.3%	8.0%	9.6%	6.6%
Debt / Capitalization	44.8%	45.2%	43.6%	44.0%	47.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Credit supportive regulatory environment

PBR marginally increases risk

Stable cash flow and weak financial metrics

FEI is independent of ultimate parent, Fortis Inc

Corporate Profile

FortisBC Energy Inc. (FEI), headquartered in Vancouver, is the largest gas local distribution company (LDC) in British Columbia serving about 967,000 customers, around 90% of which are residential. As the result of the amalgamation on December 31, 2014, FEI began to consolidate results of FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 prior to consolidation), FortisBC Energy (Whistler) Inc. (FEW, not rated) and Terasen Gas Holdings Inc. (TGHI; not rated). FEI is regulated by the British Columbia Utilities Commission (BCUC). From 2010 to 2013, FEI's revenue requirement was determined under cost of service regulation. For the 2014-2019 period, FEI is subject to performance based regulation (PBR), which was previously in effect from 2004 to 2009. FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI not rated) which, in turn, is wholly owned by Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company.

SUMMARY RATING RATIONALE

FEI's credit quality is driven by its credit supportive regulatory environment and its monopoly position. The company has a long term track record of earning its allowed return on equity and its cash flow continues to be highly predictable. This is offset by the company's weak financial metrics, with limited headroom at the current rating level, that are primarily a product of the allowed return on equity and the equity component of its capital structure.

DETAILED RATING CONSIDERATIONS

CREDIT SUPPORTIVE REGUALTORY ENVIRONMENT

FEI's investment grade rating has been primarily driven by its credit supportive regulatory environment and its monopoly position. Rates have typically set using a cost of service framework and a forward test year that has enabled the company to recover its costs and earn an allowed return established bythe regulator, resulting in stable cash flow. The company has a track record of passing through its commodity costs in rates and has no direct exposure to commodity price risk and limited volume risk. To the extent that these and many other costs differ from forecast values, deferral or true up mechanisms limit exposure to forecast error. As a result the company has a long track record of earning the return on equity (ROE) established by the regulator.

For capital projects in excess of $5 million the company requires a certificate of public convenience and necessity (CPCN) that reduces the probability of cost disallowances, a credit positive. For large capital projects, the company receives a weighted average cost of capital in rates for financing costs incurred during construction; however, depreciation charges only begin once projects are complete and added to rate base. We do not believe the company has experienced any material cost disallowances. Decisions from the regulator tend to be reasonably predictable, consistent and transparent with a consultative approach. We have noted regulatory lag in some recent decisions, but the company has generally received interim rates as requested, mitigating some lag effects. Generally, when utility or other stakeholders materially disagree with some aspects of decisions, they have been successful in asking the regulator to review and vary its decisions with final outcomes acceptable to all parties as evidenced by a lack of court challenges. The company has access to the courts to challenge regulatory decisions, although we do not believe this has happened since the utility was acquired by Fortis Inc. The legislative and judicial underpinnings of the regulatory framework continue to be stable. We view debt-financed deferral accounts as a credit negative, however the balances remain small.

The company benefits from a monopoly position. We believe that its customers, who are primarily residential, continue to have the capacity and willingness to pay their bills.

PBR MARGINALLY INCREASES RISK

The shift to PBR marginally increases risk because of the potential for increased cash flow volatility compared to cost of service regulation. However, we believe that management will be successful in achieving the challenges inherent in its PBR plan and continue to earn the allowed return on equity established by the regulator. While there is some increased regulatory risk pending resolution of some outstanding issues, particularly capital spending, once a precedent is established it will reduce regulatory risk for the PBR term. Performance based regulation utilizes a formula based approach to rate making. Revenues associated with controllable operating expenses and capital expenditure are adjusted on an annual basis during the 6 year period of the plan, from 2014-2019. Each year they are adjusted for inflation, a productivity or X-factor of 1.1% (FBC 1.03%), while initial rates were based on 2013 cost of service based rates with some adjustments. Many costs remain pass through items; for example, interest expenses and taxes limiting risk to the utility. The PBR plan has a symmetrical earnings sharing mechanism that is partially subject to service quality indicators. An annual review process forms part of the PBR plan to mitigate the risk of the plan failing to achieve its objectives. CPCN capital has been excluded from the PBR plan on a temporary basis, while different options are evaluated.

STABLE CASH FLOW AND WEAK FINANCIAL METRICS

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of the company's rate base, its deemed capital structure (38.5%

equity layer effective 1/1/2013 - 12/31/2015), the allowed return on equity (currently 8.75%) and depreciation. The ROE contains an automatic adjustment mechanism for 2014 and 2015 that increases rates in case of rising interest rates; however, because of ongoing low interest rates neither 2014 nor 2015 qualified for an adjustment. Our analysis assumes that the company continues to earn its allowed ROE. We expect the company's dividend policy net of any equity injections will maintain the deemed capital structure. The company is forecast to have limited financial metric headroom at the current rating. Planned large capital projects are expected to place some downward pressure on credit metrics; for example, the Tilbury LNG Expansion Project (Tilbury 1A) with a capital cost of about C$440 million because depreciation cash flow will not begin until this project is in operation. In addition, the amalgamation will place some modest downward pressure on financial metrics as the company unwinds a regulated liability in 2015 and 2016. As a result, we forecast that credit metrics will decline somewhat in 2015 and improve as capital projects are completed in 2016-17. This forecasted weakness is incorporated in the current rating.

FEI IS INDEPENDENT OF ULTIMATE PARENT FORTIS INC

We consider FEI to be operationally and financially independent of ultimate parent Fortis Inc, although the company may periodically rely on its parent for equity injections to maintain its capital structure in line with the regulator's established parameters. We expect that Fortis Inc. would provide extraordinary support to FEI, if required, provided that the parent had the economic incentive to do so. We believe that the parent will continue to have sufficient resources to provide support, if required. At FYE 2014, FTS had a $1 billion committed revolving credit facility at the FTS corporate level, of which $509 million was unused. Ring fencing provisions at FEI limit the ability of Fortis Inc to upstream cash, although we do not believe the parent would seek to increase leverage above levels established by the regulator.

Liquidity Profile

FEI has adequate liquidity. For LTM 1Q15, FEI had negative free cash flow of $203 million as a result of $321 million CFO, $136 million dividends and $388 million capex. We estimate annual negative free cash flow at $300-350 million in 2015 on the basis of about $450 million capex and increased annual dividends from the 2014 level. We expect FEI to manage dividend payouts and parent equity injections to maintain the equity layer close to the approved level of 38.5% along with its capex spending and borrowing profile.

FEI has $700 million in two syndicated credit facilities that support a commercial paper program. The $500 million and $200 million credit facilities mature in August 2016 and December 2015, respectively. Our liquidity analysis incorporates the expectation that the company will extend the maturities of these facilities well in advance of their expiration. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreements. At March 31, 2015, $352 million was available under these facilities.

FEI has limited short-term debt obligations in the next 12 months: $75 million of debt maturity in September 2015, $10 million government loan and $6 million capital lease obligation. The next material maturity is in September 2016 when $200 million of debt matures.

Rating Outlook

The stable outlook is based on our expectation of a continuing supportive regulatory environment and stable, albeit weak financial metrics with ongoing limited headroom at the current rating level.

What Could Change the Rating - Up

Given the ongoing forecasted weakness in credit metrics an upgrade is unlikely. We could upgrade the company with a material sustained improvement in financial metrics, including CFO pre W/C to debt in the mid to high teens.

What Could Change the Rating - Down

While we don't expect it several factors could lead to a downgrade. For example, an unexpected, material adverse regulatory decision or a forecast of a sustained deterioration in credit metrics including CFO/pre-W/C to debt of less than 11%.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2015		[3]Moody's 12-18 Month Forward ViewAs of 7/16/2015	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	2.7x	Ba	2.4x - 2.8x	Ba
b) CFO pre-WC / Debt (3 Year Avg)	16.7%	Baa	11% - 13%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	10.3%	Baa	5% - 8%	Ba
d) Debt / Capitalization (3 Year Avg)	43.4%	A	46% - 49%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

Summary of FortisBC Energy Inc. changes in Credit Ratings from 2002-2015

Unsecured Debentures

Rating Agency	Report Date	Rating Action	Rating
DBRS	January 2002	Ongoing	A

Rating Agency	Report Date	Rating Action	Rating
Moody's	January 2002	Ongoing	A2
Moody's	December 2005	Downgraded	A3
Moody's	June 2013	Outlook Change	A3 (Negative Outlook)
Moody's	July 2014	Outlook Change	A3 (Stable Outlook)

Rating Agency*	Report Date	Rating Action	Rating
S&P	January 2002	Ongoing	BBB+
S&P	June 2003	Downgraded	BBB
S&P	Early 2004	Rating Discontinued	BBB

Secured Debentures

Rating Agency	Report Date	Rating Action	Rating
DBRS	January 2002	Ongoing	A

Rating Agency	Report Date	Rating Action	Rating
Moody's	January 2002	Ongoing	A1
Moody's	December 2005	Downgraded	A2
Moody's	August 2009	Upgraded	A1
Moody's	June 2013	Outlook Change	A1 (Negative Outlook)
Moody's	July 2014	Outlook Change	A1 (Stable Outlook)

Rating Agency*	Report Date	Rating Action	Rating
S&P	January 2002	Ongoing	BBB+
S&P	June 2003	Downgraded	BBB
S&P	Early 2004	Rating Discontinued	BBB

Note: (*) Rating was unsolicited as of early 2004

Rating Report
Report Date:
September 19, 2011

Previous Report:
December 23, 2010

Insight beyond the rating.

FortisBC Holdings Inc.

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The Company
FortisBC Holdings Inc. (FHI or the Company, rated BBB (high)) is a holding company with primary investments in FortisBC Energy Inc. (FEI, rated A), FortisBC Energy (Vancouver Island) Inc. and FortisBC (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Recent Actions
September 16, 2011
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating Rationale

On September 16, 2011, DBRS confirmed the Medium-Term Note Debentures (MTNs) ratings of FortisBC Holdings Inc. (FHI or the Company) at BBB (high). The trend is Stable. The rating of FHI reflects the low business risk profile and stable cash flows of its regulated utility subsidiaries, stable credit metrics and the strong parental support of its parent, Fortis Inc. (FTS, rated A (low)). The rating also reflects the regulatory ring-fencing and structural subordination considerations at its subsidiaries as well as the long-term competitiveness of natural gas vis-à-vis alternative energy sources. FHI is the holding company of three natural gas distribution utilities, FortisBC Energy Inc. (FEI, rated “A”), FortisBC Gas (Vancouver Island) Inc. (FEVI) and FortisBC Gas (Whistler) Inc. (FEW), collectively referred to as the Utilities, as well as a 30% interest in Customer Works L.P. (a customer service provider), and 100% of FortisBC Alternative Energy Services (an alternative energy solutions provider).

The Utilities are expected to file an application in the Fall of 2011 to amalgamate the three companies under FHI. The amalgamation will require the British Columbia Utilities Commission’s (BCUC) approval and the Government of British Columbia’s consent to proceed. FEI’s current contribution to FHI’s overall earnings is approximately 75% and as such, it’s anticipated that the bulk of the amalgamated entity’s earnings will continue to be derived from FEI. At this time, DBRS anticipates that the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI provided that there are no material changes that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model. Furthermore, DBRS anticipates that the potential amalgamation will not impact FHI’s consolidated or nonconsolidated financial profile. (Continued on page 2.)

Rating Considerations

Strengths
(1) Investments comprised primarily of low-risk gas distribution utilities, providing stable earnings, cash flows and credit metrics
(2) Continued reasonable cash flow and credit metrics despite loss of performance-based rate (PBR) earnings
(3) Credit profile and support of strong parent

Challenges
(1) Strong regulatory ring-fencing protection at FEI and FEVI
(2) Structural subordination to debt at FEI and FEVI
(3) ROE levels and loss of PBR incentive
(4) Long-term competitiveness of natural gas relative to alternative energy sources

Financial Information

Consolidated	*LTM Jun. 30th*	*For the year ended December 31st*			
	2011	**2010**	**2009**	**2008**	**2007**
EBIT (C$ million)	310.4	303.2	281.5	291.8	281.1
Adj. CFO (C$ million)	222.9	222.0	205.2	203.1	123.0
Adj. Debt/Capital	62.2%	61.1%	66.0%	65.9%	64.9%
Cash Flow/Adj.Debt	8.1%	8.6%	7.6%	7.8%	5.0%
EBIT/Interest Expense	1.9x	2.0x	1.7x	1.7x	1.3x
Return on Avg. Common Equity	7.2%	8.1%	8.0%	8.3%	2.9%

Rating Rationale (Continued from page 1.)

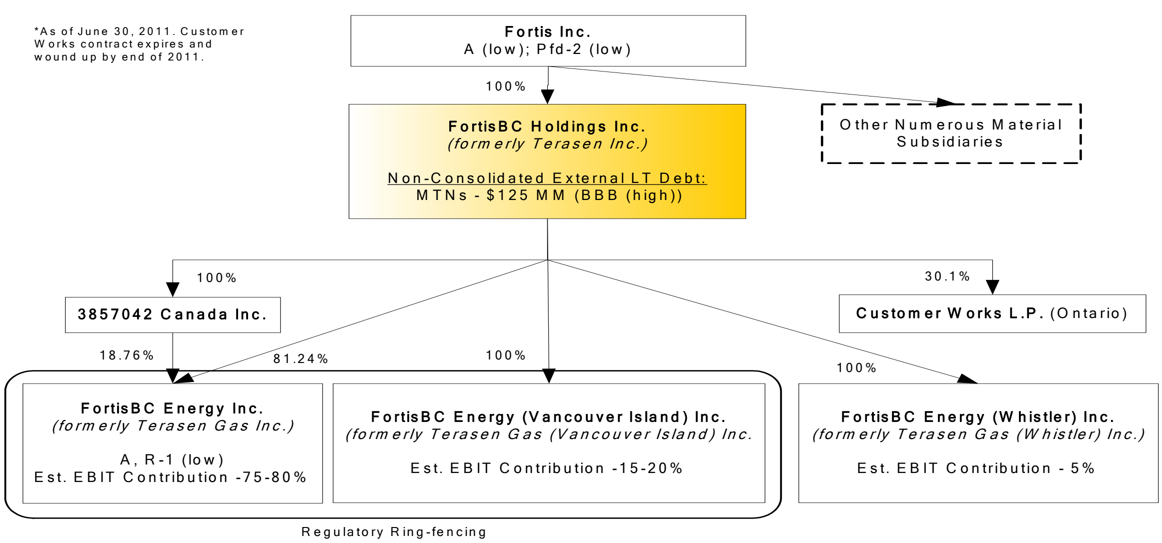
FEVI's $213 million Mt. Hayes liquefied natural gas (LNG) storage facility was completed on time, on budget and commenced commercial operations in June 2011. While the project is expected to increase FEVI's rate base, FEI is contracting for two-thirds of the storage capacity, providing incremental earnings and cash flows not sourced from FEVI's existing customer base. In early July 2011, the BCUC approved the option for the Chemainus and Cowichan First Nations to invest up to 15% of the equity component of the facility, that if exercised, will take place at the beginning of January 2012.

The regulatory environment in which FHI's regulated subsidiaries operate remains stable and continues to provide for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. In May 2011, the Utilities filed their 2012-2013 Revenue Requirements and Delivery Rate Application (RRA) in which FEI forecasted customer rate increases of approximately 2.8% to 3.0% based on an average rate base of roughly $2,740 million to $2,790 million while FEVI requested 2012-2013 rates to remain unchanged on a rate base of approximately $790 million to $815 million. The decisions are anticipated in the first quarter of 2012.

Over the medium term, minimal-to-modest free cash flow deficits continue to be expected at FEI and FEVI, attributable to the replacement and refurbishment of existing infrastructure (which is anticipated to go into the rate base in a timely manner), and modest customer growth. On a consolidated basis, FHI's overall credit profile is anticipated to remain reasonably consistent and adequate for its current ratings. Modest improvements with FEI, and thus FHI's credit metrics may be attributed to the 2009 regulatory decision, however, key credit metrics at FHI are anticipated to remain generally lower than those of its peers primarily due to lower metrics from FEI. On a non-consolidated basis, FHI's metrics also support its ratings, with the expectation that dividend payments from FEI alone will continue to be more than sufficient to cover FHI's non-consolidated annual interest obligations.

FHI and the Utilities, in conjunction with their ultimate parent Fortis Inc. (FTS, rated A (low)), intend to transition to U.S. GAAP, as opposed to IFRS, in January 2012. The BCUC has approved FHI's request to adopt U.S. GAAP to be used for regulatory reporting purposes from January 1, 2012 to December 31, 2014 but has directed the Company to re-apply by September 1, 2014 for approval of its regulatory accounting standard effective January 1, 2015. DBRS anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis.

Simplified Organizational Chart*



Rating Considerations Details

Strengths

(1) FHI's portfolio consists of investments in low-risk, wholly-owned gas distribution subsidiaries, with FEI generating approximately 75% of FHI's earnings. Furthermore, the Utilities operate in a stable regulatory environment with limited exposure to commodity price risk and volume risk, which provide long-term earnings and cash flow stability.

(2) FHI's financial profile remains solid with modest improvements on both a consolidated and non-consolidated basis, reflecting credit metrics that are appropriate for its current rating category but remain weaker relative to its peers.

In late 2009, FEI executed a Negotiated Settlement Agreement (NSA) that concurrently established rates for 2010 and 2011 and excluded the PBR mechanism under which the Company had operated since 2004. The PBR had allowed FEI to share earnings above the authorized return on equity (ROE) with customers on a 50/50 basis which was beneficial to FEI as it had provided, on average, over $11 million per year in earnings in 2008 and 2009. While the loss of PBR income would have potentially negatively affected FEI's financial results, the BCUC's December 2009 cost of capital decision to increase FEI's allowed ROE to 9.50% from 8.47% and equity thickness to 40.00% from 35.01% largely offset any potentially adverse impact to FEI's credit profile. FEVI and TGW's ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%. As a result, FEI and FEVI continue to generate stable returns, reflecting the regulated nature of their operations in a stable regulatory regime.

(3) The financial strength and credit profile of FHI's parent, FTS, allows FHI to access short-term funding from FTS when required. This support was demonstrated in April 2010, when FTS provided FHI with intercompany financing that FHI utilized to redeem its $125 million of Capital Securities. FTS also provided FHI with intercompany funding that the Company utilized as an equity injection into FEI's capital structure to align it with the 40% deemed equity approved by the BCUC in December 2009. DBRS anticipates that the remaining $125 million MTN at FHI will also be refinanced via intercompany financing when the note matures in 2014.

Challenges

(1) The regulatory ring-fencing imposed by the BCUC as a condition of the acquisition of FHI by FTS in April 2007 (a continuation of the ring fencing imposed upon acquisition of the former Terasen Inc. by KMI in December 2005) is intended to ensure that public interest is protected and that FEI and FEVI will continue to operate as separate, stand-alone entities without undue parental influence.

The BCUC decision requires, among other constraints, that FEI and FEVI: 1) must maintain the common equity in the capital structure at least at the deemed equity level (presently 40%) approved by the BCUC; 2) must obtain approval from the BCUC before paying dividends to its parent if the payment can be reasonably expected to increase leverage above the approved level; 3) will not be allowed to lend to, guarantee or financially support any affiliates of FHI or its non-regulated businesses; 4) will not be allowed to enter into a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC; 5) must maintain the continued independence of directors.

(2) FHI's externally held debt is structurally subordinate to the debt at FEI and FEVI. Only $125 million MTNs remain at the FHI level and DBRS expects that it will be refinanced by way of an intercompany loan upon its maturity in September 2014.

(3) Although the BCUC terminated use of the automatic ROE adjustment formula in its December 2009 cost of capital decision while concurrently increasing FEI's approved ROE level to 9.50%, the ROE at FHI's largest earnings contributor had been below 9% for a number of years prior to the decision, consequently adversely impacting earnings and cash flows. Additionally, under the now-expired PBR mechanism, FEI had shared earnings above or below the allowed ROE on a 50/50 basis with customers and the loss of this mechanism appears to have largely offset the credit metric upside of FEI's ROE increase since the PBR incentive earnings averaged more than $11 million annually in 2008 and 2009. The Utilities' ROE levels as determined in the decision will remain applicable until further review by the BCUC.

(4) Over the long term, FEI and FEVI's earnings and financial profiles, and consequently FHI's earnings and financial profile, will rely chiefly on the competitive position of natural gas relative to alternative energy sources (predominantly electricity) in British Columbia. Historically, despite significant increases in natural gas prices throughout 2008, natural gas has maintained a competitive advantage over electricity in terms of pricing. Although gas prices have since retreated, it is anticipated that under reasonable gas price assumptions, natural gas in British Columbia will remain competitive relative to electricity given that, according to the British Columbia Hydro & Power Authority (BC Hydro, rated AA (high)), electricity prices are forecasted to continue to gradually rise in the medium term.

Regulation

Regulatory Overview

Located in the province of British Columbia (B.C. or the Province, rated AA (high)), the Utilities are regulated by the BCUC under a rate-setting methodology which allows for full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. The Utilities' ability to generate earnings and cash flow to sustain and grow their businesses is largely influenced by the regulatory regime in which they function and DBRS believes that the regulatory relationship in B.C. continues to be reasonable as evidenced by a number of BCUC-approved deferral accounts.

FEI, which contributes to the bulk of FHI's earnings, is currently operating under a Negotiated Settlement Agreement (NSA), and a 2009 BCUC decision that increased the ROE for FEI to 9.50% from 8.43% and the common equity component in the capital structure to 40.00% from 35.01%. The decision, which was in response to a joint application made by the Utilities regarding reviews of ROEs and capital structures, also determined that the automatic adjustment mechanism previously used to determine the ROE for FEI would no longer apply as it would not have provided FEI with an ROE for 2010 that would meet the fair return standard. As determined in the decision, FEVI and FEW's ROEs were also increased to 10.00% from 9.14% and 8.97%, respectively, while the deemed equity components remained unchanged at 40%. FEI's ROE level as well as those of FEVI and FEW will apply until further review by the BCUC.

The BCUC decision improved FEI's credit metrics and is viewed by DBRS as generally supportive of FEI's current ratings. However, DBRS notes that a large portion of the positive benefits of the increased ROEs has been effectively negated with the PBR expiry. Unlike the PBR, the NSA under which FEI will operate for 2010 and 2011 does not include a provision for earning (and sharing) incentive earnings. Consequently, going forward, improvements in FEI's credit metrics will more likely be driven by the increased common equity component.

Consolidated Earnings Profile

Income Statement

	LTM Jun. 30th	*For the year ended December 31st*			
(C$ millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Net Revenue	732.2	710.1	664.7	653.7	639.9
EBITDA	423.0	417.8	389.9	395.8	380.8
EBIT	310.4	303.2	281.5	291.8	281.1
Total Adj. Interest Expense	161.4	153.9	162.8	169.6	223.9
Pre-tax Income	151.6	154.4	121.9	124.3	58.6
Core Net Income (before extra.)*	119.3	118.0	99.7	101.7	28.2
Return on Common Equity	7.2%	8.1%	8.0%	8.3%	2.9%

**Before intercompany subordinated debt expense for a portion of 2007 and tax-adjusted*

FortisBC Holdings Inc.

Report Date:
September 19, 2011

Summary
Earnings from the regulated Utilities, which have historically generated stable EBIT levels, continue to comprise the bulk of FHI's consolidated earnings. As FHI's largest subsidiary, FEI's earnings account for roughly 75% of FHI's earnings and remain relatively stable, reflecting modest annual additions to its customer base and rate base. The modest improvements in the metrics since 2009 are primarily attributed to the increased allowed ROE and equity components, which have been largely offset by the loss of PBR incentive earnings. Given the stability of the underlying Utilities, FHI's consolidated EBITDA, EBIT and interest expense have all remained relatively stable.

Outlook
FHI's earnings are expected to remain reasonably stable over the medium term, with modest variability driven by population growth, new housing starts and customer conversions. DBRS anticipates minimal-to-modest free cash flow as the Utilities continue to experience lower customer growth due to fewer new housing starts and a shift in the housing mix that favors multi-family types of dwellings that do not typically utilize natural gas. This trend continues to be mitigated by the Utilities' focus on retaining customers through expanded energy conservation and efficiency programs.

While the loss of PBR income would have potentially negatively affected FEI's financial results, the BCUC largely countered the potential adverse impact of the PBR expiry by increasing FEI's allowed ROE and equity thickness, effective July 2009. Furthermore, although discontinuation of the adjustment formula without a clear replacement or alternate mechanism injects a level of uncertainty as to how ROE levels will be determined in the medium- to long-term, DBRS believes that the stable regulatory regime in which the Utilities operate will continue to be reasonable and allow the subsidiaries to earn a reasonable rate of return.

Over the long term, the Utilities' earnings will largely depend on the competitiveness of natural gas relative to electricity. Although natural gas maintains a competitive operating cost advantage in terms of pricing vis-à-vis electricity, this is offset by higher initial capital costs for equipment and installation. Additionally, FHI's competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on the Utilities' financial and credit profiles.

Consolidated Financial Profile

Cash Flow Statement

	LTM Jun. 30th	*For the year ended December 31st*			
(C$ millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Core Net Income (before extra.)	119	118	100	102	28.2
Depreciation & Amortization	113	115	108	104	99.7
Non-cash Adjustments	(9)	(11)	(3)	(3)	(4.9)
Operating Cash Flow	223	222	205	203	123.0
CapEx	(218)	(217)	(227)	(199)	(174.6)
Common Dividends	(87)	(82)	(70)	(77)	0.0
Gross Free Cash Flow	(82)	(77)	(92)	(73)	(51.6)
Changes in W/C & Rate Stabil. Account	51	(34)	39	55	(9.5)
Net Free Cash Flow	(31)	(111)	(53)	(18)	(61.1)
Business Acquisitions, Net of Cash	0	0	0	0	0.0
Divestitures	0	0	0	14	(163.2)
Net investments/Other	2	(11)	(6)	(132)	84.0
Cash Flow Before Financing	(29)	(121)	(60)	(136)	(140.3)
Net External Debt Financing	(26)	(99)	44	(184)	11.6
Net Equity	0	0	0	0	0.0
Advances from Parent	53	221	25	335	135.3
Net Change in Cash	(1)	1	9	15	6.6

FortisBC Holdings Inc.

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	LTM Jun. 30th	*For the year ended December 31st*			
	2011	**2010**	**2009**	**2008**	**2007**
EBITDA/Interest Expense	2.6x	2.7x	2.4x	2.3x	1.7x
EBIT/Interest Expense	1.9x	2.0x	1.7x	1.7x	1.3x
Cash Flow/Total Debt	8.1%	8.6%	7.6%	7.7%	5.0%
Adj. Debt/Capital	62.2%	61.1%	66.0%	65.9%	64.9%
Dividend/Net Income	72.9%	69.5%	70.2%	75.7%	0.0%
Total Debt/EBITDA	6.5x	6.2x	6.9x	6.6x	6.5x

Summary

The Company continues to experience cash flow deficits which can be primarily attributed to increased capital expenditures. However, FTS continues to provide access to short-term funding to FHI by way of intercompany loans, which FHI has utilized to redeem $125 million of Capital Securities, align FEI's capital structure to the 40% deemed equity approved by the BCUC, and support its Utilities. Overall, FHI's key credit metrics have demonstrated modest improvement as a result of the 2009 regulatory decisions to allow an increase in the Utilities' ROEs and capital structures.

Outlook

Despite the minimal-to-modest free cash flow deficits that are expected on a consolidated basis over the medium term, DBRS anticipates that FHI's financial profile will remain relatively predictable given that the underlying subsidiaries are expected to continue to generate reasonably stable levels of cash flow and manage their balance sheets within the regulatory-approved capital structure. Any deficits are expected to be financed with a combination of bank debt and long-term debt issuance. In the long term, under reasonable gas and electricity price assumptions, DBRS believes that the Utilities will remain competitive relative to alternative energy sources on an operating cost basis.

Non-Consolidated Financial Profile

FHI's non-consolidated profile is supported by the stable and predictable financial performances of its underlying Utilities. Moreover, other than intercompany loans from FTS, FHI has minimal external debt, with one outstanding MTN totaling $125 million. These obligations result in modest annual interest charges that are well covered by dividend income from FEI alone.

FTS continues to hold all of FHI's $1.2 billion preferred shares, which resulted from the acquisition. Since these preferred shares have no stated dividend or maturity, they are treated as equity by DBRS.

External Long-Term Debt and Liquidity

DBRS views FHI's liquidity as sufficient for its funding requirements. The Company's consolidated long-term debt is primarily comprised of the long-term debt of FEI and FEVI. The long-term obligations at FHI are limited to $125 million of MTNs due in 2014, and debt owed to its parent, FTS (approximately $717 million outstanding as of June 30, 2011, including the December 31, 2010, $200 million promissory note), which is unsecured and ranks pari passu with the external MTNs.

Liquidity (as at June 30, 2011)

Credit Facilities *(C$ million)*	**Type**	**Amount Committed**	**Amount Drawn**	**LCs**	**Amount Available**	**Expiry Date**
FortisBC Holdings Inc.	2 year, revolving	30	0	0	30	May 2012
FortisBC Energy Inc.	5 year, revolving	500	40	48.2	411.8	Aug 2013
FEVI*	2 year, revolving	300	47	0.1	252.9	Apr 2012
Total		**830**	**87**	**48.3**	**694.7**	

**Excludes $20 MM bilateral facility utilized solely for purposes of refinancing annual prepayments on non-interest bearing government contributions. Outstanding borrowings are included in Current Portion of LTD.*

FortisBC Holdings Inc.

Report Date:
September 19, 2011

FortisBC Holdings Inc.
(Consolidated)

Balance Sheet

(C$ million)	*As at Jun. 30th*	*As at the year ended Dec. 31st*				*As at Jun. 30th*	*As at the year ended Dec. 31st*		
Assets	**2011**	**2010**	**2009**	**2008**	**Liabilities & Equity**	**2011**	**2010**	**2009**	**2008**
Cash	30	43	42	33	ST Debt (incl. owed to parent)	604	454	855	824
Accounts Receivable	257	338	313	393	LT Debt Due in One Year	39	18	19	79
Inventories	89	148	159	212	Other	554	600	504	563
Prepaid & Other	117	159	109	80	**Current Liabilities**	1,196	1,072	1,378	1,465
Current Assets	493	688	623	717	Long-Term Debt	2,118	2,117	1,817	1,717
Net Fixed Assets	3,186	3,125	3,015	2,863	Capital Securities	0	0	125	125
Long-Term Investments	450	150	150	150	Other Long-Term liabilities	587	539	570	220
Goodwill	824	824	824	818	Preferred Shares	1,180	1,180	1,180	1,180
Deferred Charges	626	589	539	209	Common Equity	498	468	82	52
Total	5,578	5,375	5,151	4,758	**Total**	5,578	5,375	5,151	4,758

Ratio Analysis	*LTM Jun. 30th*	*For the year ended December 31st*			
	2011	**2010**	**2009**	**2008**	**2007**
Liquidity Ratios					
Current Ratio	0.4x	0.6x	0.5x	0.5x	0.5x
Cash Flow/Total Debt	8.1%	8.6%	7.6%	7.7%	5.0%
Cash Flow/Senior Debt	8.1%	8.6%	7.6%	7.8%	5.0%
Senior Debt in Capital Structure	62.2%	61.1%	66.0%	65.9%	64.9%
Dividend/Net Income	72.9%	69.5%	70.2%	75.7%	0.0%
Cash Flow/CapEx	1.02x	1.02x	0.90x	1.02x	0.70x
Coverage Ratios					
EBITDA/Interest Expense	2.6x	2.7x	2.4x	2.3x	1.7x
EBIT/Interest Expense	1.9x	2.0x	1.7x	1.7x	1.3x
Fixed-Charge Coverage	1.9x	2.0x	1.7x	1.7x	1.3x
Total Debt/EBITDA	6.5x	6.2x	6.9x	6.6x	6.5x
Profitability Ratios					
EBIT margin	19.5%	19.5%	16.9%	15.3%	16.1%
EBIT margin, excl. cost of gas	42.4%	42.7%	42.3%	44.6%	43.9%
Net margin	16.3%	16.6%	15.0%	15.6%	4.4%
Return on common equity	7.2%	8.1%	8.0%	8.3%	2.9%
Approved ROE (FortisBC Energy Inc.)	9.50%	9.50%	8.99%	8.62%	8.37%
Approved ROE (FEVI)	10.00%	9.17%	9.17%	9.07%	9.50%

FortisBC Holdings Inc.

Report Date:
September 19, 2011

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating History

Debt	Current	2010	2009	2008	2007	2006
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Unsecured Subordinated Debentures	Discontinued	BBB	BBB	BBB	BBB	BBB

Related Research

- FortisBC Energy Inc., Rating Report, September 19, 2011.

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

DBRS
Insight beyond the rating.

FortisBC Holdings Inc.

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The Company
FortisBC Holdings Inc. (FHI or the Company, rated BBB (high)) is a holding company with primary investments in FortisBC Energy Inc. (FEI, rated "A"), FortisBC Energy (Vancouver Island) Inc. and FortisBC (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Recent Actions
September 16, 2011
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the Medium-Term Note Debentures (MTNs) ratings of FortisBC Holdings Inc. (FHI or the Company) at BBB (high). The trend is Stable. The rating of FHI is based on the following factors:

(1) Strong dividends from its regulated utilities, FortisBC Energy Inc. (FEI, rated "A"), FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW): The focus for DBRS is largely on FEI and FEVI, which accounted for nearly 90% of dividends received by the Company (DBRS estimates). These utilities have strong business risk profiles, with most of their cash flow generated from regulated natural gas transmissions, distributions and storage operations, within a reasonable regulatory framework in British Columbia.

(2) Strong non-consolidated credit metrics for the current rating category: FHI's total external debt-to-capital ratio of 6.3% (34% including debt owed to Fortis Inc.) and cash flow-to-interest coverage of near 18.33 times (x) (over 3.20x including all interest expenses).

(3) Strong financial support from the parent: At the end of 2011, over 80% of FHI's total debt ($899 million) was owed to its parent, Fortis Inc., rated A (low). External debt has been reduced substantially to $127 million from $459 million in 2007 by a loan provided by Fortis Inc.

FHI's rating, which is two notches lower than FEI's, reflects the following: (a) debt at FHI is structurally subordinate to debt at FEI; (b) debt at FHI is also structurally subordinate to the debt at FEVI and FEW, which have weaker credit worthiness than FEI due to their significantly smaller operations and customer base; and (3) there are strong ring-fencing conditions imposed on FEI and FEVI by the regulator, with respect to dividend payout to FHI and their capital structures.

However, DBRS notes that FHI's current parent, Fortis Inc., has a stronger credit profile than its previous parent (Kinder Morgan Kansas Inc., rated BBB (low)). DBRS believes that a stronger parent and lower debt levels are positive factors for FHI's credit quality.

Rating Considerations

Strengths
(1) Strong dividend flows from subsidiaries
(2) Strong non-consolidated credit metrics
(3) Credit profile and support of strong parent

Challenges
(1) Structural subordination to debt at FEI and FEVI
(2) Strong ring-fencing on FEI and FEVI

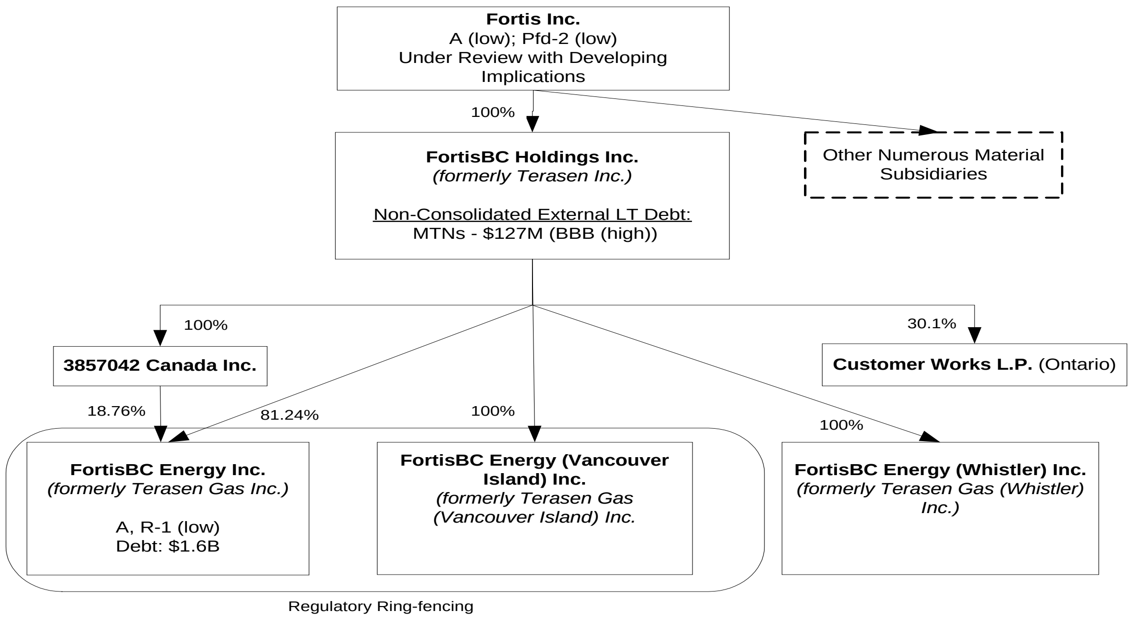
Financial Information

Non-consolidated FHI financials (*)

($ millions)	2011	2010	2009	2008	2007
External debt	127	128	254	255	459
Debt owed to Fortis Inc.	771	367	495	470	135
Cash flow before interest (CFBI)	130	120	98	123	132
External debt-to-capital	6.3%	6.0%	12.6%	13.0%	25.5%
Total debt-to-capital	34.8%	23.1%	37.3%	37.0%	33.0%
CFBI/External interest (x)	18.37	16.79	6.91	8.70	5.15
CFBI/Total interest (x)	3.23	2.80	2.01	2.60	3.13

(*) All the numbers are derived from consolidated numbers and/or estimated by DBRS.

Simplified Organizational Chart



Capital Structure*

Non-consolidated FHI Capital Structure ($ millions)	**2011**	**2010**	**2009**	**2008**	**2007**
External debt	127	128	254	255	459
Promissory notes to Fortis Inc.	200	367	495	470	135
Demand loan owed to Fortis Inc.	571				
Preferred shares	1,180	1,180	1,180	1,180	1,180
Common equity	506	468	82	52	28
Total capital	2,585	2,142	2,011	1,957	1,802
External debt-to-total capital	6.3%	6.0%	12.6%	13.0%	25.5%
Total debt-to-total capital	34.8%	23.1%	37.3%	37.0%	33.0%

*All the numbers are derived from consolidated numbers.

- External debt declined substantially since Fortis Inc. acquired FHI in 2007.
- FHI does not have to pay dividends on preferred shares.
- $300 million of $571 million was a loan from Fortis Inc. to finance FHI's investment in preferred shares of another entity that was also owned by Fortis Inc.
- FHI's debt to capital remained very strong for the current rating category.

FortisBC Holdings Inc.

Report Date:
February 29, 2012

Cash Flow - Non-consolidated FHI

Dividend flow from subsidiaries	**2011**	**2010**	**2009**	**2008**	**2007**
($ millions)					
FEI	85	84	67	100	111
FEVI	22	25	20	16	20
FortisBC Energy (Whistler) Inc.	5	5	5	5	5
Dividends from FortisWest Inc.	23.1	10.1	10.1	6.7	
Total cash flow to FHI	135.1	124.1	102.1	127.7	136
Corporate expense at FHI	5	4.5	4.5	4.5	4.5
Cash flow before interest (CFBI)	130.1	119.6	97.6	123.2	131.5
Interest on external debt (on $127 million)	7.1	7.1	14.1	14.2	25.5
Interest on debt owed to Fortis Inc.	10.0	10.00	-	-	-
Interest on demand loan owed to Fortis Inc.	10.8	17.2	9.7	11.6	3.7
Interest from $300,000 borrowed in 2011	12.4				
Total interest	40.3	34.3	23.8	25.8	29.2
Cash flow available for dividends (CAFD)	89.8	85.3	73.8	97.4	102.3
Common share dividends	-90	-82	-70	-77	0
Preferred dividends	0	0	0	0	0
Net change in cash	-0.2	3.3	3.8	20.4	102.3
CAFD-to-interest (x)	3.23	3.48	4.10	4.78	4.50
CAFD-to-external interest (x)	18.37	16.79	6.91	8.70	5.15

(*) All the numbers are derived from consolidated numbers and/or estimated by DBRS.

Summary

- A substantial portion of cash flow was from FEI and FEVI, the two regulated gas distribution utilities, which generated stable earnings.
- Increased dividend income in 2011 reflected FHI's increased investment in preferred shares of a company that was owned by Fortis Inc.
- An increase in interest expense in 2011 was offset by an increase in dividend income.
- Cash flow-to-interest coverage remained very strong for the current rating category.

Liquidity

- At December 31, 2011, FHI had a $30 million unsecured credit facility, all available.
- This provides FHI with sufficient liquidity to finance its ongoing operational needs.

FortisBC Holdings Inc.

Report Date:
February 29, 2012

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating History

Debt	Current	2011	2010	2009	2008	2007
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Unsecured Subordinated Debentures	Discontinued	Discontinued	BBB	BBB	BBB	BBB

Related Research

- FortisBC Energy Inc., Rating Report, February 29, 2012.

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

Rating Report

Report Date:
August 23, 2012

Previous Report:
February 29, 2012

FortisBC Holdings Inc.

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The Company

FortisBC Holdings Inc. (FHI or the Company is a holding company with primary investments in FortisBC Energy Inc. (FEI, rated "A"), FortisBC Energy (Vancouver Island) Inc. and FortisBC (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Recent Actions

February 29, 2012
Confirmed

September 16, 2011
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the rating of the Medium-Term Note Debentures (MTNs) of FortisBC Holdings Inc. (FHI or the Company) at BBB (high). The trend is Stable. The rating of FHI is based on the following factors:

(1) Reasonable dividends and investment income from its regulated utilities, FortisBC Energy Inc. (FEI, rated "A"), FortisBC Energy (Vancouver Island) Inc. (FEVI), and FortisBC Energy (Whistler) Inc. (FEW). The focus for DBRS is largely on FEI and FEVI, which accounted for over 90% of consolidated cash flow of the Company (first six months of 2012; DBRS estimates). These utilities have stable cash flow generated from regulated natural gas transmissions, distributions and storage operations. The regulatory framework in British Columbia has been reasonable.

(2) Good non-consolidated credit metrics. FHI's external debt-to-capital ratio of 6.5% (at June 30, 2012) and cash flow-to-interest ratio of 3.27 times (x) (six months to June 30, 2012) are viewed as good for the current rating.

(3) Strong financial support from the parent. At the end of June 2012, approximately 87% of FHI's total debt was owed to its parent, Fortis Inc. (rated A (low)). External debt has been reduced substantially to $125 million (June 30, 2012) from $459 million in 2007 by loans provided by Fortis Inc.

FHI's rating, which is two notches lower than FEI's, reflects the following: (a) debt at FHI is structurally subordinate to debt at FEI; (b) debt at FHI is also structurally subordinate to the debt at FEVI and FEW, which have weaker creditworthiness than FEI due to their significantly smaller operations and respective customer bases; and (c) there are restrictive ring-fencing conditions imposed on FEI, FEVI and FEW by the regulator, with respect to dividend payouts to FHI and their capital structures.

Rating Considerations

Strengths

(1) Reasonable dividend/Investment income
(2) Strong non-consolidated credit metrics
(3) Credit profile and support of strong parent

Challenges

(1) Structural subordination to debt at FEI and FEVI
(2) Restricted ring-fencing

Financial Information

Non-consolidated FHI financials (*)	6 months	6 months	For the year ended December 31			
($ millions)	**Jun. 30. 12**	**Jun. 30. 11**	**2011**	**2010**	**2009**	**2008**
External debt	125	127	127	128	254	255
Debt owed to Fortis Inc.	836	517	771	367	495	470
Cash flow before interest (CFBI)	74	69	130	120	97	123
External debt-to-capital	6.5%	7.1%	7.0%	6.0%	12.6%	13.0%
Total debt-to-capital	34.9%	27.7%	34.8%	23.1%	37.3%	37.0%
CFBI/External interest (x)	21.15	19.37	18.37	16.79	6.90	8.72
CFBI/Total interest (x)	3.27	3.88	3.23	3.48	3.46	4.79
Total debt-to-capital (consolidated)	62.6%	62.2%	62.6%	63.7%	61.1%	69.1%

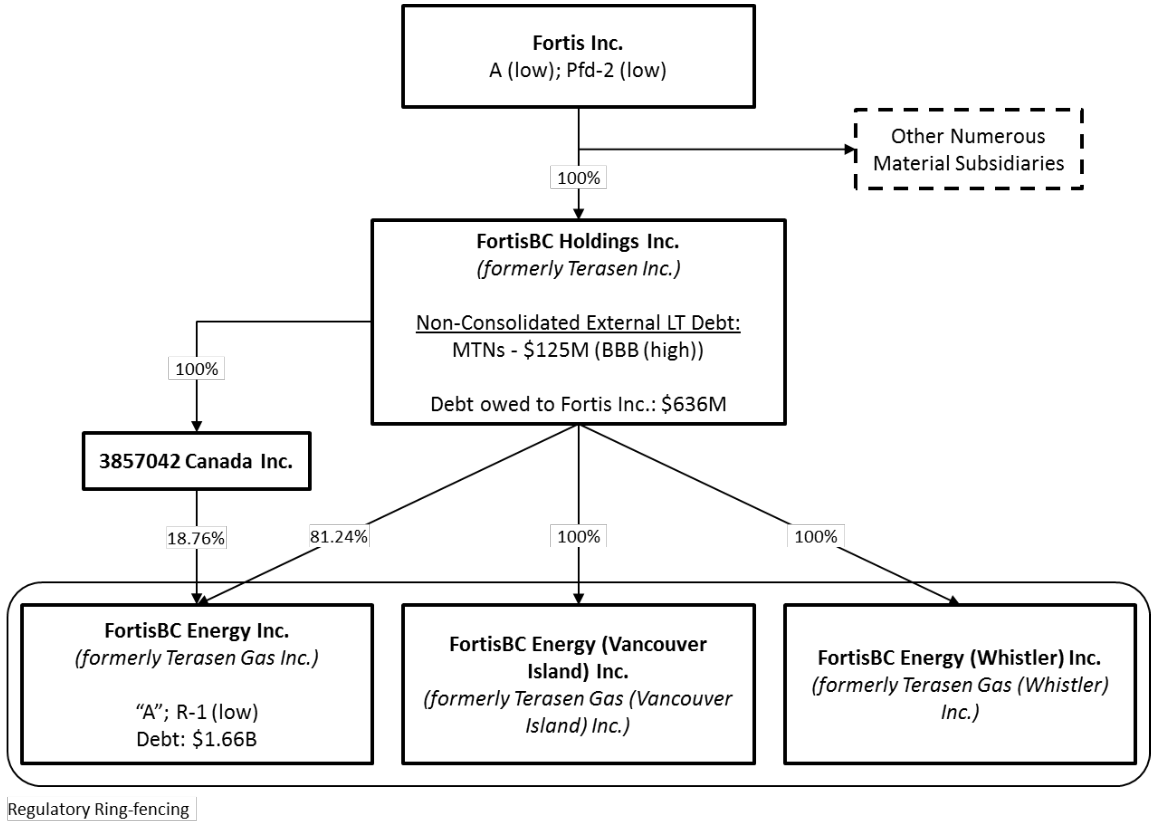
Note: The Company adopted U.S. GAAP effective January 1, 2012. (See Transition to U.S. GAAP on next page).

(*) All non-consolidated financial data in this report are derived from consolidated FHI numbers or DBRS estimates.

FortisBC Holdings Inc.

Report Date:
August 23, 2012

Simplified Organizational Chart



Potential Amalgamation

FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. filed an application in April 2012 for common rates and amalgamation across the combined service area. The amalgamation would require the approval of the British Columbia Utilities Commission (BCUC) and consent of the Government of British Columbia.

At this time, DBRS believes the potential amalgamation and associated rate harmonization will likely be credit neutral to FHI, provided that there are no material changes that will negatively affect its utilities' rate base and/or current business model or return on equity (ROE) and capital structure.

Transition to U.S. GAAP

Effective January 1, 2012, FHI retroactively adopted U.S. GAAP with the restatement of the comparative reporting period. On a consolidated basis, key changes can be summarized as follows:

(1) Total assets as at December 31, 2011, increased by $284 million. The increase was due primarily to increases in goodwill, regulatory assets and fixed assets in accordance with U.S. GAAP.

(2) Total liabilities as at December 31, 2011, increased by $217 million. The increase was due mainly to increases in long-term debt, capital lease obligations and pension liabilities in accordance with U.S. GAAP.

(3) Shareholder's equity as at December 31, 2011, increased by approximately $67 million. The increase was a result of push-down accounting in connection with the Fortis Inc. acquisition in 2007.

(4) For the six months ended June 30, 2012 (unaudited), consolidated earnings recognized in accordance with U.S. GAAP did not materially change from Canadian GAAP.

Cash Flow – Non-Consolidated FHI

Non-consolidated FHI	6 months	6 months	For the year ended December 31			
Dividend flow from subsidiaries (*)	**Jun. 30. 12**	**Jun. 30. 11**	**2011**	**2010**	**2009**	**2008**
($ millions)						
FEI	50.0	50.0	85.0	84.0	67.0	100.0
FEVI	11.0	11.0	22.0	25.0	20.0	16.0
FortisBC Energy (Whistler) Inc.	2.5	2.5	5.0	5.0	5.0	5.0
Dividends from FortisWest Inc.	14.0	9.10	23.1	10.1	10.1	6.7
Total cash flow to FHI	77.5	72.6	135.1	124.1	102.1	127.7
Corporate expense at FHI	4.0	4.0	5.0	4.5	4.7	4.3
Cash flow before interest (CFBI)	73.5	68.6	130.1	119.6	97.4	123.4
Interest on external debt	3.5	3.5	7.1	7.1	14.1	14.2
Interest on promissory notes owed to Fortis Inc.	5.0	5.0	10.0	10.0	-	-
Interest on demand loans owed to Fortis Inc.	5.0	5.0	10.8	17.2	14.0	11.6
Interest from $300,000 borrowed in 2011	9.0	4.1	12.4			
Total interest	22.5	17.7	40.3	34.3	28.1	25.8
Cash flow available for dividends (CAFD)	51.0	50.9	89.8	85.3	69.3	97.6
Common share dividends	(50.0)	(55.0)	(90.0)	(82.0)	(70.0)	(77.0)
Preferred dividends	-	-	-	-	-	-
Cash flow after dividends	1.0	(4.1)	(0.2)	3.3	(0.7)	20.6
CAFD-to-total interest expense (x)	3.27	3.88	3.23	3.48	3.46	4.79
CAFD-to-external interest expense (x)	21.15	19.37	18.37	16.79	6.90	8.72

(*) All non-consolidated financial data in this report are derived from consolidated FHI numbers or DBRS estimates.

Non-consolidated FHI	Jun. 30	As at December 31				
Capital Structure (*)	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
($ millions)						
External debt	125	127	128	254	255	459
Promissory notes issued to Fortis Inc.	200	200	367	495	470	135
Demand loan owed to Fortis Inc.	636	571				
Preferred shares	1,179	1,180	1,180	1,180	1,180	1,180
Common equity	617	506	468	82	52	28
Total capital	2,757	2,585	2,142	2,011	1,957	1,802
External debt-to-total capital	6.5%	7.0%	6.0%	12.6%	13.0%	25.5%
Total debt-to-total capital	34.9%	34.8%	23.1%	37.3%	37.0%	33.0%
Total debt-to-capital (consolidated)	62.6%	62.6%	63.7%	61.1%	69.1%	69.0%

(*) All non-consolidated data in this atble are derived from consolidated FHI numbers

Summary

- A substantial portion of dividends received by FHI were from FEI and FEVI, the two regulated gas distribution utilities, which generated stable earnings.
- Increased dividend income in 2011 and year-to-date 2012 reflected FHI's increased investment in preferred shares of a company owned by Fortis Inc.
- An increase in interest expense in 2011 and year-to-date 2012 was offset by an increase in dividend income.
- Cash flow-to-interest coverage remained strong for the current rating category.

FortisBC Holdings Inc.

Report Date:
August 23, 2012

Liquidity

- As at June 30, 2012, FHI had a $30 million unsecured credit facility (all available) maturing in May 2013.

Debt Maturities - FHI only - as of June 30, 2012

($ millions)	next 12 months	2013	2014	2015	2016	Thereafter	Total
External debt	0	0	125	0	0	0	125
Due to parent (Fortis Inc.)	636	0	0	0	0	200	836
total	636	0	125	0	0	200	961
% of total	66.2%	0	13.0%	0	0	20.8%	100%

- FHI has approximately $125 million in external debt due in 2014.
- The Company intends to retire the debt when it matures with loans from its parent.

FortisBC Holdings Inc.

Report Date:
August 23, 2012

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating History

Debt	Current	2011	2010	2009	2008	2007
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Unsecured Subordinated Debentures	NR	Discontinued	BBB	BBB	BBB	BBB

Related Research

- FortisBC Energy Inc., August 8, 2012.
- Fortis Inc., July 26, 2012.

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

Rating Report

Report Date:
March 18, 2013

Previous Report:
August 23, 2012

Insight beyond the rating.

FortisBC Holdings Inc.

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The Company

FortisBC Holdings Inc. (FHI or the Company) is a holding company with primary investments in FortisBC Energy Inc. (FEI; rated "A"), FortisBC Energy (Vancouver Island) Inc. and FortisBC (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Recent Actions

August 23, 2012
Confirmed

February 29, 2012
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the rating of the Medium-Term Note Debentures (MTNs) of FortisBC Holdings Inc. (FHI or the Company) at BBB (high) with a Stable trend. The rating of FHI is based on the following factors:

(1) Reasonable dividends and investment income from its regulated utilities: FortisBC Energy Inc. (FEI; rated "A"), FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW). DBRS's focus is mainly on FEI and FEVI, which accounted for over 90% of consolidated cash flow of the Company for the 12 months ended December 31, 2012 (DBRS estimates). These utilities have stable cash flow generated from regulated natural gas transmission, distribution and storage operations. The regulatory framework in British Columbia has been reasonable.

(2) Strong non-consolidated credit metrics. FHI's third party-debt-to-capital ratio of 6.6% (excluding inter-company debt) and cash flow before interest (CFBI)-to-third party interest ratio of 18.56 times for 2012 are in line with the current rating.

(3) Strong financial support from the parent. At the end of 2012, approximately 87% of FHI's total debt was owed to its parent, Fortis Inc. (rated A (low)). Third party debt has been reduced to $126 million by the end of 2012 from $255 million in 2008 from loans provided by Fortis Inc.

FHI's rating, which is two notches lower than FEI's, reflects the following: (1) debt at FHI is structurally subordinate to debt at FEI; (2) debt at FHI is also structurally subordinate to the debt at FEVI and FEW, which have weaker creditworthiness than FEI due to their significantly smaller operations and respective customer bases; and (3) restrictive ring-fencing conditions imposed on FEI, FEVI and FEW by the regulator, with respect to dividend payouts to FHI and their capital structures.

Rating Considerations

Strengths
(1) Reasonable dividend/Investment income
(2) Strong non-consolidated credit metrics
(3) Credit profile and support of strong parent

Challenges
(1) Structural subordination to debt at FEI and FEVI
(2) Restricted ring-fencing

Financial Information

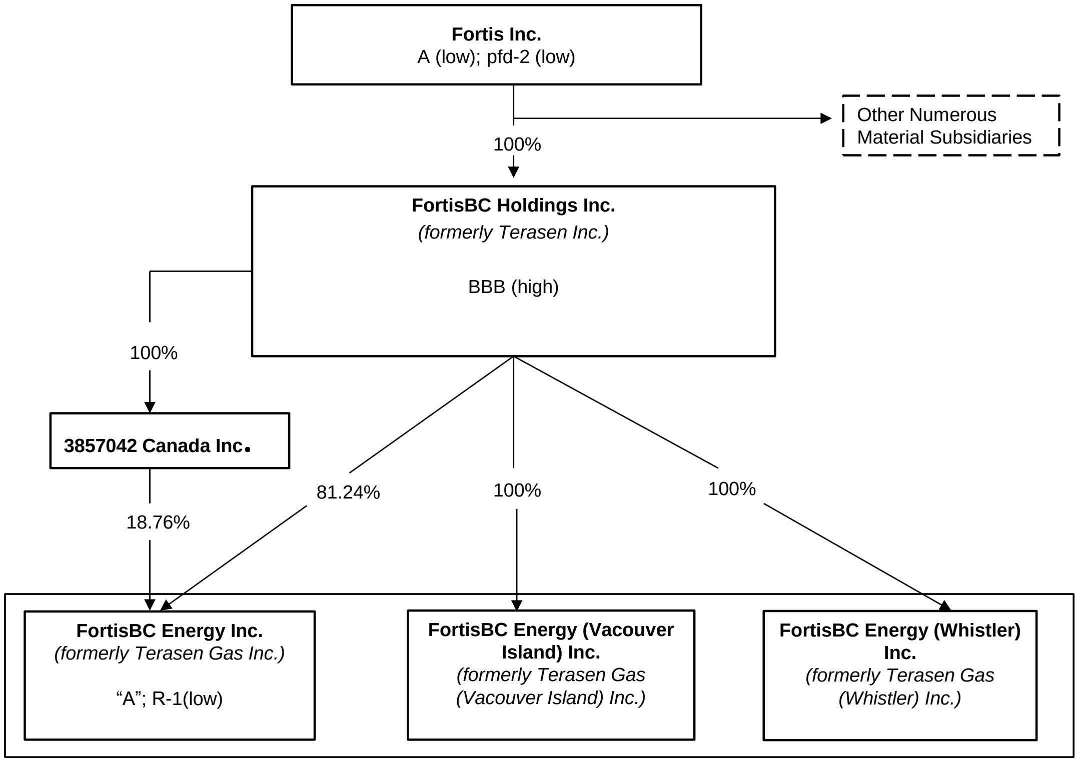
	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Non-consolidated FHI financials (*)	**For the year ended December 31**				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
Third party debt	126	127	128	254	255
Debt owed to Fortis Inc.	845	771	367	495	470
Cash flow before interest (CFBI)	113	127	120	97	123
Third party debt-to-total capital (1)	6.6%	6.8%	7.2%	16.8%	17.1%
Total debt-to-total capital	35.1%	33.9%	23.1%	37.3%	37.0%
CFBI/Third party interest (x)	16.12	17.97	16.79	6.90	8.72
CFBI/Total interest (x)	2.45	3.18	3.48	3.46	4.79
Total debt-to-total capital (consolidated)	62.6%	63.0%	63.7%	63.7%	61.1%

(1) Total capital excludes debt owed to Fortis Inc.
(*) May include DBRS estimates for financial data not disclosed in the consolidated FHI financial statements.

FortisBC Holdings Inc.

Report Date:
March 18, 2013

Simplified Organizational Chart as of December 31, 2012



Regulatory Ring-fencing

Amalgamation Update

In April 2012 FEI, together with FEVI and FEW, applied to the BCUC for the necessary approvals to amalgamate the three utilities and implement postage stamp rates across the service territories served by the amalgamated entity, effective January 1, 2014. The evidentiary portion of the proceeding was closed in October 2012 and a decision was received in February 2013. In its decision, the BCUC denied the request to implement postage stamp rates and as a result, the companies will not be proceeding with an amalgamation.

Transition to U.S. GAAP

Effective January 1, 2012, FHI adopted U.S. GAAP and has restated the comparative reporting period. On a consolidated basis, key changes as at December 31, 2011 can be summarized as follows:

(1) Total assets as at December 31, 2011, increased by $284 million. The increase was due primarily to increases in regulatory assets and property, plant and equipment and goodwill in accordance with U.S. GAAP.

(2) Total liabilities as at December 31, 2011, increased by $217 million. The increase was due primarily to increases in long-term debt and capital lease obligations and pension liabilities in accordance with U.S. GAAP.

(3) Shareholder's equity as at December 31, 2011, increased by approximately $67 million. The increase was due primarily to the application of push-down accounting which was effective May 17, 2007 as a result of the Fortis acquisition.

- The transition from Canadian GAAP to U.S. GAAP did not have an impact on the current ratings.

Cash Flow – Non-Consolidated FHI

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Non-consolidated FHI		**For the year ended December 31**			
Cash flow from dividends (*)	**2012**	**2011**	**2010**	**2009**	**2008**
(CA$ millions)					
FEI	85	85	84	67	100
FEVI & other subsidiaries	10	25	30	25	21
FortisWest Inc.	26	23	10	10	7
Total cash flow to FHI	121	133	124	102	128
Corporate expense at FHI	8	6	5	5	4
Cash flow before interest (CFBI)	113	127	120	97	123
Interest on third party debt	7	7	7	14	14
Interest on promissory notes owed to Fortis Inc.	10	10	10	0	0
Interest on demand loan owed to Fortis Inc.	29	23	17	14	12
Total interest	46	40	34	28	26
Cash flow available for dividends (CAFD)	67	87	85	69	98
Common share dividends	(85)	(90)	(82)	(70)	(77)
Preferred dividends	0	0	0	0	0
Cash flow after dividends	(18)	(3)	3	(1)	21
CAFD-to-total interest expense (x)	2.45	3.18	3.48	3.46	4.79
CAFD-to-third party interest expense (x)	16.12	17.97	16.79	6.90	8.72

(*) May include DBRS estimates for financial data not disclosed in the consolidated FHI financial statements.

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Non-consolidated FHI		**As at December 31**			
Capital Structure (*)	**2012**	**2011**	**2010**	**2009**	**2008**
($ millions)					
Third party debt	126	127	128	254	255
Promissory notes issued to Fortis Inc.	200	200	200	0	0
Demand loan owed to Fortis Inc.	645	571	167	495	470
Preferred shares (inter-company)	1,179	1,179	1,180	1,180	1,180
Common equity	616	574	468	82	52
Total capital	2,766	2,651	2,142	2,011	1,957
Third party debt-to-total capital (1)	6.6%	6.8%	7.2%	16.8%	17.1%
Total debt-to-total capital	35.1%	33.9%	23.1%	37.3%	37.0%
Total debt-to-capital (consolidated)	62.6%	63.0%	63.7%	63.7%	61.1%

(1) Total capital excludes debt owed to Fortis Inc.
(*) All non-consolidated data in this table is derived from FHI consolidated financial statements.

2012 Summary

- A substantial portion of dividends received by FHI were from FEI and FEVI, the two regulated gas distribution utilities, which generated stable earnings.
- Increased dividend income in 2012 and 2011 reflected FHI's increased investment in preferred shares of FortisWest Inc., a wholly owned subsidiary of Fortis Inc.
- An increase in interest expense in 2012 and 2011 was offset by the increase in dividend income.
- Cash flow-to-interest coverage remained strong for the current rating category.

Liquidity

- As at December 31, 2012, FHI had a $30 million unsecured credit facility (all available) maturing in May 2013.

Debt Maturities - non-consolidated FHI - as at December 31, 2012

(CA$ millions)	2013	2014	2015	2016	2017	Thereafter	Total
Third party debt	0	126	0	0	0	0	126
Due to parent (Fortis Inc.)	645	0	0	0	0	200	845
Total	645	126	0	0	0	200	971
% of total	66%	13%	0%	0%	0%	21%	100%

- Non-consolidated FHI has approximately $126 million of third party debt due in 2014 (13% of total debt).
- The Company intends to retire the debt when it matures with loans from its parent.

FortisBC Holdings Inc.

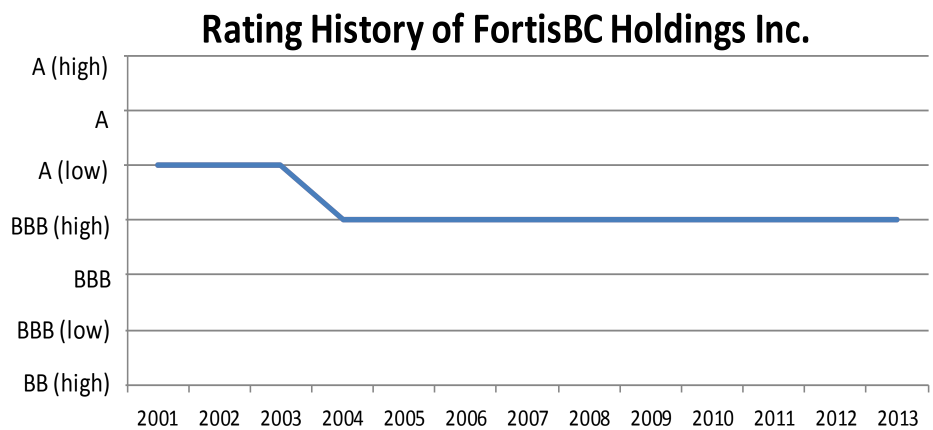
Report Date:
March 18, 2013

Rating

Debt	Rating	Rating Action	Trend
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating History

Debt	Current	2012	2011	2010	2009	2008
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Unsecured Subordinated Debentures	NR	NR	Discontinued	BBB	BBB	BBB



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

Rating Report
Report Date:
March 18, 2014
Previous Report
March 18, 2013

DBRS
Insight beyond the rating.

FortisBC Holdings Inc.

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The Company
FortisBC Holdings Inc. (FHI or the Company) is a holding company with primary investments in FortisBC Energy Inc. (FEI; rated "A"), FortisBC Energy (Vancouver Island) Inc. and FortisBC (Whistler) Inc. These operating utilities provide gas distribution services in British Columbia.

Recent Actions
March 18, 2013
Confirmed

August 23, 2012
Confirmed

Rating

Debt	**Rating**	**Rating Action**	**Trend**
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating Rationale

DBRS has confirmed the rating of the Medium-Term Note Debentures (MTNs) of FortisBC Holdings Inc. (FHI or the Company) at BBB (high) with a Stable trend. The rating of FHI is based on the following factors:

(1) Reasonable dividends and investment income from its regulated utilities: FortisBC Energy Inc. (FEI; rated "A"), FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW). DBRS's focus is mainly on FEI and FEVI, which accounted for over 90% of consolidated cash flow of the Company for the 12 months ended December 31, 2013 (DBRS estimates). These utilities have stable cash flow generated from regulated natural gas transmission, distribution and storage operations.

(2) Strong non-consolidated credit metrics. FHI's third party-debt-to-capital ratio of 6.5% (excluding inter-company debt) and cash flow before interest (CFBI)-to-third party interest ratio of 22.88 times for 2013.

(3) Good financial support from the parent. At the end of 2012, approximately 87% of FHI's total debt was owed to its parent, Fortis Inc. (rated A (low), UR Developing). Third party debt has been reduced to $125 million by the end of 2013 from $254 million in 2009 from loans provided by Fortis Inc.

FHI's rating, which is two notches lower than FEI's, reflects the following: (a) debt at FHI is structurally subordinate to debt at FEI; (b) debt at FHI is also structurally subordinate to the debt at FEVI, which has weaker creditworthiness than FEI due to its significantly smaller operations and customer base; and (c) restrictive ring-fencing conditions imposed on FEI, FEVI and FEW by the regulator, with respect to dividend payouts to FHI and their capital structures.

Rating Considerations

Strengths
(1) Reasonable dividend/Investment income
(2) Strong non-consolidated credit metrics
(3) Good support of the parent

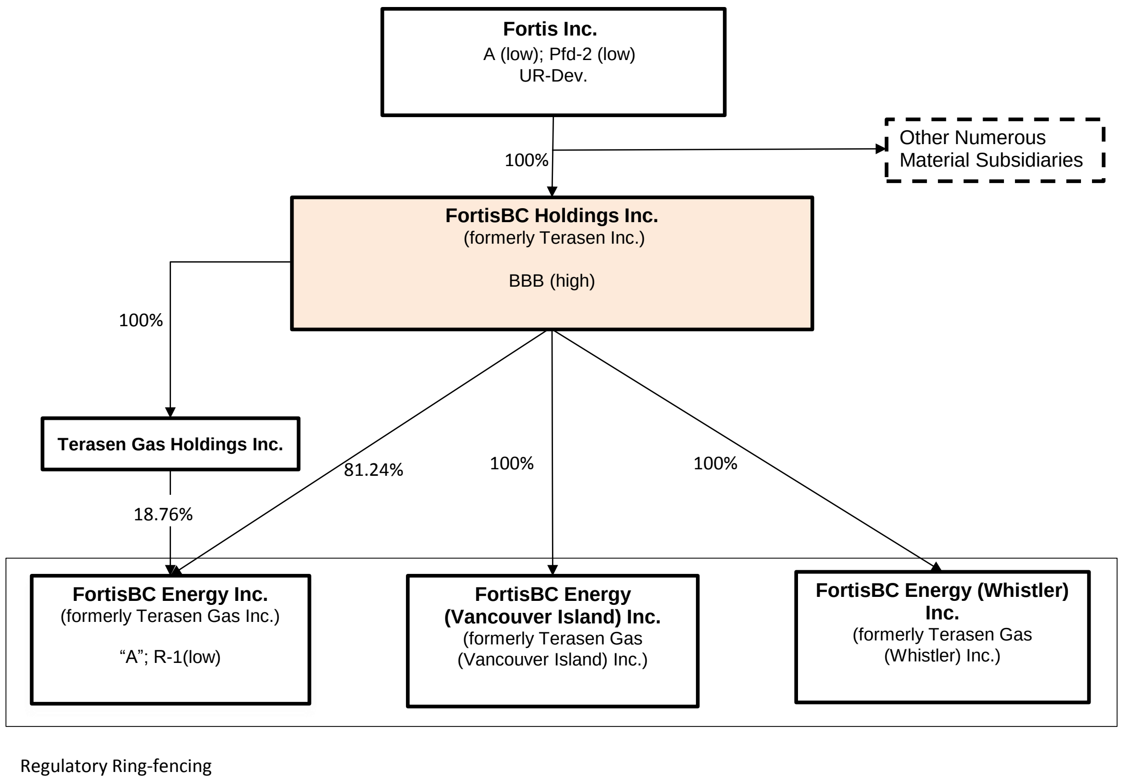
Challenges
(1) Structural subordination to debt at FEI and FEVI
(2) Restricted ring-fencing

Financial Information

	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
Non-consolidated FHI financials (*)	**For the year ended December 31**				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Third party debt	125	126	127	128	254
Debt owed to Fortis Inc.	849	845	771	367	495
Cash flow before interest (CFBI)	159	113	127	120	97
Third party debt-to-total capital (1)	6.5%	6.6%	6.8%	7.2%	16.8%
Total debt-to-total capital	35.2%	35.1%	33.9%	23.1%	37.3%
CFBI/Third party interest (x)	22.88	16.12	17.97	16.79	6.90
CFBI/Total interest (x)	3.79	2.45	3.18	3.48	3.46
Total debt-to-total capital (consolidated)	63.4%	63.0%	63.7%	61.1%	69.1%

(1) Total capital excludes debt owed to Fortis Inc.
(*) All non-consolidated data in this table is derived from FHI consolidated financial statements and DBRS estimates.

Simplified Organizational Chart as of December 31, 2013



Amalgamation Update

- On February 26, 2014, the British Columbia Utilities Commission (BCUC) issued a decision on FortisBC Energy Utilities' (the FEU) Application for Amalgamation and Rate Design (the Decision). The FEU comprises FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW).
- DBRS viewed the Decision as credit neutral to FEI, reflecting the following factors:
  (1) The business risk profile of the amalgamated entity would not significantly change from FEI's current business risk level. This reflects the fact that the amalgamated entity will have a modestly larger customer base than FEI and that risk attributable to the small size of FEVI and FEW, combined with their higher rates, will be eliminated following the amalgamation.
  (2) The BCUC recommends that the return on equity (ROE) and capital structure remain the same for the amalgamated entity as for FEI; however, the final determination as to the appropriate ROE and capital structure is deferred to the Generic Cost of Capital (GCOC) Proceeding.
- See DBRS press release dated February 26, 2014, for further details.

FortisBC Holdings Inc.

Report Date:
March 18, 2014

Cash Flow – Non-Consolidated FHI

	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
Non-consolidated FHI	**For the year ended December 31**				
Cash flow from dividends (*)	**2013**	**2012**	**2011**	**2010**	**2009**
(CA$ millions)					
FEI	131	85	85	84	67
FEVI & other subsidiaries	19	10	25	30	25
FortisWest Inc.	26	26	23	10	10
Total cash flow to FHI	176	121	133	124	102
Corporate expense at FHI	8	8	6	5	5
Cash flow before interest (CFBI)	168	113	127	120	97
Interest on third party debt	7	7	7	7	14
Interest on promissory notes owed to Fortis Inc.	10	10	10	10	0
Interest on demand loan owed to Fortis Inc.	25	29	23	17	14
Total interest	42	46	40	34	28
Cash flow available for dividends (CAFD)	126	67	87	85	69
Common share dividends	(131)	(85)	(90)	(82)	(70)
Preferred dividends	0	0	0	0	0
Cash flow after dividends	(5)	(18)	(3)	3	(1)
CFBI-to-total interest expense (x)	3.99	2.45	3.18	3.48	3.46
CFBI-to-third party interest expense (x)	24.10	16.12	17.97	16.79	6.90

(*) All non-consolidated data in this table is derived from FHI consolidated financial statements and DBRS estimates.

	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
Non-consolidated FHI	**As at December 31**				
Capital Structure (*)	**2013**	**2012**	**2011**	**2010**	**2009**
(CA$ millions)					
Third party debt	125	126	127	128	254
Promissory notes issued to Fortis Inc.	200	200	200	200	0
Demand loan owed to Fortis Inc.	649	645	571	167	495
Preferred shares (inter-company)	1,179	1,179	1,179	1,180	1,180
Common equity	612	616	574	468	82
Total capital	2,765	2,766	2,651	2,142	2,011
Third party debt-to-total capital (1)	6.5%	6.6%	6.8%	7.2%	16.8%
Total debt-to-total capital	35.2%	35.1%	33.9%	23.1%	37.3%
Total debt-to-capital (consolidated)	63.4%	63.0%	63.7%	61.1%	69.1%

(1) Total capital excludes debt owed to Fortis Inc.
(*) All non-consolidated data in this table is derived from FHI consolidated financial statements and DBRS estimates.

Summary

- A substantial portion of dividends received by FHI were from FEI and FEVI, the two regulated gas distribution utilities, which generated stable earnings.
- In 2013, FHI received $26 million in dividends from its investment in FortisWest Inc. on Series C Preferred Shares owned by FHI.
- All non-consolidated credit metrics remained strong for a holding company.

FortisBC Holdings Inc.

Report Date:
March 18, 2014

Long-Term Debt and Liquidity

- As at December 31, 2013, FHI had a $30 million unsecured credit facility (all available) maturing in May 2014.

Debt Maturities - non-consolidated FHI - as at December 31, 2013

(CA$ millions)	2014	2015	2016	2017	2018	Thereafter	Total
Third party debt	125	0	0	0	0	0	125
Due to parent (Fortis Inc.)	649	0	0	0	0	200	849
Total	774	0	0	0	0	200	974
% of total	79%	0%	0%	0%	0%	21%	100%

- Non-consolidated FHI has approximately $125 million of third party debt due in 2014.
- The Company intends to retire the debt when it matures with loans from its parent.

FortisBC Holdings Inc.

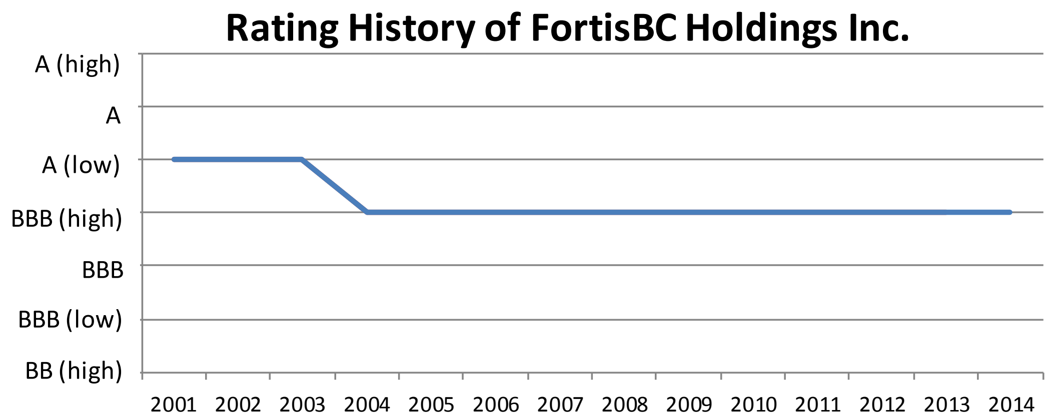
Report Date:
March 18, 2014

Rating

Debt	**Rating**	**Rating Action**	**Trend**
Medium-Term Note Debentures	BBB (high)	Confirmed	Stable

Rating History

Debt	**Current**	**2013**	**2012**	**2011**	**2010**	**2009**
Medium-Term Note Debentures	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Unsecured Subordinated Debentures	NR	NR	NR	NR	Discontinued	BBB



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

Press Releases

insight beyond the rating

Date of Release: January 6, 2015

DBRS Confirms FortisBC Energy Inc. at "A" and R-1 (low) and FortisBC Holdings Inc. at BBB (high), Stable Trends

DBRS Limited (DBRS) has today confirmed the Issuer Rating as well as the MTNs & Unsecured Debentures and Purchase Money Mortgages ratings of FortisBC Energy Inc. (FEI) at "A" and its Commercial Paper rating at R-1 (low). DBRS has also confirmed the Medium-Term Note Debentures of FortisBC Holdings Inc. (FHI) at BBB (high). All trends are Stable. The rating confirmation follows the completion of the amalgamation of FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI), FortisBC Energy (Whistler) Inc. (FEW) and Terasen Gas Holdings Inc. (the Amalgamation) on December 31, 2014. The amalgamated entity is known as FortisBC Energy Inc. (FEI). The confirmation is based on DBRS's view that the Amalgamation will not have a material impact on FEI's credit profile, reflecting the following factors:

(1) The business risk profile of the amalgamated entity would not be materially different from FEI's current business risk level. The amalgamated entity will have a larger customer base than FEI's current customer base and the risk attributable to FEVI's and FEW's competitive position and smaller size will be eliminated.
(2) The British Columbia Utilities Commission (BCUC) has approved the adoption of the common rates for natural gas delivery to all customers of the amalgamated entity except those in the Fort Nelson, British Columbia, service area.
(3) The BCUC issued its decision on FEI's multi-year Performance Based Ratemaking Plans Application in September 2014 (the multi-year PBR). The term of the multi-year PBR was extended to 2019. The multi-year PBR incorporates a mechanism for improving operating efficiencies, with operation and maintenance costs as well as base capital expenditures subject to a formula during the PBR period. The BCUC also approved a 50/50 sharing of variances from the formula-driven expenditures over the PBR period.

The confirmation of FHI's rating follows the confirmation of FEI's ratings and reflects structural subordination of debt at FHI to FEI.

Notes:

All figures are in Canadian dollars unless otherwise noted.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link to the right under Related Research or by contacting us at info@dbrs.com.

This rating is endorsed by DBRS Ratings Limited for use in the European Union.

The applicable methodologies are Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry (October 2014), DBRS Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers (February 2014) and Rating Holding Companies and Their Subsidiaries (January 2014), which can be found on the DBRS website under Methodologies.

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

Ratings

Issuer	Debt Rated	Rating Action	Rating	Trend	Notes	Published	Issued
FortisBC Energy Inc.	Issuer Rating	Confirmed	A	Stb		Jan 6, 2015	CA E
FortisBC Energy Inc.	MTNs & Unsecured Debentures	Confirmed	A	Stb		Jan 6, 2015	CA E
FortisBC Energy Inc.	Purchase Money Mortgages	Confirmed	A	Stb		Jan 6, 2015	CA E
FortisBC Energy Inc.	Commercial Paper	Confirmed	R-1 (low)	Stb		Jan 6, 2015	CA E
FortisBC Holdings Inc.	Medium-Term Note Debentures	Confirmed	BBB (high)	Stb		Jan 6, 2015	CA E

US = USA Issued, NRSRO
CA = Canada Issued, NRSRO
EU = EU Issued
E = EU Endorsed
Unsolicited Participating
Unsolicited Non-participating

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Press Releases

Insight beyond the rating.

Date of Release: May 29, 2015

DBRS Withdraws FortisBC Holdings Inc.'s Medium-Term Note Debentures Rating

DBRS Limited has today withdrawn its rating on the Medium-Term Note Debentures (MTN Debentures) of FortisBC Holdings Inc. (FHI) as the entire outstanding amount of the MTN Debentures (public debt) was paid off and FHI is no longer an issuer of public debt.

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

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link to the right under Related Research or by contacting us at info@dbrs.com.

This rating is endorsed by DBRS Ratings Limited for use in the European Union.

The applicable methodology is Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Companies Industry (October 2014), which can be found on our website under Methodologies.

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

Ratings

Issuer	Debt Rated	Rating Action	Rating	Trend	Notes	Published	Issued
FortisBC Holdings Inc.	Medium-Term Note Debentures	Disc.-Repaid	Discontinued	--		May 29, 2015	CA E

US = USA Issued, NRSRO
CA = Canada Issued, NRSRO
EU = EU Issued
E = EU Endorsed
Unsolicited Participating
Unsolicited Non-participating

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Credit Opinion: Terasen Inc.

Global Credit Research - 27 Oct 2010

Vancouver, British Columbia, Canada

Ratings

Category	**Moody's Rating**
Outlook	Stable
Senior c nde- ureD mCoA 1 urr	Uaas
SuborDinate mCoA 1 urr	Uaa3
Terasen Gas Inc.	
Outlook	Stable
Senior Se- ureD mCoA 1 urr	B2
Senior c nde- ureD mCoA 1 urr	B3
Terasen Gas (Vancouver Island) Inc.	
Outlook	Stable
Senior c nde- ureD mCoA 1 urr	B3

Contacts

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WilliaA L. Hedd/New York	s2s.553.3837

Key Indicators

Terasen Inc.[1][2]

	[3]**LTM**	**2009**	**2008**	**2007**	**2006**
1 (O FremW1 P +nteredt/ +nteredt	**2.4x**	**2.3x**	**2.2x**	**1.5x**	**1.4x**
1 (O FremW1 / Cebt	**7.6%**	**7.0%**	**7.0%**	**4.5%**	**2.0%**
1 (O FremW1 mCil iDenDd / Cebt	**5.9%**	**4.7%**	**4.3%**	**4.5%**	**2.0%**
Cebt / 1 aFitali) ation	**65.3%**	**66.1%**	**71.0%**	**69.5%**	**85.7%**

[2] StanDarD aDEdtA entd in a- - orDan- e witx pv atinz MetxoDolozhy MooDh'd BFFroa- x to Rlobal StanDarDBDEdtA entd in txe Bnalhdid og (inan- ial StateA entd gor Nonm(inan- ial 1 orForationdG) art 2Gs GanD 3p +n aDDitionGMooDh'd aDEdtd gor onentiA e iteA d, [s] f eh +nD- atord gor s007 anD Frior FerioDd are not ne- eddarilh - oA Farable Due to trandgorA ational tranda- tiond in s005 anD s007. [3] Ladt twell e A ontxd enDeD qune 30Gs020

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

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Corporate Profile

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Recent Events

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TKv xad - ontinueD itd trenD ogreFla- inz txirD Farth xolDinz - oA Fanh Debt witx intranzrouF gunDinz groA (TS. (or txe diJ A ontxd to qune 30G s020GTKv borroweD a gurtxer 9s28 A illion groA (TS anD udeD txe Fro- eeDd to reDeeA txe 92s5 A illion 1 aFital Se- uritied anD inEe- t 92s5 A illion ogaDDitional e%uith to TR+Vn orDer to alizn TR+d - aFital dtru- ture witx txe xizxer DeeA eD e%uith aFFroI eD bh txe U1 c 1 $ Bt qune 30G s020Gonlh 92s5 A illion Vga- e I alue$ogtxirD Farth Debt reA aineD outdtanDinz at txe xolDinz - oA Fanh leI elGanD we anti- iFate txat txid will be reginan- eD at A aturith in s024 witx doA e groA ogintranzrouF inI edtA ent bh (TS.

SUMMARY RATING RATIONALE

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DETAILED RATING CONSIDERATIONS

HOLC+NR 1 OMj BNY (Ov RBS C+STv +Uc T+ON c T+L+T+KS Oj Kv BT+NR +N B Sc j j Ov T+XK KNX+v ONMKNT

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Bd Fart ogitd aFFroI al ogtxe a- %uidition ogTKv bh (TS in s007Gtxe U1 c 1 - ongirA eD txe - ontinueD oFeration oga nuA ber og- onDitiondG orizinallh iA FodeD bh txe U1 c 1 in s005GntenDeD to rinzgen- e TR+anD TRX+groA TKv . Txe rinzgen- inz FroI idiond re%uire txat TR+anD TRX+V$ A aintain e%uith/- aFital at leadt xad xizx ad txe e%uith - aFitali) ation DeeA eD bh txe U1 c 1 gor rateA akinz FurFoded Vnow 40; gor botx TR+anD TRX+$ Vi$regrain groA eJtenDinz loand or zuaranteed to aggiliated, anD Vii$regrain groA inI edtinz in or FroI iDinz duFFort to nonrezulateD budinedded. TKv xad - ongirA eD txat din- e s007 none ogtxede redtri- tiond - ondtraineD txe Didtribution ogdubdiDiarh earninzd not otxerwide neeDeD gor inI edtA ent. Txe ridkd addo- iateD witx txe rinzgen- inz FroI idiond are oggdet in Fart bh relatiI elh low anD reDu- inz leI eld ogxolDinz - oA Fanh Debt. TxirD Farth interedt eJFende at txe xolDinz - oA Fanh leI el id - oI ereD aFFroJiA atelh 25J bh DiI iDenDd groA oFeratinz dubdiDiaried. TKv aldo benegitd groA txe DeA ondtrateD duFFort ogitd FarentG(TSGwxi- x xad FroI iDeD an intranzrouF loan to reginan- e A aturinz Debt at TKv ad well ad txe e%uith inEe- tion to TR+in txe girdt %uarter ogs020. We in- luDe borrowinzd groA (TS witxin our - al- ulation ogaDEudteD Debt be- aude it rankd e%uallh witx denior unde- ureD Debt anD id reFahable on DeA anD. We Do not rate (TS but xaI e - ondiDereD itd budinedd anD ridk Frogile udinz Fubli- lh aI ailable ingorA ation ad Fart ogour analhdid. OI erallGwe belieI e txat eJidten- e ogtxe rinzgen- inz redultd in A eaninzgullh xizxer ginan- ial ridk at TKv txan woulD otxerwide be txe - ade anD txid id rege- teD in txe two not- x Diggerential between TKv 'd Uaas ratinz anD txe B3 ratinzd addizneD to TR+anD TRX+

Liquidity Profile

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+n s022Gwe edtiA ate txat txe - oA Fanh will zenerate gunDd groA oFerationd ogaFFroJiA atelh 9250 A illion. Bgter DiI iDenDd ogaFFroJiA atelh 960 A illion anD - aFital eJFenDitured ogarounD 9330 A illionGTKv id eJFe- teD to be gree - adx glow nezatiI e bh aFFroJiA atelh 9s40 A illion in s022. TKv xad ledd txan 920 A illion ogDebt A aturinz in s022Gredultinz in an edtiA ateD gunDinz re%uireA ent og9s50 A illion.

Bd at qune 30Gs020GTKv anDitd dubdiDiaried xaD- oA A itteDunDrawn al ailabilith og9572 A illion unDer - reDit ga- ilitied totalinz 9830 A illion. Our dtanDarDli%uiDith dtredd d- enario adduA ed txat an idduer loded a- - edd to new - aFitalGotxer txan al ailabilith unDer - oA A itteD- reDit ga- ilitied gor a FerioDogtwell e A ontxd. We xal e eJtenDeDtxid d- enario to Ce- eA ber s022 in orDer to Frol iDe a gorwarDlookinz l iew ol er at leadt gour %uarterd. Bt Ce- eA ber 32Gs020 we edtiA ate txat TKv will xal e al ailabilith og9480 A illion unDer - reDit ga- ilitied witx rediDual tenord ogat leadt twell e A ontxdGwxi- x id well in eJ- edd ogtxe edtiA ateD9s50 A illion gunDinz re%uireA ent. TKv neeDd to A aintain di) eable li%uiDith redour- ed to a- - oA A oDate deadonal workinz - aFital re%uireA entdGwxi- x are aldo - orrelateDwitx l olatile natural zad Fri- ed.

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Rating Outlook

Txe Stable Outlook regle- td MooDh'd eJFe- tation txat TKv will reA ain a xolDinz - oA Fanh gor rezulateDzad LC1 d anDtxat TKv 'd addetd anD oFerationd outdiDe ogtxe zad LC1 de- tor will - ontinue to reFredent a noA inal Fortion ogitd ol erall oFerationd. Txe Stable Outlook aldo regle- td our eJFe- tation txat TKv 'd txirDFarth xolDinz - oA Fanh Debt will be gullh retireDin txe A eDiuA terA .

What Could Change the Rating - Up

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What Could Change the Rating - Down

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Rating Factors

Terasen Inc.

Regulated Electric and Gas Utilities Industry	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)						
a$v ezulatorh (raA ework		J				
Factor 2: Ability To Recover Costs And Earn Returns (25%)						
a$Bbilith To v e- ol er 1 odtd BnD Karn v eturnd			J			
Factor 3: Diversification (10%)						
a$Market j odition			J			
b$Reneration anD(uel Cil erdith						
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%) [2][s]						
a$Li%uiDith			J			
b$1 (O FremW1 P +nteredt/ +nteredt					s.3J	
- $1 (O FremW1 / Cebt					7.0;	
D$1 (O FremW1 mCil iDenDd / Cebt					4.5;	
e$Cebt/1 aFitali) ation						68.6;
e$Net Cebt / v ezulateDBddet Xalue						
Rating:						
a$+nDi- ateDv atinz groA RriD			B3			
b$B- tual v atinz BddizneD				Uaas		

[2] StanDarDaDEdtA entd in a- - orDan- e witx pv atinz MetxoDolozhyMooDh'd BFFroa- x to Rlobal StanDarDBDEdtA entd in txe Bnalhdid og (inan- ial StateA entd gor Nonm(inan- ial 1 orFrationdG) art 2GsGanD3p +n aDDitionGMooDh'd aDEdtd gor onertiA e iteA d. [s] Bl eraze ogs008 anD s00: . f eh inDi- atord gor s007 are not inDi- atil e ogTKv 'd FergorA an- e Due to trandgorA ational tranda- tiond.

IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

M+SGa wxollhmowneD - reDit ratinz azen- h dubdiDiarh ogMooDh'd 1 orForation VpM1 Op$Gxerebh Did- loded txat A odt idduerd ogDebt de- uritied Vn- luDinz - orForate anD A uni- iFal bonDdGDebenturedGnoted anD - oA A er- ial FaFer$ anD FregerreD dto- k rateD bh M+S xaI eGFrior to addiznA ent oganh ratinzGazreeD to Fah to M+S gor aFFraidal anD ratinz derI i- ed renDereD bh it geed ranzinz groA 92G500 to aFFroJiA atelh 9sG500G000. M1 O anD M+S aldo A aintain Foli- ied anD Fro- eDured to aDDredd txe inDeFenDen- e ogM+S'd ratinzd anD ratinz Fro- edded. +ngorA ation rezarDinz - ertain aggiliationd txat A ah eJidt between Dire- tord ogM1 O anD rateD entitiedGanD between entitied wxo xolD ratinzd groA M+S anD xaI e aldo Fubli- lh reForteD to txe SK1 an ownerdxiF interedt in M1 O ogA ore txan 5; Gd FodteD annuallh at www.A ooDhd.- oA unDer txe xeaDinz pSxarexolDer v elationd — 1 orForate RoI ernan- e — Cire- tor anD SxarexolDer Bggiliation j oli- h.p

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MOODY'S INVESTORS SERVICE

Credit Opinion: FortisBC Holdings Inc.

Global Credit Research - 07 May 2012

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

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Key Indicators

FortisBC Holdings Inc.[1]

	[2]**LTM**	**2011**	**2010**	**2009**	**2008**
CFO pre-WC + Interest/ Interest	**2.8x**	**2.1x**	**2.5x**	**2.3x**	**2.2x**
CFO pre-WC / Debt	**9.5%**	**6.1%**	**8.1%**	**7.0%**	**7.0%**
CFO pre-WC - Dividends / Debt	**6.3%**	**3.3%**	**5.2%**	**4.7%**	**4.3%**
Debt / Capitalization	**61.0%**	**62.7%**	**59.8%**	**66.4%**	**71.0%**

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended March 31, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Holding company with two A3 rated gas LDCs as principal subsidiaries

Weak financial metrics partially offset by supportive regulatory environment

Competitiveness against other sources of electricity poses long term risks

Regulatory ring-fencing of subsidiaries increases the risk of structural subordination

Good consolidated liquidity

Corporate Profile

FortisBC Holdings Inc. (FHI) is a holding company for regulated gas distribution utilities (local distribution companies or LDCs). The gas LDC segment represents the bulk (>95% of revenue and assets) of FHI and is comprised of three utilities regulated by the British Columbia Utilities Commission (BCUC): FortisBC Energy Inc. (FEI, A3 senior unsecured, stable); FortisBC Energy (Vancouver Island) Inc. (FEVI, A3 senior unsecured, stable); and FortisBC Energy (Whistler) Inc. (FEW, not rated). FHI's other operation consists of FortisBC Alternative Energy Services, a 100% owned subsidiary that builds, owns and operates alternative energy systems.

FEI is the largest gas distribution utility in British Columbia and represented about 80% of FHI's property, plant and equipment on a consolidated basis at December 31, 2011.

FHI is 100% owned by Fortis Inc. (FTS, not rated).

SUMMARY RATING RATIONALE

FHI's rating reflects the low business risk of its regulated gas distribution subsidiaries, offset by its weak financial metrics relative to its peers. FHI's published Baa2 senior unsecured rating is lower than the A3 rating indicated by Moody's Regulated Electric and Gas Utilities Methodology as a result of notching to reflect the structural subordination of FHI's debt to that of its subsidiaries, combined with the existence of regulatory ring-fencing separating FHI from its principal subsidiaries. FHI has gradually replaced external debt at holding company level with intra-group borrowings from its parent, FTS, which totaled $771 million at December 31, 2011 and represented approximately 85% of total debt. The amounts due to FTS rank equally with the remaining $125 million of external debt, and are repayable on demand. Because of these close linkages, we consider FTS' credit profile and liquidity resources in our analysis of FHI.

DETAILED RATING CONSIDERATIONS

HOLDING COMPANY FOR GAS DISTRIBUTION UTILITIES OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas distribution utilities to be at the low end of the risk spectrum within the universe of both gas and electric regulated utilities. Similarly, we consider regulated utilities to have lower business risk than companies that are outside of the utility space and do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like FEI and FEVI to be among the lowest risk corporate entities.

FEI, FEVI and FEW all operate in British Columbia (BC), which we continue to view as a supportive regulatory environment in Canada. Regulatory proceedings tend to be less adversarial and balanced decisions rendered on a timely basis. We do note, however, that the current review of generic cost of capital has been initiated by the BCUC and not in response to a rate application. We will need to assess the outcome of the process to determine if it reflects any fundamental change in the regulatory environment that will need to be factored into the rating assessment going forward.

GAS COMPETIVENESS POSES LONG TERM RISKS

Natural gas' past operating cost advantages have eroded in recent years. Electricity prices in British Columbia are based on historic average cost of production of predominantly hydroelectric energy, thus only partially reflecting true market values. Positively for FHI, low commodity prices have helped to improve the competitiveness of gas. Moody's believes that gas costs of approximately $4 per Gigajoule would cause new customers to be indifferent between gas and other sources of electricity. Additionally, an increased need to invest in aging generation and transmission infrastructure in BC may lead to upward pressure on electricity prices. This could result in gas becoming more competitive in the long term, absent any sharp commodity price increases.

However, the competitiveness of natural gas in BC could be further challenged by the Province's ambitious greenhouse gas reduction targets. In 2007, the Provincial Government passed legislation setting target levels for greenhouse gas emissions in 2020 at 33% below the level of those emissions in 2007. These targets will be achieved in part through imposition of a carbon tax, which will have a negative impact on the competitive advantage of gas since the majority of electricity in BC is generated from hydro resources. Similarly, the 2010 Clean Energy Act established fuel switching to energy sources with lower greenhouse gas emissions as one of the province's energy objectives. This provides policy support for consumers to switch from gas to electricity. While we expect changes in demand for gas in BC to be gradual, it is possible that environmental priorities will lead to a deterioration in regulatory support.

STRONG REGULATORY RING-FENCING SEPARATES FHI FROM ITS GAS LDC SUBSIDIARIES

As part of its approval of the acquisition of FHI by FTS in 2007, the BCUC confirmed the continued operation of a number of conditions, originally imposed by the BCUC in 2005, intended to ring-fence FEI and FEVI from FHI. The ring-fencing provisions require that FEI and FEVI (i) maintain equity/capital at least as high as the equity capitalization deemed by the BCUC for ratemaking purposes (40% for both FEI and FEVI); (ii) refrain from extending loans or guarantees to affiliates; and (iii) refrain from investing in or providing support to non-regulated businesses. The risks associated with the ring-fencing provisions are offset in part by relatively low and reducing levels of holding company debt.

Overall, we believe that existence of the ring-fencing results in meaningfully higher financial risk at FHI than would otherwise be the case and this is reflected in the two notch differential between FHI's Baa2 rating and the A3 ratings assigned to FEI and FEVI.

We include borrowings from FTS within our calculation of adjusted debt because it ranks equally with senior unsecured debt and is repayable on demand. We do not rate FTS but have considered its business and risk profile using publicly available information as part of our analysis. On February 21st FTS announced that it had entered into an agreement to acquire CH Energy Group, Inc. which owns Central Hudson Gas & Electric Corp. (A3, outlook stable) for a purchase price of approximately US$1.5BN that we expect to be financed with debt. Although directionally negative for its subsidiaries, it is our view that the proposed acquisition does not warrant a change in rating or outlook for FHI. We view the transaction as part of FTS' continued and anticipated growth strategy that is committed to low risk regulated assets and the maintenance of strong investment grade ratings both at the parent and operating subsidiary level.

Liquidity Profile

FHI has good liquidity on a consolidated basis. At the holding company level, we believe that FHI has sufficient liquidity to meet its external funding requirements although FHI does not have any committed liquidity to repay the on-demand funding provided by its parent FTS, which totaled $571 million at December 31, 2011. FHI's $1.2 billion of preference shares, held by FTS, are redeemable at the holder's option and are therefore effectively on demand. Our rating and liquidity analysis incorporates the expectation that FTS will not withdraw this capital support and we tend to view the preference shares as akin to equity in our financial metrics despite their debt like features.

In 2012, we estimate that the company will generate funds from operations of approximately $250 million. After dividends of approximately $90 million and capital expenditures of around $230 million, FHI is expected to be free cash flow negative by approximately $70 million. FHI has less than $10 million of debt maturing in 2012, resulting in an estimated overall funding requirement of $80 million.

At December 31, 2011, FHI and its subsidiaries had committed undrawn availability of $585 million under credit facilities totaling $730 million, $700 million of which resides at FEI and FEVI. FHI needs to maintain sufficient liquidity resources to accommodate the typical seasonal working capital requirements of its gas distribution utilities. The BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities is expected to increase the volatility of FEI's working capital swings and increase FEI's liquidity requirements. This decision is directionally negative for FHI's credit but, at this time, not material enough to impact our rating or outlook

FHI maintains a $30 million bilateral committed credit facility, which matures in May 2013. External debt service at the holding company is currently well covered by dividends from its subsidiaries.

Rating Outlook

The Stable Outlook reflects Moody's expectation that FHI will remain a holding company for regulated gas LDCs and that FHI's assets and operations outside of the gas LDC sector will continue to represent only a nominal portion of its overall operations. The Stable Outlook also reflects our expectation that FHI's third party holding company debt will be fully retired in the medium term.

What Could Change the Rating - Up

Moody's considers an upward revision in FHI's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if FHI could demonstrate expectations for a sustainable improvement in its consolidated credit metrics. This would likely imply an improvement in the financial profile and an upgrade to the rating of FEI.

What Could Change the Rating - Down

FHI's rating could come under downward pressure if Moody's perceives a material deterioration in the credit profile of FHI's parent, FTS. FHI's rating could also be negatively impacted by weaker financial performance at its utility subsidiaries or by a perceived decline or change in the supportiveness of the utilities' operating or regulatory environment.

Rating Factors

FortisBC Holdings Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**Current**		[3]**Moody's 12-18 month Forward View As of 05/07/2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.4x	Ba1	2x-2.2x	Ba2
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	8.1%	Ba2	9%-10%	Ba2
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	5.7%	Ba2	6%-7%	Ba1
e) Debt/Capitalization (3 Year Avg) (7.5%)	63.9%	Ba3	55%-58%	Ba1
Rating:				
a) Indicated Baseline Credit Assessment from Methodology Grid		A3		A3
b) Actual Baseline Credit Assessment Assigned		Baa2		Baa2

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Based on Financial Data as of March 31, 2012 [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Holdings Inc.

Global Credit Research - 04 Oct 2012

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

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Key Indicators

FortisBC Holdings Inc.[1]

	[2]LTM	2011	2010	2009	2008
CFO pre-WC + Interest/ Interest	**2.3x**	**2.1x**	**2.5x**	**2.3x**	**2.2x**
CFO pre-WC / Debt	**5.0%**	**4.5%**	**5.7%**	**5.0%**	**5.0%**
CFO pre-WC - Dividends / Debt	**3.1%**	**2.4%**	**3.6%**	**3.4%**	**3.1%**
Debt / Capitalization	**84.2%**	**86.0%**	**85.1%**	**92.7%**	**99.8%**

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended June 30, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Holding company with two A3 rated LDCs as principal subsidiaries

Competitiveness of natural gas

Strong ring-fencing separates FHI from its subsidiaries

Relatively weak financial metrics

Good consolidated liquidity

Corporate Profile

FortisBC Holdings Inc. (FHI) is a holding company for regulated local gas distribution companies (LDCs) in British Columbia, Canada. The gas LDC segment represents >95% of revenue and assets of FHI and is comprised of three utilities regulated by the British Columbia Utilities Commission (BCUC): FortisBC Energy Inc. (FEI, A3 senior unsecured, stable); FortisBC Energy (Vancouver Island) Inc. (FEVI, A3 senior unsecured, stable); and FortisBC Energy (Whistler) Inc. (FEW, not rated). FHI's other operation consists of FortisBC Alternative Energy Services, a 100% owned subsidiary that builds, owns and operates alternative energy systems.

FEI is the largest gas LDC in British Columbia and represents about 80% of FHI's property, plant and equipment. FHI is 100% owned by Fortis Inc. (FTS, not rated).

SUMMARY RATING RATIONALE

FortisBC Holdings Inc.'s Baa2 senior unsecured rating reflects the ratings of its two natural gas distribution subsidiaries, FEI and FEVI, and the structural subordination of FHI's debt to that of those subsidiaries combined with the existence of regulatory ring-fencing separating FHI from its principal operating subsidiaries. FHI has largely replaced its external debt with intra-group borrowings from its parent Fortis Inc., which is payable on demand, although Moody's does not expect Fortis Inc. to exercise that demand right. At this point, FHI has a remaining $125 million of external debt outstanding.

DETAILED RATING CONSIDERATIONS

HOLDING COMPANY FOR GAS DISTRIBUTION UTILITIES OPERATING IN A SUPPORTIVE ENVIRONMENT

We consider gas distribution utilities to be at the low end of the risk spectrum for gas and electric regulated utilities. We also believe regulated utilities have lower business risk than companies that do not benefit from cost of service regulation. We therefore consider regulated gas LDCs like FEI and FEVI to be among the lowest risk corporate entities.

FEI, FEVI and FEW all operate in British Columbia (BC), which we view as a relatively supportive regulatory environment. Proceedings tend to be less adversarial and balanced decisions are rendered on a timely basis. We do note, however, that the current generic cost of capital review has been initiated by the regulator, not in response to a rate application. We will assess the outcome of the process for any changes to the regulatory environment.

COMPETITIVENESS OF NATURAL GAS

We believe natural gas may become less competitive than electricity in British Colombia over time. Although we believe that gas is now priced at or below the level where customers are indifferent between gas and other sources of electricity, the Province enacted greenhouse gas targets in 2007 that will increasingly challenge the competitiveness of natural gas over hydro and other forms of "green" energy. Emissions will need to be reduced by 33% by 2020. Similarly, the 2010 Clean Energy Act established fuel switching to energy sources with lower greenhouse gas emissions.

However, an increasing need for generation and transmission capacity may lead to higher electricity prices, helping the competitiveness of gas.

STRONG RING-FENCING SEPARATES FHI FROM ITS SUBSIDIARIES

FHI does not have full access to the resources of its two main operating subsidiaries because of regulatory ring-fencing provisions that protect the regulated utilities from any potential parental distress. This is a credit-negative for FHI reflected in the two notch differential between FHI's Baa2 rating and the A3 ratings assigned to FEI and FEVI.

The ring-fencing provisions require that FEI and FEVI (i) maintain equity/capital at least as high as the equity capitalization deemed by the BCUC for ratemaking purposes (40% for both FEI and FEVI); (ii) refrain from extending loans or guarantees to affiliates; and (iii) refrain from investing in or providing support to non-regulated businesses. The risks associated with the ring-fencing provisions are offset in part by relatively low and reducing levels of third-party holding company debt.

Most of FHI's debt is owed to its parent, FTS, on a pari-passu basis with the public debt, but is payable on demand. We do not, however, expect FTS to call this debt.

We do not rate FTS but have considered its business and risk profile using publicly available information to determine the likelihood of FTS pulling funds out of FHI, in particular to finance the $1.5BN pending acquisition of CH Energy Group, Inc., which owns Central Hudson Gas & Electric Corp. (A3, outlook stable), by FTI. We expect the acquisition to be financed by issuing $600MM in common shares, with the balance from a combination of debt and preferred share issuance, and we do not expect FTS to call upon FHI for extraordinary dividends to help finance the acquisition. We view the transaction as part of FTS' continued growth strategy in low risk regulated assets and indicative of its commitment to the maintenance of strong investment grade ratings both at the parent and operating subsidiary level.

RELATIVELY WEAK FINANCIAL METRICS

We recognize that FHI's weaker financial metrics are largely a function of the deemed equity and allowed ROE at the two operating companies. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions. In addition, FHI's $1.2 billion of preference shares, held by FTS, are redeemable on demand at the holder's option. Our rating and liquidity analysis incorporates the expectation that FTS will not withdraw this capital support and we view the preference shares as equity from a risk perspective. However, in calculating the financial metrics the preference shares are treated as debt due to the demand put feature.

Liquidity Profile

We believe FHI has sufficient liquidity to meet its external funding requirements, excluding the demand debt of $636 million owing to FTI which we do not expect to be called.

FHI maintains a $30 million bilateral committed credit facility, which matures in May 2013 and is therefore not considered to be committed over the next year. External debt service at the holding company is currently well covered by $100 million in dividends from FEI and FEVI.

For the next twelve months, we estimate the company will generate funds from operations of approximately $250 million on a consolidated basis. After dividends of approximately $90 million and capital expenditures of around $230 million, FHI is expected to be free cash flow negative by approximately $70 million. This is supported by $700 million of committed lines at the two operating companies, of which $664 million was available at the end of June 2012. Those lines expire in December 2013 and August 2014.

FHI has no debt maturities in the next twelve months.

Rating Outlook

The stable rating outlook reflects our expectation of stable operating results and a consistent approach by management to maintaining its current capital structure.

What Could Change the Rating - Up

The rating would most likely be upgraded if FEI were to be upgraded, and this might occur if FEI's Cash Flow Interest Coverage exceeds 4x and CFO pre-WC / Debt would be above 19%. We would expect BC to continue to demonstrate its historically supportive regulatory environment.

What Could Change the Rating - Down

FHI's rating could be downgraded if Moody's perceives a material deterioration in the credit profile of FHI's parent, weaker financial performance at its utility subsidiaries with FEI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% or by a decline in the supportiveness of the utilities' operating or regulatory environment.

Rating Factors

FortisBC Holdings Inc.

Regulated Electric and Gas Utilities	Current	[3]Moody's 12-18 month Forward

Industry [1][2]			**View As of October 2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.3x	Ba	2.2x	Ba
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	5%	Ba	5%-6%	Ba
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	3%	Ba	3%-4%	Ba
e) Debt/Capitalization (3 Year Avg) (7.5%)	85%	B	83%-85%	Ba
Rating:				
a) Indicated Baseline Credit Assessment from Methodology Grid		Baa1		Baa1
b) Actual Baseline Credit Assessment Assigned		Baa2		Baa2

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Based on Financial Data as of June 30, 2012 [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Holdings Inc.

Global Credit Research - 26 Jun 2013

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Negative
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy Inc.	
Outlook	Negative
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Negative
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]**FortisBC Holdings Inc.**

	[2]LTM	2012	[3]2011	2010
(CFO Pre-W/C + Interest) / Interest Expense	2.6x	2.7x	2.4x	2.5x
(CFO Pre-W/C) / Debt	9.8%	10.0%	7.6%	8.1%
(CFO Pre-W/C - Dividends) / Debt	7.8%	7.4%	4.9%	5.2%
Debt / Book Capitalization	58.9%	60.0%	61.4%	59.8%

Source: Moody's Financial Metrics TM

[1] All ratios are calculated using Moody's Standard Adjustments. [2] Based on financial data as of 3/31/2013. [3] 2011 Key Indicators reflect the company's retrospective changes due to adoption of US GAAP, effective January 1, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Holding company of three low-risk LDC operating companies

Weak financial profile

Notching considerations given to significant holding company debt and ring-fencing provisions

Corporate Profile

-

FortisBC Holdings Inc. (FHI) is a holding company for regulated local gas distribution companies (LDCs) in British Columbia, Canada. The gas LDC segment represents >95% of revenue and assets of FHI and is comprised of three utilities regulated by the British Columbia Utilities Commission (BCUC): FortisBC Energy Inc. (FEI; A3 negative); FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 negative); and FortisBC Energy (Whistler) Inc. (FEW; not rated). FHI's other operation consists of FortisBC Alternative Energy Services Inc. (FAES; not rated), a 100% owned subsidiary that builds, owns and operates alternative energy systems.

FEI is the largest gas LDC in British Columbia and represents about 80% of FHI's property, plant and equipment. FHI is 100% owned by Fortis Inc. (FTS; not rated).

SUMMARY RATING RATIONALE

FortisBC Holdings Inc.'s Baa2 rating reflects the low risk business profile of its two natural gas distribution subsidiaries, FEI and FEVI, and the structural subordination of FHI's debt to that of those subsidiaries combined with the existence of regulatory ring-fencing separating FHI from its principal operating subsidiaries.

DETAILED RATING CONSIDERATIONS

OPERATING COMPANIES ARE SUPPORTED BY MONOPOLY SERVICE TERRITORIES AND REGULATED COST RECOVERY

FHI's investment grade rating is underpinned by operating companies that have revenue and cash flow certainty, provided by regulated cost recovery. The BCUC offers a cost of service based regulatory compact, which allows FEI, FEVI and FEW to generate relatively consistent cash flow.

We view the BC regulatory framework to be similar in its framework to a strong US jurisdiction, due to similar procedural and legal processes and supportive cost recovery features, including a forward looking test year, deferral accounting for certain costs and timely decisions from the commission. The deferral, or true-up, mechanisms limit subsidiaries' exposure to forecast error with respect to certain operating, interest and gas related costs. In addition, the opcos are able to obtain a certificate of public convenience and necessity (CPCN) from the BCUC prior to undertaking any capital project. In our view, this process reduces the risk that a utility would be denied the opportunity to recover the cost of its capital investments. This is also similar to US processes, which include CPCNs and integrated resource plans.

The primary areas where Canadian regulation is viewed as less credit supportive than other jurisdictions, includes the lower allowed ROE levels and lower equity component of the rate structure. In general, the US maintains 10% (or slightly below) allowed ROEs for integrated, transmission and distribution (T&D) and LDC companies, with capital structures that approximate a 50/50 balance of debt and equity. Furthermore, most states in the US have trended toward implementing various riders or trackers that allow utilities to automatically recover certain costs (e.g., environmental capex, lost margin due to efficiencies or customer conservation, infrastructure replacement, etc.) on a timely basis (most are annual true-ups) and in between general rate case proceedings. The FortisBC utilities do not benefit from some of these interim recovery features, however they do benefit from rate stabilization accounts. Furthermore, FortisBC utilities have future test years, which can often obviate the need for some of these mechanisms.

COMPETITIVENESS OF NATURAL GAS WILL BE IMPACTED BY ENVIRONMENTAL MANDATES

We believe natural gas may become less competitive than electricity in British Colombia over time. Although we believe that gas is now priced at or below the level where customers are indifferent between gas and other sources of electricity, the Province enacted greenhouse gas targets in 2007 that will increasingly challenge the competitiveness of natural gas over hydro and other forms of "green" energy. Emissions will need to be reduced by 33% by 2020. Similarly, the 2010 Clean Energy Act established fuel switching to energy sources with lower greenhouse gas emissions.

However, an increasing need for generation and transmission capacity may lead to higher electricity prices, helping the competitiveness of gas.

HOLDING COMPANY DEBT AND RING-FENCING PROVISIONS PROVIDE ADDITIONAL NOTCHING BETWEEN FHI AND SUBSIDIARIES

The two notch rating differential between FHI's Baa2 rating and the A3 ratings assigned to FEI and FEVI reflects a sizeable amount of holding company debt. For the year ended 2012, FHI had roughly 33% of the $3.2 billion of consolidated debt at its holdco level. This includes the $645 million of intercompany debt owed to FTS, as well as adjustments for pensions and operating leases. Most of FHI's debt is owed to its parent, FTS, on a pari-passu basis with the public debt, but is payable on demand. We do not, however, expect FTS to call this debt. In addition, FHI's $1.2 billion of preference shares, held by FTS, are redeemable on demand at the holder's option. Our financial and liquidity analysis incorporates the expectation that FTS will not withdraw this capital support and we view the preference shares as equity from a risk perspective.

The notching differential also considers the ring-fence type provisions that are designed to isolate the utilities from supporting the parent. The ring-fencing provisions require that FEI and FEVI (i) maintain equity/capital at least as high as the equity capitalization deemed by the BCUC for ratemaking purposes (40% for FEVI, though subject to a potential decrease as part of Stage 2 of the GCOC and 38.5% for FEI); (ii) refrain from extending loans or guarantees to affiliates; and (iii) refrain from investing in or providing support to non-regulated businesses.

We do not rate FTS but have considered its business and risk profile using publicly available information to determine the likelihood of FTS pulling funds out of FHI, in particular to finance the recently approved $1.5BN acquisition of CH Energy Group, Inc., which owns Central Hudson Gas & Electric Corp. (A3; stable). We expect the acquisition to be financed by FTI through the issuance of $600MM in common shares, with the balance from a combination of debt and preferred share issuance, and we do not expect FTS to call upon FHI for extraordinary dividends to help finance the acquisition. We view the transaction as part of FTS' continued growth strategy in low risk regulated assets and indicative of its commitment to the maintenance of strong investment grade ratings both at the parent and operating subsidiary level. However, with very strong ring-fencing provisions required by the New York State Public Service Commission (NYPSC) and a two-year rate freeze as part of the merger requirements, FHI may be required to support FTS to a greater degree than originally expected, especially over the next two years.

BCUC's GENERIC COST OF CAPITAL OUTCOME WILL NEGATIVELY IMPACT FINANCIAL METRICS

In May 2013, the BCUC issued a final order in Stage 1 of its GCOC, which included a reduction of FEI's (the benchmark utility) common equity ratio to 38.5% from 40.0%, and a reduction in allowed ROE of 8.75% from 9.50%. The decision also re-established an automatic adjustment formula (AAM) which considers changes to utility bond spreads and the 30 year Government of Canada bond yields to determine the benchmark ROE on an annual basis, for 2014 and 2015. Though the AAM could provide automatic lift to allowed ROE's in times of rising interest rates, a credit positive, our expectation is that the impact of Stage 1 is likely to reduce future cash flow generation of FHI's subsidiaries, and it may be further affected depending upon the outcome of Stage 2..

Given the GCOC's downward revision to ROE and equity layer, we expect that FHI's CFO pre-WC to debt will fall and remain well below the 13% level that we typically attribute to investment grade utility holding companies. Although FEI has filed for approval of a five-year rate making plan that could temper some degree of financial degradation, we do not expect the consolidated entity to improve upon already very weak financial metrics.

Liquidity Profile

We view FHI's consolidated liquidity as adequate, even without quantitative consideration given to FEVI's $200 million credit facility, due to its expiration in December 2013. Although we expect FEVI to extend this facility, our strict consideration of liquidity sources does not assume refinancing or credit facility extensions over the twelve month horizon. The qualitative assessment for FHI's consolidated liquidity profile would deteriorate if we were to include the demand debt of $645 million owing to FTI; however, we do not expect this debt to be called.

FHI's standalone credit facility of $30 million was fully available as of March 31, 2013 and external debt service at the holding company is supported by dividends from its operating companies, which typically range in around $100 million (2012 was an exception due to the conservative FEVI dividend, as the company was reduced in order to fund the equity portion of the Mt. Hayes LNG facility and maintain FEVI's equity component within its approved capital structure. For the next twelve months, we estimate the company will generate funds from operations of approximately $250 million on a consolidated basis. After dividends of approximately $90 million and capital expenditures of around $240 million, FHI is expected to be free cash flow negative by approximately $80 million. This is supported by $700 million of committed lines at FEI and FEVI operating companies, of which $644 million was available at the end of March 2013. FEI's facility expires in August 2014.

FHI has no holding company debt maturities until September 2014, when $125 million comes due.

Rating Outlook

The negative rating outlook considers weak financial metrics that are likely to decline further over the near-term to intermediate-term. The outlook also considers the change in outlook of FEI and FEVI to negative and the notching relationship between FHI and its operating company subsidiaries.

What Could Change the Rating - Up

It is not likely that FHI's rating will improve over the near-term. However, if BCUC support for its subsidiaries were to improve and the utilities' cash flow production enabled FHI to produce financial metrics of CFO pre-WC interest coverage were to exceed 3.5x and CFO pre-WC to debt in the mid-teens, on a sustainable basis, that would have a positive credit impact.

What Could Change the Rating - Down

A downgrade of either FEI or FEVI could pressure FHI's rating downward. Also, a determination that the BCUC has become a less supportive and predictable regulatory framework would likely result in a downgrade of FHI's rating, but today, we still view the regulator as supportive to long-term credit quality. The recent reduction in allowed ROE and the equity component in the capitalization is viewed as the regulator exercising its authority over the utility monopoly's profitability, and not as a sign of a more contentiousness environment.

Rating Factors

FortisBC Holdings Inc.

Regulated Electric and Gas Utilities [1][2]	**Current LTM**		**[3]Moody's 12-18 month Forward View As of Date Published**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.6x	Ba	2.3 - 2.5x	Ba
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	9%	Ba	7 - 9%	Ba
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	6%	Ba	5 - 7%	Ba
e) Debt/Capitalization (3 Year Avg) (7.5%)	60%	Ba	59 - 62%	Ba
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

Source: Moody's Financial Metrics TM

[1] All ratios are calculated using Moody's Standard Adjustments. [2] Based on financial data as of 3/31/2013. [3] This represents Moody's forward view; not the view of the issuer.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Holdings Inc.

Global Credit Research - 15 Jul 2014

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy Inc.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]**FortisBC Holdings Inc.**

	3/31/2014(L)	12/31/2013	12/31/2012	[2]12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	2.3x	2.5x	2.7x	2.4x	2.5x
CFO pre-WC / Debt	7.7%	8.9%	10.4%	7.6%	8.1%
CFO pre-WC - Dividends / Debt	3.4%	4.9%	7.8%	4.9%	5.2%
Debt / Capitalization	58.9%	59.9%	60.0%	61.4%	59.8%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics [2] 2011 Key Indicators reflect the company's retrospective changes due to adoption of US GAAP, effective January1, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Holding company debt and ring fencing lead to notching

Credit supportive regulatory environment for operating company.

Stable cash flow and weak financial metrics

FHI is independent of ultimate parent, Fortis Inc

Corporate Profile

FortisBC Holdings Inc. (FHI) is a holding company for regulated local gas distribution companies (LDCs) in British Columbia, Canada. The gas LDC segment represents over 95% of revenue and assets of FHI and is comprised of three utilities regulated by the British Columbia Utilities Commission (BCUC): FortisBC Energy Inc. (FEI; A3 stable); FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 stable); and FortisBC Energy (Whistler) Inc. (FEW; not rated). FHI's other operation consists of FortisBC Alternative Energy Services Inc. (FAES; not rated), a 100% owned subsidiary that builds, owns and operates alternative energy systems. FEI is the largest gas LDC in British Columbia and represents about 80% of FHI's property, plant and equipment. FHI is 100% owned by Fortis Inc. (FTS; not rated).

SUMMARY RATING RATIONALE

FHI's credit quality is driven by the credit supportive regulatory environment and the monopoly position of its operating companies. They have a long term track record of earning their allowed return on equity and their cash flow continues to be highly predictable. This is offset by FHI's weak financial metrics, that are primarily the product of the regulatory environment. FHI is rated below its subsidiaries as a result of additional holding company debt and ring fencing provisions at the utilities.

DETAILED RATING CONSIDERATIONS

HOLDING COMPANY DEBT AND RING FENCING LEAD TO NOTCHING

The two notch rating differential between FHI's Baa2 rating and the A3 ratings assigned to FEI and FEVI reflects a sizeable amount of holding company debt. For the year ended 2013, FHI had roughly 33% of the $3.2 billion of consolidated debt at its holdco level. This includes $649 million of intercompany debt owed to FTS, as well as adjustments for pensions and operating leases. Most of FHI's debt is owed to its parent, FTS, on a pari-passu basis with its public debt, but is payable on demand. We do not, however, expect FTS to call this debt. In addition, FHI's $1.2 billion of preference shares, held by FTS, are redeemable on demand at the holder's option. Our financial and liquidity analysis incorporates the expectation that FTS will not withdraw this capital support and we view the preference shares as equity from a risk perspective. Following a $125 million MTN maturity on September 15, 2014, FortisBC Holdings Inc. will no longer have any debt owed to unaffiliated companies.

The notching differential also considers the ring-fence type provisions that are designed to isolate the LDC utilities from supporting the parent. The ring-fencing provisions require that FEI and FEVI (i) maintain equity/capital at least as high as the equity capitalization deemed by the BCUC for ratemaking purposes (41.5% for FEVI and 38.5% for FEI); (ii) refrain from extending loans or guarantees to affiliates; and (iii) refrain from investing in or providing support to non-regulated businesses.

CREDIT SUPPORTIVE REGUALTORY ENVIRONMENT

FHI's investment grade rating is driven by the credit supportive regulatory environment and monopoly position of its operating companies. Rates are typically set using a cost of service framework and a forward test year that enables the companies to recover costs and earn an allowed return established by the regulator, resulting in stable cash flow. The operating companies have a track record of passing through commodity costs in rates and have no direct exposure to commodity price risk and limited volume risk. To the extent that these and many other costs differ from forecast values, deferral or true up mechanisms limit exposure to forecast error. As a result the companies have a long track record of earning the return on equity (ROE) established by the regulator.

For capital projects in excess of $5 million FHI's operating companies require a certificate of public convenience and necessity (CPCN) that reduces the probability of cost disallowances, a credit positive. For large capital projects, they receive a weighted average cost of capital in rates for financing costs incurred during construction; however, depreciation cash flow only begins once projects are complete and added to rate base. We do not believe FEI and FEVI have experienced any material cost disallowances. Decisions from the regulator tend to be reasonably predictable, consistent and transparent with a consultative approach. We have noted regulatory lag in some recent decisions, but the companies have generally received interim rates as requested, mitigating some lag effects. Generally, when the utility or other stakeholders materially disagree with some aspects of decisions, they have been successful in asking the regulator to review and vary its decisions with final outcomes acceptable to all parties, as evidenced by a lack of court challenges. The companies have access to the courts to challenge regulatory decisions, although we do not believe this has happened since the utilities were acquired by Fortis Inc. The legislative and judicial underpinnings of the regulatory framework continue to be stable.

STABLE CASH FLOW AND WEAK FINANCIAL METRICS

We expect FHI's main LDC operating companies to continue to generate stable cash flow, a key credit strength for FHI. Underpinning this stability, cash flow from operations is generally a function of the company's rate base, its deemed capital structure (equity layer 38.5% for FEI and 41.5% for FEVI), the allowed return on equity (currently 8.75% for FEI and 9.25% for FEVI) and depreciation. The benchmark ROE of FEI contains an automatic adjustment mechanism for 2014 and 2015 that increases rates in case of rising interest rates. Given where rates are today 2014 will not qualify for any adjustment. We have incorporated into our analysis that both LDCs continue to perform broadly in line with our expectations, including an assumption that they continue to earn their allowed ROEs. We expect the LDCs' dividend policy net of any equity injections will maintain the deemed capital structure. Both LDCs have limited financial metric headroom at the current rating. Planned large capital projects will place some downward pressure on credit metrics, i.e., Tilbury LNG Expansion Project (FEI) and pipeline to serve Woodfibre LNG (FEVI) because depreciation cash flow will not begin until these projects are completed. As a result, we forecast that credit metrics will decline somewhat until these projects are completed in 2016-2017 and then improve modestly from the nadir that occurs prior to the in-service dates. This forecast weakness is incorporated in the current rating.

For further information on FEI and FEVI, please see their respective credit opinions.

Liquidity Profile

We view FHI's consolidated liquidity as adequate. The qualitative assessment for FHI's consolidated liquidity profile would deteriorate if we were to include the demand debt of $649 million owing to FTS; however, we do not expect this debt to be called any time over the next four quarters.

FHI's standalone credit facility of $30 million, maturing in April 2015, was fully available as of March 31, 2014 and external debt service at the holding company is supported by dividends from its operating companies, which typically range around $100 million. The dividend payments from FEI and FEVI fluctuate with the operating companies' debt profiles - BCUC imposed restrictions that prohibit upstream dividends to FHI unless the deemed equity layer at the operating companies is maintained. For the next twelve months, we estimate the company will generate funds from operations of approximately $300 million on a consolidated basis. After dividends of approximately $90 million and capital expenditures of about $300 million., FHI is expected to be free cash flow negative by around $120 million. This is supported by $700 million of committed lines at FEI and FEVI operating companies, of which $603 million was available at the end of March 2014.

FHI has no holding company debt maturities until September 2014, when $125 million comes due.

Rating Outlook

The stable outlook is based on our expectation of a stable regulatory environment and stable, albeit weak financial metrics at the company's operating subsidiaries. A change in the stable outlook of the company's subsidiaries would likely lead to a similar change in the outlook for FHI.

What Could Change the Rating - Up

While we don't expect it, material deleveraging at FHI could lead to an upgrade.

What Could Change the Rating - Down

While we don't expect it additional holding company leverage leading to a deterioration in metrics beyond our forecasts could lead to a downgrade.

Rating Factors

FortisBC Holdings Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2014**		[3]**Moody's 12-18 Month Forward ViewAs of June 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A

b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	2.4x	Ba	2.4 - 2.7x	Ba
b) CFO pre-WC / Debt (3 Year Avg)	8.7%	Ba	8 - 11%	Ba
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	5.6%	Ba	3 - 7%	Ba
d) Debt / Capitalization (3 Year Avg)	59.1%	Ba	57 - 61%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching	-1	-1	-1	-1
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

MOODY'S
INVESTORS SERVICE

Summary of FortisBC Holdings Inc. changes in Credit Ratings from 2002-2015

Unsecured Debentures

Rating Agency	Report Date	Rating Action	Rating
DBRS	January 2002	Ongoing	A (low)
DBRS	December 2005	Downgraded	BBB (high)
DBRS	May 2015	Rating Discontinued	BBB (high)

Rating Agency	Report Date	Rating Action	Rating
Moody's	January 2002	Ongoing	A3
Moody's	December 2005	Downgraded	Baa2
Moody's	June 2013	Outlook Change	Baa2 (Negative Outlook)
Moody's	July 2014	Outlook Change	Baa2 (Stable Outlook)
Moody's	July 2015	Rating Discontinued	Baa2

Rating Agency*	Report Date	Rating Action	Rating
S&P	January 2002	Ongoing	BBB
S&P	June 2003	Downgraded	BBB-
S&P	Early 2004	Rating Discontinued	BBB-

Note: (*) Rating was unsolicited as of early 2004

Press Release

Date of Release: May 30, 2011

Insight beyond the rating.

DBRS Confirms Fortis Inc. Following the Acquisition Announcement of Central Vermont Public Service Corporation

Industry: Utilities & Independent Power

DBRS has today confirmed the Unsecured Debentures and Preferred Shares ratings of Fortis Inc. (Fortis or the Company) at A (low) and Pfd-2 (low), respectively, both with Stable trends.

The rating confirmation follows the announcement by Fortis of its intention to acquire 100% of the common shares of Central Vermont Public Service Corporation (CVPS) for total consideration of approximately US$700 million, including the assumption of approximately US$230 million in debt. The proposed acquisition is considered manageable for Fortis as it is anticipated to increase the Company's total consolidated assets by a modest 7%.

CVPS is the largest integrated electric utility in Vermont. CVPS purchases, produces, transmits and distributes and sells electricity to approximately 160,000 customers in Vermont. CVPS is also a 41% shareholder in Vermont Transco LLC, the owner of Vermont's high-voltage electric transmission system. Fortis will be adding a regulated utility with a reasonable allowed rate of return on common equity of 9.45% for 2011, and an equity component in the capital structure currently of 57%.

DBRS believes the transaction will have a modestly positive impact on Fortis's overall business risk profile as a result of the acquisition of a stable, lower-risk regulated electric utility that will provide Fortis with further geographic and regulatory diversification. Fortis anticipates using borrowings under its $600 million committed term credit facility to initially purchase the outstanding shares of CVPS. DBRS expects that Fortis will ultimately finance the acquisition in a manner consistent with its current financial profile and the conservative financing philosophy it has displayed in past acquisitions; that is, with a significant portion of the cost to acquire CVPS equity funded with Fortis equity. The Company has stated that it expects the proposed acquisition of CVPS to be accretive to earnings within the first full year of operations.

The transaction is contingent upon obtaining certain shareholder, regulatory and governmental approvals, including that of the Vermont Public Service Board and the U.S. Federal Energy Regulatory Commission. The Company expects the transaction to close in six to 12 months.

DBRS notes that, unrelated to this transaction, Fortis today announced a bought deal share offering for gross proceeds of $300.3 million, with an over-allotment option that would bring the proceeds to $345.345 million, if fully exercised. Proceeds from the transaction will be used to repay amounts outstanding under the Company’s credit facility and to finance additional equity injections into western Canadian regulated utilities, as well as the non-regulated Waneta Expansion Limited Partnership, in support of infrastructure investment and for general corporate purposes.

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

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on our website under Methodologies.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Fortis Inc.	Unsecured Debentures	Confirmed	A (low)	Stb	May 30, 2011
Fortis Inc.	Preferred Shares	Confirmed	Pfd-2 (low)	Stb	May 30, 2011

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

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Press Release

Date of Release: June 22, 2011

DBRS Comments on Fortis Inc. and Belize

Industry: Utilities & Independent Power

DBRS notes today that Fortis Inc. (Fortis or the Company, rated A (low) with a Stable trend) has announced that the Government of Belize has passed legislation and issued an order to expropriate the Company's ownership interest in Belize Electricity Limited (BEL) and dismiss its board of directors.

While uncertainties remain regarding the amount of compensation to be paid to Fortis and possible legal proceedings, any consequences are not expected to affect Fortis's credit profile or ratings, given BEL's very modest size (less than 2% of Fortis's total assets). Furthermore, from a holding company perspective, BEL has not provided dividends to Fortis in a number of years.

In addition, DBRS notes that Fortis also owns Belize Electric Company Limited (BECOL), a non-regulated generation business that operates three hydroelectric generating facilities in Belize and which has fixed contracts in place with BEL. The Government of Belize has not issued an expropriation order with regard to BECOL; however, as BECOL sells power to BEL, the longer-run implications of the current events for BECOL is uncertain. However, these assets represent approximately 1% of Fortis's assets, and the impact is expected to be minimal.

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

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on our website under Methodologies.

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

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Press Release

Date of Release: September 7, 2011

Insight beyond the rating.

DBRS Confirms Fortis Inc. at A (low), Pfd-2 (low), Stable Trends

Industry: Utilities & Independent Power

DBRS has today confirmed the Unsecured Debentures and Preferred Shares ratings of Fortis Inc. (Fortis or the Company) at A (low) and Pfd-2 (low), respectively, both with Stable trends. The confirmation is based on the Company's strong financial profile and low business risk profile, driven by its diverse ownership of regulated electric and gas operating subsidiaries that collectively represent approximately 91% of consolidated EBITDA and assets.

In May 2011, Fortis entered into a Merger Agreement with Central Vermont Public Service Corporation (CVPS) to purchase 100% of the common shares of CVPS for total consideration of approximately US$700 million, including the assumption of approximately US$230 million in debt. Subsequently, CVPS's Board of Directors received a competing acquisition proposal from Gaz Métro Limited Partnership and deemed it superior to Fortis's offer. CVPS terminated the Merger Agreement with Fortis and paid Fortis US$17.5 million plus US$2.0 millions in expenses. DBRS had confirmed Fortis's ratings following the announcement of its intention to acquire CVPS. The subsequent termination of the acquisition does not impact ratings.

In 2010, Fortis entered into a partnership with Columbia Power Corporation and the Columbia Basin Trust (CPC/CBT), both entities of the Government of British Columbia, to construct the 335 MW Waneta Expansion at an estimated cost of approximately $900 million. Fortis owns a controlling 51% interest in the Waneta Expansion and will operate and maintain it when it comes into service, which is expected in spring 2015. Fortis issued common shares in June 2011 for gross proceeds of $345 million. The net proceeds will be used to repay indebtedness outstanding under the Company's committed credit facility, to finance additional equity injections into the Company's western Canadian regulated utilities and the non-regulated Waneta Expansion Limited Partnership. The common equity issuance has further improved Fortis's capital structure.

DBRS commented earlier this year following the announcement by the Government of Belize passing legislation and issuing an order to expropriate the Company's ownership interest in Belize Electricity Limited (BEL) and dismissing its board of directors. While uncertainties remain regarding the amount of compensation to be paid to Fortis and possible legal proceedings, any consequences are not expected to affect Fortis's credit profile or ratings, given BEL's very modest size (less than 2% of Fortis's total assets). Furthermore, from a holding company perspective, BEL has not provided dividends to Fortis in a number of years.

Fortis's low business risk is due to its diversified utility investments, with electric utilities providing approximately 55% of EBITDA and gas utilities 36%. Fortis's credit metrics are strong on both a consolidated and non-consolidated basis. The Company has witnessed a modest improvement over the years as a result of its utility subsidiaries adding new assets into rate base, an increase in rates and favourable regulatory decisions.

Over the next five-year period from 2011 through 2015, Fortis's consolidated capital program is expected to approach $5.7 billion, with approximately 61% of capital spending incurred at the regulated electric utilities (mainly FortisAlberta and FortisBC), 23% at the regulated gas utilities and 16% at the non-regulated operations. Capital expenditures at the regulated utilities are subject to regulatory approval. It is anticipated that the majority of capital expenditures will be funded at the subsidiary level, with a combination of internally generated cash, operating company-level debt and equity from Fortis to fund capital build-out programs, while maintaining their respective regulated capital structures. DBRS views the level of Fortis's equity injections as reasonable, and does not anticipate that the Company will use debt to fund the injections, thereby avoiding double leverage.

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

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on our website under Methodologies.

Issuer	**Debt Rated**	**Rating Action**	**Rating**	**Trend**	**Latest Event**
Fortis Inc.	Unsecured Debentures	Confirmed	A (low)	Stb	Sep 7, 2011
Fortis Inc.	Preferred Shares	Confirmed	Pfd-2 (low)	Stb	Sep 7, 2011

The full report providing additional analytical detail is available by clicking on the link under Related Research at the right of the screen or by contacting us at info@dbrs.com.

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Press Release

Date of Release: October 17, 2011

DBRS Rates FortisAlberta's Issue of $125 Million 4.54% Medium-Term Notes at A (low)

Industry: Utilities & Independent Power

DBRS has today assigned a rating of A (low), with a Stable trend, to the $125 million 4.54% medium-term notes (MTNs) due October 18 2041, issued by FortisAlberta Inc. (FortisAlberta). The MTNs are expected to settle on October 19, 2011, and are being issued pursuant to FortisAlberta's Short Form Base Shelf Prospectus dated August 16, 2011.

The MTNs will rank equally with all of FortisAlberta's other present and future unsecured and unsubordinated senior obligations.

Proceeds from the sale of the MTNs will be used to repay certain existing indebtedness under FortisAlberta's credit facilities and for other corporate purposes.

FortisAlberta is a wholly owned indirect subsidiary of Fortis Inc.

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

The applicable methodology is Rating North American Energy Utilities (Electric, Natural Gas and Pipelines), which can be found on the DBRS website under Methodologies.

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

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Press Release

Date of Release: February 21, 2012

Insight beyond the rating.

DBRS Places Fortis Inc. Under Review with Developing Implications Following CH Energy Group Inc. Acquisition Announcement

Industry: Utilities & Independent Power

DBRS has today placed the A (low) Unsecured Debentures and Pfd-2 (low) Preferred Shares ratings of Fortis Inc. (Fortis or the Company) Under Review with Developing Implications. This action follows the announcement that the Company has agreed to acquire CH Energy Group Inc. (CHG) for a total consideration of approximately US$1.5 billion, including the assumption of US$500 million of debt on closing (the Acquisition). The purchase price represents an approximate 10.5% premium above the most recent closing price of CHG. The Acquisition is expected to close within 12 months and is subject to CHG shareholder approval, as well as various regulatory approvals.

CHG’s principal businesses consist of: (1) Central Hudson Gas & Electric Corporation (Central Hudson), which is a regulated utility in New York State with approximately 300,000 electric customers and 75,000 gas customers. Central Hudson accounted for 97% of CHG’s consolidated net income and 93% of assets in 2011. (2) A non-regulated fuel delivery business (3% of net income), which serves 56,000 customers in the mid-Atlantic region. CHG’s total assets were US$1.7 billion as of December 31, 2011, while net income and operating cash flow in 2011 were US$45 million and US$115 million, respectively. Pro forma the CHG acquisition (i.e., post-acquisition), DBRS estimates that CHG will account for 11% of Fortis’s total assets and 12% of Fortis’s total net income (based on December 31, 2011). The Acquisition is expected to be immediately accretive to earnings and cash flow.

In reviewing Fortis’s rating in light of the proposed Acquisition, DBRS’s analysis is focused on (1) the impact of the Acquisition on the business risk profile of Fortis, and (2) the financial impact of the transaction on the Company’s credit profile.

(1) BUSINESS RISK PROFILE – NEUTRAL IMPACT
Based on our preliminary review, DBRS views the proposed Acquisition as neutral with respect to Fortis’s business risk profile. Currently, approximately 90% of Fortis’s consolidated earnings are contributed by its regulated businesses (gas and electric transmission, distribution, generation and storage), with the remaining earnings coming from hotel properties and non-regulated generation. The proposed Acquisition is expected to slightly improve the Company’s earnings mix toward the regulated businesses, since 97% of CHG’s earnings are generated from regulated gas and electric

transmission and distribution. In addition, the regulatory framework in New York is viewed as reasonable in terms of operating and capital cost recovery and returns on investment. CHG has no exposure to commodity price risk since all gas and power purchase costs are passed through to customers. Over the longer term, the Acquisition should help maintain the current mix of regulated and non-regulated earnings as Fortis continues to increase its exposure to non-regulated businesses, including the non-regulated hydroelectric Waneta Expansion Project (estimate: $450 million Fortis share, 51% equity interest) expected to be in service in 2015.

(2) FINANCIAL RISK PROFILE – NEGATIVE IMPACT
The focus of DBRS's analysis is on Fortis' non-consolidated capital structure (parent level) and cash flow from the subsidiaries to the parent to service the parent's debt and corporate expenses. On a non-consolidated basis, the cash flow-to-interest expense ratio was strong at 4.43 times (x) in 2011, while debt-to-capital was near 20%. DBRS notes that, at 20%, non-consolidated leverage is at the upper end of the range for the A (low) rating category.

Fortis expects to use its multi-year committed credit facility to finance the purchase in the short term (Fortis's available credit facility was $845 million at the parent level as at December 31, 2011). The Company intends to finance the acquisition on a long-term basis, consistent with its currently non-consolidated capital structure.

DBRS will further review the Company's financing plan when it is finalized and expects that the Company will finance the Acquisition in such a way that the 20% debt-to-capital structure at the non-consolidated level will be maintained. Any material increase in leverage could cause Fortis's credit risk profile to deteriorate to a level that is no longer commensurate with the current A (low) rating.

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

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on the DBRS website under Methodologies.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Fortis Inc.	Unsecured Debentures	Under Review - Developing	A (low)	--	Feb 21, 2012
Fortis Inc.	Preferred Shares	Under Review - Developing	Pfd-2 (low)	--	Feb 21, 2012

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

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Endorsement: EU Qualified by Extension.

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Press Release

Date of Release: March 8, 2012

Insight beyond the rating.

DBRS Updates Its Report on Fortis Inc.

Industry: Utilities & Independent Power

DBRS has today updated its report on Fortis Inc. (Fortis or the Company). On February 21, 2012, DBRS placed the Unsecured Debentures and Preferred Shares ratings of Fortis Inc. at A (low) and Pfd-2 (low), Under Review with Developing Implications. This rating action was taken following the announced acquisition of CH Energy Group Inc. (CHG) for a total consideration of approximately US$1.5 billion, including the assumption of US$500 million of debt (the “Acquisition”). The Acquisition is expected to close in Q1 2013 subject to CHG’s shareholders and various regulatory approvals.

With the proposed Acquisition, Fortis’ business risk profile is expected to improve moderately, as approximately 97% of CHG’s earnings are generated from its regulated electric and gas regulated businesses. This regulated earnings mix is higher than the Company’s current mix at approximately 90%. The remaining 10% of Fortis’ consolidated earnings are generated from higher-risk hotel properties and non-regulated generation businesses. The regulatory framework in New York is viewed as reasonable, as CHG is allowed to recover prudently incurred operating, capital and commodity costs and earn adequate returns on investment.

The proposed Acquisition will likely increase Fortis’ non-consolidated balance sheet leverage. As at December 31, 2011, Fortis’ non-consolidated debt-to-capital was 13.6%, significantly lower than the 2010 level largely as a result of the $300 million equity issuance for the failed acquisition of Central Vermont Public Services Corporation. This leverage was well below the 20% threshold in DBRS rating guidelines for notching a holding company relative to its subsidiaries. (See DBRS’ Rating Parent/Holding Companies and Their Subsidiaries, dated March 2010.) DBRS will further review Fortis’ financing plan when it is finalized and expects the Company to finance the Acquisition in a prudent manner such that the non-consolidated debt-to-capital remains within the 20% range. The current rating could be affected if the Company’s financing plan materially exceeds the 20% threshold.

Fortis is currently rated the same as some of its subsidiaries (FortisBC Inc. and FortisAlberta Inc.) despite the structural subordination and double leverage at the parent. DBRS believes that Fortis’ ratings are supported by strong and stable cash flows from diversified sources, with a significant portion of dividends coming from its regulated subsidiaries with “A” ratings (FortisBC Energy Inc.

and Newfoundland Power Inc.).

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

The full report providing additional analytical detail is available by clicking on the link under Related Research at the right of the screen or by contacting us at info@dbrs.com.

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry, which can be found on our website under Methodologies.

The full report providing additional analytical detail is available by clicking on the link under Related Research at the right of the screen or by contacting us at info@dbrs.com.

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Rating Report

Report Date:
March 8, 2012

Previous Report:
September 7, 2011

Insight beyond the rating.

Fortis Inc.

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	A (low)	Under Review-Developing	---
Preferred Shares	Pfd-2 (low)	Under Review-Developing	---

Rating Update

DBRS has updated its report on Fortis Inc. (Fortis or the Company). On February 21, 2012, DBRS placed the Unsecured Debentures and Preferred Shares ratings of Fortis Inc. at A (low) and Pfd-2 (low), Under Review with Developing Implications. This rating action was taken following the announced acquisition of CH Energy Group Inc. (CHG) for a total consideration of approximately US$1.5 billion, including the assumption of US$500 million of debt (the "Acquisition"). The Acquisition is expected to close in Q1 2013 subject to CHG's shareholders and various regulatory approvals.

With the proposed Acquisition, Fortis' business risk profile is expected to improve moderately, as approximately 97% of CHG's earnings are generated from its regulated electric and gas regulated businesses. This regulated earnings mix is higher than the Company's current mix at approximately 90%. The remaining 10% of Fortis' consolidated earnings are generated from higher-risk hotel properties and non-regulated generation businesses. The regulatory framework in New York is viewed as reasonable, as CHG is allowed to recover prudently incurred operating, capital and commodity costs and earn adequate returns on investment.

The proposed Acquisition will likely increase Fortis' non-consolidated balance sheet leverage. As at December 31, 2011, Fortis' non-consolidated debt-to-capital was 13.6%, significantly lower than the 2010 level largely as a result of the $300 million equity issuance for the failed acquisition of Central Vermont Public Services Corporation (CVPS). This leverage was well below the 20% threshold in DBRS rating guidelines for notching a holding company relative to its subsidiaries. (See DBRS' Rating Parent/Holding Companies and Their Subsidiaries, dated March 2010.) DBRS will further review Fortis' financing plan when it is finalized and expects the Company to finance the Acquisition in a prudent manner such that the non-consolidated debt-to-capital remains within the 20% range. The current rating could be affected if the Company's financing plan materially exceeds the 20% threshold.

Fortis is currently rated the same as some of its subsidiaries (FortisBC Inc. and FortisAlberta Inc.) despite the structural subordination and double leverage at the parent. DBRS believes that Fortis' ratings are supported by strong and stable cash flows from diversified sources, with a significant portion of dividends coming from its regulated subsidiaries with "A" ratings (FortisBC Energy Inc. and Newfoundland Power Inc.).

Rating Considerations

Strengths

(1) Strong and stable dividends and cash income
(2) Diversified sources of cash flow
(3) 100% ownership of most subsidiaries
(4) Good liquidity/reasonable interest coverage

Challenges

(1) Potential higher debt levels at the parent
(2) Structurally subordinated to debt at the subsidiaries
(3) Strong ring-fencing at its wholly owned utilities
(4) Considerable capex for Waneta Expansion Project

Financial Information

Non-consolidated Fortis Inc.	For the year ended December 31				
($ millions)	**2011**	**2010**	**2009**	**2008**	**2007**
EBIT	417	385	350	326	260
Cash flow from operations	216	155	215	145	40
Total debt	755	949	832	606	709
Total debt/Capital	13.6%	18.4%	17.7%	14.0%	18.9%
EBIT-interest coverage (x)	9.26	8.65	8.05	8.40	7.67
Cash flow-interest coverage (x)	5.79	4.48	5.95	4.73	2.18
Cash flow/Total debt	28.6%	16.4%	27.4%	25.9%	6.0%

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The Company

Fortis Inc. is a holding company of a number of regulated electric and natural gas utilities, including wholly owned Newfoundland Power Inc., FortisAlberta Inc, FortisBC Inc, Maritime Electric Company, Limited, FortisOntario Inc. and Fortis Turks and Caicos, as well as majority ownership of Caribbean Utilities Company (60%); FortisBC Energy companies (formerly Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.) comprise its gas distribution utilities. Non-regulated operations include Fortis Properties, as well as non-regulated generation in Belize, Ontario and upper New York State.

Recent Actions

February 21, 2012
Under Review with Developing Implications

September 7, 2011
Confirmed

Fortis Inc.

Report Date:
March 8, 2012

Rating Considerations Details

Strengths

(1) **Strong and stable dividends and cash income:** Cash income and dividends have been strong, largely supported by stable earnings and cash flow from regulated entities and long-term power contracts. Regulated operations account for approximately 90% of consolidated EBITDA (2011).

(2) **Diversified sources of cash flow:** Fortis benefits from diversified sources of cash flow through its ownership of regulated natural gas utilities in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries.

(3) **100% ownership of most subsidiaries:** Fortis owns 100% of most of its operating entities. This provides Fortis, within the boundaries of regulatory oversight, with some discretionary powers over the manner in which cash flows are paid to it by its operating companies.

(4) **Good liquidity/reasonable interest coverage:** At the end of 2011, Fortis had approximately $814 million in available credit facility (at the parent level), which is sufficient to finance its near-term operational needs. The non-consolidated cash flow-to-interest coverage remained strong in 2011.

Challenges

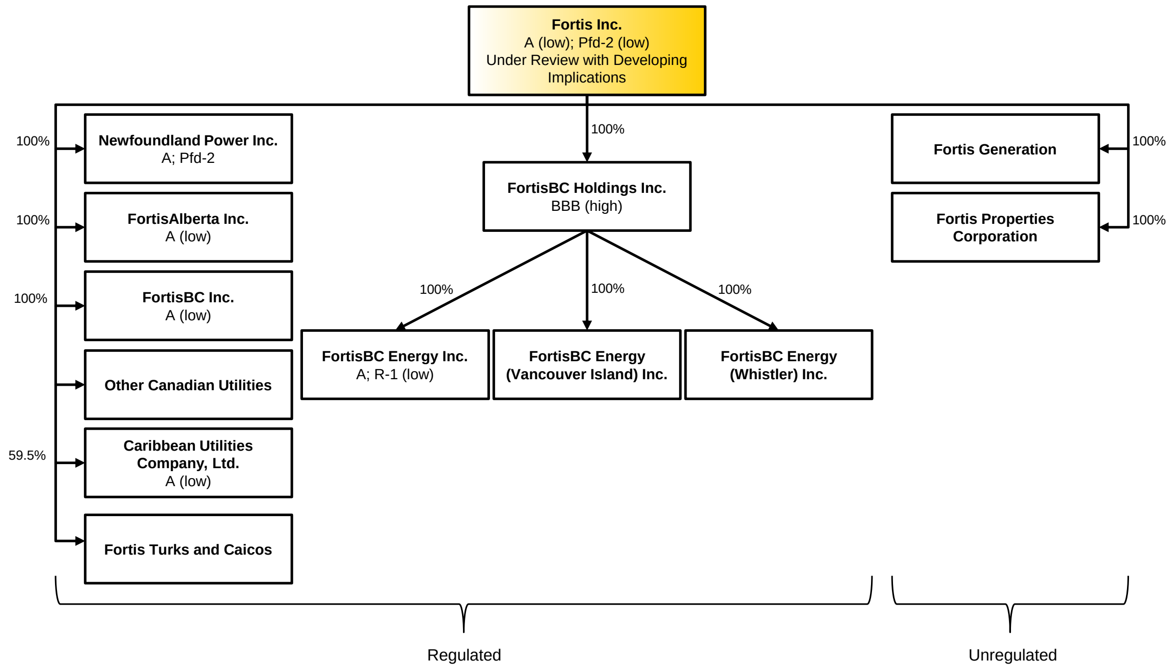
(1) **Potential high debt levels at the parent:** Fortis' agreement to acquire CHG could increase the debt levels at the parent significantly. At the end of 2011, the non-consolidated debt-to-capital ratio was at 13.6%, which was reasonable. However, Fortis' non-consolidated leverage will likely increase with the proposed Acquisition.

(2) **Structural subordination:** Fortis is a holding company whose debt is structurally subordinated to the debt obligations of its operating companies, which account for the lower debt rating of Fortis relative to the debt ratings of some its key regulated subsidiaries.

(3) **Strong ring-fencing:** Fortis faces strong ring-fencings imposed on FortisBC Energy Inc and FortisBC (Vancouver Island) Inc. with respect to their capital structure and dividend payouts. In addition, it is common for utilities to maintain their capital structure in line with the regulatory capital structure. As a result, dividend payouts to Fortis could be affected should these utilities have a large capital expenditure program.

(5) **Large capital expenditures for the Waneta Expansion Project (WEP):** The WEP is a hydroelectric project in British Columbia that is 51% owned by Fortis. The Company's share of capital expenditures is approximately $450 million. Approximately $245 million will be required for 2012. The project is expected to be in service in early 2015.

Simplified Corporate Structure*



*Note: The above chart only includes Fortis' major regulated and non-regulated subsidiaries, which directly or indirectly contribute dividends to Fortis.

Based on 2011 Data

Name	Operations	Customers	Rate base (CAD millions)	Allowed Roe for 2012	Net income (CAD millions)	Deemed equity
FortisBC Holdings Inc.	Holding company		3,300	9.6%	139	40%
FortisBC Energy Inc.	Natural gas distribution	851,000	2,500	9.5%	102	40%
FortisBC Energy (Vancouver Island)	Natural gas distribution	102,000	700	10.0%	N/A	40%
FortisBC Energy (Whistler)	Natural gas distribution	2,600	100	10.0%	N/A	40%
FortisAlberta	Electricity distribution	499,000	1,715	8.8%	75	41%
FortisBC	Integrated utility	162,000	1,093	9.9%	48	40%
Newfoundland Power	Electricity distribution	247,000	875	8.4%	34	45%
Other Canadian Utilities	-	177,000	513	8.0-9.8%	22	40%
Fortis Properties	Real estate	22 hotels	-	-	23	-
Caribbean Utilities	Integrated utility	26,000	375	12-14%	20	45-50%
Fortis Turks and Caicos	Integrated utility	9,500	155	-	9	-
Fortis Generation	Power generation	Appro. 292 MW		-	18	-

The Proposed Acquisition of CHG

On February 21, 2012, Fortis announced that it has agreed to acquire CHG for a total consideration of approximately US$1.5 billion, including the assumption of US$500 million of debt on closing. The Acquisition is expected to close within 12 months and is subject to CHG's shareholder approval as well as various regulatory approvals.

CHG's principal businesses are comprised of (1) Central Hudson Gas & Electric Corporation (Central Hudson), which is a regulated utility in New York State with approximately 300,000 electric customers and 75,000 gas customers. Central Hudson accounts for 97% of CHG's 2011 net income and 93% of its assets. (2) A non-regulated fuel delivery business (3% of CHG income), which serves 56,000 customers in the Mid-Atlantic Region. CHG's total assets as of December 31, 2011, were US$1.7 billion. Net income and operating cash flow in 2011 were US$45 million and US$115 million, respectively.

Non-Consolidated Income & Cash Flows

Earnings - Non-Consolidated	%	Year end December 31	
($ millions)	2011	**2011**	**2010**
Newfoundland Power		34	35
FortisBC Energy Holdings Inc.		128	119
FortisWest		84	82
Other Canadian utilities/Other		10	11
Fortis Energy Bermuda		26	28
Regulated investment income	67%	**282**	**275**
Fortis Properties		35	37
FortisUS Inc.		12	(3)
Fortis Energy Cayman		14	18
Non-regulated	14%	**61**	**52**
Total Investment Income		**343**	**327**
Interest income + Management fee	18%	77	59
EBITDA	100%	**420**	**386**

Earnings - Non-Consolidated	For the year ended December 31				
($ millions)	**2011**	**2010**	**2009**	**2008**	**2007**
EBITDA	**420**	**386**	**351**	**328**	**262**
Depreciation	2	1	2	2	2
EBIT	418	385	350	326	260
Interest expense	45	44	43	39	34
EBT	373	340	306	287	226
Net Income before preferred dividends	364	329	296	275	215
Non-consolidated cash flow from operations	216	155	215	145	40
Less: Preferred dividends	45	45	35	30	23
Less: Common dividends	151	193	133	162	128
Net free cash flow	20	(83)	48	(47)	(111)
Acquisitions	(0)	0	0	0	(1,256)
Investments/Advances to subsidiaries	(208)	(367)	(358)	(306)	(266)
Equity financing (includes preferred)	345	322	49	533	1,268
Debt financing	(165)	140	293	(179)	333
Others, including working capital	(2)	(4)	(30)	6	20
Net change in cash flow	(10)	8	1	7	(12)

Summary

- EBITDA reflected strong earnings at the regulated utilities, long-term contracted generation, property management, and interest income.
- Stronger earnings contributions from regulated utilities (primarily from FortisBC Energy Holdings, Newfoundland Power and FortisWest) were a result of their increased rate bases, higher ROE and higher deemed equity in 2011.
- Contributions from Fortis Properties were also stronger as a result of better economic conditions.
- Advances ($208 million in 2011) to subsidiaries mainly reflected the need for financing capital expenditures at the regulated utilities and the construction of the hydro power WEP.
- Equity issuance ($345 million in 2011) largely reflected the amount issued for the CVPS acquisition, which did not go through.

Outlook

- Investment income from regulated utilities is expected to increase considerably should the propose Acquisition of CHG be completed as expected.

Fortis Inc.

Report Date:
March 8, 2012

Capital Structure and Liquidity

Capital Structure - Non-Consolidated	As at December 31				
($ millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Short-term debt	-	-	100	-	5
Credit facilities	-	165	37	110	208
Long-term debt	755	779	650	450	450
Sub. convertible debentures	-	5	45	46	46
Preferred shares	912	912	667	667	442
Common shares	3,867	3,308	3,195	3,046	2,606
Total non-consolidated capital	**5,534**	**5,169**	**4,695**	**4,319**	**3,757**
% total debt-to-total capital	13.6%	18.4%	17.7%	14.0%	18.9%
EBIT-interest coverage (x)	9.28	8.65	8.07	8.39	7.66
Cash flow-interest coverage (x)	5.79	4.48	5.98	4.73	2.18
Cash flow-to-total debt	28.6%	16.4%	27.5%	25.9%	6.0%

Summary

- Fortis' non-consolidated balance sheet remained strong at the end of 2011 reflecting (1) additional equity issuance in 2011 for the CVPS acquisition, which did not go through; and (2) lower debt levels as credit facility was paid off.
- The debt-to-capital ratio was moderate at 13.6%, significantly lower than 2010, largely as a result of a $300 million equity issuance, which was partially used to reduce $165 million in debt.
- This leverage level remained well within the 20% threshold in DBRS's notching guidelines for a holding company relative to its subsidiaries.
- Cash flow-interest coverage remained strong for a holding company.

Potential Impact of the Proposed Acquisition

- Debt-to-capital ratio will likely increase from the current level should the CHG Acquisition be completed.
- DBRS will review the Company's financing plan when it is finalized and expects that the Company will finance the Acquisition in such a way that the 20% debt-to-capital structure at the non-consolidated level will be maintained.
- A material increase in leverage from the 20% level could cause Fortis' credit risk profile to deteriorate to a level that is no longer commensurate with the current A (low) rating.

Liquidity

Credit Facilities of Fortis Inc. as at Dec 31 2011

($ millions)	Committed	Drawn / LC	Available	Expiry
Corporate and Other				
Unsecured committed revolving credit facility	800			Jul-15
Unsecured demand credit facility	15			
Total	815	1	814	

Debt Maturity Schedule

Debt maturities - ($ millions)	2012	2013	2014	2015	2016	Thereafter	Total
Fortis Inc. senior debt	0	0	153	0	0	602	755
Total	0	0	153	0	0	602	755
% of total debt	0%	0%	20%	0%	0%	80%	100%

- Fortis has sufficient liquidity to finance its near-term financing requirements.
- Debt maturity is concentrated in 2014, when 20% of Fortis' total debt is due. DBRS believes that the refinancing of this amount is within Fortis' capacity, given its strong credit profile.

Description of Operations

Fortis' main subsidiaries and investments are as follows:

FortisBC Holdings Inc. (100% owned) (FHI) is a holding company of the following utilities:
(1) **FortisBC Energy Inc. (FEI)** is the largest natural gas distributor in British Columbia, serving approximately 851,000 residential, commercial and industrial customers in an area extending from Vancouver to the Fraser Valley and the interior of British Columbia.
(2) **FortisBC Energy (Vancouver Island)Inc. (FEVI)** owns a combined distribution and transmission system and serves approximately 102,000 residential, commercial and industrial customers along the Sunshine Coast and in Victoria and various communities on Vancouver Island.
(3) **FortisBC Energy (Whistler) Inc. (FEW)** owns and operates a propane distribution system in Whistler, British Columbia, and provides service to approximately 2,600 residential and commercial customers.

FortisAlberta Inc. (100% owned) is a regulated electricity distributor with approximately 499,000 customers. Its franchise area includes central and southern Alberta, the suburbs surrounding Edmonton and Calgary, Red Deer, Lethbridge and Medicine Hat.

FortisBC Inc. (100% owned) is a vertically integrated regulated utility operating in south-central British Columbia, serving approximately 162,000 customers. Its generation assets include four hydroelectric generating plants (totalling 223 megawatts (MW)) on the Kootenay River in south-central British Columbia.

Newfoundland Power Inc. (100% owned) (NP) is a principal distributor of electricity on the island portion of Newfoundland and Labrador, serving more than 247,000 customers. Fortis also owns 25% of NP's preferred shares.

Other Canadian Utilities
(1) **FortisOntario Inc. (100% owned)** is an integrated electric utility providing services to approximately 64,000 customers in Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario. FortisOntario also owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies serving approximately 38,000 customers.
(2) **Maritime Electric Company Limited (MECL)** is the principal distributor of electricity on Prince Edward Island (P.E.I.), serving approximately 75,000 customers. MECL also maintains on-island generating facilities with a combined capacity of 150 MW. MECL is indirectly owned by Fortis through FortisWest.

Fortis Properties Corporation owns and operates 22 hotels in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate, primarily in Atlantic Canada.

Caribbean Utilities Company, Ltd. (60% owned) (CUC) is a fully integrated electricity utility on Grand Cayman, Cayman Islands, serving over 26,000 customers. CUC has an installed generating capacity of approximately 151 MW. Fortis has an approximate 60% controlling ownership interest in CUC, and the remaining ownership is publicly traded on the Toronto Stock Exchange.

Fortis Turks and Caicos serves approximately 9,500 customers, or 85% of electricity consumers in the Turks and Caicos Islands pursuant to 50-year licenses that expire in 2036 and 2037. The Company has a combined diesel-fired generating capacity of 54 MW.

Belize Electric Company Limited is a non-regulated 32 MW hydro generation facility in Belize. All output is sold to Belize Electricity Limited under a 50-year power purchase agreement expiring in 2055. The US$53 million 19 MW hydroelectric generating facility at Vaca in Belize was commissioned in March 2010.

Belize Electricity Limited is recorded as equity investment following the expropriation by the Government of Belize in June 2011.

Fortis Inc.

Report Date:
March 8, 2012

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	A (low)	Under Review-Developing	---
Preferred Shares	Pfd-2 (low)	Under Review-Developing	---

Rating History

	Current	2011	2010	2009	2008	2007
Unsecured Debentures	A (low)	A (low)	A (low)	BBB (high)	BBB (high)	BBB (high)
Preferred Shares	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)

Related Research

- FortisBC Holdings Inc., February 29, 2012.
- FortisBC Energy Inc., February 29, 2012.
- Newfoundland Power Inc., January 24, 2012.
- FortisAlberta Inc., February 7, 2012.
- FortisBC Inc., February 22, 2012.
- Caribbean Utilities Company, Ltd., July 4, 2011.

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

Press Release

Date of Release: July 20, 2012

DBRS Removes Fortis Inc. from Under Review with Developing Implications

Industry: Utilities & Independent Power

DBRS has today removed Fortis Inc.'s (Fortis or the Company) ratings from Under Review with Developing Implications (following the announced acquisition (the Acquisition) of CH Energy Group Inc. (CHG) on February 21, 2012). DBRS has also confirmed the ratings of Unsecured Debentures and Preferred Shares of the Company at A (low) and Pdf-2 (low), respectively, with Stable trend. The confirmation is based on the closing of subscription receipt offering (approximately $600 million) in June 2012 and further review of the Company's financing plan. DBRS is comfortable that Fortis's funding strategy includes appropriate measures to maintain a reasonable financial profile while executing its growth strategy, particularly the Acquisition (approximately $1.0 billion, plus $500 million in debt assumption) and the Waneta hydro power project (total $450 million in investment, $250 million required in 2012).

Fortis's non-consolidated balance sheet leverage is expected to increase notably. However, given its current financial flexibility with non-consolidated debt-to-capital at near 14% and strong cash flow coverage, DBRS believes that Fortis's financing plan is reasonable, such that the debt leverage within the 20% range can be maintained in-line with DBRS's rating guidelines for notching a holding company relative to its subsidiaries. (See DBRS Criteria: Rating Parent/Holding Companies and Their Subsidiaries, dated March 2010.) Following the Acquisition and the financing of the Waneta project, cash flow coverage is expected to weaken temporarily but should still remain within the current rating category.

With the proposed Acquisition, Fortis' business risk profile is expected to improve moderately, as approximately 97% of CHG's earnings are generated from its regulated electric and gas businesses. This regulated earnings mix is higher than the Company's current mix at approximately 90%. The remaining 10% of Fortis's consolidated earnings are generated from higher-risk hotel properties and non-regulated generation businesses. The regulatory framework in New York is viewed as reasonable, as CHG is allowed to recover prudently incurred operating, capital and commodity costs and earn good returns on investment.

Fortis is currently rated the same as some of its subsidiaries (FortisBC Inc. and FortisAlberta Inc.) despite the structural subordination and double leverage at the parent. DBRS believes that Fortis's ratings are supported by strong and stable cash flows from diversified sources, with a significant portion of dividends coming from its regulated subsidiaries with “A” ratings (FortisBC Energy Inc. and Newfoundland Power Inc.).

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

The applicable methodology is Rating Companies in the North American Energy Utilities (Electric and Natural Gas) Industry (May 2011), which can be found on our website under Methodologies.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Fortis Inc.	Unsecured Debentures	Confirmed	A (low)	Stb	Jul 20, 2012
Fortis Inc.	Preferred Shares	Confirmed	Pfd-2 (low)	Stb	Jul 20, 2012

DBRS will publish a full report shortly that will provide additional analytical detail on this rating action. If you are interested in receiving this report, contact us at info@dbrs.com.

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Rating Report

Report Date:
July 26, 2012

Previous Report:
March 8, 2012

Insight beyond the rating.

Fortis Inc.

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The Company

Fortis Inc. is a holding company for a number of regulated electric and natural gas utilities, including wholly owned Newfoundland Power Inc., FortisAlberta Inc., FortisBC Inc., Maritime Electric Company, Limited, FortisOntario Inc. and Fortis Turks and Caicos, as well as majority ownership of Caribbean Utilities Company (slightly over 60%). FortisBC Energy companies (formerly Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.) comprise its gas distribution utilities. Non-regulated operations include Fortis Properties, as well as non-regulated generation in Belize, Ontario and upper New York State.

Recent Actions

July 20, 2012
Confirmed

February 21, 2012
Placed Under Review with Developing Implications

September 7, 2011
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	A (low)	Confirmed	Stable
Preferred Shares	Pfd-2 (low)	Confirmed	Stable

Rating Update

On July 20, 2012, DBRS confirmed the ratings of the Unsecured Debentures and Preferred Shares of Fortis Inc. (Fortis or the Company) at A (low) and Pdf-2 (low), respectively, with Stable trends, and removed the ratings from Under Review with Developing Implications following the announced acquisition of CH Energy Group Inc. (CHG) (the Acquisition) on February 21, 2012. The confirmation is based on the closing of subscription receipt offering (approximately $600 million) in June 2012 and further review of the Company's financing plan. DBRS is comfortable that Fortis' funding strategy includes appropriate measures to maintain a reasonable financial profile while executing its growth strategy, particularly the Acquisition (approximately $1.0 billion) and the Waneta hydropower project (approximately $127.5 million in 2012).

Fortis' non-consolidated balance sheet leverage is expected to increase notably. However, given its current financial flexibility, with non-consolidated debt-to-capital at near 14% and strong cash flow coverage, DBRS believes that Fortis' financing plan is reasonable such that debt leverage within the 20% range can be maintained in line with DBRS's rating guidelines for notching a holding company relative to its subsidiaries (see DBRS's methodology Rating Parent/Holding Companies and Their Subsidiaries, dated March 2010). Following the Acquisition and the financing of the Waneta project, cash flow coverage is expected to weaken temporarily but should remain within the current rating category.

With the proposed Acquisition, Fortis' business risk profile is expected to improve moderately, as approximately 97% of CHG's earnings are generated from its regulated electric and gas regulated businesses. This regulated earnings mix is higher than the Company's current mix at approximately 90%. The remaining 10% of Fortis' consolidated earnings are generated from higher-risk hotel properties and non-regulated generation businesses. The regulatory framework in New York is viewed as reasonable, as CHG is allowed to recover prudently incurred operating, capital and commodity costs and earn good returns on investments.

Fortis is currently rated the same as some of its subsidiaries (FortisBC Inc. and FortisAlberta Inc.), despite the structural subordination and double leverage at the parent. DBRS believes that Fortis' ratings are supported by strong and stable cash flows from diversified sources, with a significant portion of dividends coming from its regulated subsidiaries with "A" ratings (FortisBC Energy Inc. and Newfoundland Power Inc.).

Rating Considerations

Strengths

(1) Strong and stable dividends and cash income
(2) Diversified sources of cash flow
(3) 100% ownership of most subsidiaries
(4) Good liquidity/reasonable interest coverage

Challenges

(1) Potential higher debt levels at the parent
(2) Structurally subordinated to debt at the subsidiaries
(3) Strong ring-fencing at its wholly owned utilities
(4) Considerable capex for Waneta Expansion Project

Financial Information

Non-consolidated Fortis Inc.	12 mos.	Year ended December 31				
($ millions)	Mar. 2012	2011	2010	2009	2008	2007
EBIT	424	419	385	350	326	260
Cash flow from operations	225	216	155	216	145	40
Total debt	780	755	949	832	606	709
Total debt/Capital	13.9%	13.6%	18.4%	17.7%	14.0%	18.9%
EBIT-interest coverage (x)	9.40	9.29	8.65	8.05	8.40	7.67
Cash flow-interest coverage (x)	5.99	5.79	4.48	5.98	4.73	2.18
Cash flow/Total debt	28.9%	28.6%	16.4%	27.5%	25.9%	6.0%

Fortis Inc.

Report Date:
July 26, 2012

Rating Considerations Details

Strengths

(1) **Strong and stable dividends and cash income.** Cash income and dividends have been strong, largely supported by stable earnings and cash flow from regulated entities and long-term power contracts. Regulated operations account for approximately 90% of consolidated EBITDA (12 months to March 2012).

(2) **Diversified sources of cash flow.** Fortis benefits from diversified sources of cash flow through its ownership of regulated natural gas utilities in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries.

(3) **100% ownership of most subsidiaries.** Fortis owns 100% of most of its operating entities. This provides Fortis, within the boundaries of regulatory oversight, with some discretionary powers over the manner in which cash flows are paid to it by its operating companies.

(4) **Good liquidity/reasonable interest coverage.** At the end of March 2012, Fortis had approximately $814 million in available credit facilities (at the parent level), which is sufficient to finance its near-term operational and capital needs. Non-consolidated cash flow-to-interest coverage remained strong for the 12 months ended March 2012.

Challenges

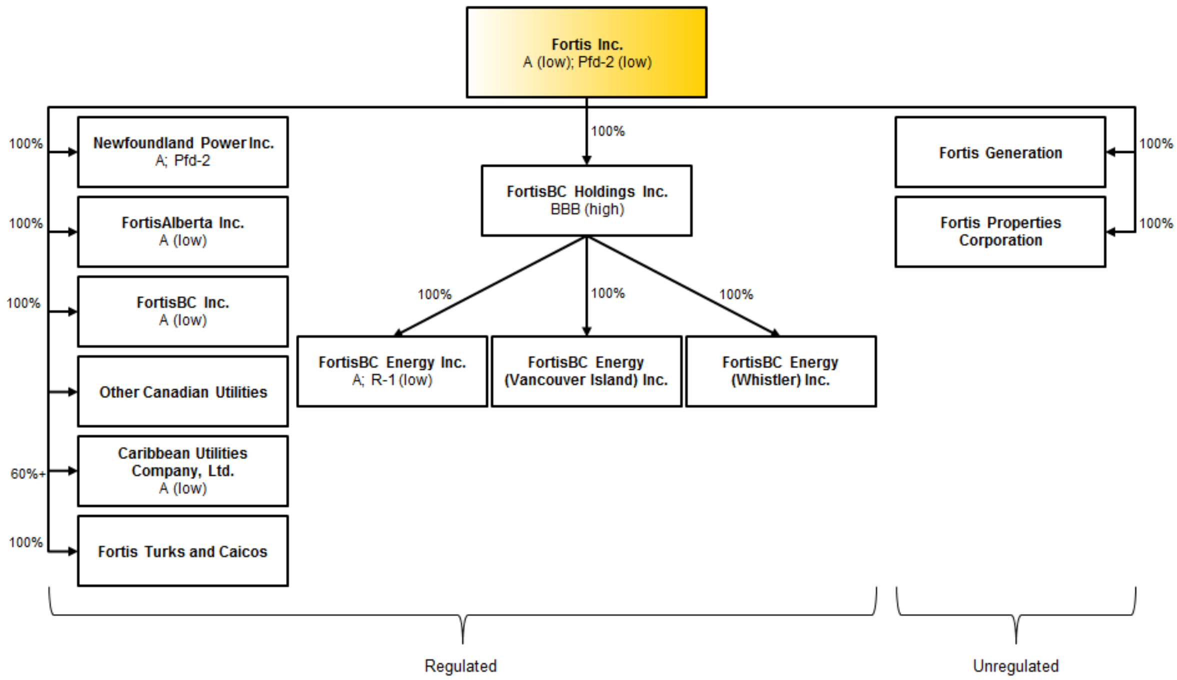
(1) **Potential high debt levels at the parent.** Fortis' agreement to acquire CHG could increase debt levels at the parent considerably. As at March 31, 2012, the non-consolidated debt-to-capital ratio was at 13.9%, which provided Fortis with significant financial flexibility. However, Fortis' non-consolidated leverage will likely increase with the proposed Acquisition.

(2) **Structural subordination.** Fortis is a holding company whose debt is structurally subordinated to the debt obligations of its operating companies. This accounts for the lower debt rating of Fortis relative to the debt ratings of some its key regulated subsidiaries.

(3) **Strong ring-fencing.** Fortis faces strong ring-fencings imposed on FortisBC Energy Inc. and FortisBC (Vancouver Island) Inc. with respect to their capital structure and dividend payouts. In addition, it is common for utilities to maintain their capital structure in line with the regulatory capital structure. As a result, dividend payouts to Fortis could be affected should these utilities have a large capital expenditure program.

(4) **Large capital expenditures for the Waneta Expansion Project (WEP).** The WEP is a hydroelectric project in British Columbia that is 51% owned by Fortis. The Company's share of capital expenditures is approximately $450 million. Approximately $250 million will be required in 2012 for the project (51% will be contributed by Fortis). The project is expected to be in service in early 2015.

Simplified Corporate Structure*



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Fortis Generation	Power generation	Appro. 292 MW		-	18	-

The Proposed Acquisition of CHG

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CHG's principal businesses comprise: (1) Central Hudson Gas & Electric Corporation (Central Hudson), which is a regulated utility in New York state with approximately 300,000 electric customers and 75,000 gas customers. Central Hudson accounts for 97% of CHG's 2011 net income and 93% of its assets. (2) A non-regulated fuel delivery business (3% of CHG income), which serves 56,000 customers in the Mid-Atlantic Region. CHG's total assets as of December 31, 2011, were US$1.7 billion. Net income and operating cash flow in 2011 were US$45 million and US$115 million, respectively.

Fortis Inc.

Report Date:
July 26, 2012

Non-Consolidated Income & Cash Flows

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FortisBC Energy Holdings Inc.	138	128	119
FortisWest	80	84	82
Other Canadian utilities/Other	10	10	11
Fortis Energy Bermuda	25	26	28
Regulated investment income	**286**	**282**	**275**
Fortis Properties	34	35	37
FortisUS Inc.	8	12	(3)
Fortis Energy Cayman	17	14	18
Non-regulated	**59**	**61**	**52**
Total Investment Income	**345**	**343**	**327**
Interest income + Management fee	80	77	59
EBITDA	**425**	**420**	**386**

Earnings - Non-Consolidated	12 mos.	Year end December 31				
($ millions)	Mar. 2012	2011	2010	2009	2008	2007
EBITDA	**425**	**420**	**386**	**351**	**328**	**262**
Depreciation	2	2	1	2	2	2
EBIT	424	419	385	350	326	260
Interest expense	45	45	44	43	39	34
EBT	379	373	340	306	287	226
Net Income before preferred dividends	367	364	329	297	275	215
Non-consolidated cash flow from operations	225	216	155	216	145	40
Less: Preferred dividends	(45)	(45)	(45)	(35)	(30)	(23)
Less: Common dividends	(145)	(151)	(135)	(133)	(162)	(128)
Free cash flow	35	19	(25)	49	(47)	(111)
Maintenance capex	(5)	(4)	(3)	(0)	(0)	(1)
Acquisitions	0	0	0	0	0	(1,256)
Investments/Advances to subsidiaries	(225)	(208)	(367)	(358)	(306)	(266)
Equity financing (includes preferred)	345	345	264	49	533	1,269
Debt financing	(149)	(165)	141	293	(179)	333
Others, including working capital	(1)	3	(1)	(30)	6	21
Net change in cash flow	(1)	(10)	8	2	7	(11)

Summary

- Overall, Fortis has benefited from good earnings diversification, strongly underpinned by regulated utilities, which account for 90% of consolidated assets.
- EBITDA reflected strong earnings from regulated utilities, long-term contract generation, property management and interest income.
- Earnings have increased over the years, largely reflecting higher ROE in recent years and growing rate bases at the utilities.
- Fortis Properties' performance has been solid, reflecting the recovery of the Canadian economy. Although accounting for 10% of the assets, non-consolidated contributions have been solid at 14% since 2010.

Outlook

- Investment income from regulated utilities is expected to increase considerably in 2013 should the proposed Acquisition of CHG be completed as expected (Q1 2013).
- The Acquisition should also improve Fortis' earnings diversification.
- Non-regulated earnings are expected to increase in 2015 when WEP is scheduled to be in service. The project has obtained a long-term power contract with BC Hydro.

Fortis Inc.

Report Date:
July 26, 2012

Capital Structure and Liquidity

Capital Structure - Non-Consolidated	**12 mos.**	As at December 31				
($ millions)	**Mar. 2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Short-term debt	-	-	-	100	-	5
Credit facilities	31	-	165	36	110	208
Long-term debt	749	755	779	650	450	450
Sub. convertible debentures	-	-	5	45	46	46
Preferred shares	912	912	912	667	667	442
Common shares	3,909	3,867	3,308	3,195	3,046	2,606
Total non-consolidated capital	**5,600**	**5,534**	**5,169**	**4,694**	**4,319**	**3,757**
% total debt-to-total capital	13.9%	13.6%	18.4%	17.7%	14.0%	18.9%
EBIT-interest coverage (x)	9.40	9.29	8.65	8.05	8.40	7.67
Cash flow-interest coverage (x)	5.99	5.79	4.48	5.98	4.73	2.18
Cash flow-to-total debt	28.9%	28.6%	16.4%	27.5%	25.9%	6.0%

Summary

- Fortis' non-consolidated balance sheet remained strong in Q1 2012, reflecting a modest debt-to-capital ratio at 13.9%, which provided the Company with significant financial flexibility.
- This leverage remained well within the 20% threshold in DBRS's notching guidelines for a holding company relative to its subsidiaries.
- Cash flow-to-interest coverage remained strong for a holding company.

Potential Impact of the Proposed Acquisition of CHG

- The price of the Acquisition is approximately $1 billion.
- In June 2012, Fortis completed a subscription receipt offering for approximately $600 million, which will be used to partially finance the Acquisition, with the remainder expected to be financed with debt and preferred shares.
- Based on the Company's financing strategy, the debt-to-capital ratio will likely increase from the current level should the Acquisition be completed.
- However, the new debt-to-capital ratio is expected to remain within the 20% level.

Liquidity

Credit Facilities as at March 31 2012				
($ millions)	HoldCo & other	Regulated Subsidiaries	Non-regulated Subsidiaries	Total
Total credit facilities	845	1389	13	2247
Drawing on credit facilities (S-T)		(73)	(3)	(76)
Drawing on credit facilities (L-T)	(31)	(50)		(81)
Letters of credit	(1)	(65)		(66)
Credit facilities available	813	1201	10	2024

Debt Maturity Schedule							
Debt maturities - ($ millions)	2012	2013	2014	2015	2016	Thereafter	Total
Fortis Inc. senior debt	0	0	153	0	0	602	755
Total	0	0	153	0	0	602	755
% of total debt	0%	0%	20%	0%	0%	80%	100%

- Fortis has sufficient liquidity to finance its near-term funding requirements.
- Debt maturity is concentrated in 2014, when 20% of Fortis' total debt is due. DBRS believes that the refinancing of this amount is within the Company's capacity, given its strong credit profile.

Description of Operations

Fortis' main subsidiaries and investments are as follows:

FortisBC Holdings Inc. (100% owned) is a holding company for the following utilities:
(1) **FortisBC Energy Inc. (FEI)** is the largest natural gas distributor in British Columbia, serving approximately 851,000 residential, commercial and industrial customers in an area extending from Vancouver to the Fraser Valley and the interior of British Columbia.
(2) **FortisBC Energy (Vancouver Island) Inc. (FEVI)** owns a combined distribution and transmission system and serves approximately 102,000 residential, commercial and industrial customers along the Sunshine Coast and in Victoria and various communities on Vancouver Island.
(3) **FortisBC Energy (Whistler) Inc. (FEW)** owns and operates a propane distribution system in Whistler, British Columbia, and provides service to approximately 2,600 residential and commercial customers.

FortisAlberta Inc. (100% owned) is a regulated electricity distributor with approximately 499,000 customers. Its franchise area includes central and southern Alberta, the suburbs surrounding Edmonton and Calgary, Red Deer, Lethbridge and Medicine Hat.

FortisBC Inc. (100% owned) is a vertically integrated regulated utility operating in south-central British Columbia, serving approximately 162,000 customers. Its generation assets include four hydroelectric generating plants (totaling 223 MW) on the Kootenay River in south-central British Columbia.

Newfoundland Power Inc. (100% owned) (NP) is a principal distributor of electricity on the island portion of Newfoundland and Labrador, serving more than 247,000 customers. Fortis also owns 25% of NP's preferred shares.

Other Canadian Utilities
(1) **FortisOntario Inc.** is an integrated electric utility providing services to approximately 64,000 customers in Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario. FortisOntario also owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies serving approximately 38,000 customers.

(2) **Maritime Electric Company Limited (Maritime Electric)** is the principal distributor of electricity on Prince Edward Island, serving approximately 75,000 customers. It also maintains on-island generating facilities with a combined capacity of 150 MW. Maritime Electric is indirectly owned by Fortis through FortisWest.

Fortis Properties Corporation owns and operates 22 hotels in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate, primarily in Atlantic Canada.

Caribbean Utilities Company, Ltd. (Caribbean Utilities) is a fully integrated electricity utility on Grand Cayman, Cayman Islands, serving over 26,000 customers. It has an installed generating capacity of approximately 151 MW. Fortis has an approximate 60% controlling ownership interest in Caribbean Utilities, and the remaining ownership is publicly traded on the Toronto Stock Exchange.

Fortis Turks and Caicos serves approximately 9,500 customers, or 85% of electricity consumers in the Turks and Caicos Islands pursuant to 50-year licenses that expire in 2036 and 2037. The Company has a combined diesel-fired generating capacity of 54 MW.

Belize Electric Company Limited is a non-regulated 32 MW hydro generation facility in Belize. All output is sold to Belize Electricity Limited under a 50-year power purchase agreement expiring in 2055. The US$53 million 19 MW hydroelectric generating facility at Vaca in Belize was commissioned in March 2010.

Belize Electricity Limited is recorded as equity investment following the expropriation by the Government of Belize in June 2011.

Fortis Inc.

Report Date:
July 26, 2012

Rating

Debt	Rating	Rating Action	Trend
Unsecured Debentures	A (low)	Confirmed	Stable
Preferred Shares	Pfd-2 (low)	Confirmed	Stable

Rating History

	Current	2011	2010	2009	2008	2007
Unsecured Debentures	A (low)	A (low)	A (low)	BBB (high)	BBB (high)	BBB (high)
Preferred Shares	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-3 (high)	Pfd-3 (high)	Pfd-3 (high)

Related Research

- FortisBC Holdings Inc., February 29, 2012.
- FortisBC Energy Inc., February 29, 2012.
- Newfoundland Power Inc., July 18, 2012.
- FortisAlberta Inc., June 28, 2012.
- FortisBC Inc., February 22, 2012.
- Caribbean Utilities Company, Ltd., July 5, 2012.

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

Rating Report

Report Date:
February 19, 2013

Previous Report:
July 26, 2012

Insight beyond the rating.

Fortis Inc.

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The Company

Fortis Inc. is a holding company for a number of regulated electric and natural gas utilities, including wholly owned FortisBC Energy companies (formerly Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.), Newfoundland Power Inc., FortisAlberta Inc., FortisBC Inc., Maritime Electric Company, Limited, FortisOntario Inc. and Fortis Turks and Caicos, as well as majority ownership of Caribbean Utilities Company (slightly over 60%).

Non-regulated operations include Fortis Properties, as well as non-regulated generation in Belize, Ontario and upper New York State.

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debentures	A (low)	Confirmed	Stable
Preferred Shares	Pfd-2 (low)	Confirmed	Stable

Rating Update

DBRS has confirmed the Issuer Rating and ratings of the Unsecured Debentures and Preferred Shares of Fortis Inc. (Fortis or the Company) at A (low), A (low) and Pdf-2 (low), respectively, with Stable trends. The confirmation reflects the Company's strong mix of earnings generated from regulated utilities and reasonable financing strategies for the acquisition of CH Energy Group Inc. (CHG) (the Acquisition; approximately US$1.5 billion, including US$500 million assumed debt) and the Waneta hydropower project, of which Fortis has 51% ownership.

Upon completion of the Acquisition and Waneta project, Fortis' non-consolidated leverage is expected to increase modestly, but should be maintained within the 20% range as a result of a prudent funding mix. The 20% threshold is in line with DBRS's rating guidelines for notching a holding company relative to its subsidiaries (see DBRS's methodology *Rating Holding Companies and Their Subsidiaries*). In 2012, the Company completed its subscription receipt offering of approximately $601 million and preferred shares issuance of approximately $200 million, which will be used to partially fund the Acquisition and Waneta project ($116 million in capital expenditures (capex) in 2013, net to Fortis). Although cash flow coverage is expected to weaken temporarily following the Acquisition and Waneta project, it is expected to remain within the current rating category (pro forma debt-to-capital of approximately 14% in 2012).

Fortis' business risk profile is expected to improve moderately with the Acquisition, as approximately 97% of CHG's earnings are generated from its regulated electric and gas businesses. This regulated earnings mix is higher than the Company's consolidated mix of approximately 90% (remainder generated from higher-risk hotel properties and non-regulated generation businesses). The regulatory framework in New York is viewed as reasonable, as CHG is allowed to recover prudently incurred operating, capital and commodity costs in a timely manner and earn a reasonable return on investments.

Fortis is currently rated the same as some of its subsidiaries (FortisBC Inc. and FortisAlberta Inc.), despite the structural subordination and double leverage at the parent, as DBRS believes that Fortis' ratings are supported by strong and stable cash flows from diversified sources, with a prominent portion of dividends coming from regulated subsidiaries with "A" ratings (FortisBC Energy Inc. and Newfoundland Power Inc.).

Rating Considerations

Strengths

(1) Strong and stable dividends and cash income
(2) Diversified sources of cash flow
(3) 100% ownership of most subsidiaries
(4) Good liquidity/strong interest coverage

Challenges

(1) Potential higher debt levels at the parent
(2) Structural subordination to debt at the subsidiaries
(3) Strong ring-fencing at its wholly owned utilities
(4) Considerable capex for Waneta Expansion Project

Financial Information

	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Fortis Inc. - Non-consolidated	**Year ended December 31**				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
EBIT	418.5	414.9	379.3	344.4	320.2
EBIT interest coverage (times)	10.55	9.37	8.01	7.93	8.25
DBRS adjusted total debt	1,088.9	880.4	1,181.7	844.7	654.0
Total debt in capital structure	18.1%	15.7%	22.5%	17.7%	15.0%
Cash flow interest coverage (times)	5.52	4.90	3.27	4.86	3.58
Cash flow/Total debt	20.1%	24.6%	13.1%	25.0%	21.2%

Rating Considerations Details

Strengths

(1) **Strong and stable dividends and cash income.** Cash income and dividends have been strong, largely supported by stable earnings and cash flow from regulated entities and long-term power contracts. Regulated operations account for approximately 90% of consolidated earnings and 71% of non-consolidated cash flow in 2012.

(2) **Diversified sources of cash flow.** Fortis benefits from diversified sources of cash flow through its ownership of regulated natural gas utilities in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. This is expected to improve upon the completion of the CHG acquisition.

(3) **100% ownership of most subsidiaries.** Fortis owns 100% of most of its operating entities. This provides Fortis, within the boundaries of regulatory oversight, with some discretionary powers over the manner in which cash flows are paid to it by its operating companies.

(4) **Good liquidity/strong interest coverage.** At the end of December 31, 2012, Fortis had approximately $991 million in available credit facilities (at the parent level), which is sufficient to finance its near-term operational and capital needs. Non-consolidated cash flow-to-interest coverage remained strong in 2012 at 5.52 times.

Challenges

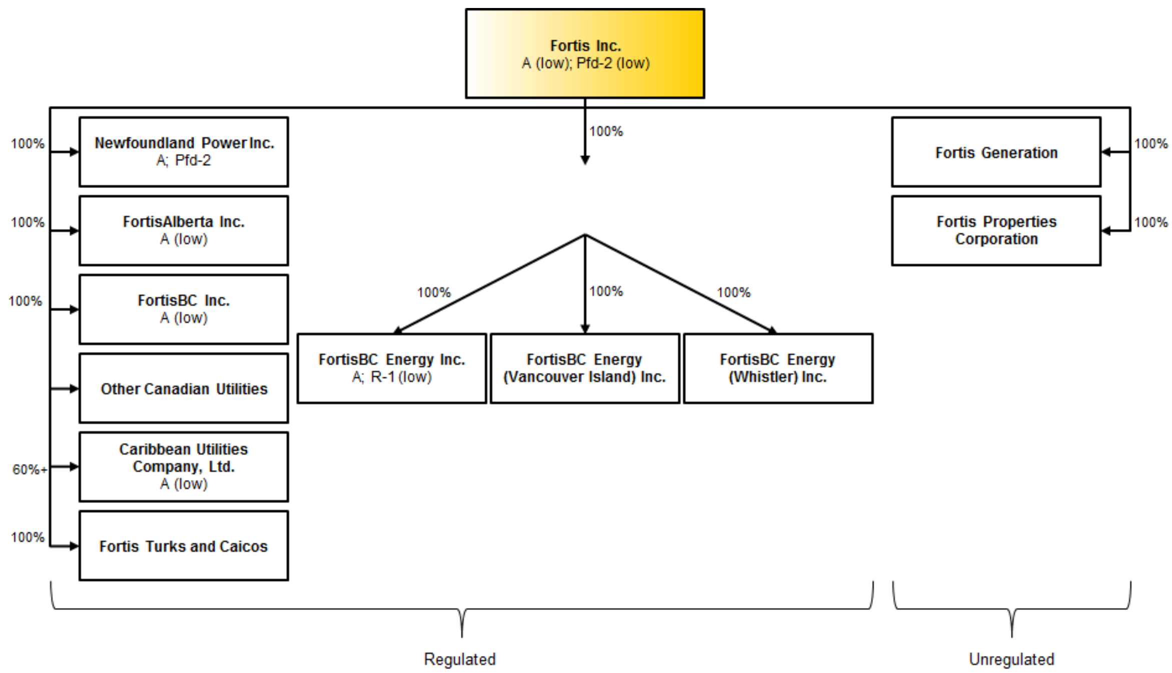
(1) **Potential higher debt levels at the parent.** Fortis' agreement to acquire CHG could considerably increase debt levels at the parent. As at December 31, 2012, the non-consolidated debt-to-capital ratio was at approximately 14% (pro forma), providing Fortis with financial flexibility. However, Fortis' non-consolidated leverage will likely increase to around the 20% threshold.

(2) **Structural subordination to debt at the subsidiaries.** Fortis is a holding company whose debt is structurally subordinated to the debt obligations of its operating companies. This accounts for the lower debt rating of Fortis relative to the debt ratings of some its key regulated subsidiaries.

(3) **Strong ring-fencing at its wholly owned utilities.** Fortis faces strong ring-fencings imposed on FortisBC Energy Inc. and FortisBC (Vancouver Island) Inc., with respect to their capital structure and dividend payouts. In addition, it is common for utilities to maintain their capital structure in line with the regulatory capital structure. As a result, dividend payouts to Fortis could be affected should these utilities have a large capital expenditure program.

(4) **Large capital expenditures for the Waneta Expansion Project (WEP).** The WEP is a hydroelectric project in British Columbia that is 51% owned by Fortis. The Company's share of capital expenditures is approximately $450 million. Approximately $436 million has been spent to date and a further $227 million is expected to be spent in 2013 (51% contributed by Fortis). The project is expected to be in service in early 2015.

Simplified Corporate Structure*



*Note: The above chart only includes Fortis' major regulated and non-regulated subsidiaries, which directly or indirectly contribute dividends to Fortis.

Based on 2012 Data

Name	Operations	Customers	Rate base (CAD billions)	Allowed Roe for 2012	Net income (CAD millions)	Deemed equity
FortisBC Holdings Inc.	Holding company	945,000	3.6	9.50%-10.00%	138	40%
FortisBC Energy Inc.	Natural gas distribution	N/A	N/A	9.50%	N/A	40%
FortisBC Energy (Vancouver Island)	Natural gas distribution	N/A	N/A	10.00%	N/A	40%
FortisBC Energy (Whistler)	Natural gas distribution	N/A	N/A	10.00%	N/A	40%
FortisAlberta	Electricity distribution	508,000	2.0	8.75%	96	41%
FortisBC	Integrated utility	163,000	1.1	9.90%	50	40%
Newfoundland Power	Electricity distribution	251,000	0.9	8.80%	37	45%
Other Canadian Utilities	-	140,000	0.5	8.01%-9.850%	24	40%
Fortis Properties	Real estate	N/A	N/A	N/A	22	N/A
Caribbean Electric Utilities	Integrated utility	39,000	0.6	7.25%-17.50%	19	N/A
Fortis Generation	Power generation	N/A	N/A	N/A	17	N/A
Corporate and Other	-	N/A	N/A	N/A	(88)	N/A

The Proposed Acquisition of CHG

On February 21, 2012, Fortis announced that it had agreed to acquire CHG for a total consideration of approximately US$1.5 billion, including the assumption of US$500 million of debt on closing. The Acquisition is expected to close in the second quarter of 2013, subject to various regulatory approvals. To date, CHG shareholders have approved the Acquisition, with a Settlement Agreement filed in January 2013. The parties to the Settlement Agreement, which provides almost $50 million to fund customer and community benefits, have concluded that the Acquisition is in the public interest and have recommended approval by the New York State Public Service Commission.

CHG's principal businesses comprise: (1) Central Hudson Gas & Electric Corporation (Central Hudson), a regulated utility in New York state with approximately 300,000 electric customers and 75,000 gas customers, and (2) a non-regulated fuel delivery business (3% of CHG income), serving 56,000 customers in the Mid-Atlantic Region. Central Hudson accounts for 97% of CHG's 2011 net income and 93% of its assets. CHG's total assets as of December 31, 2011, were US$1.7 billion. Net income and operating cash flow in 2011 were US$45 million and US$115 million, respectively.

Waneta Expansion Project

WEP, a 335 MW expansion of the hydroelectric generating facility on the Pend d'Oreille River in British Columbia, is the largest capital project currently underway. It is expected to come into service in early 2015 at a cost of around $900 million, 51% of which Fortis will be responsible for, due to its ownership interest (remainder owned by Columbia Power Corporation (32.5%) and Columbia Basis Trust (16.5%)). By the end of 2012, approximately $436 million has been spent in total and a further $227 million is expected to be spent in 2013 (approximately $116 million by Fortis). WEP is currently on time and on budget. The Company issued $200 million of preferred shares in 2012 to repay borrowings under its committed corporate credit facility, which borrowings were primarily incurred to support the construction of WEP.

Although the facility is non-regulated, it will be included in the Canal Plan Agreement and will receive fixed energy and capacity entitlements based on long-term average water flows. In the long-term energy purchase agreement with the British Columbia Hydro & Power Authority (rated AA (high); see rating report dated August 15, 2012), approximately 630 GWh and associated capacity required to deliver such energy have been contracted. The remaining capacity, approximately 234 MW, is expected to be sold to FortisBC Inc. (rated A (low); see rating report dated August 9, 2012) under a long-term capacity purchase agreement.

Non-Consolidated Earnings & Cash Flows

	USGAAP	CGAAP	CGAAP
Earnings - Non-Consolidated		**Year end December 31**	
(CA$ millions)	**2012**	**2011**	**2010**
Newfoundland Power	36.8	33.9	35.2
FortisOntario	11.6	9.8	9.3
FortisWest	103.3	83.5	81.9
FortisBC Holdings	127.3	128.6	118.9
Fortis Cayman Inc.	0.0	(0.0)	1.4
Fortis Energy Bermuda Limited	25.0	26.0	28.2
Regulated investment income	**303.9**	**281.7**	**274.9**
Fortis Energy Cayman Inc.	14.5	14.6	18.0
FOG Partnership	(0.3)	-	-
ForitsUS Inc.	(7.0)	11.9	(3.1)
Forits Properties	34.4	34.9	36.8
52905 Newfoundland and Labrador	0.1	0.1	0.2
Non-regulated investment income	**41.7**	**61.5**	**52.0**
Total investment income	345.6	343.1	326.9
Interest income + Management fee	82.8	77.2	59.6
Total income	**428.4**	**420.3**	**386.5**
Operating expenses	(7.9)	(3.9)	(5.9)
EBITDA	**420.4**	**416.4**	**380.6**

	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Earnings - Non-Consolidated			**Year end December 31**		
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
EBITDA	420.4	416.4	380.6	346.1	322.8
Depreciation	(1.9)	(1.5)	(1.3)	(1.7)	(2.5)
EBIT	418.5	414.9	379.3	344.4	320.2
Interest expense	(39.7)	(44.3)	(47.4)	(43.4)	(38.8)
EBT before extra items	377.0	371.6	332.0	293.6	272.5
Taxes	(17.0)	(6.9)	(2.7)	(1.6)	(3.5)
Net income bef. extra items and pref. dividends	359.9	364.7	329.2	292.1	269.0
Reported net income bef. pref. dividends	361.8	363.7	329.2	297.0	274.9

Fortis Inc.

Report Date:
February 19, 2013

Cash flow - Non-Consolidated	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP
	Year end December 31				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
Net income bef. extra items and pref. dividends	359.9	364.7	329.2	292.1	269.0
Depreciation & amortization	1.9	2.0	1.3	1.7	2.5
Equity investments	(168.8)	(164.3)	(188.1)	(89.8)	(141.6)
Deferred income taxes and others	25.8	14.6	12.3	7.4	8.9
Cash flow from operations	218.8	216.9	154.7	211.3	138.9
Common dividends paid	(169.6)	(151.2)	(135.3)	(132.8)	(162.1)
Preferred dividends paid	(45.4)	(45.4)	(44.7)	(34.8)	(30.1)
Capex	(9.1)	(4.0)	(3.3)	(0.2)	(0.3)
Free cash flow (bef. work. cap. changes)	(5.4)	16.3	(28.5)	43.5	(53.6)
Changes in non-cash work. cap.	0.2	2.8	(1.2)	(30.3)	6.4
Net free cash flow	(5.2)	19.1	(29.7)	13.2	(47.2)
Acquistions & long-term investments	(115.8)	(79.4)	(376.8)	(358.1)	(306.2)
Short-term investments	-	-	-	-	-
Proceeds on asset sales	-	0.0	10.1	-	-
Net equity change	218.4	345.0	264.5	49.0	533.1
Net debt change	52.5	(165.0)	140.6	292.7	(179.0)
DBRS adjustments, advances and others	(147.7)	(129.3)	(0.2)	4.9	6.0
Change in cash	2.2	(9.6)	8.4	1.7	6.7

2012 Summary

- Overall, Fortis has benefited from good earnings diversification, underpinned by its investments in regulated utilities, which account for approximately 71% of earnings in 2012.
- The relatively stable EBITDA is reflective of the Company's strong earnings from regulated utilities, contracted generation facilities, property management and interest income.
- Earnings continued to increase over the years, as a result of higher ROE in recent years and growing rate bases among the utilities.
- Fortis Properties' performance has been relatively stable over the past two years, reflecting the recovery of the Canadian economy.
- Cash flow from operations has remained relatively stable. The bulk of the cash flow from operations is distributed as dividends to common and preferred shareholders.
- The Company has continued to fund business acquisitions and investments, with a mix of debt and equity (including preferred shares) in a manner that maintains its credit ratios within the A (low) rating category.

2013 Outlook

- Investment income from regulated utilities is expected to increase considerably in 2013, should the proposed Acquisition of CHG be completed as expected in the second quarter of 2013.
- DBRS also expects the Acquisition to improve Fortis' earnings diversification.
- Non-regulated earnings are expected to increase in 2015, when WEP is scheduled to be in service. The project has obtained a long-term power contract with BC Hydro.

Capital Structure and Liquidity

Capital Structure - Non-Consolidated	As at December 31				
(CA$ millions)	2012	2011	2010	2009	2008
Short-term debt	-	-	-	100	-
Credit facilities	53	-	165	125	32
Long-term debt	747	759	742	564	524
Sub. convertible debentures	-	-	42	44	50
Preferred shares	1,108	912	912	667	667
Common equity	4,000	3,867	3,308	3,195	3,046
Total non-consolidated capital	**5,907**	**5,538**	**5,169**	**4,695**	**4,319**
Total debt in capital structure	18.1%	15.7%	22.5%	17.7%	15.0%
EBIT interest coverage (times)	10.55	9.37	8.01	7.93	8.25
Cash flow interest coverage (times)	5.52	4.90	3.27	4.86	3.58
Cash flow/Total debt	20.1%	24.6%	13.1%	25.0%	21.2%

Summary

- Fortis' non-consolidated balance sheet remained strong in 2012, reflecting a debt-to-capital ratio of 18.1% (not including equity subscription of approximately $601 million, which, if included, could reduce the ratio to around 14%), which provides the Company with some financial flexibility.
- This leverage remained well within the 20% threshold in DBRS's notching guidelines for a holding company relative to its subsidiaries.
- Cash flow-to-interest coverage remained strong for a holding company, at 5.52 times.

Potential Impact of the Proposed Acquisition of CHG

- The price of the Acquisition is approximately $1.5 billion (including US$500 million of assumed debt).
- In June 2012, Fortis completed a subscription receipt offering for approximately $601 million, which will be used to partially finance the Acquisition, with the remainder expected to be financed with debt and preferred shares.
- Based on the Company's financing strategy, the debt-to-capital ratio will likely increase from the current level should the Acquisition be completed.
- The new debt-to-capital ratio is expected to remain within the 20% level.

Liquidity

Credit Facilities as at December 31, 2012 ($ millions)	HoldCo & other	Regulated Subsidiaries	Non-regulated Subsidiaries	Total
Total credit facilities	1,045	1,402	13	2,460
Drawing on credit facilities (S-T)	-	(136)	-	(136)
Drawing on credit facilities (L-T)	(53)	(97)	-	(150)
Letters of credit	(1)	(66)	-	(67)
Credit facilities available	991	1,103	13	2,107

Debt maturities - ($ millions)	2013	2014	2015	2016	2017	Thereafter	Total
Fortis Inc. senior debt	0	149	0	0	0	598	747
Total	0	149	0	0	0	598	747
% of total debt	0%	20%	0%	0%	0%	80%	100%

- Fortis has approximately $4 million in cash and cash equivalents as at December 31, 2012.
- Fortis has sufficient liquidity to finance its near-term funding requirements.
- Debt maturity is concentrated in 2014, when 20% of Fortis' total debt is due. DBRS believes that the refinancing of this amount is within the Company's capacity, given its strong credit profile.

Description of Operations

Fortis' main subsidiaries and investments are as follows:

FortisBC Holdings Inc. (100% owned) is a holding company for the following utilities:
(1) **FortisBC Energy Inc. (FEI)** is the largest natural gas distributor in British Columbia, serving residential, commercial and industrial customers in an area extending from Vancouver to the Fraser Valley and the interior of British Columbia.
(2) **FortisBC Energy (Vancouver Island) Inc. (FEVI)** owns a combined distribution and transmission system, serving residential, commercial and industrial customers along the Sunshine Coast and in Victoria and various communities on Vancouver Island.
(3) **FortisBC Energy (Whistler) Inc. (FEW)** owns and operates a propane distribution system in Whistler, British Columbia, and provides service to residential and commercial customers.

FortisAlberta Inc. (100% owned) is a regulated electricity distributor with a franchise area that includes central and southern Alberta, the suburbs surrounding Edmonton and Calgary, Red Deer, Lethbridge and Medicine Hat.

FortisBC Inc. (100% owned) is a vertically integrated regulated utility operating in south-central British Columbia. Its generation assets include four hydroelectric generating plants (totaling 223 MW) on the Kootenay River in south-central British Columbia.

Newfoundland Power Inc. (100% owned) (NP) is a principal distributor of electricity on the island portion of Newfoundland and Labrador. Fortis also owns 25% of NP's preferred shares.

Other Canadian Utilities
(1) **FortisOntario Inc.** is an integrated electric utility providing services to customers in Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario. FortisOntario also owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies.

(2) **Maritime Electric Company Limited (Maritime Electric)** is the principal distributor of electricity on Prince Edward Island. It also maintains on-island generating facilities with a combined capacity of 150 MW. Maritime Electric is indirectly owned by Fortis through FortisWest.

Fortis Properties Corporation owns and operates 23 hotels in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate, primarily in Atlantic Canada. In October 2012, Fortis Properties acquired the 126-room StationPark All Suite Hotel in London, Ontario, for approximately $13 million, inclusive of approximately $6 million of debt.

Caribbean Utilities Company, Ltd. (Caribbean Utilities) is a fully integrated electricity utility on Grand Cayman, Cayman Islands with an installed generating capacity of approximately 151 MW. Fortis has an approximate 60% controlling ownership interest in Caribbean Utilities, with the remaining ownership publicly traded on the Toronto Stock Exchange.

Fortis Turks and Caicos serves approximately 85% of electricity consumers in the Turks and Caicos Islands, pursuant to 50-year licenses that expire in 2036 and 2037. The Company has a combined diesel-fired generating capacity of 54 MW.

Belize Electric Company Limited is a non-regulated 32 MW hydro generation facility in Belize. All output is sold to Belize Electricity Limited under a 50-year power purchase agreement expiring in 2055. The US$53 million 19 MW hydroelectric generating facility at Vaca in Belize was commissioned in March 2010.

Belize Electricity Limited is recorded as equity investment following the expropriation by the Government of Belize in June 2011.

Fortis Inc.

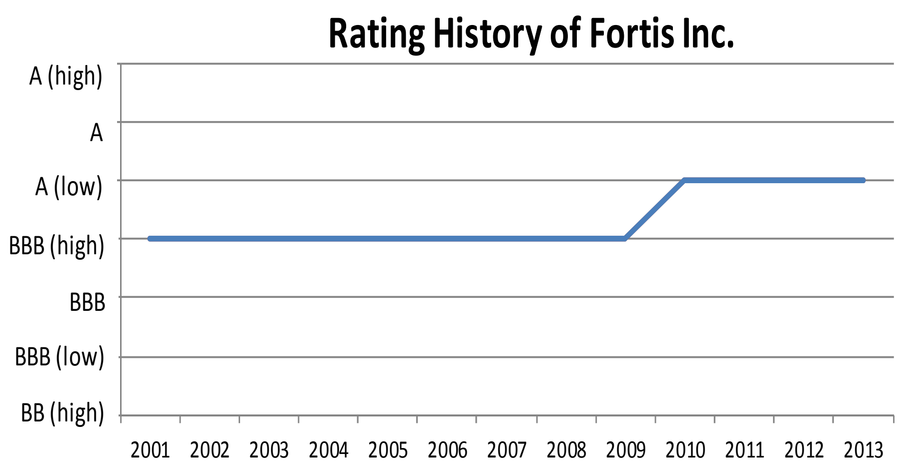
Report Date:
February 19, 2013

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debentures	A (low)	Confirmed	Stable
Preferred Shares	Pfd-2 (low)	Confirmed	Stable

Rating History

	Current	2012	2011	2010	2009	2008
Issuer Rating	A (low)	A (low)	NR	NR	NR	NR
Unsecured Debentures	A (low)	A (low)	A (low)	A (low)	BBB (high)	BBB (high)
Preferred Shares	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-3 (high)	Pfd-3 (high)



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

Rating Report

Report Date:
February 12, 2014

Previous Report:
February 19, 2013

DBRS

Insight beyond the rating.

Fortis Inc.

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The Company

Fortis Inc. is a holding company for a number of regulated electric and natural gas utilities, including wholly owned FortisBC Energy companies (formerly Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.), Newfoundland Power Inc., FortisAlberta Inc., FortisBC Inc., Maritime Electric Company, Limited, FortisOntario Inc., and Fortis Turks and Caicos, as well as majority ownership of Caribbean Utilities Company (approximately 60%). In June 27, 2013, Fortis completed the acquisition of CH Energy Group Inc., a utility company located in New York.

Non-regulated operations include Fortis Properties, as well as non-regulated generation in Belize, Ontario and upper New York State.

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	UR-Dev.	--
Unsecured Debentures	A (low)	UR-Dev.	--
Preferred Shares	Pfd-2 (low)	UR-Dev.	--

Rating Update

On December 11, 2013, DBRS placed the A (low) Issuer Rating and the A (low) Unsecured Debentures and Pfd-2 (low) Preferred Shares ratings of Fortis Inc. (Fortis, Parent or the Company) Under Review with Developing Implications. This action followed the announcement that the Company has agreed to acquire UNS Energy Corporation (UNS) for a total consideration of approximately $4.3 billion, including the assumption of $1.8 billion of debt on closing (the UNS Acquisition) (see the December 11, 2013, press release for details).

Based on DBRS's review of the proposed acquisition including Fortis' acquisition financing strategy, DBRS believes that the UNS Acquisition would modestly increase Fortis' business risk profile, as the business risk profile of UNS is viewed as higher than Fortis' average business risk, partially offset by an improvement of diversified sources of cash flow. Currently, approximately 93.4% of Fortis' consolidated earnings are contributed by its regulated utilities, with the remaining earnings coming from hotel properties and non-regulated generation. With the proposed UNS Acquisition, Fortis' earnings mix is expected to improve, with a larger percentage of earnings generated from regulated businesses, since all of UNS's operations are regulated. However, the regulatory regime in Arizona is viewed as weaker when compared to other jurisdictions in Canada where Fortis currently conducts its business, reflecting regulatory lag in Arizona (albeit improving). That said, the overall business risk profile of Fortis' investment portfolio should remain in the A (low) range.

Based on Fortis' intention to largely finance the UNS Acquisition with common equity, and the remaining portion to be financed with preferred shares and debt (see page three), the impact of the UNS Acquisition on the financial risk profile will likely be positive. As the end of 2013, Fortis' non-consolidated leverage of 21.6% was modestly aggressive for a holding company with respect to DBRS's notching guidelines of 20% (between the holding company and its major subsidiaries). However, this increase is expected to be temporary and the leverage will likely fall in-line within the notching guidelines following the completion of the Waneta Expansion Project (WEP) (expected in Spring 2015). The Under Review with Developing Implications rating reflects DBRS's expectations that: (1) Convertible debentures ($1.8 billion) will be converted into common equity at closing of the acquisition; (2) No materially negative conditions will be imposed by the regulators with respect to rate freezes and dividend restrictions to Fortis; and (3) Non-consolidated leverage will be maintained at 20%.

Rating Considerations

Strengths
(1) Strong and stable dividends and cash income
(2) Diversified sources of cash flow
(3) 100% ownership of most subsidiaries
(4) Solid interest coverage/Good liquidity

Challenges
(1) Higher debt levels at the Parent
(2) Structural subordination to debt at the subsidiaries
(3) Strong ring-fencing at its wholly owned utilities
(4) Large capex for Waneta Expansion Project

Financial Information

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Fortis Inc. - Non-consolidated (Unaudited)	**Year ended December 31**				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Investment & interest income	458	420	415	381	346
Parent's total debt	1,345	800	759	949	833
Investment income-to-interest coverage (times)	11.23	10.55	6.92	5.93	5.74
Total debt in capital structure (1)	21.6%	18.1%	15.7%	22.5%	17.7%
Cash flow-to-interest coverage (times)	9.30	6.56	4.33	3.16	4.38
Cash flow/Total debt	25.1%	27.6%	26.2%	14.5%	24.4%

(1) DBRS treats preferred shares within 20% of common equity as equity, any amount above 20% as debt.

Rating Considerations Details

Strengths

(1) **Strong and stable dividends and cash income.** Cash income and dividends have been strong, largely supported by stable earnings and cash flow from low-risk, regulated entities and long-term power contracts. Regulated operations account for approximately 93.4% of consolidated EBITDA and 70% of non-consolidated cash flow in 2013. This earnings and cash flow mix is expected to improve in 2014 following the closing of the Central Hudson Energy Group (CH Energy) acquisition in June 2013.

(2) **Diversified sources of cash flow.** Fortis' business risk profile is supported by a diversified source of cash flow through its ownership of regulated natural gas and electricity utilities in British Columbia (BC), and electric utilities in five Canadian provinces and three Caribbean countries. The completion of the CH Energy acquisition further diversified Fortis Inc.'s sources of cash flow (see the CH Energy Acquisition). In addition, the WEP (expected be in service in Spring 2015) and the proposed acquisition of UNS Energy Corporation, if completed, should further improve Fortis' cash flow diversification.

(3) **100% ownership of most subsidiaries.** Fortis owns 100% of most of its operating entities. This provides Fortis, within the boundaries of regulatory oversight, with some discretionary powers over the manner in which cash flows are paid to it by its operating companies.

(4) **Solid interest coverage and good liquidity:** On a non-consolidated basis, Fortis had solid cash flow and interest coverage metrics, with cash flow-to-debt of 25% and cash flow-to-interest coverage of 9.3 times (x) in 2013. These metrics were reflective of the A (low) rating for a holding company, and are expected to improve once the WEP is in service (see page three). In addition, Fortis had good liquidity at the end of 2013, with $785 million available under the Parent's $1.0 billion committed revolving credit facility while the Parent's long-term debt due in 2014 is modest (only $160 million and no debt coming due in 2015 and 2016).

Challenges

(1) **Higher debt levels at the Parent.** Fortis' acquisition of CH Energy increased adjusted debt leverage at the Parent to 21.6% (adjusted for the debt-treatment of a portion of preferred shares) in 2013 from 18.1% in 2012. DBRS notes that the non-consolidated leverage of 21.6% is slightly above the acceptable range for a holding company with respect to DBRS's one-notch rating guideline. However, this increase is expected to be temporary and the leverage will likely fall back to the 20% range within the current rating range following the completion of the WEP. With respect to the proposed UNS acquisition, DBRS expects Fortis to adhere to its financing plan to maintain its non-consolidated debt level within the 20% threshold.

(2) **Structural subordination to debt at the subsidiaries.** Fortis is a holding company whose debt is structurally subordinated to the debt obligations of its operating companies. This accounts for the lower debt rating of Fortis relative to the debt ratings of some of its major regulated subsidiaries.

(3) **Strong ring-fencing at its wholly owned utilities.** Fortis faces strong ring-fencings imposed on FortisBC Energy Inc. and FortisBC (Vancouver Island) Inc., with respect to their capital structure and dividend payouts. In addition, it is common for utilities to maintain their capital structure in line with the regulatory capital structure. As a result, dividend payouts to Fortis could be affected should these utilities have a large capital expenditure program.

(4) **Large capital expenditures for the WEP.** The Parent is expected to make a $131 million investment in the WEP in 2014. WEP is a $900 million (100% basis), 335 megawatt hydroelectric project in British Columbia that is 51% owned by Fortis. Up to the end of 2013, approximately $579 million (100% basis) has been spent on the project.

Fortis Inc.

Report Date:
February 12, 2014

The Proposed Acquisition of UNS

On December 11, 2013, Fortis entered into an agreement and plan of merger to acquire UNS Energy Corporation (UNS) for a total consideration of approximately USD 4.3 billion, including the assumption of USD 1.8 billion of debt on closing.

(1) The Assets:
UNS's principal businesses comprise of: (1) Tucson Electric Power (TEP), a regulated utility in southeastern Arizona that generates, transmits and distributes electricity to approximately 412,000 retail electric customers. TEP accounted for 85% of UNS's consolidated net income and 84% of its assets for the nine months ended September 30, 2013 (9M2013); (2) UNS Electric, Inc. (UNS Electric), a regulated electric utility that serves approximately 93,000 retail electric customers in northern Arizona's Mohave and Santa Cruz counties. UNS Electric accounted for 10% of UNS's consolidated net income and 9% of its assets for 9M2013; and (3) UNS Gas, Inc. (UNS Gas), a gas distribution company that serves approximately 149,000 retail gas customers in northern and southeastern Arizona. UNS Gas accounted for 5% of UNS's consolidated net income and 7% of its assets for 9M2013.

(2) Financing Plan for the UNS Acquisition:
Fortis intends to finance the UNS Acquisition as follows:

- $1.8 billion in equity
- $600 million in preferred
- $300 million in debt

In January 2014, the Company issued $1.8 billion in subordinated convertible debentures represented by installment receipts (the Debentures), with approximately $600 million being paid on closing and $1.2 billion to be paid on the date (Final Installment Date) to be fixed following the satisfaction of all conditions precedent to the closing of the UNS Acquisition. All Debentures are expected to be converted into common shares on the closing date or before July 2, 2015, whichever is earlier.

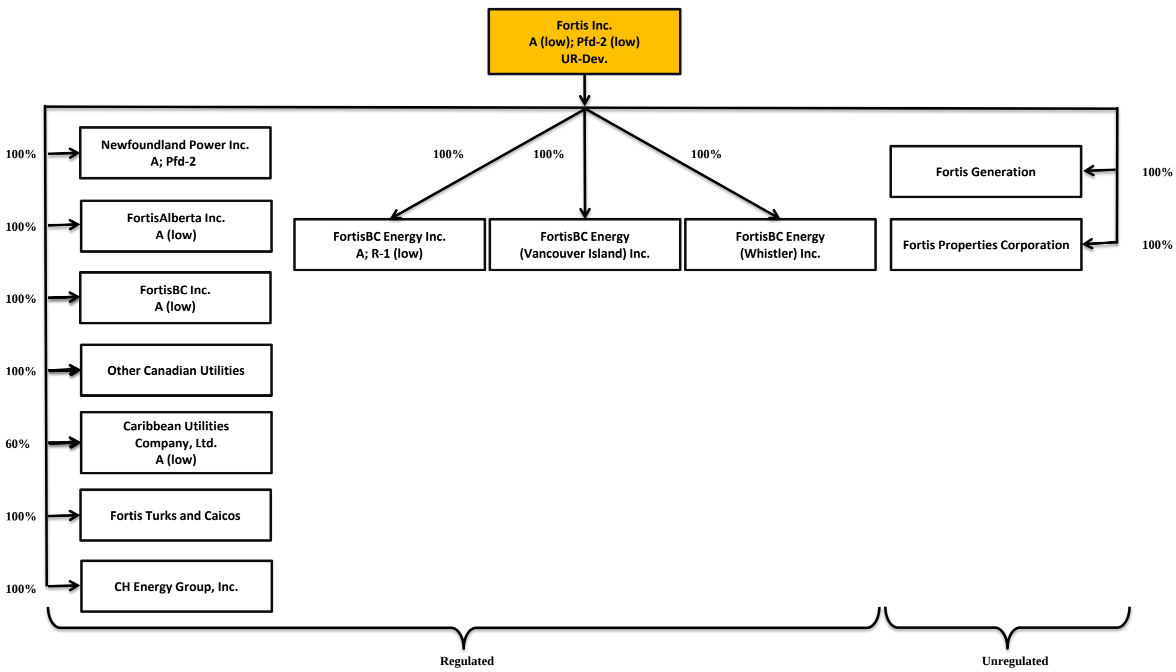
DBRS has performed a pro forma on non-consolidated credit metrics, based on the Company's acquisition financing strategy, its 2013 financial results and assuming that the WEP will be in service for Q1 2015. The pro forma shows that all non-consolidated metrics would still remain in the A (low) rating range. Note that DBRS's performance is also based on the expectation that all the Debentures will be converted into equity at the closing date. Should this not be the case, DBRS could take a negative rating action.

Waneta Expansion Project (WEP)

The WEP continues to be on time and on budget, and is expected to be completed in the spring of 2015. WEP, a 335 megawatt (MW) expansion of the hydroelectric generating facility on the Pend Oreille River in British Columbia, is the largest capital project currently underway. The project's cost is estimated to be approximately $900 million (on a 100% basis), 51% of which Fortis will be responsible for, due to its ownership interest (remainder owned by Columbia Power Corporation (32.5%) and Columbia Basin Trust (16.5%)). By December 31, 2013, approximately $579 million (on a 100% basis) has been spent in total on the project. Capex in 2014 is expected to be $131 million. Due to the financing of the project, the non-consolidated metrics have declined modestly during the construction but are expected to improve once the project is in service.

Although the WEP is non-regulated, its output will be included in the Canal Plant Agreement (an agreement between British Columbia Hydro & Power Authority (BC Hydro; rated AA (high)), FortisBC Inc. (rated A (low) and three other parties governing 1,565 MW of capacity) and will receive fixed energy and capacity entitlements based on long-term average water flows. In the long-term energy purchase agreement with BC Hydro, approximately 630 gigawatt hours (GWh) and associated capacity required to deliver such energy have been contracted. The remaining capacity, approximately 234 MW, is expected to be sold to FortisBC Inc. under a long-term capacity purchase agreement.

Simplified Corporate Structure*



*Note: The above chart only includes Fortis' major regulated and non-regulated subsidiaries, which directly or indirectly contribute dividends to Fortis.

As of December 31, 2013, regulated assets accounted for approximately 90% of total consolidated assets and regulated EBITDA accounted for 93.4% of total consolidated EBITDA.

Based on 2013 Data

Corporate Structure

Name	Operations	Customers	Rate base (CAD millions)	Allowed Roe for 2013	Net income (CAD millions)	Deemed equity
FortisBC Holdings Inc.	Holding company				127	
FortisBC Energy Inc.	Natural gas distribution	850,000	2,789 (*)	8.75%	104	38.5%
FortisBC Energy (Vancouver Island)	Natural gas distribution		N/A	9.25%	N/A	40.0%
FortisBC Energy (Whistler)	Natural gas distribution		N/A	9.25%	N/A	40.0%
Central Hudson	Transmission and distribution	377,000	N/A	10.00%	23	48.0%
FortisAlberta	Electricity distribution	518,000		8.75%	94	41.0%
FortisBC	Integrated utility	163,800	1,192 (*)	9.15%	50	40.0%
Newfoundland Power	Electricity distribution	255,000		8.80%	49	45.0%
Other Canadian Utilities	-			8.93-9.85% (1)	26	40.0%
Fortis Properties	Real estate	N/A	N/A	N/A	18	N/A
Caribbean Utilities	Integrated utility	27,364	390	7.0-9.0% (2)	23	N/A
Fortis Turks and Caicos	Integrated utility			17.5% (3)	N/A	N/A
Fortis Generation	Power generation	N/A	N/A	N/A	39	N/A

(1) Maritime Power 9.75%; Niagara Power 8.01%; Algoma Power 9.85%

(*) As requested in the 2014 application

(2) Regulated rate of return on assets ("ROA")

(3)Amount provided under licence is for FortisTCI and Atlantic. Amount provided under licence for TCU is 15%.

Fortis Inc.

Report Date:
February 12, 2014

Non-Consolidated Earnings & Cash Flows

Earnings Breakdown: Non-Consolidated (Unaudited)	USGAAP	USGAAP	CGAAP	CGAAP
	Year end December 31			
(CA$ millions)	2013	2012	2011	2010
Newfoundland Power	50	37	34	35
FortisOntario	9	12	10	9
FortisWest	104	103	84	82
FortisBC Holdings	124	127	129	119
Fortis Cayman Inc.	(0)	0	(0)	1
Fortis Energy Bermuda Limited	28	25	26	28
Regulated investment income	**315**	**304**	**282**	**275**
Fortis Energy Cayman Inc.	19	15	15	18
FG Similkameen Partnership	(0)	0	0	0
FOG Partnership	1	(0)	0	0
FortisUS Holdings Nova Scotia (FortisUS Inc.)	(25)	(7)	12	(3)
Fortis Properties	53	34	35	37
52905 Newfoundland and Labrador	0	0	0	0
Fortis Energy Corporation (NL)	10	0	0	0
Non-regulated investment income	**57**	**42**	**61**	**52**
Total investment income	372	346	343	327
Interest income + Management fee	86	83	77	60
Total income	**458**	**428**	**420**	**386**
Operating expenses	(0)	(8)	(5)	(6)
Investment & Interest income	**458**	**420**	**415**	**381**

Earnings: Non-Consolidated (Unaudited)	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
	Year end December 31				
(CA$ millions)	2013	2012	2011	2010	2009
Investment & interest income	458	420	415	381	346
Amortization	(2)	(2)	(2)	(1)	(2)
Investment & interest income after amortization	456	419	414	379	344
Interest expense on Parent's debt	(41)	(40)	(60)	(64)	(60)
Corporate income taxes	(5)	(17)	(7)	(3)	(4)
Net investment & interest income	410	362	347	313	280

2013 Earnings Summary

- Overall, Fortis has benefited from good earnings diversification, underpinned by its investments in regulated utilities, which account for approximately 70% in 2013 (71% in 2012).
- In 2013, approximately 88% of Fortis' 2013 investment income was generated from stable, low risk businesses (regulated subsidiaries and interest and management fee income).
- Consistent growth in net investment income is reflective of the Company's growing earnings from regulated utilities, contracted generation facilities, property management and interest income.
- Earnings growth has been supported by increases in the number of customers and higher rate bases among the utilities, particularly in Newfoundland and Alberta since 2012.
- Higher regulated investment income was also attributable to earnings contribution from the acquisition of CH Energy, offset by acquisition costs.
- Non-regulated generation is comprised of Fortis' generation assets located in Ontario, Belize, British Columbia and Upstate New York (combined capacity of 103 MW, mainly hydroelectric). Over 80% of the capacity is under long-term contracts. In 2013, non-regulated generation benefited from increased production in Belize, Ontario and Upstate New York due to higher rainfalls and a generating unit in Upstate New York being returned to service in October 2013.

- Fortis Properties is heavily affected by economic conditions in eight Canadian provinces, primarily in Atlantic Canada. Fortis Properties' performance improved considerably in 2013 due to (1) an increase in average room rate and higher occupancy rate in all regions, (2) the recovery of business occupancy tax, and (3) a full-year contribution of StationPark All Suite Hotel (acquired in October 2012).

2014 Earnings Outlook

- Regulated earnings should increase materially, largely reflecting a full-year contribution of investment income from CH Energy, and a higher rate base and customer growth in Alberta.
- Beyond 2014, should the proposed UNS Acquisition be completed, Fortis' regulated earnings should grow stronger and its earnings mix would be expected to improve further, with a larger percentage of earnings generated from regulated businesses since most of UNS's operations are regulated.
- Earnings from non-regulated generation are expected to remain more volatile than earnings from the regulated operations. Although, earnings from this segment continue to be protected by long-term power contracts in Belize, poor hydrology conditions in Belize, Ontario and Upstate New York could negatively affect production output. Beyond 2014, earnings from this segment are expected to increase significantly as the WEP is expected to be in service in spring 2015. Earnings from this project should benefit from a long-term power contract with BC Hydro.

Cash Flow Analysis

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Cash flow: Non-Consolidated (Unaudited)	**Year end December 31**				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Investment & interest income	410	362	347	313	280
Amortization	2	2	2	1	2
Earnings from equity investments	(80)	(169)	(164)	(188)	(90)
Deferred income taxes and others	5	26	15	12	11
Cash flow from subsidiaries	337	221	199	138	203
Common dividends paid	(181)	(170)	(151)	(193)	(177)
Preferred dividends paid	(56)	(45)	(29)	(28)	(18)
Corporate capex	(13)	(9)	(4)	(3)	(0)
Free cash flow from subsidiaries	88	(3)	15	(87)	8
Changes in non-cash work. cap.	0	0	3	(1)	13
Net free cash flow from subsidiaries	88	(3)	18	(88)	21
Acquisitions & long-term investments	(1,156)	(116)	(208)	(377)	(358)
Short-term investments	0	0	0	0	0
Proceeds on asset sales	0	0	0	10	0
Net equity change	713	218	345	322	46
Net debt change	498	52	(165)	141	293
Advances from (to) related parties and others	(150)	(150)	0	0	0
Change in cash	(7)	2	(10)	8	2

Summary

- Cash flow consists of cash dividends from Fortis' subsidiaries, interest income from loans provided to its subsidiaries and management fee.
- Cash flow increased significantly in 2013, resulting in strong cash flow-to-interest coverage. This increase was due to higher cash dividend flows from Fortis' subsidiaries.
- Following the acquisition of CH Energy, Fortis benefits from more diverse sources of cash flow.
- Corporate capex remained minimal in 2013 resulting in a significant free cash flow surplus (after corporate expense, corporate interest and capex) being generated. Most of the cash surplus was distributed as dividends to common and preferred shareholders.
- As a result, all major acquisitions have been financed with external funds, including common equity, preferred shares and debt. Up to the end of 2013, the financing mix has been reasonable and the non-consolidated leverage has been maintained around the 20% level.

Capital Structure and Liquidity

Capital Structure: Non-Consolidated (Unaudited)	Year end December 31				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Short-term debt	160	0	0	0	100
Credit facilities	214	53	0	165	125
Long-term debt	971	747	759	742	564
Sub. convertible debentures	0	0	0	42	44
Preferred shares	1,229	1,108	912	912	667
Common equity	4,765	4,000	3,867	3,308	3,195
Total non-consolidated capital	**7,339**	**5,907**	**5,538**	**5,169**	**4,695**
Total debt in capital structure (1)	21.6%	18.1%	15.7%	22.5%	17.7%
Investment income-to-interest coverage (times)	11.23	10.55	6.92	5.93	5.74
Cash flow-to-interest coverage (times)	9.30	6.56	4.33	3.16	4.38
Cash flow/(Interest + Preferred dividends)(times)	3.29	2.60	2.64	1.99	3.12
Cash flow/Total debt	25.1%	27.6%	26.2%	14.5%	24.4%

(1) DBRS treats preferred shares within 20% of common equity as equity, any amount above 20% as debt.

Summary

- Fortis' non-consolidated cash flow and interest coverage ratios improved in 2013 and remained relatively strong for the current rating category.
- The non-consolidated leverage increased to a level slightly above the 20% threshold that DBRS uses in its notching guidelines for a holding company relative to its subsidiaries. This increase was due to the financing of the CH Energy acquisition, closed in June 2013. However, this level is still acceptable for the current rating since the Parent benefits from a large, stable and more diverse source of cash flow than in 2012.
- Excluding the proposed UNS Acquisition, the WEP is the only project that requires investment from the Parent (estimated to be $131 million for 2014). DBRS expects Fortis to adhere to its non-consolidated leverage target of 20% while carrying out the financing of the remaining portion of the WEP.
- Once the WEP is in operation (expected in spring 2015), capex requirements at the Parent should reduce significantly. Non-consolidated cash flow and interest coverage metrics are expected to improve due to incremental cash flow contributed by the WEP.

Potential Impact of the Proposed Acquisition of UNS

- The price of the UNS Acquisition will be approximately USD 4.3 billion, including the assumption of approximately USD 1.8 billion of debt on closing.
- Fortis issued $1.8 billion in convertible debentures.
- Fortis has obtained revolving credit facility commitments in the amount of $2 billion.
- Convertible debentures are expected to be converted into equity at the closing.
- Based on DBRS's pro forma, all credit metrics should remain stable should Fortis successfully implement its financing plan.
- Should Fortis deviate from its current financing plan and increase its non-consolidated leverage beyond DBRS's 20% guideline for a holding company, a negative rating action could follow.

Liquidity

Credit Facilities as at Dec. 31, 2013 ($ millions)	Parent & other	Regulated Subsidiaries	Non-regulated Subsidiaries	Total
Total credit facilities	1,030	1,546	119	2,695
Drawing on credit facilities (S-T)	0	(157)	(3)	(160)
Drawing on credit facilities (L-T)	(214)	(99)	0	(313)
Letters of credit	(1)	(65)	0	(66)
Credit facilities available	815	1,225	116	2,156

Debt Maturities ($ millions) as at Dec. 31, 2013	2014	2015	2016	2017	2018	Thereafter	Total
Long-term debt and lease obligations	160	0	0	0	214	971	1,345
% of total	12%	0%	0%	0%	16%	72%	100%

Non-Consolidated

- The Company's liquidity is solid, reflecting strong cash flow from its investments, sizable credit facilities and modest capex at the Parent's level.
- As at December 31, 2013, Fortis had approximately $815 million of unused credit facilities, which provide Fortis with sufficient liquidity to finance its near-term funding requirements.
- Refinancing risk is modest and manageable, with only $160 million of long-term debt maturing in 2014. DBRS believes that the refinancing of this amount is within the Company's capacity given its strong credit profile.
- In addition to the facilities in the table above, Fortis has commitments of $2 billion in non-revolving bridge credit facilities associated with the proposed UNS Acquisition.

Capex Profile

Consolidated Capex Breakdown	2014		2013	
(CA$ millions)	Forecast	(%)	Actual	(%)
Canadian Regulated Utilities	1,033	72%	861	73%
US Regulated Utilities	122	9%	57	5%
Caribbean Regulated Utilities	61	4%	52	4%
Total Regulated Utilities	1,216	85%	970	83%
Non-Regulated Fortis Generation	131	9%	146	12%
Non-Regulated Non-utility	83	6%	59	5%
Total Capex	**1,430**	**100%**	**1,175**	**100%**

- Most capex is carried out by regulated utilities, which are low risk and should produce good growth in rate bases. These utilities are self-financed.
- The portion that requires financing from the Parent is the WEP (the Non-Regulated Fortis Generation line in the above table). Fortis is expected to have sufficient liquidity to cover this investment in 2014.

Description of Operations

Fortis' main subsidiaries and investments are as follows:

FortisBC Holdings Inc. (100% owned) is a holding company for the following utilities:

(1) **FortisBC Energy Inc. (FEI)** is the largest natural gas distributor in British Columbia, serving residential, commercial and industrial customers in an area extending from Vancouver to the Fraser Valley and the interior of British Columbia.

(2) **FortisBC Energy (Vancouver Island) Inc. (FEVI)** owns a combined distribution and transmission system, serving residential, commercial and industrial customers along the Sunshine Coast and in Victoria and various communities on Vancouver Island.

(3) **FortisBC Energy (Whistler) Inc. (FEW)** owns and operates a propane distribution system in Whistler, British Columbia, and provides service to residential and commercial customers.

FortisAlberta Inc. (100% owned) is a regulated electricity distributor with a franchise area that includes central and southern Alberta, the suburbs surrounding Edmonton, Calgary, Red Deer, Lethbridge and Medicine Hat.

FortisBC Inc. (100% owned) is a vertically integrated regulated utility operating in south-central British Columbia. Its generation assets include four hydroelectric generating plants (totalling 223 MW) on the Kootenay River in south-central British Columbia.

Newfoundland Power Inc. (NP) (100% owned) is a principal distributor of electricity on the island portion of Newfoundland and Labrador. Fortis also owns 25% of NP's preferred shares.

CH Energy Group, Inc. (100% owned) entails Central Hudson Gas & Electric Corporation, a regulated transmission and distribution utility that serves 376,000 electric and gas customers in New York State's Mid-Hudson River Valley.

Caribbean Utilities Company, Ltd. (60% owned) (CUC) is a fully integrated electricity utility on Grand Cayman, Cayman Islands with an installed generating capacity of 150 MW.

Other Canadian Subsidiaries

FortisOntario Inc. (FortisOntario) is an integrated electric utility providing services to customers in Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario. FortisOntario also owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies.

Maritime Electric Company Limited (Maritime Electric) is the principal distributor of electricity on Prince Edward Island. It also maintains on-island generating facilities with a combined capacity of 150 MW. Maritime Electric is indirectly owned by Fortis through FortisWest.

Fortis Properties Corporation owns and operates 23 hotels in eight Canadian provinces and approximately 2.7 million square feet of commercial real estate, primarily in Atlantic Canada. In October 2012, Fortis Properties acquired the 126-room StationPark All Suite Hotel in London, Ontario, for approximately $13 million, inclusive of approximately $6 million of debt.

Fortis Turks and Caicos serves approximately 85% of electricity consumers on the Turks and Caicos Islands, pursuant to 50-year licenses that expire in 2036 and 2037. The Company has a combined diesel-fired generating capacity of 54 MW.

Belize Electric Company Limited is a non-regulated 51 MW hydro generation operation in Belize. All output is sold to Belize Electricity Limited under 50-year power purchase agreements expiring in 2055 and 2060. The USD 53 million 19 MW hydroelectric generating facility at Vaca in Belize was commissioned in March 2010.

Belize Electricity Limited is recorded as an equity investment following the expropriation by the Government of Belize in June 2011.

Fortis Inc.

Report Date:
February 12, 2014

Fortis Inc (Consoldiated)

Balance Sheet	USGAAP	USGAAP	CGAAP		USGAAP	USGAAP	CGAAP
(CA$ millions)	**Dec. 31**	**Dec. 31**	**Dec. 31**		**Dec. 31**	**Dec. 31**	**Dec. 31**
Assets	**2013**	**2012**	**2011**	**Liabilities & Equity**	**2013**	**2012**	**2011**
Cash & equivalents	72	154	87	S.T. borrowings	160	136	159
Accounts receivable	732	587	638	Current portion L.T.D.	787	124	110
Inventories	143	133	134	Accounts payable	957	966	977
Current regulatory assets	150	185	230	Regulatory liabilities	140	72	51
Prepaid expenses & others	199	34	43	Others	40	10	8
Total Current Assets	**1,296**	**1,093**	**1,132**	**Total Current Liab.**	**2,084**	**1,308**	**1,305**
Net fixed assets	12,267	10,249	9,612	Long-term debt	6,841	6,211	6,114
Deferred income taxes	7	-	8	Deferred income taxes	1,078	702	676
Goodwill	2,075	1,568	1,565	Regulatory liabilities	902	681	612
Intangibles	345	325	325	Other L-T liabilities	627	638	564
Regulatory assets	1,672	1,515	1,388	Minority interest	375	310	208
Investments & others	246	200	184	Preferred shares	1,229	1,108	912
				Common equities	4,772	3,992	3,823
Total Assets	**17,908**	**14,950**	**14,214**	**Total Liab. & SE**	**17,908**	**14,950**	**14,214**

Fortis Inc. (Consolidated)

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Earnings Profile			**Year end December 31**		
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Revenues	4,047	3,654	3,738	3,657	3,643
EBITDA	1,393	1,264	1,191	1,149	1,065
EBIT	852	794	775	739	701
Gross interest expense	389	366	363	378	378
Net Income before non-recurring items	390	362	357	313	280
Net income as reported	410	362	357	313	280
Consolidated Financial Highlights			**Year ended December 31**		
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Total debt	7,788	6,471	6,383	6,023	5,915
Preferred shares	1,229	1,108	912	912	667
Total equity	5,219	4,398	4,126	3,556	3,394
Total assets	17,908	14,950	14,214	12,909	12,139
EBITDA	1,393	1,264	1,191	1,149	1,065
EBIT	852	794	775	739	701
Gross interest expenses	389	366	363	378	378
Cash flow from operations	930	860	790	725	653
Debt/Capital (1)	56.5%	56.5%	57.0%	59.6%	59.4%
Debt/EBITDA	5.59	5.12	5.36	5.24	5.55
Cash flow/Debt	11.6%	12.7%	12.1%	11.6%	11.0%
EBIT interest coverage	2.19	2.17	2.13	1.96	1.85
Regulated asset/Total assets (%)	89.8%	89.6%	86.6%	92.2%	93.0%
Regulated EBITDA/Total EBITDA (%)	93.4%	93.3%	91.4%	91.3%	91.0%

(1) DBRS treats preferred shares within 20% of common equity as equity, any amount above 20% as debt.

Regulated Assets	16,081	13,389	12,315	11,901	11,295
Regulated EBITDA	1,301	1,179	1,088	1,049	969

Fortis Inc.

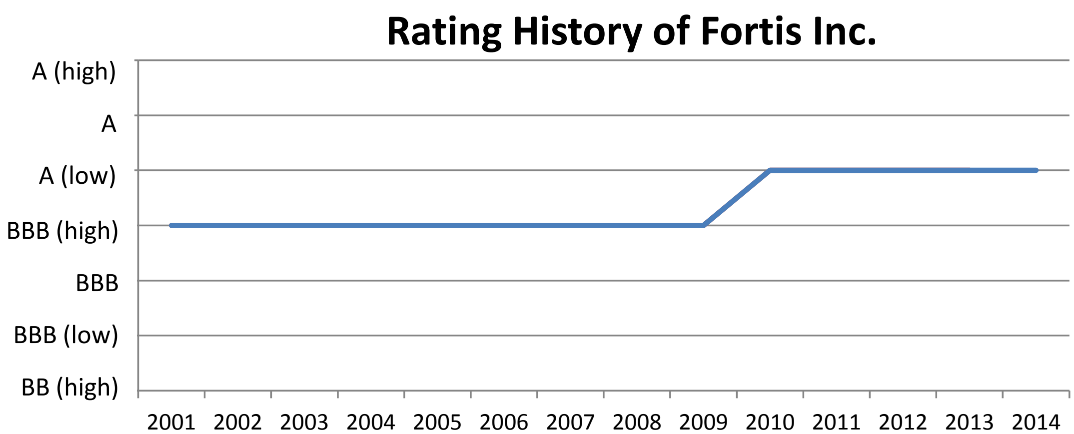
Report Date:
February 12, 2014

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	UR-Dev.	--
Unsecured Debentures	A (low)	UR-Dev.	--
Preferred Shares	Pfd-2 (low)	UR-Dev.	--

Rating History

	Current	2013	2012	2011	2010	2009
Issuer Rating	A (low)	A (low)	A (low)	NR	NR	NR
Unsecured Debentures	A (low)	A (low)	A (low)	A (low)	A (low)	BBB (high)
Preferred Shares	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-3 (high)



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

Rating Report

Fortis Inc.

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DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debentures	A (low)	Confirmed	Stable
Preferred Shares	Pfd-2 (low)	Confirmed	Stable

Rating Update

On December 23, 2014, DBRS Limited (DBRS) removed the A (low) Issuer Rating, A (low) Unsecured Debentures and Pfd-2 (low) Preferred Shares ratings of Fortis Inc. (Fortis, the Parent or the Company) from Under Review with Developing Implications and confirmed the ratings as listed above with Stable trends. This action followed the completion of the Company's acquisition of UNS Energy Corporation (UNS) (the Acquisition) and the conversion of $1.8 billion of convertible debentures into common equity in late October 2014.

DBRS believes that the Acquisition has slightly increased Fortis' business risk profile, as the business risk of UNS is viewed as modestly higher than Fortis' average business risk, partially offset by an improvement of diversified sources of cash flow. With the Acquisition, approximately 93% of 2014 non-consolidated earnings will be generated from regulated utilities (90% in 2013), with the remaining earnings coming from hotel properties and long-term contracted non-regulated generation. DBRS has assessed the regulatory regime in Arizona and is of the view that it is modestly weaker when compared with other jurisdictions in Canada where Fortis currently conducts its business, reflecting regulatory lag in Arizona. However, DBRS does recognize that the regulatory framework in Arizona has improved lately. In DBRS's view, the overall business risk profile of Fortis' investment portfolio should remain in the A (low) range following the completion of the Acquisition.

Fortis' financing of the USD 2.5 billion Acquisition was consistent with DBRS's expectation. Fortis issued $1.8 billion in convertible debentures, approximately $600 million in preferred shares and the remaining portion in debt. Most of the convertible debentures were converted into common equity in late October 2014. As a result, the financial risk profile on a non-consolidated basis remains consistent with DBRS's expectation, with all pro forma non-consolidated credit ratios improving from 2013. Fortis' non-consolidated debt in the capital structure would remain within DBRS's 20% guideline for holding company notching while all other key credit metrics would solidly remain within the current rating range.

Fortis is required to commit only a modest amount of equity to the $900 million (on a 100% basis) hydro Waneta Expansion Project in 2015 (the WEP). This equity requirement is within Fortis' financing capability and would not have any material impact on its financial profile. The WEP is expected to be completed on schedule and within budget in spring 2015. Upon completion of the WEP, DBRS expects incremental cash flow to Fortis to further support its financial metrics.

Financial Information

Fortis Inc. (Non-consolidated)	Pro Forma		Year end December 31		
	2015	**Sep. 2014**	**2013**	**2012**	**2011**
Total debt (adjusted)/Capital 1	19.1%	21.2%	21.6%	18.1%	15.7%
Total debt/Capital	15.5%	16.3%	18.1%	13.3%	13.5%
CAFD/Interest expense	8.67	7.73	8.32	5.57	4.57
CAFD/(Interest + Preferred dividends)	4.19	4.36	3.45	2.56	2.25
CAFD/Total debt	39.2%	33.9%	25.1%	27.6%	26.6%
(Cash flow-Preferred dividend)/Total debt	34.3%	30.5%	20.8%	21.8%	20.6%

1 DBRS treats preferred shares within 20% of common equity as equity, any amount above 20% as debt.

Issuer Description

Fortis Inc. is a holding company for a number of regulated electric and natural gas utilities, including wholly owned FortisBC Energy companies (formerly Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc.), Newfoundland Power Inc., FortisAlberta Inc., FortisBC Inc., Maritime Electric Company, Limited, FortisOntario Inc., Fortis Turks and Caicos, and Central Hudson Energy Group as well as majority ownership of Caribbean Utilities Company (approximately 60%). On August 15, 2014, Fortis completed the acquisition of UNS Energy Corporation, an integrated utility company headquartered in Tucson, Arizona.

Non-regulated operations include Fortis Properties, as well as non-regulated generation in Belize, Ontario and upper New York State.

Rating Considerations

Strengths

1. Strong and stable dividends and cash income
Cash income and dividends have been strong, largely supported by stable earnings and cash flow from low-risk, regulated entities and long-term power contracts. Regulated operations account for approximately 93% of non-consolidated earnings and approximately 90% of non-consolidated cash flow in 2014 (on a pro forma basis, including full contribution from the Central Hudson Energy Group (CH Energy) acquisition in June 2013 and the UNS acquisition in August 2014).

2. Diversified sources of cash flow
Fortis' business risk profile is supported by a diversified source of cash flow through its ownership of regulated natural gas and electricity utilities in British Columbia (BC), and electric utilities in five Canadian provinces and three Caribbean countries. The completion of the CH Energy and UNS acquisitions further diversified Fortis' sources of cash flow. In addition, the WEP (expected be in service in spring 2015), if completed on schedule, should further improve Fortis' cash flow diversification.

3. 100% ownership of most subsidiaries
Fortis owns 100% of most of its operating entities. This provides Fortis, within the boundaries of regulatory oversight, with some discretionary powers over the manner in which cash flows are paid to it by its operating companies.

4. Solid non-consolidated financial profile
Based on pro forma, Fortis' non-consolidated financial profile remains solid following the Acquisition, with all non-consolidated credit metrics remaining within the current rating category.

Challenges

1. Acquisition risk
Fortis' acquisition strategy has been reasonable with respect to maintaining its business risk profile and financial risk profile within the current rating range. However, there is no assurance that its future acquisitions and the financing of future acquisitions could not materially deviate from its current acquisition strategy. Should that be the case, it could increase the Company's overall business and/or financial risk levels.

2. Structural subordination to debt at the subsidiaries
Fortis is a holding company whose debt is structurally subordinated to the debt obligations of its operating companies. This accounts for the lower debt rating of Fortis relative to the debt ratings of some of its major regulated subsidiaries.

3. Strong ring-fencing at its wholly owned utilities
Fortis faces strong ring-fencings imposed on FortisBC Energy Inc. and FortisBC Energy (Vancouver Island) Inc., with respect to their capital structure and dividend payouts. In addition, it is common for utilities to maintain their capital structure in line with the regulatory capital structure. As a result, dividend payouts to Fortis could be affected should these utilities have large capital expenditure programs.

4. Large capital expenditures for the WEP
The WEP is a hydroelectric project in British Columbia that is 51% owned by Fortis. The Company's share of capital expenditures is approximately $450 million. The project is expected to be in service in Q2 2015.

Completion of the UNS Acquisition

On August 15, 2014, Fortis completed the acquisition of UNS Energy Corporation (UNS) for a total consideration of approximately USD 4.5 billion, including the assumption of USD 2.0 billion of debt on closing.

The Acquired Assets

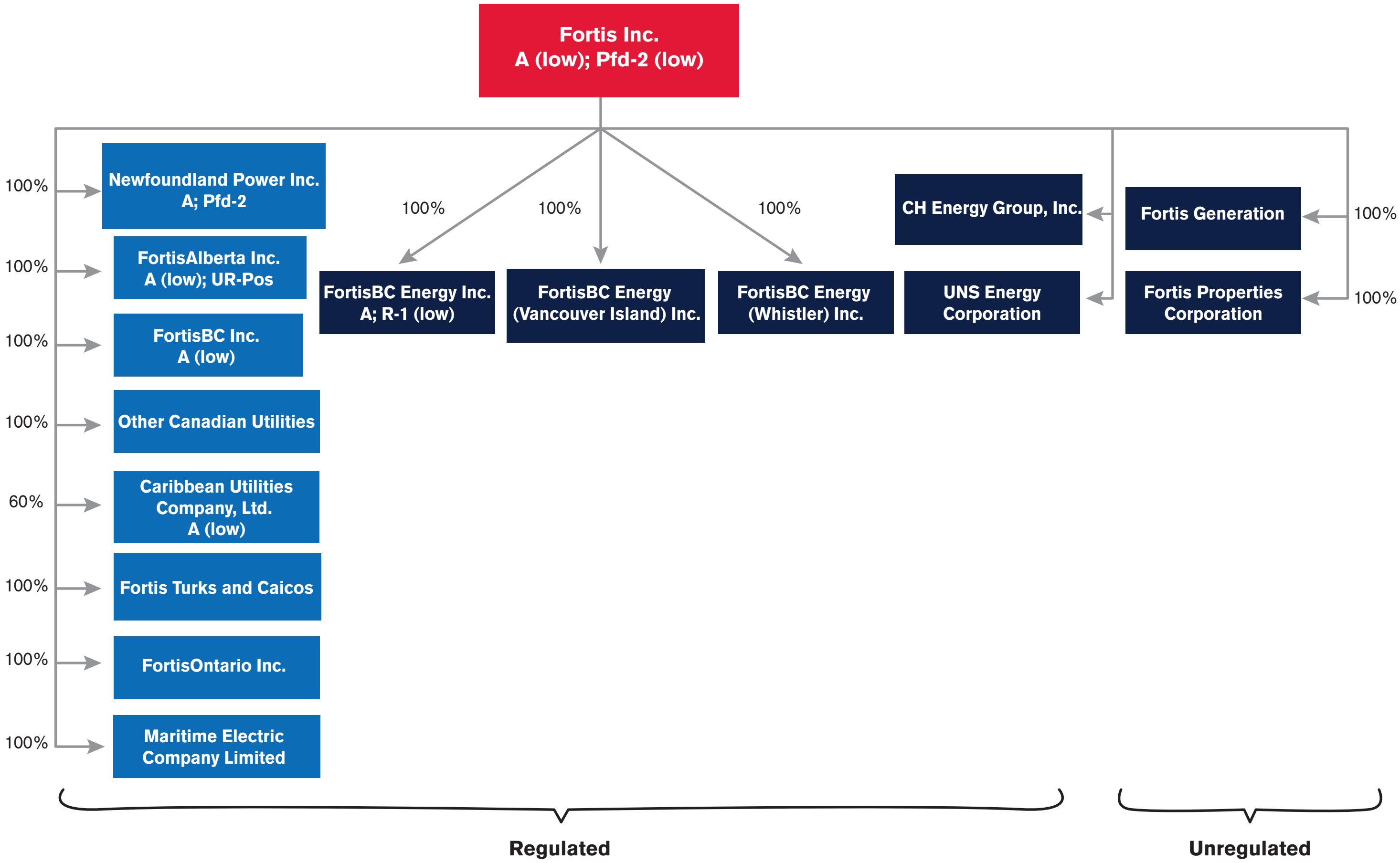
UNS's principal businesses comprise of three regulated subsidiaries: (1) Tucson Electric Power (TEP), a regulated electric utility that generates, transmits and distributes electricity to approximately 415,000 retail electric customers in southeastern Arizona. TEP accounted for approximately 85% of UNS's consolidated total assets at September 30, 2014; (2) UNS Electric, Inc. (UNS Electric), a regulated electric utility that serves approximately 93,000 retail electric customers in northern Arizona's Mohave and Santa Cruz counties. UNS Electric accounted for approximately 9% of UNS total assets at September 30, 2014; and (3) UNS Gas, Inc. (UNS Gas), a gas distribution company that serves approximately 149,000 retail gas customers in northern and southeastern Arizona. UNS Gas accounted for 6% of UNS's consolidated total assets at September 30, 2014.

Waneta Expansion Project (WEP)

The WEP continues to be on time and on budget, and is expected to be in operation in Q2 2015. The WEP, a 335 megawatt (MW) expansion of the hydroelectric generating facility on the Pend d'Oreille River in British Columbia, is the largest capital project of Fortis currently underway. The project's cost is estimated to be approximately $900 million (on a 100% basis), 51% of which Fortis will be responsible for because of its ownership interest (remainder owned by Columbia Power Corporation (32.5%) and Columbia Basin Trust (16.5%)). By September 30, 2014, approximately $648 million (on a 100% basis) had been spent in total on the project. As a result of the financing of the project, the non-consolidated metrics have been under pressure during the construction but are expected to improve once the project is in service.

Although the WEP is non-regulated, its output will be included in the Canal Plant Agreement (an agreement between British Columbia Hydro & Power Authority (BC Hydro; rated AA (high)), FortisBC Inc. (rated A (low)) and three other parties governing 1,565 MW of capacity) and will receive fixed energy and capacity entitlements based on long-term average water flows. In the long-term energy purchase agreement with BC Hydro, approximately 630 gigawatt hours and associated capacity required to deliver such energy have been contracted. The remaining capacity, approximately 234 MW, is expected to be sold to FortisBC Inc. under a long-term capacity purchase agreement.

Simplified Corporate Structure*



* The above chart only includes Fortis' major regulated and non-regulated subsidiaries, which directly or indirectly contribute dividends to Fortis. Additionally, pursuant to Order G-21-14, the FortisBC Energy Utilities (FEU), which include FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc. will be amalgamating on December 31, 2014. The amalgamated entity will be known as FortisBC Energy Inc.

Simplified Corporate Structure (CONTINUED)

As of September 30, 2014

Name	Operations	Customers	Rate Base (CAD millions)	Allowed ROE for 2014	2013 Net Income (CAD millions)	Deemed Equity	Regulatory Authority
FortisBC Holdings Inc.	Holding company				127		
FortisBC Energy Inc.	Natural gas distribution	850,000	2,765	8.75%	104	38.5%	BCUC
FortisBC Energy (Vancouver Island)	Natural gas distribution	103,000	N/A	9.25%	N/A	41.5%	BCUC
FortisBC Energy (Whistler)	Natural gas distribution	3,000	N/A	9.50%	N/A	41.5%	BCUC
UNS Energy Corporation	Holding company						
TEP	Integrated utility	415,000	N/A	10.00%	N/A	43.5%	ACC
UNS Electric	Integrated utility	93,000	N/A	9.50%	N/A	52.6%	ACC
UNS Gas	Natural Gas distribution	149,000	N/A	9.75%	N/A	50.8%	ACC
Central Hudson	Transmission and distribution utility	377,000	N/A	10.00%	23 4	48.0%	PSC
FortisAlberta	Electricity distribution	526,000	N/A	8.75%	94	41.0%	AUC
FortisBC	Integrated utility	165,000	1,192 *	9.15%	50	40.0%	BCUC
Newfoundland Power	Electricity distribution	256,000	N/A	8.3-9.3%	49	45.0%	PUB
Other Canadian Utilities	-	142,000	N/A	8.93-9.85% 1	26	40.0%	N/A
Fortis Properties	Real estate	N/A	N/A	N/A	18	N/A	N/A
Caribbean Utilities	Integrated utility	27,560	N/A	7.0-9.0% 2	23	N/A	ERA
Fortis Turks and Caicos	Integrated utility	13,000		15.0-17.5% 3	N/A	N/A	Government
Fortis Generation	Power generation	N/A	N/A	N/A	39	N/A	N/A

* As requested in the 2014 application
1 Maritime Power 9.75%; Niagara Power 8.93%; Algoma Power 9.85% 2 Regulated rate of return on assets ("ROA") 3 Amount provided under licence is for FortisTCI and Atlantic. Amount provided under licence for TCU is 15%. 4 Earnings of Central Hudson 2013 are from June 27, 2013, the date of acquisition, reporting currency is US dollar.

Non-Consolidated Earnings & Cash Flows

Earnings Breakdown: Non-Consolidated (Unaudited)

	12 months	Year end December 31		
(CA$ millions)	**Sep. 2014**	**2013**	**2012**	**2011**
Newfoundland Power	38.5	49.4	36.6	33.7
Maritime Electric	11.7	16.5	12.6	12.5
FortisOntario - Regulated	11.6	9.9	11.4	9.5
FortisAlberta	95.2	93.4	96.6	75.5
FortisBC Electric	47.8	50.4	49.9	48.6
FortisBC Energy	128.4	127.9	138.1	139.1
Regulated - Canadian	**333.2**	**347.4**	**345.2**	**318.9**
Central Hudson	43.8	22.7	-	-
UNS	37.3	-	-	-
Regulated - United States	**81.1**	**22.7**	**-**	**-**
Fortis Energy Bermuda (CUC, PPC, AEP) *	27.5	22.7	19.4	19.8
Fortis Cayman (Belize Electricity)	(0.0)	(0.0)	-	(0.0)
Regulated - United States	**27.5**	**22.7**	**19.4**	**19.8**
Fortis Generation	**22.7**	**19.3**	**16.6**	**18.0**
Fortis Properties (to be sold in 2015)	19.8	20.9	22.5	22.6
Griffith (includes CHEC, Sold in March 2014)	3.8	(5.1)	-	-
Non-Utility	**23.6**	**15.8**	**22.5**	**22.6**
Total equity income	**487.9**	**427.9**	**403.7**	**379.2**
Interest income + Management fee 1	46.1	61.2	36.5	34.1
Total Equity and Investment Income (cash)	**534.1**	**489.0**	**440.2**	**413.3**
Operating expense	70.3	47.2	35.7	11.9
Interest expense	72.2	40.6	39.7	44.3
Expense related to Convertible Debentures	67.0	-	-	-
Taxes	(34.7)	(8.5)	2.9	(6.5)
Preferred dividends	55.8	57.2	46.7	45.4
Net Earnings	**303.5**	**352.5**	**315.2**	**318.2**
Cash income/Interest expense	7.40	12.05	11.10	9.34

* CUC - Caribbean Utilities Company; PPC - formerly P.P.C Limited; AEP - formerly Atlantic Equipment and Power Limited CHEC: Central Hudson Enterprises Corporation, a non-regulated subsidiary of Central Hudson Energy Group in fuel delivery business

1 Includes $22 million extraordinary gain associated with the sale of Exploits Partnership in Q1 2013.

Non-consolidated Earnings Summary

- Overall, Fortis has benefited from very predictable and diversified earnings, underpinned by its portfolio of investments (mostly 100% owned) in regulated utilities in Canada, the United States and Caribbean countries.
- Regulated utilities and investment income account for over 93% of Fortis's non-consolidated earnings for year-to-date 2014. This was a meaningful increase from 90% in 2013 because of the contributions from the acquisition of CH Energy (June 2013) and UNS (August 2014). The growth in regulated earnings were also attributable to increases in customer base and higher rate bases among the utilities, particularly in Newfoundland and Alberta since 2012.
- Non-regulated generation comprises Fortis' generation assets located in Ontario, Belize, British Columbia and upstate New York (combined capacity of 103 MW, mainly hydroelectric). Over 80% of the capacity is under long-term contracts.
- Fortis Properties' contribution decreased slightly in 2014 because of weak performance at the Hospitality Division and higher depreciation from capital asset additions. In September 2014, Fortis announced a strategic review for the Fortis Properties business. The strategic options include sale of all or a portion of the assets, shares of Fortis Properties or an initial public offering.

Non-Consolidated Earnings & Cash Flows (CONTINUED)

2015 Non-Consolidated Earnings Outlook

- Regulated and contracted earnings are expected to increase meaningfully, reflecting (1) the 2014 acquisition of UNS and growing rate bases for regulated utilities in Canada, and (2) the completion of the WEP in Q2 2015, which benefits from a long-term power contract with BC Hydro.

Capital Structure and Liquidity

Fortis Inc. (Non-Consolidated)

	Pro Forma (Pro Forma is based on Fortis and DBRS)		Actual Year end December 31		
($ millions)	**2015**	**Sep. 2014**	**2013**	**2012**	**2011**
Cash available for distributions CAFD	**650**	**558**	**337**	**221**	**202**
Total debt ($300 million increase in 2014)	1,660	1,645	1,345	800	759
Preferred shares ($600 million increase in 2014)	1,820	1,820	1,229	1,108	912
Common equity ($1.8 billion increase in 2014)	7,212	6,621	4,849	4,093	3,953
Total capital	**10,692**	**10,086**	**7,423**	**6,001**	**5,624**
Preferred shares treated as equity (20% of common)	1,442	1,324	970	819	791
Preferred shares treated as debt	378	496	259	289	121
Total debt (adjusted)	**2,038**	**2,141**	**1,604**	**1,089**	**880**
Key Ratios (non-consolidated)					
Total debt (adjusted)/Capital	19.1%	21.2%	21.6%	18.1%	15.7%
Total debt/Capital	15.5%	16.3%	18.1%	13.3%	13.5%
CAFD/Interest expense	8.67	7.73	8.32	5.57	4.57
CAFD/(Interest + Preferred dividends)	4.19	4.36	3.45	2.56	2.25
CAFD/Total debt	39.2%	33.9%	25.1%	27.6%	26.6%
(Cash flow-Preferred dividend)/Total debt	34.3%	30.5%	20.8%	21.8%	20.6%

Pro Forma Analysis

DBRS has performed a pro forma analysis on the non-consolidated capital structure, based on its nine months ending September 30, 2014, results and assuming that the $1.8 billion Convertible Debentures were converted into common equity by September 30, 2014.

- The non-consolidated leverage remained stable, although it was slightly above the 20% threshold that DBRS uses in its notching guidelines for a holding company relative to its subsidiaries. However, based on the pro forma analysis for 2015, DBRS expects the non-consolidated leverage level will be fall below the 20% threshold.
- All other credit metrics improved, reflecting cash distributions from the Acquisition.
- Following the completion of the Acquisition, the WEP is the only project that requires investment from the Parent. This amount is manageable, given Fortis' strong credit profile. DBRS expects Fortis to continue prudently carrying out the financing of the remaining portion of the WEP.

Capital Structure and Liquidity (CONTINUED)

Liquidity

Credit Facilities as at November 1, 2014

(CA$ millions)	Parent & other	Regulated Subsidiaries	Non-regulated Subsidiaries	Total
Total credit facilities	2,900	1,986	13	4,899
Drawing on credit facilities (L-T) 1	(300)	(224)	0	(524)
Letters of credit	(1)	(175)	0	(176)
Credit facilities available	**2,599**	**1,587**	**13**	**4,199**

1 As of September 30, 2014, credit facility borrowings classified as long term included $98 million in current installments of long-term debt on the consolidated balance sheet.

Non-Consolidated

- As at November 30, 2014, Fortis and its subsidiaries had consolidated credit facilities of approximately $4.9 billion, of which $2.6 billion was undrawn (DBRS estimate).

Capex Profile

Consolidated Capex Breakdown	Dec. 31, 2014		Sep. 30, 2014		Dec. 31, 2013	
(CA$ millions)	Forecast	(%)	Actual	(%)	Actual	(%)
Canadian Regulated Utilities	977	54%	607	69%	861	73%
US Regulated Utilities	572	31%	129	15%	57	5%
Caribbean Regulated Utilities	61	3%	42	5%	52	5%
Total Regulated Utilities	**1,610**	**88%**	**778**	**89%**	**970**	**83%**
Non-Regulated Fortis Generation	131	7%	70	8%	146	12%
Non-Regulated Non-utility	83	5%	27	3%	59	5%
Total Capex	**1,824**	**100%**	**875**	**100%**	**1,175**	**100%**

- The consolidated gross capex is expected to be approximately $1.8 billion in 2014, largely driven by $450 million forecast capex from UNS. Based on the capex forecast, approximately 90% of capex will be invested in regulated utilities, which are low risk and should produce good growth in rate bases. These utilities are self-financed.
- The portion that requires financing from Fortis is the WEP (the Non-Regulated Fortis Generation line in the above table).

Description of Operations

Fortis' main subsidiaries and investments are as follows:

FortisBC Holdings Inc. (100% owned) is a holding company for the following utilities:

(1) ***FortisBC Energy Inc. (FEI)*** is the largest natural gas distributor in British Columbia, serving residential, commercial and industrial customers in an area extending from Vancouver to the Fraser Valley and the interior of British Columbia.

(2) ***FortisBC Energy (Vancouver Island) Inc. (FEVI)*** owns a combined distribution and transmission system, serving residential, commercial and industrial customers along the Sunshine Coast and in Victoria and various communities on Vancouver Island.

(3) ***FortisBC Energy (Whistler) Inc. (FEW)*** owns and operates a propane distribution system in Whistler, British Columbia, and provides service to residential and commercial customers.
Pursuant to Order G-21-14, the FortisBC Energy Utilities (FEU) will be amalgamating on December 31, 2014, and common rates will be adopted across the service areas (excluding Fort Nelson) of the amalgamated companies, effective on January 1, 2015.

FortisAlberta Inc. (100% owned) is a regulated electricity distributor with a franchise area that includes central and southern Alberta, the suburbs surrounding Edmonton, Calgary, Red Deer, Lethbridge and Medicine Hat.

FortisBC Inc. (100% owned) is a vertically integrated regulated utility operating in south-central British Columbia. Its generation assets include four hydroelectric generating plants (totalling 223 MW) on the Kootenay River in south-central British Columbia.

Newfoundland Power Inc. (NP) (100% owned) is the principal distributor of electricity on the island portion of Newfoundland and Labrador. Fortis also owns 25% of NP's preferred shares.

CH Energy Group, Inc. (100% owned) entails Central Hudson Gas & Electric Corporation, a regulated transmission and distribution utility that serves 376,000 electric and gas customers in New York State's Mid- Hudson River Valley.

UNS Energy Corporation. (100% owned) is a vertically integrated utility services holding company headquartered in Tucson, Arizona, engaged in the regulated electric generation and energy delivery business, serving approximately 657,000 electricity and gas customers in Arizona.

Caribbean Utilities Company, Ltd. (approximately 60% owned) (CUC) is a fully integrated electricity utility on Grand Cayman, Cayman Islands, with an installed generating capacity of 150 MW.

Other Subsidiaries

FortisOntario Inc. (FortisOntario) is an integrated electric utility providing services to customers in Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario. FortisOntario also owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies.

Maritime Electric Company Limited (Maritime Electric) is the principal distributor of electricity on Prince Edward Island. It also maintains on-island generating facilities with a combined capacity of 150 MW. Maritime Electric is indirectly owned by Fortis through FortisWest.

Fortis Properties Corporation owns and operates 23 hotels in eight Canadian provinces and approximately 2.7 million square feet of commercial real estate, primarily in Atlantic Canada.

Fortis Turks and Caicos serves approximately 85% of electricity consumers on the Turks and Caicos Islands, pursuant to 50-year licences that expire in 2036 and 2037. The Company has a combined diesel-fired generating capacity of 76 MW.

Belize Electric Company Limited is a non-regulated 51 MW hydro generation operation in Belize. All output is sold to Belize Electricity Limited under 50-year power purchase agreements expiring in 2055 and 2060. The USD 53 million 19 MW hydroelectric generating facility at Vaca in Belize was commissioned in March 2010.

Fortis Inc. (Consolidated)

Balance Sheet

USGAAP	Sep. 30	Dec. 31	Dec. 31		Sep. 30	Dec. 31	Dec. 31
(CA $ millions)	**2014**	**2013**	**2012**		**2014**	**2013**	**2012**
Assets				**Liabilities & Equity**			
Cash & equivalents	458	72	154	S.T. borrowings	1,564	160	136
Accounts receivable	782	732	587	Current portion L.T.D.	1,109	787	124
Inventories	347	143	133	Accounts payable	1,284	957	966
Current regulatory assets	225	150	185	Regulatory liabilities	209	140	72
Prepaid expenses & others	1,431	199	34	Others	9	40	10
Total Current Assets	**3,243**	**1,296**	**1,093**	**Total Current Liab.**	**4,175**	**2,084**	**1,308**
Net fixed assets	16,929	12,267	10,249	Long-term debt	9,584	6,841	6,211
Deferred income taxes	28	7	-	Deferred income taxes	1,773	1,078	702
Goodwill	3,652	2,075	1,568	Regulatory liabilities	1,331	902	681
Intangibles	458	345	325	Other L-T liabilities	886	627	638
Regulatory assets	2,019	1,672	1,515	Minority interest	405	375	310
Investments & others	411	246	200	Convertible Securities	1,800	-	-
				Preferred shares	1,820	1,229	1,108
				Common equities	4,966	4,772	3,992
Total Assets	**26,740**	**17,908**	**14,950**	**Total Liab. & SE**	**26,740**	**17,908**	**14,950**

Earnings Profile

Fortis Inc. (Consolidated)	Sep. 30	Sep. 30	12 months Sep. 30	Year end December 31			
(CA$ millions)	**2014**	**2013**	**2014**	**2013**	**2012**	**2011**	**2010**
Revenues	3,708	2,818	4,937	4,047	3,654	3,738	3,657
EBITDA	1,210	1,007	1,596	1,393	1,264	1,191	1,149
EBIT	732	608	976	852	794	775	739
Gross interest expense	406	284	511	389	366	363	378
Net Income before non-recurring items	241	277	354	390	362	357	313
Net income as reported	246	297	359	410	362	357	313

Consolidated Financial Highlights

(CA$ millions)	Sep. 30	Sep. 30	12 months Sep. 30	Year end December 31			
	2014	**2013**	**2014**	**2013**	**2012**	**2011**	**2010**
Total debt	12,257	7,658	12,257	7,788	6,471	6,383	6,023
Preferred shares	1,820	1,229	1,820	1,229	1,108	912	912
Total equity	7,137	5,144	7,137	5,219	4,398	4,126	3,556
Total assets	26,740	17,570	26,740	17,908	14,950	14,214	12,909
EBITDA	1,210	1,007	1,596	1,393	1,264	1,191	1,149
EBIT	732	608	976	852	794	775	739
Gross interest expenses	406	284	511	389	366	363	378
Cash flow from operations	782	656	1,056	930	860	790	725
Debt/Capital 1	61.7%	56.5%	61.7%	56.5%	56.5%	57.0%	59.6%
Debt/EBITDA	5.06	3.80	7.68	5.59	5.12	5.36	5.24
Cash flow/Debt	8.0%	11.0%	8.1%	11.6%	12.7%	12.1%	11.6%
EBIT interest coverage	1.80	2.14	1.91	2.19	2.17	2.13	1.96
EBIT/(gross interest expense + preferred dividends)	1.63	1.85	1.73	1.91	1.93	1.89	1.82
Regulated asset/Total assets (%)	NA	NA	88.0%	89.8%	89.6%	86.6%	92.2%
Regulated EBITDA/Total EBITDA (%)	95.6%	93.0%	95.3%	93.4%	93.3%	91.4%	91.3%
Regulated Assets	23,532	15,772	23,532	16,081	13,389	12,315	11,901
Regulated EBITDA	1,157	937	1,521	1,301	1,179	1,088	1,049

1 DBRS treats preferred shares within 20% of common equity as equity, any amount above 20% as debt.

Rating History

	Current	2013	2012	2011	2010	2009
Issuer Rating	A (low)	A (low)	A (low)	NR	NR	NR
Unsecured Debentures	A (low)	A (low)	A (low)	A (low)	A (low)	BBB (high)
Preferred Shares	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-2 (low)	Pfd-3 (high)

Previous Report

- Fortis Inc., Rating Report, February 12, 2014.

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

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Global Credit Portal
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May 31, 2011

Fortis Inc.'s Announced U.S. Acquisition Is In Line With Company Strategies, Report Says

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TORONTO (Standard & Poor's) May 31, 2011--Utility holding company Fortis Inc.'s (A-/Stable/--) announced acquisition of Central Vermont Power Service Corp. (CVPS; not rated) is consistent with its growth strategy and track record of financing acquisitions with bought deals, Standard & Poor's Ratings Services said in a report released today.

"We believe the acquisition provides modest regulatory and geographical diversification benefits to the company's existing portfolio of regulated utilities," Standard & Poor's credit analyst Gavin MacFarlane said in the report, entitled, "The Credit Implications Of Fortis Inc.'s Announced Purchase Of Central Vermont Power Service Corp."

On May 30, 2011, Fortis announced it had agreed to acquire CVPS. Standard & Poor's has not revised its ratings on Fortis following the announcement.

The report is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.

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October 31, 2011

Summary:
Fortis Inc.

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Summary:
Fortis Inc.

Credit Rating: A-/Stable/--

Rationale

The ratings on Fortis Inc. reflect Standard & Poor's opinion of the company's excellent business risk profile and significant financial risk profile. Our business risk assessment reflects the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; and what we view as a focused and well-executed growth strategy. Characterizing Fortis' financial risk profile, in our view, are the deemed regulatory capital structure at each of its subsidiaries, and a proportionally low amount of actual and expected debt held at the parent level. We believe that exposure, albeit limited, to a low proportion of total assets, to higher-risk commercial and hospitality real estate, and merchant electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

Fortis is a holding company with 100% interests in a number of regulated utilities in Canada. They include FortisBC Holdings Inc. (gas distributor in British Columbia [B.C.]; not rated); FortisBC (electricity distributor for portions of B.C.; not rated); Newfoundland Power Inc. (electricity provider for the island portion of the province); FortisAlberta Inc. (electricity distributor in parts of Alberta; A-/Stable/--); Maritime Electric Co. Ltd. (electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (electricity provider in parts of Ontario; not rated). The company also has holdings in regulated utilities in the Cayman Islands and Turks and Caicos; it has nonregulated hydro power generation and real estate and hotel investments that account for 10%-15% of consolidated EBITDA. We believe the quality, predictability, and diversity of the regulatory support Fortis enjoys underpin our assessment of the company's business risk profile. Diverse markets, climates, and customers further reduce its dependence on any individual market and add creditworthiness, although we expect FortisBC Holdings, the largest holding, to account for 35%-40% of consolidated earnings. Fortis had C$5.9 billion of reported, consolidated debt as of June 30, 2011.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings, interests from loans to some of its subsidiaries, and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions and predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions. In June 2011, the government of Belize expropriated Fortis's 70% ownership stake in Belize Electricity Ltd. (BEL), highlighting the riskiness of less stable regulatory regimes. This did not have a meaningful impact on Fortis, given BEL's small size relative to the company (less than 2% of its assets). Furthermore, we had already factored the challenging operating environment into the ratings. Fortis continues to own and operate nonregulated hydro-electric generating facilities in the country. We believe that the regulated businesses in the Caribbean could face more operating issues as a result of slow economic conditions and less predictable regulation.

Fortis' practice of maintaining financial separation with its subsidiaries supports our ratings. Although the company's management guides the subsidiaries to some extent, they operate independently, and Fortis does not guarantee their debt. However, the company could assist its subsidiaries in their expansions and should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is high, in our opinion, at about 60% total debt-to-total capital as of June 30, 2011, but consistent with stable Canadian provincial regulatory frameworks that dominate the portfolio. The company typically finances regulated subsidiaries at about a 55%-65% leverage level, in line with the deemed capital structure that their respective regulators use to set tariffs for capital cost recovery. We also consider Fortis' deconsolidated leverage, which is considerably less, in our analysis. The leverage directly at the holding company is less than 30% of the capital base and is manageable, in our opinion. Fortis has historically financed its acquisitions with common and preferred share issuances. We regard the preferred shares as having intermediate equity characteristics in accordance with our criteria on hybrid securities and treat them as 50% debt and 50% equity. Although Standard & Poor's expects that the company would continue to grow, we expect it to remain focused primarily on expanding through acquisitions of regulated assets with predictable returns and increasing the rate bases in its existing portfolio of regulated utilities. We also expect it to issue sufficient equity for the acquisitions to maintain consolidated leverage at 60% and holding-company debt at about 30% of its capital base.

Supporting our view that Fortis' financial risk profile is significant, and somewhat stronger than its key credit metrics would suggest based on our criteria, are the following factors:

- The portfolio effect and separation of each of its subsidiaries;
- Each subsidiary's direct debt financing;
- Stable and diverse cash flows;
- Sellable and long-lived assets;
- Some discretionary capital;
- A consistent financial policy; and
- Good access to debt and equity capital markets.

Nevertheless, we believe Fortis' consolidated interest and debt coverage's are aggressive-to-highly leveraged. Consolidated adjusted funds from operations (AFFO) interest coverage has historically been about 2.5x-3.0x, while AFFO-to-total debt has historically ranged from 10%-12%. We expect these measures to remain near there in the medium term. We estimate that combined interest payments and preferred share dividends on corporate level debt could range from C$90 million-C$120 million in each of the next five years. We expect cash flow from its subsidiaries should provide about 3x coverage of these combined payments and 25% of company-level debt.

Standard & Poor's believes Fortis' CEO materially influences the company's strategic direction. The credit impact has been primarily favorable, in our view; acquisitions to date have been focused (on Fortis' areas of expertise), well-executed, and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his collaborative approach to working with local regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. As it increases its size and complexity, we believe that it would have to add management depth and develop succession planning to maintain its strategic focus and execution.

Liquidity

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses by more than 1.2x. Our assessment of the company's liquidity profile incorporates the following expectations and assumptions:

- We expect that in the event of a 15% decline in deconsolidated earnings, the company's sources of funds would still exceed its uses.

- Liquidity sources include expected dividends and interests from its subsidiaries of more than C$250 million per year and unused credit facilities of C$409 million as of June 30.
- Uses of capital include primarily capital spending and dividends to shareholders of about C$600 million, but we believe that some of the capital spending has some deferability.

In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Outlook

The stable outlook reflects our assessment of the operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings. We could lower the ratings if Fortis were to employ materially more aggressive leverage to finance its growth, it were to invest in assets with materially higher business risks and cash flow variability, or one of its larger subsidiaries encountered major financial or operational difficulties. We believe that the ratings could also face pressure if company-level debt coverage from cash flows from its subsidiaries falls below 20% or consolidated AFFO to debt falls below 10% on a sustained basis. A positive outlook or upgrade is unlikely, given Fortis' aggressive capital structure. We expect the company to remain acquisitive and seek to increase its asset base in the next few years. Moderate investments in creditworthy businesses should not prompt a downgrade, provided they remain consistent with the company's regulated focus and expertise and are financed with an adequate level of common equity.

Related Criteria And Research:

- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Corporate Criteria: Ratios And Adjustments, April 15, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011.

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February 22, 2012

Research Update:

Fortis Inc. Ratings Put On CreditWatch Negative On Announced C$1.5 Billion Acquisition

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Research Update:

Fortis Inc. Ratings Put On CreditWatch Negative On Announced C$1.5 Billion Acquisition

Overview

- On Feb. 21, 2012, Fortis Inc. announced it entered into an agreement to acquire all of the shares of CH Energy Group Inc. for about C$1.5 billion.
- As a result, we are placing our ratings, including our 'A-' long-term corporate credit rating, on Fortis Inc. on CreditWatch with negative implications.
- The CreditWatch reflects our expectation of increased debt at the holding company level to finance the acquisition and that post-acquisition, deconsolidated credit metrics may be below our established thresholds.

Rating Action

On Feb. 22, 2012, Standard & Poor's Ratings Services placed the ratings on St. John's, Nfld.-based utility holding company Fortis Inc. on CreditWatch with negative implications.

Standard & Poor's also placed its ratings, including its 'A-' long term corporate credit rating, on FortisAlberta Inc. on CreditWatch with negative implications. See research update "Ratings On FortisAlberta Inc. Put On CreditWatch Negative Due To CreditWatch Placement On Fortis Inc." published today on RatingsDirect on the Global Credit Portal. The ratings on Fortis' other subsidiaries remain unchanged.

Rationale

The CreditWatch reflects our view that following the close of the proposed acquisition of CH Energy Group Inc. (not rated) for about C$1.5 billion, there is at least a one-in-two probability that Fortis' deconsolidated credit metrics may deteriorate below thresholds we have previously established for the current ratings. The acquisition will likely have a smaller impact on consolidated credit metrics, given CH Energy's size (adjusted funds from operations of about 15% of the consolidated entity) relative to Fortis on a consolidated basis. The most likely negative rating action would be a one-notch downgrade. Fortis expects the transaction to close within the next 12 months.

The proposed acquisition slightly improves Fortis' excellent business risk profile and provides both regulatory and cash flow diversification benefits to the company. CH Energy Group's primary asset is its 100% ownership of Central

Hudson Gas & Electric Corp. (A/Watch Neg/--), a regulated electric gas transmission and distribution utility with an excellent business risk profile that provides approximately 90% of CH Energy Group's consolidated EBITDA. The rating on Central Hudson Gas & Electric is based on the consolidated credit profile of its parent.

Maritime Electric Co. Ltd. (BBB+/Stable/--) is rated lower than Fortis and a one-notch downgrade of its parent, Fortis, would not lead to a rating action. Caribbean Utilities Co. Ltd. (CUC) (A-/Stable/--) has been previously rated above Fortis. Factors contributing to CUC's rating separation are its status as a publicly traded entity and Fortis's partial ownership stake.

Liquidity

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses by more than 1.2x. Our assessment of the company's liquidity profile incorporates the following expectations and assumptions:

- We expect that in the event of a 15% decline in deconsolidated earnings, the company's sources of funds would still exceed its uses.
- Liquidity sources include expected dividends and interests from Fortis' subsidiaries of more than C$250 million per year and unused credit facilities of about C$800 million as of Dec. 31, 2011.
- Uses of capital include primarily capital spending and dividends to shareholders of about C$600 million, but we believe that some of the capital spending has some deferability.

In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

CreditWatch

We will resolve the CreditWatch once greater details related to the transaction become available, including a financing plan, and the transaction closes. We could lower the ratings if debt levels increase as a result of the transaction and the company is unable to meet established thresholds we associate with the current ratings, including company-level debt coverage from cash flows from its subsidiaries of more than 20% and consolidated adjusted funds from operations to debt of more than 10%. However, while less likely, we could still affirm the ratings on Fortis and return to a stable outlook if a very meaningful component of the financing plan consists of equity and we conclude that forecast credit metrics are at levels consistent with the current ratings.

Related Criteria And Research

- Criteria | Corporates | Utilities: Methodology: Differentiating The Issuer Credit Ratings Of A Regulated Utility Subsidiary And Its Parent, March 11, 2010
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Ratings On FortisAlberta Inc. Put On CreditWatch Negative Due To CreditWatch Placement On Fortis Inc., Feb. 22, 2012
- Central Hudson Gas & Electric Corp. Ratings Placed On CreditWatch Negative On Acquisition Plan, Feb. 22, 2012

Ratings List

CreditWatch/Outlook Action

	To	From
Fortis Inc.		
Corporate Credit Rating	A-/Watch Neg/--	A-/Stable/--
Fortis Inc.		
Senior Unsecured	A-/Watch Neg	A-
Preferred Stock		
Global scale	BBB/Watch Neg	BBB
Canada scale	P-2/Watch Neg	P-2
Preference Stock	P-2/Watch Neg	P-2

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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February 29, 2012

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Fortis Inc.

Major Rating Factors

Corporate Credit Rating
A-/Watch Neg/--

Strengths:

- Diversified portfolio of low-risk monopoly electricity and gas distribution businesses
- Stable, regulated cash flows, with supportive regulatory regimes and limited commodity price and volume exposure

Weaknesses:

- Weak consolidated credit metrics for the ratings and deconsolidated metrics that acquisitions could pressure
- Higher business risk in unregulated businesses that account for about 10-15% of consolidated EBITDA

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect Standard & Poor's Ratings Services' opinion of the company's excellent business risk profile and significant financial risk profile. Our business risk assessment reflects the company's diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; and what we view as a focused and well-executed growth strategy. Characterizing Fortis' financial risk profile, in our view, are the deemed regulatory capital structure at each of its subsidiaries, and a proportionally low amount of actual and expected debt held at the parent level. We believe that exposure, albeit limited, to a low proportion of total assets, to higher-risk commercial and hospitality real estate, and merchant electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

We placed our ratings on Fortis on CreditWatch with negative implications Feb. 21, 2012, reflecting our view that following the close of the proposed acquisition of CH Energy Group Inc. (not rated) for about C$1.5 billion, there is at least a one-in-two probability that the company's deconsolidated credit metrics might deteriorate below thresholds we have previously established for the ratings.

Fortis is a holding company with 100% interests in a number of regulated utilities in Canada. They include FortisBC Holdings Inc. (gas distributor in British Columbia [B.C.]; not rated); FortisBC (electricity distributor for portions of B.C.; not rated); Newfoundland Power Inc. (electricity provider for the island portion of the province); FortisAlberta Inc. (electricity distributor in parts of Alberta; A-/Stable/--); Maritime Electric Co. Ltd. (electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (electricity provider in parts of Ontario; not rated). The company also has holdings in regulated utilities in the Cayman Islands and Turks and Caicos; it has nonregulated hydro power generation and real estate and hotel investments that account for 10%-15% of consolidated EBITDA. We believe the quality, predictability, and diversity of the regulatory support Fortis enjoys underpin our assessment of the company's business risk profile. Diverse markets, climates, and customers further reduce its dependence on any individual market and add creditworthiness, although FortisBC Holdings, the largest holding, typically accounts for 35%-40% of consolidated earnings. Fortis had C$5.9 billion of reported, consolidated debt as of Dec. 31, 2011.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings, interests from loans to some of its subsidiaries, and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions and predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions. Fortis continues to own and operate nonregulated hydroelectric generating facilities in the country. We believe that the regulated businesses in the Caribbean could face more operating issues as a result of slow economic conditions and less predictable regulation.

Fortis' practice of maintaining financial separation with its subsidiaries supports our ratings. Although the company's management guides the subsidiaries to some extent, they operate independently, and Fortis does not guarantee their debt. However, the company could assist its subsidiaries in their expansions and should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is high, in our opinion, at about 60% total debt-to-total capital as of Dec. 31, 2011, but consistent with stable Canadian provincial regulatory frameworks that dominate the portfolio. The company typically finances regulated subsidiaries at about a 55%-65% leverage level, in line with the deemed capital structure that their respective regulators use to set tariffs for capital cost recovery. We also consider Fortis' deconsolidated leverage, which is lower, in our analysis. The company has historically financed its acquisitions with common and preferred share issuances. We regard the preferred shares as having intermediate equity characteristics in accordance with our criteria on hybrid securities, and treat them as 50% debt and 50% equity. Although Standard & Poor's expects that the company will continue to grow, we expect it to remain focused primarily on expanding through acquisitions of regulated assets with predictable returns and increasing the rate bases in its existing portfolio of regulated utilities.

Supporting our view that Fortis' financial risk profile is significant, and somewhat stronger than its key credit metrics would suggest based on our criteria, are the following factors:

- The portfolio effect and separation of each of its subsidiaries;
- Each subsidiary's direct debt financing;
- Stable and diverse cash flows;
- Sellable and long-lived assets;
- Some discretionary capital;
- A consistent financial policy; and
- Good access to debt and equity capital markets.

Nevertheless, we believe Fortis' consolidated interest and debt coverage's are aggressive-to-highly leveraged. Consolidated adjusted funds from operations (AFFO) interest coverage has historically been about 2.5x-3.0x, while AFFO-to-total debt has historically ranged from 10%-12%. We expect these measures to remain near there in the medium term.

Liquidity

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses by more than 1.2x. Our assessment of the company's liquidity profile incorporates the following expectations and assumptions:

- We expect that in the event of a 15% decline in deconsolidated earnings, the company's sources of funds would still exceed its uses.

- Liquidity sources include expected dividends and interests from Fortis' subsidiaries of more than C$250 million per year and unused credit facilities of about C$800 million as of Dec. 31, 2011.
- Uses of capital include primarily capital spending and dividends to shareholders of about C$600 million, but we believe that some of the capital spending has some deferability.

In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Accounting

On Jan. 1, 2012, Fortis converted to U.S. generally accepted accounting principles (GAAP) for interim and annual financial reporting. We do not expect this to affect the ratings. The company previously prepared its financial statements in accordance with Canadian GAAP.

CreditWatch

We will resolve the CreditWatch placement once greater details related to the CH Energy transaction, including a financing plan, become available and the transaction closes. We could lower the ratings if debt levels increase as a result of the transaction and Fortis is unable to meet established thresholds we associate with the ratings, including company-level debt coverage from cash flows from its subsidiaries of more than 20% and consolidated adjusted funds from operations-to-debt of more than 10%. However, while less likely, we could affirm the ratings on Fortis and return to a stable outlook if a very meaningful component of the financing plan consists of equity and we conclude that forecast credit metrics are at levels consistent with the current ratings.

Table 1

Fortis Inc.--Peer Comparison

Industry Sector: Electric Utility

	--Fiscal year ended Dec. 31, 2010--				
(Mil. C$)	**Fortis Inc.**	**Enbridge Inc.**	**TransCanada PipeLines Ltd.**	**CU Inc.**	**EPCOR Utilities Inc.**
Rating as of Feb. 29, 2012	A-/Watch Neg/--	A-/Stable/--	A-/Stable/A-2	A/Stable/A-1	BBB+/Stable/--
Revenues	3,664.0	15,127.0	8,064.0	1,476.7	1,473.0
EBITDA	1,177.2	2,410.0	4,297.1	672.9	309.9
Net income from continuing operations	330.0	970.0	1,256.0	266.5	133.0
Funds from operations (FFO)	716.6	2,075.8	2,959.9	471.7	151.7
Capital expenditures	954.9	2,341.0	4,616.8	696.3	217.1
Free operating cash flow	(240.3)	(528.2)	(1,912.9)	(249.6)	(56.4)
Dividends paid	224.5	430.5	1,220.5	9.9	136.0
Discretionary cash flow	(464.8)	(958.7)	(3,133.4)	(259.4)	(192.4)
Cash and short-term investments	109.0	230.0	752.0	10.3	104.0
Debt	6,895.9	15,011.3	24,955.9	3,160.9	1,804.8
Preferred stock	456.0	62.5	687.0	224.7	0.0
Equity	3,728.5	7,921.6	16,523.6	2,428.5	2,461.4
Debt and equity	10,624.4	22,932.9	41,479.5	5,589.4	4,266.2

Table 1

Fortis Inc.--Peer Comparison (cont.)

Adjusted ratios					
FFO interest coverage (x)	2.6	3.7	2.9	3.1	2.1
FFO/debt (%)	10.4	13.8	11.9	14.9	8.4
Free operating cash flow/debt (%)	(3.5)	(3.5)	(7.7)	(7.9)	(3.1)
Discretionary cash flow/debt (%)	(6.7)	(6.4)	(12.6)	(8.2)	(10.7)
Net cash flow/capex (%)	51.5	70.3	37.7	66.3	7.2
Debt/EBITDA (x)	5.9	6.2	5.8	4.7	5.8
Total debt/debt plus equity (%)	64.9	65.5	60.2	56.6	42.3
Return on capital (%)	7.1	7.8	6.6	8.8	7.1
Return on common equity (%)	7.9	11.2	4.3	10.9	5.2
Common dividend payout ratio (unadjusted; %)	85.6	67.3	89.7	0.0	102.3

Table 2

Fortis Inc.--Financial Summary

Industry Sector: Electric Utility

	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2010**	**2009**	**2008**	**2007**	**2006**
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--	BBB+/Stable/--
Revenues	3,664.0	3,637.0	3,903.0	2,718.0	1,462.0
EBITDA	1,177.2	1,085.0	1,064.7	827.3	534.7
Net income from continuing operations	330.0	297.0	276.0	216.0	165.4
Funds from operations (FFO)	716.6	656.7	648.4	492.2	346.1
Capital expenditures	954.9	927.0	822.1	837.5	445.0
Dividends paid	224.5	160.5	185.5	151.5	82.5
Debt	6,895.9	6,591.5	6,159.9	6,166.7	3,209.4
Preferred stock	456.0	333.5	333.5	160.3	159.7
Equity	3,728.5	3,497.4	3,385.5	2,871.1	1,567.6
Debt and equity	10,624.4	10,088.9	9,545.4	9,037.7	4,777.0
Adjusted ratios					
EBITDA margin (%)	32.1	29.8	27.3	30.4	36.6
EBIT interest coverage (x)	1.9	1.9	1.8	1.8	2.2
FFO interest coverage (x)	2.6	2.6	2.5	2.5	2.9
FFO/debt (%)	10.4	10.0	10.5	8.0	10.8
Discretionary cash flow/debt (%)	(6.7)	(7.2)	(5.2)	(10.0)	(6.8)
Net cash flow/capex (%)	51.5	53.5	56.3	40.7	59.2
Debt/debt and equity (%)	64.9	65.3	64.5	68.2	67.2
Return on capital (%)	7.1	7.2	7.7	8.2	8.6
Return on common equity (%)	7.9	7.8	7.6	9.0	11.1
Common dividend payout ratio (unadjusted; %)	85.6	50.8	70.1	66.3	48.8

Table 3

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2010--									
Fortis Inc. reported amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	6,023.0	4,217.0	3,664.0	1,150.0	740.0	348.0	740.0	740.0	247.0	960.0
Standard & Poor's adjustments										
Operating leases	101.8	N/A	N/A	6.2	6.2	6.2	10.8	10.8	N/A	7.9
Intermediate hybrids reported as equity	456.0	(456.0)	N/A	N/A	N/A	22.5	(22.5)	(22.5)	(22.5)	N/A
Postretirement benefit obligations	232.6	(194.5)	N/A	17.0	17.0	11.0	(0.7)	(0.7)	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	13.0	(13.0)	(13.0)	N/A	(13.0)
Share-based compensation expense	N/A	N/A	N/A	4.0	N/A	N/A	N/A	N/A	N/A	N/A
Asset retirement obligations	230.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	15.0	N/A	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.0	N/A	N/A
Minority interests	N/A	162.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt--other	(148.0)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	872.9	(488.5)	0.0	27.2	38.2	52.7	(25.4)	(23.4)	(22.5)	(5.1)
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	6,895.9	3,728.5	3,664.0	1,177.2	778.2	400.7	714.6	716.6	224.5	954.9

N/A--Not applicable.

Related Criteria And Research:

- Research Update: Fortis Inc. Ratings Put On CreditWatch Negative On Announced C$1.5 Billion Acquisition, Feb. 22, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings Detail (As Of February 29, 2012)	
Fortis Inc.	
Corporate Credit Rating	A-/Watch Neg/--
Preference Stock	
Canadian Preferred Stock Rating (1 Issue)	P-2/Watch Neg
Preferred Stock (4 Issues)	BBB/Watch Neg
Canadian Preferred Stock Rating (4 Issues)	P-2/Watch Neg
Senior Unsecured (1 Issue)	A-/Watch Neg
Corporate Credit Ratings History	
22-Feb-2012	A-/Watch Neg/--
19-Jun-2007	A-/Stable/--
26-Feb-2007	BBB+/Watch Pos/--
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (7 Issues)	A-
FortisAlberta Inc.	
Issuer Credit Rating	A-/Watch Neg/--
Senior Unsecured (10 Issues)	A-/Watch Neg
Maritime Electric Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Senior Secured (6 Issues)	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S RATINGS SERVICES

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Summary:

Fortis Inc.

Credit Rating:	A-/Stable/--

Rationale

The ratings on St. John's, Nfld.-based utility holding company Fortis Inc. reflect Standard & Poor's Ratings Services' opinion of the company's excellent business risk profile and significant financial risk profile. Our business risk assessment reflects the company's diversified portfolio of low-risk, monopoly utilities; stable regulated cash flow with generally supportive regulatory regimes and independent subsidiaries. Characterizing Fortis' financial risk profile, in our view, are the deemed regulatory capital structure at each of its subsidiaries, which drive the relatively weak consolidated and deconsolidated credit metrics. We believe that exposure, albeit limited, to higher-risk commercial and hospitality real estate, and electricity generation somewhat offset the strengths of both its business risk and financial risk profiles.

Fortis is a holding company with 100% interests in a number of regulated utilities in Canada. They include FortisBC Holdings Inc. (gas distributor in British Columbia [B.C.]; not rated); FortisBC (electricity distributor for portions of B.C.; not rated); Newfoundland Power Inc. (electricity provider for the island portion of the province); FortisAlberta Inc. (electricity distributor in parts of Alberta; A-/Stable/--); Maritime Electric Co. Ltd. (electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (electricity provider in parts of Ontario; not rated). The company also has holdings in regulated utilities in the Cayman Islands and Turks and Caicos; and it has nonregulated hydro power generation and real estate and hotel investments. Fortis had C$7.5 billion of Standard & Poor's-adjusted, consolidated debt as of Sept. 30, 2012.

The company continues to benefit from stable, regulated cash flows from its regulated utility portfolio. Regulation is typically cost-of-service-based with limited exposure to commodity price or volume risk. The utilities typically have a monopoly position with limited bypass risk. The ongoing rate-base growth is driving the long-term trend in cash-flow growth.

A key ongoing credit strength for the company is the regulatory, geographic, and market diversification of its subsidiaries and their cash flows. There continues to be some concentration in B.C., where about 50% of the post-acquisition rate base is located. Fortis' diversification is sufficient that it could survive the bankruptcy of its largest subsidiaries.

In our view, the company has limited headroom in both its consolidated and deconsolidated credit metrics. We expect its consolidated adjusted funds from operations (AFFO)-to-debt to remain in the 10%-12% range, with limited headroom above the 10% floor we have established for the ratings. We expect Fortis's deconsolidated AFFO-to-debt to be lower (18%-20%) in 2013-2014 before improving in 2015, when the Waneta hydroelectric project is completed. The key components of deconsolidated FFO include regulated cash flows, which are based on the forecast rate base;

and the regulatory determined return on equity (ROE) and deemed capital structure for each regulated utility, unregulated cash flows, and tax benefits driven by the structure. We adjust both FFO and debt in accordance with our ratio definitions and our criteria on preferred shares, which we treat as 50% debt and 50% equity.

We expect the holding company's cash flows from subsidiaries Fortis Properties and Fortis Generation to increase to about 25% from about 15% post Waneta construction. Fortis Properties cash flows are somewhat riskier than the regulated businesses. However, we expect the Waneta power project to generate long term, stable cash flows once operational in 2015. Key contract features in the 40-year power purchase agreement include limited hydrology and price risk, and strong counterparties in British Columbia Hydro & Power Authority and FortisBC, with some construction risk in the interim.

Fortis is structured as a holding company and does not guarantee its subsidiaries' debt. However, we would expect the company to support its subsidiaries provided it had economic incentive to do so. Fortis primarily provides ongoing strategic support to its subsidiaries and provides equity injections as required to finance growth. Each entity has a high degree of independence both from the parent and typically from other operating units.

We believe that the proposed acquisition of CH Energy Group Inc. will slightly improve the company's excellent business risk profile and provides both regulatory and cash flow diversification benefits to the company. CH Energy's primary asset is its 100% ownership of Central Hudson Gas & Electric Corp. (A/Watch Neg/--), a regulated electric gas transmission and distribution utility with an excellent business risk profile that provides approximately 90% of CH Energy Group's consolidated EBITDA. The rating on Central Hudson reflects the consolidated credit profile of its parent.

Some of our key assumptions about Fortis include the following:

- In addition to about C$600 million of subscription receipts issued for the CH Energy acquisition and a recent C$200 million in preferred share issuance, we have assumed company will issue about C$50 million more in preferred shares, and C$150 million in debt at the holding company level.
- Fortis will finance the Waneta project with approximately C$350 million in debt. In addition, we assume the project is not delayed beyond 2015 and any cost overruns are not material.
- The company's consolidated rate base grows on average about 3%-4% per year from 2012-2016. Its regulated subsidiaries allowed ROE, deemed equity, and depreciation rates remain in line with current levels, and they are generally able to earn their allowed ROE or better.
- If the CH Energy acquisition closes in early 2013, there are no material changes to the underlying business.

Liquidity

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses by more than 1.2x. Our assessment incorporates the following expectations and assumptions:

- We expect that in the event of a 15% decline in deconsolidated earnings, the company's sources of funds would still exceed its uses.
- Liquidity sources include expected remitted cash flows from Fortis' subsidiaries of about C$300 million per year and unused committed credit facilities of about C$764 million as of March 31, 2012.
- Uses of capital include primarily interest and preferred share dividends of about C$100 million, and capital spending and dividends to shareholders of about C$600 million (excluding the CH Energy acquisition), but we believe that

some of the capital spending has some deferability.

In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Outlook

The stable outlook reflects our assessment of the operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings. We could lower the ratings if Fortis were to employ materially more aggressive leverage or if it were to invest in assets with materially higher business risks and cash flow variability, or one of its larger subsidiaries encountered major financial or operational difficulties. We believe that the ratings could also face pressure if company-level AFFO-to-debt deteriorates below our forecasts or consolidated AFFO-to-debt falls below 10% on a sustained basis. A positive outlook or upgrade during our two-year forecast horizon is unlikely, given Fortis' weak credit metrics.

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Criteria Methodology: Differentiating The Issuer Credit Ratings Of A Regulated Utility Subsidiary And Its Parent, March 11, 2010
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

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Fortis Inc.

Corporate Credit Rating	A-/Stable/--

Profile Assessments

BUSINESS RISK	EXCELLENT	
FINANCIAL RISK	SIGNIFICANT	

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Low risk, and regulated assets • Limited commodity price and volume risk exposure • Diversified portfolio of regulated utilities • Monopoly service providers	• Stable regulated cash flow • High levels of leverage

Outlook: Stable

The stable outlook reflects Standard & Poor's Ratings Services' assessment of the operating companies' underlying operational and financial stability, which mitigates the relatively weak financial measures for the ratings.

Downside scenario

We could lower the ratings if Fortis Inc. were to employ more leverage or if it were to invest in assets with materially higher business risks and cash flow variability, one of its larger subsidiaries encountered major financial or operational difficulties or if the company experiences material challenges in completing its Waneta project on time and budget. We could also lower the ratings if company-level adjusted funds from operations (AFFO)-to-debt remains below 20% in 2015 or if consolidated AFFO-to-debt falls below 10%.

Upside scenario

A positive outlook or upgrade during our two-year forecast horizon is unlikely, given Fortis' weak credit metrics.

Standard & Poor's Base-Case Scenario

Our base case scenario results in limited headroom above existing credit metric thresholds until the Waneta project is completed.

Assumptions	**Key Metrics**

Assumptions

- The regulated utilities continue to generate stable cash flow
- Fortis does not experience any adverse regulatory decisions
- The company continues to finance its regulated utilities in line with allowed capital structure as established by related regulators.
- The acquisition of CH Energy Group Inc. is completed in second-quarter 2013 and the Waneta hydroelectric project is completed on time and on budget in the first half of 2015.

Key Metrics

(%)	2012A	2013E	2014E
Consolidated AFFO/debt	11	10-12	10-12
Consolidated AFFO/interest	2.8	2.5-3.0	2.5-3.0
Deconsolidated AFFO/debt	25-27	18-20	18-20

Note: 2012 actual is based on 2012 reported results with 2011 adjustments. 2012 adjustments are not yet available. AFFO--Adjusted funds from operations. A--Actual. E--Estimated.

Company Description

Fortis is a holding company with 100% interests in a number of regulated utilities in Canada that account for about 85% of consolidated earnings. The company also has regulated utility assets in the Caribbean (5% of earnings) and unregulated power generation assets and a property segment each contributing about 5% of earnings.

Business Risk: Excellent

Fortis' business risk continues to benefit from its stable, low risk, regulated utility portfolio. Regulation typically employs a cost-of-service methodology that provides an allowed regulated rate of return. The utilities typically have relatively low levels of commodity and volume risk exposure, further reducing cash flow volatility. Fortis' regulated companies are monopoly service providers in the territories they serve with limited bypass risk and are not exposed to typical market forces, which we also view as a key credit strength.

In our view, a key ongoing credit strength for the company is the regulatory, geographic, and market diversification of its subsidiaries and their cash flow. There continues to be some concentration in British Columbia, where about 50% of the rate base, including the CH Energy acquisition, is located.

The unregulated businesses make a relatively small consolidated contribution to the group. The size and quality of these cash flows will improve with the Waneta project's completion. This project has limited hydrology and price risk, no dispatch risk and strong counterparties in British Columbia Hydro & Power Authority and FortisBC.

Insulating provisions restrict Fortis' access to assets at some of its subsidiaries, enabling stronger subsidiaries to have a higher rating than the parent and limiting the support these entities could be forced to provide to the parent. This, combined with structural subordination of holdco debt, provides a key rationale for our deconsolidated analysis.

S&P Base-Case Operating Scenario

- The regulated utilities continue to generate stable cash flow.
- The company does not experience any material adverse regulatory decisions
- The C$900 million Waneta project is completed on time and budget
- The CH Energy Acquisition will close in second-quarter 2013

Peer comparison

Table 1

Fortis Inc.--Peer Comparison

Industry Sector: Electric Utility

(Mil. C$)	Fortis Inc.	Enbridge Inc.	TransCanada PipeLines Ltd.	CU Inc.	EPCOR Utilities Inc.
Rating as of Feb. 26, 2013	A-/Stable/--	A-/Stable/--	A-/Stable/A-2	A/Stable/A-1	BBB+/Stable/--
	--Average of past three fiscal years--				
Revenues	3,685.3	22,495.3	7,970.0	1,629.4	1,861.7
EBITDA	1,222.3	2,996.2	4,242.9	750.3	350.1
Net income from continuing operations	349.7	926.7	1,380.3	273.4	125.7
Funds from operations (FFO)	786.8	2,817.7	3,111.2	537.6	291.3
Capital expenditures	1,014.9	3,781.0	3,132.1	799.0	415.3
Dividends paid	210.8	837.0	1,298.7	28.3	152.2
Debt	6,963.1	19,593.9	24,308.2	3,445.0	1,916.8
Preferred stock	673.3	1,432.5	591.7	210.3	0.0
Equity	4,454.5	11,138.0	18,393.9	2,314.8	2,385.2
Debt and equity	11,417.6	30,731.9	42,702.1	5,759.8	4,302.0
Adjusted ratios					
EBITDA margin (%)	33.2	13.3	53.2	46.0	18.8
EBIT interest coverage (x)	2.1	2.3	2.1	2.5	2.1
FFO interest coverage (x)	2.4	4.0	3.1	3.6	2.8
FFO/debt (%)	11.3	14.4	12.8	15.6	15.2
Discretionary cash flow/debt (%)	(5.5)	(10.4)	(5.1)	(8.8)	(17.0)
Net cash flow/capex (%)	56.8	52.4	57.9	63.7	33.5
Total debt/debt plus equity (%)	61.0	63.8	56.9	59.8	44.6
Return on capital (%)	6.9	7.2	6.8	9.2	7.0
Return on common equity (%)	8.2	8.7	5.8	11.2	4.8
Common dividend payout ratio (unadjusted; %)	62.0	86.7	86.6	13.0	109.1

Financial Risk: Significant

We expect cash flow from the regulated utilities to remain very stable, a factor we believe is a key credit strength that offsets high leverage. Regulated utility cash flow is primarily composed of a return of capital (depreciation) and a return on capital and return on equity, both of which continue to experience limited volatility. We expect consolidated leverage to remain high, with limited headroom above thresholds we associate with the ratings. Consolidated leverage is a function of the regulatory capital structure of the underlying utilities that generally follows levels allowed by regulation.

We expect deconsolidated credit metrics to deteriorate in 2013 and 2014 but improve dramatically with the completion of the Waneta project in 2015. We expect deconsolidated credit metrics in 2013 and 2014 to deteriorate as a result of the CH Energy acquisition and the largely debt-financed Waneta project.

Deconsolidated credit metrics are not as stable owing to the residual nature of cash flow from regulated utilities and the larger contribution of unregulated businesses.

Fortis achieves its growth targets through a mixture of growth in organic rate base and acquisitions. Mergers and acquisitions are typically riskier and material acquisitions can stress the financial risk profile. The company has a long history of increasing its dividends and would likely be very reluctant to reduce its dividends to support credit quality.

S&P Base-Case Cash Flow And Capital Structure Scenario

- The company experiences growth in rate base of about 15% in 2013, including the CH Energy acquisition
- Subsequent rate base growth returns to midsingle digits
- Growth in rate base leads to a corresponding growth in cash flow
- The company continues to finance its regulated utilities in line with allowed capital structure as established by related regulators
- Depreciation rates are stable
- The utilities continue to earn their allowed returns
- Ongoing use of the dividend reinvestment program raising about C$100 million per year

Financing the CH Energy acquisition

- Fortis has issued C$600 million in subscription receipts
- It also issued issued C$200 million in preferred shares in fourth-quarter 2012 that received intermediate equity treatment and plans to issue a further C$100 million-C$150 million in preferred shares in 2013
- The company will assume about C$500 million in debt
- It will fund the balance with debt drawn on committed facilities

Financial summary

Table 2

Fortis Inc.--Financial Summary

Industry Sector: Electric Utility

	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2012**	**2011**	**2010**	**2009**	**2008**
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--
Revenues	3,654.0	3,738.0	3,664.0	3,637.0	3,903.0
EBITDA	1,302.7	1,229.7	1,177.2	1,085.0	1,064.7
Net income from continuing operations	362.0	357.0	330.0	297.0	276.0

Table 2

Fortis Inc.--Financial Summary (cont.)					
Funds from operations (FFO)	834.9	764.9	716.6	656.7	648.4
Capital expenditures	1,020.0	1,069.9	954.9	927.0	822.1
Dividends paid	225.0	183.0	224.5	160.5	185.5
Debt	7,593.3	7,407.3	6,895.9	6,591.5	6,159.9
Preferred stock	554.0	456.0	456.0	333.5	333.5
Equity	4,594.0	4,225.0	3,728.5	3,497.4	3,385.5
Debt and equity	12,741.3	12,088.2	10,624.4	10,088.9	9,545.4
Adjusted ratios					
EBITDA margin (%)	35.7	32.9	32.1	29.8	27.3
EBIT interest coverage (x)	1.9	1.9	1.9	1.9	1.8
FFO interest coverage (x)	2.8	2.7	2.7	2.7	2.7
FFO/debt (%)	11.0	10.3	10.4	10.0	10.5
Discretionary cash flow/debt (%)	(4.0)	(4.8)	(6.7)	(7.2)	(5.2)
Net cash flow/capex (%)	62.3	56.2	51.5	53.5	56.3
Debt/debt and equity (%)	62.3	63.7	64.9	65.3	64.5
Return on capital (%)	6.4	7.2	7.1	7.2	7.7
Return on common equity (%)	8.1	8.7	7.9	7.8	7.6
Common dividend payout ratio (unadjusted; %)	53.8	48.6	85.6	50.8	70.1

Liquidity: Adequate

Fortis' liquidity is adequate, in our view. At the holding company level, we expect that liquidity sources will be sufficient to cover uses more than 1.2x. We expect that in the event of a 15% decline in deconsolidated earnings, Fortis' sources of funds would still exceed its uses. In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Expected remitted cash flows from Fortis' subsidiaries of about C$400 million per year • Unused committed credit facilities of about C$975 million as of Dec. 31, 2012	• Primarily interest and preferred share dividends of about C$100 million • Capital spending and dividends to shareholders of about C$500 million (excluding the CH Energy acquisition), but we believe that some of the capital spending has some deferability

Debt maturities

Table 3

Fortis Inc.--Debt Maturities (Mil. C$)	
2013	117
2014	702
2015	152

Table 3

Fortis Inc.--Debt Maturities (Mil. C$) (cont.)	
2016	294
Thereafter	4,477

Reconciliation

Table 4

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)										
	--Fiscal year ended Dec. 31, 2012--									
Fortis Inc. reported amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	6,471.0	5,100.0	3,654.0	1,264.0	794.0	366.0	938.0	938.0	225.0	1,020.0
Standard & Poor's adjustments										
Operating leases	118.9	N/A	N/A	6.7	6.7	6.7	14.8	14.8	N/A	31.9
Intermediate hybrids reported as equity	554.0	(554.0)	N/A	N/A	N/A	23.0	(23.0)	(23.0)	(23.0)	N/A
Postretirement benefit obligations	318.3	(262.0)	N/A	28.0	28.0	10.0	2.1	2.1	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	19.0	(19.0)	(19.0)	N/A	(19.0)
Share-based compensation expense	N/A	N/A	N/A	4.0	N/A	N/A	N/A	N/A	N/A	N/A
Asset retirement obligations	246.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	19.0	N/A	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(78.0)	N/A	N/A
Minority interests	N/A	208.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt--other	(115.0)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	1,122.3	(608.0)	0.0	38.7	53.7	58.7	(25.1)	(103.1)	(23.0)	12.9
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	7,593.3	4,492.0	3,654.0	1,302.7	847.7	424.7	912.9	834.9	202.0	1,032.9

Table 4

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$) (cont.)
N/A--Not applicable.

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Criteria Methodology: Differentiating The Issuer Credit Ratings Of A Regulated Utility Subsidiary And Its Parent, March 11, 2010
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

Ratings Detail (As Of February 26, 2013)	
Fortis Inc.	
Corporate Credit Rating	A-/Stable/--
Preference Stock	
Canadian Preferred Stock Rating Scale	P-2
Preferred Stock	
Canadian Preferred Stock Rating Scale	P-2
Preferred Stock	BBB
Senior Unsecured	A-
Corporate Credit Ratings History	
23-May-2012	A-/Stable/--
22-Feb-2012	A-/Watch Neg/--
19-Jun-2007	A-/Stable/--

Ratings Detail (As Of February 26, 2013) (cont.)

Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	A-
FortisAlberta Inc.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	A-
Maritime Electric Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Senior Secured	A

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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McGRAW HILL FINANCIAL

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Summary:

Fortis Inc.

Corporate Credit Rating	A-/Negative/--

Profile Assessments

BUSINESS RISK	**EXCELLENT**	
FINANCIAL RISK	**SIGNIFICANT**	

Initial Analytical Outcome ("Anchor") and Rating Result

Standard & Poor's Ratings Services derives its 'A-' long-term corporate credit rating on Fortis Inc. from the following factors:

- Our anchor of 'a-', which reflects the "excellent" business risk profile and "significant" financial risk profile assessments for Fortis
- No impact of any of the modifiers

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Low-risk and regulated assets, with limited commodity price and volume risks • A diversified portfolio of regulated utilities operating as monopoly service providers • Marginal weakening in the business risk profile resulting from Fortis' acquisition of UNS Energy Corp. an Arizona-based holding company that wholly owns Tucson Electric Power Co. (TEP)	• Stable regulated cash flow • High degree of leverage, with financial metrics in the bottom of the risk category • Our expectation of depressed credit metrics until C$1.8 billion in convertible debentures issued to fund the UNS acquisition are converted to equity

Outlook: Negative

The negative outlook reflects our expectation that Fortis' credit metrics would weaken materially due to the issuance of C$1.8 billion of convertible debentures to finance the UNS acquisition. We believe that although the debentures are highly likely to be converted into equity, credit metrics will remain depressed until that happens. We expect to continue to assess the company's financial risk profile using the low-volatility table.

Downside scenario

We might lower the rating one notch if conversion does not occur as expected, as a result of which credit metrics remain weak longer than expected, with consolidated adjusted funds from operations (AFFO)-to-total debt ratio plummeting below 10%.

Upside scenario

An outlook revision to stable would likely occur when the debentures are converted to equity, lessening the debt burden.

Standard & Poor's Base-Case Scenario

Assumptions

- Fortis will issue C$1.8 billion of convertible debentures, which will convert to equity, with the rest of the acquisition to be financed through hybrid securities, equity, and debt
- The acquisition will close by Dec. 31, 2014
- The company will maintain its regulatory capital structure at utility subsidiaries, earn its allowed returns on equity, and issue no additional debt at the holding company level
- It will generate EBITDA of approximately C$1.6 billion in 2014 and C$2.3 billion in 2015, with a full year of UNS contributions
- The C$900 million Waneta hydroelectric project will finish on time and within budget in 2015

Key Metrics

	2013A	2014E	2015E
AFFO/debt	10.4%	8%-10%	12%-13%
Debt-to-EBITDA	6.4x	7x-8x	5x-6x

A--Actual. E--Estimate.

Business Risk: Excellent

In our view, Fortis' excellent business risk profile continues to benefit from its stable, low-risk, and regulated utility portfolio. Regulation typically involves a cost-of-service methodology that provides an allowed regulated rate of return. We believe the utilities have relatively low levels of commodity and volume risk exposure, further reducing cash-flow volatility. Fortis' regulated companies have monopolies as service providers in their service areas. They are exposed to limited bypass risk and are relatively insulated from typical market forces, which we view as a credit strength for Fortis.

In our view, another key credit strength for the company is the regulatory, geographic, and market diversification of its subsidiaries and their cash flows. There continues to be some concentration in British Columbia, where about 50% of the rate base is located. In our view, the addition of TEP from Fortis' acquisition of UNS will reduce this concentration and provide further diversification to cash flows. This diversification effect partially offsets the impact of TEP's "strong" business risk profile, which is weaker than Fortis's excellent profile, reflecting our view that TEP is exposed to generation and environmental risks, as well as concentration risk arising from operating in only one market. We believe that although adding TEP would marginally weaken Fortis' business risk profile, it is likely to remain excellent. We also believe that the proportion of somewhat higher-risk cash flows from UNS would not be significant enough to cause any weakening in Fortis' business risk profile.

The unregulated businesses make a relatively small consolidated contribution to the group, at approximately 15%. The size and quality of these cash flows will improve with the Waneta project's completion. We believe this project has limited hydrology and price risk, no dispatch risk, and strong counterparties in British Columbia Hydro & Power Authority and Fortis BC.

Financial Risk : Significant

We expect Fortis' cash flows from the regulated utilities to remain very stable, a factor we believe is a key credit strength that offsets the company's high leverage. Regulated utility cash flow is primarily composed of a return of capital (depreciation) and a return on capital, both of which continue to experience limited volatility. Consolidated leverage is a function of the regulatory capital structure of the underlying utilities that generally follows levels regulation allows. We have assumed rate-base growth leads to corresponding growth in cash flow.

We believe that the UNS addition would modestly improve Fortis' financial metrics. We forecast TEP, the company's largest provider of cash flow, to have an AFFO-to-total debt ratio of greater than 20%, compared with Fortis' 10%-11%. We forecast AFFO-to-total debt ratio for Fortis in the 12%-13% range in 2015 and 2016, improving to more than 13% in 2017. Based on our forecast, we have assessed the company's financial risk as significant.

Liquidity: Adequate

We believe Fortis's liquidity is "adequate." At the holding company level, liquidity sources are likely to exceed uses by more than 1.2x and sources less uses to be positive, even in the event of a 10% decline in EBITDA. In our view, the company has sound relationships with its bankers and generally satisfactory standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of C$980 million-C$1.0 billion • Equity and debt issuances of C$1.8 billion-C$2.0 billion • Credit facility availability of approximately C$800 million and cash balances of C$70 million	• Capital expenditure of C$1.9 billion-C$2.0 billion • Dividends of C$360 million-C$380 million

Other Modifiers

None of the modifiers have any impact on the rating.

Ratings Score Snapshot

Corporate Credit Rating: A-/Negative/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: 'a-'

- Likelihood of government support: High

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan 2, 2014
- Corporate Methodology, Nov. 19, 2013

- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

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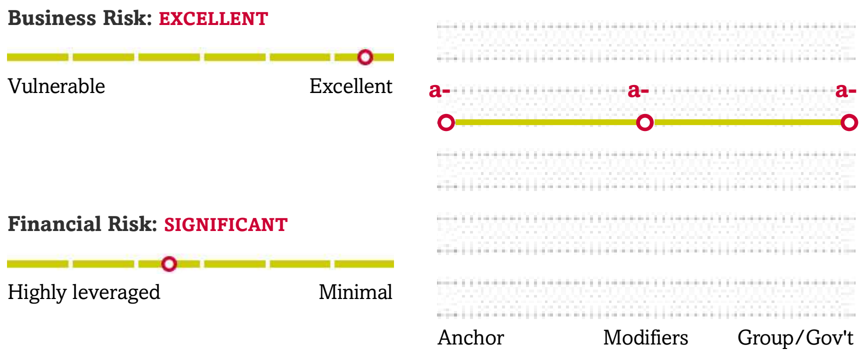
Fortis Inc.



CORPORATE CREDIT RATING

A-/Stable/--

Rationale

Business Risk	Financial Risk
• Low-risk regulated assets, with limited commodity price and volume risks • Diversified portfolio of regulated utilities operating as monopoly service providers • Minimal unregulated business and divesting of noncore real estate business	• Stable regulated cash flow • Highly leveraged and downward pressure on credit metrics as a result of large capital programs over the next several years

Outlook

The stable outlook reflects Standard & Poor's Ratings Services' assessment of the underlying operational and financial stability of Fortis Inc.'s operating companies. We expect these operating companies to continue generating stable and predictable cash flow, a key credit strength.

Downside scenario

We could lower the ratings on Fortis if the company's adjusted funds from operations (AFFO)-to-debt were to fall and stay below 9%. This could happen if Fortis were to employ more leverage or if its larger subsidiaries encountered major financial or operational difficulties or adverse regulatory decisions. Investment in assets with materially higher regulatory risks or cash-flow variability could also lead to a downgrade.

Upside scenario

A positive outlook or upgrade during our two-year outlook horizon would require Fortis to improve and sustain its credit metrics, specifically AFFO-to-debt above 14%.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics
• Fortis will continue to focus on regulated business • It will not experience any adverse material regulatory decisions • The company will not acquire regulated assets with materially higher regulatory risk resulting in loss of access to the low-volatility table • The Waneta expansion project will contribute about C$23 million in annual earnings	See table below.

	2014A	2015E	2016E
AFFO/debt	10.4%	10-12%	10%-12%
Debt/EBITDA	6.4x	5x-6x	5x-6x

AFFO--Adjusted funds from operations. A--Actual. E--Estimate.

Company Description

Fortis is a leader in the North American electric and gas utility business, with total assets of more than C$26 billion and fiscal 2014 revenue of C$5.4 billion. Its regulated utilities account for approximately 94% of total assets and serve more than 3 million customers across Canada, the U.S., and the Caribbean. Fortis owns unregulated hydroelectric generation assets in Canada, Belize, and Upstate New York.

Business Risk

Fortis' business risk profile is "excellent". In our view, the company continues to benefit from its stable, low-risk, and regulated utility portfolio. Regulation typically involves a cost-of-service methodology that provides an allowed regulated rate of return. The utilities have relatively low levels of volume risk exposure, further reducing cash flow volatility. Fortis' regulated subsidiaries have monopolies as service providers in their respective service areas. They are exposed to limited commodity input price risk as electricity input cost remains a pass-through in many of the company's service territories and are relatively insulated from typical market forces, which we view as a credit strength.

In our view, another key credit strength is the regulatory, geographic, and market diversification of the subsidiaries and their cash flows. Before the acquisition of Central Hudson Gas and Electric Corp. (CHGE) and UniSource Energy Services (UNS), Canadian operations accounted for about 84% of Fortis' operating income, most of which was in British Columbia, making up about 50% of the company's total cash flows. With the acquisition of CHGE and UNS, we now expect U.S. operations to account for approximately 37% of Fortis' operating income and British Columbia accounting for about 30% of total cash flows, reducing the company's exposure in a single jurisdiction.

The diversification effect partially offsets the impact of Fortis' exposure to weaker business risk profiles in some of its subsidiaries such as Tucson Electric Power Co. (TEP), a UNS subsidiary; and Fortis Turks and Caicos Inc. (FTCI), which have a "strong" and "satisfactory" business risk profile, respectively. However, we believe this will only marginally weaken Fortis' overall business risk profile.

The unregulated businesses make up a small part of Fortis' overall cash flows, at approximately 6%. The size and quality of these cash flows will improve with the Waneta project's completion. This project has limited hydrology and price risk, no dispatch risk, and strong counterparties in British Columbia Hydro & Power Authority and Fortis BC. In addition, Fortis has announced it is divesting its noncore real-estate business and will continue focusing on the regulated business.

S&P Base-Case Operating Scenario

- Fortis will continue to focus on regulated business
- Its subsidiaries will continue to earn close to its allowed return on equity and will not experience any adverse material regulatory decisions
- The company will not acquire assets with a materially higher regulatory risk, resulting in the loss of access to the low-volatility cash flow table

Peer comparison

Table 1

Fortis Inc. -- Peer Comparison

Industry Sector: Electric Utility

	Fortis Inc.	Hydro One Inc.	CU Inc.	ATCO Ltd.
Rating as of April 30, 2015	A-/Stable/--	A/Stable/A-1	A/Stable/A-1	A/Stable/--
	--Average of past three fiscal years--			
(Mil. C$)				
Revenues	4,367.3	6,116.7	2,043.3	4,425.0
EBITDA	1,502.8	2,077.8	1,017.3	1,769.2
Funds from operations (FFO)	980.7	1,421.7	723.7	1,253.3
Net income from continuing operations	375.3	765.7	369.7	404.3
Cash flow from operations	887.4	1,232.4	671.3	1,198.3
Capital expenditures	1,206.7	1,339.3	1,792.0	2,187.3
Free operating cash flow	(319.3)	(107.0)	(1,120.7)	(989.0)
Discretionary cash flow	(537.9)	(389.6)	(1,130.6)	(1,195.5)
Cash and short-term investments	38.0	71.7	16.9	154.6
Debt	10,227.1	11,123.5	5,696.5	7,301.5
Equity	6,273.2	7,235.8	3,619.0	5,098.7
Adjusted ratios				
EBITDA margin (%)	34.4	34.0	49.8	40.0
Return on capital (%)	5.9	7.6	7.7	9.8
EBITDA interest coverage (x)	3.0	3.6	3.5	4.3
FFO cash interest coverage (x)	3.3	4.7	3.7	5.2
Debt/EBITDA (x)	6.8	5.4	5.6	4.1
FFO/debt (%)	9.6	12.8	12.7	17.2

Table 1

Fortis Inc. -- Peer Comparison (cont.)				
Cash flow from operations/debt (%)	8.7	11.1	11.8	16.4
Free operating cash flow/debt (%)	(3.1)	(1.0)	(19.7)	(13.5)
Discretionary cash flow/debt (%)	(5.3)	(3.5)	(19.8)	(16.4)

Financial Risk

We expect Fortis' cash flows from the regulated utilities to remain very stable, a factor we believe is a key credit strength that offsets the company's high leverage. Regulated utility cash flow is primarily composed of a return of capital (depreciation) and a return on capital, both of which continue to experience limited volatility. Consolidated leverage is a function of the underlying utilities' regulatory capital structure that generally follows levels allowed by regulation. We have assumed that growth in rate base leads to corresponding growth in cash flow.

Due to the business' nature, Fortis needs capital investments to maintain service reliability and accommodate growth. This results in downward pressure on the company's credit metrics. We forecast AFFO-to-total debt of 10%-12% from 2015-2017, which is consistent with our "significant" financial risk assessment.

S&P Base-Case Cash Flow And Capital Structure Scenario

- The Waneta project starts as planned in second-quarter 2015
- Consolidated capital expenditures of C$1.9 billion-C$2.2 billion in 2015 and C$1.6 billion-C$1.8 billion in 2016
- Dividend payments of approximately C$460 million in 2015
- AFFO-to-debt of 10%-12% from 2015-2017

Financial summary

Table 2

Fortis Inc. -- Financial Summary					
Industry Sector: Electric Utility					
	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2014**	**2013**	**2012**	**2011**	**2010**
Rating history	A-/Stable/--	A-/Negative/--	A-/Stable/--	A-/Stable/--	A-/Stable/--
Revenues	5,401.0	4,047.0	3,654.0	3,738.0	3,664.0
EBITDA	1,760.5	1,432.5	1,315.5	1,249.5	1,188.0
Funds from operations (FFO)	1,116.4	960.1	865.7	765.0	733.7
Net income from continuing operations	374.0	390.0	362.0	357.0	330.0
Cash flow from operations	919.4	828.6	914.2	852.0	708.2
Capital expenditures	1,560.0	1,058.0	1,002.0	1,019.0	947.0
Free operating cash flow	(640.6)	(229.4)	(87.8)	(167.0)	(238.8)
Dividends paid	235.0	219.5	201.5	183.0	224.5
Discretionary cash flow	(875.6)	(448.9)	(289.3)	(350.0)	(463.3)
Debt	13,727.1	9,204.1	7,750.0	7,616.6	6,809.9

Table 2

Fortis Inc. -- Financial Summary (cont.)					
Preferred stock	910.0	614.5	554.0	456.0	456.0
Equity	8,202.0	5,761.5	4,856.0	4,487.0	3,728.5
Debt and equity	21,929.1	14,965.6	12,606.0	12,103.6	10,538.4
Adjusted ratios					
EBITDA margin (%)	32.6	35.4	36.0	33.4	32.4
EBITDA interest coverage (x)	2.8	3.2	3.2	3.0	3.1
FFO cash interest coverage (x)	3.2	3.4	3.4	3.3	3.1
Debt/EBITDA (x)	7.8	6.4	5.9	6.1	5.7
FFO/debt (%)	8.1	10.4	11.2	10.0	10.8
Cash flow from operations/debt (%)	6.7	9.0	11.8	11.2	10.4
Free operating cash flow/debt (%)	(4.7)	(2.5)	(1.1)	(2.2)	(3.5)
Discretionary cash flow/debt (%)	(6.4)	(4.9)	(3.7)	(4.6)	(6.8)
Net cash flow/capex (%)	56.5	70.0	66.3	57.1	53.8
Return on capital (%)	5.5	6.1	6.4	6.9	7.2
Return on common equity (%)	4.7	6.9	7.4	7.8	7.9
Common dividend payout ratio (unadjusted; %)	96.5	78.4	73.3	69.8	85.6

Liquidity

Fortis's liquidity is "adequate." At the holding company level, liquidity sources are likely to exceed uses by more than 1.1x, even in the event of a 10% decline in EBITDA. In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of about C$1.5 billion in 2015 • Cash and cash equivalent of about C$230 million in 2015 • Unused committed revolving credit facilities of about C$2.2 billion as of Dec. 31, 2014	• Capital expenditures of C$1.9 billion-C$2.2 billion in 2015 • Debt maturities of about C$500 million in 2015 • Dividends of about C$460 million in 2015

Debt maturities

Table 3

Fortis Inc. -- Long-Term Debt Maturities As Of December 2014	
Year	**(Mil. C$)**
2015	505
2016	747
2017	103
2018	741
2019	201
Thereafter	8,204

Other Modifiers

None of the modifiers have any impact on the rating.

Ratings Score Snapshot

Corporate Credit Rating

A-/Stable/--

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

Reconciliation

Table 4

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2014--									
Fortis Inc. reported amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	11,534.0	8,691.0	5,401.0	1,711.0	1,023.0	547.0	1,711.0	982.0	266.0	1,587.0
Standard & Poor's adjustments										
Interest expense (reported)	N/A	N/A	N/A	N/A	N/A	N/A	(547.0)	N/A	N/A	N/A
Interest income (reported)	N/A	N/A	N/A	N/A	N/A	N/A	13.0	N/A	N/A	N/A

Table 4

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$) (cont.)										
Current tax expense (reported)	N/A	N/A	N/A	N/A	N/A	N/A	(43.0)	N/A	N/A	N/A
Operating leases	85.8	N/A	N/A	8.5	3.9	3.9	4.6	4.6	N/A	N/A
Intermediate hybrids reported as equity	910.0	(910.0)	N/A	N/A	N/A	N/A	N/A	(31.0)	(31.0)	N/A
Postretirement benefit obligations/deferred compensation	566.6	N/A	N/A	38.0	38.0	40.0	1.7	(9.3)	N/A	N/A
Surplus cash	(172.5)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	27.0	(27.0)	(27.0)	N/A	(27.0)
Share-based compensation expense	N/A	N/A	N/A	3.0	N/A	N/A	3.0	N/A	N/A	N/A
Asset retirement obligations	675.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Non-operating income (expense)	N/A	N/A	N/A	N/A	25.0	N/A	N/A	N/A	N/A	N/A
Noncontrolling interest/minority interest	N/A	421.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt -- accrued interest not included in reported debt	128.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	2,193.1	(489.0)	0.0	49.5	66.9	70.9	(594.6)	(62.6)	(31.0)	(27.0)
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	13,727.1	8,202.0	5,401.0	1,760.5	1,089.9	617.9	1,116.4	919.4	235.0	1,560.0

N/A--Not applicable.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 30, 2015)

Fortis Inc.	
Corporate Credit Rating	A-/Stable/--
Preference Stock *Canada National Scale Preferred Share*	P-2
Preference Stock	BBB
Preferred Stock *Canada National Scale Preferred Share*	P-2
Preferred Stock	BBB
Senior Unsecured	A-
Corporate Credit Ratings History	
28-Oct-2014	A-/Stable/--
13-Dec-2013	A-/Negative/--
23-May-2012	A-/Stable/--
22-Feb-2012	A-/Watch Neg/--
Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	A-
FortisAlberta Inc.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	A-
Fortis TCI Ltd.	
Issuer Credit Rating	BBB/Stable/--
Maritime Electric Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Senior Secured	A

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Summary of Fortis Inc. changes in Credit Ratings from 2002-2015

Unsecured Debentures

Rating Agency	Report Date	Rating Action	Rating
DBRS	January 2002	Ongoing	BBB (high)
DBRS	November 2011	Upgraded	A (low)

Rating Agency	Report Date	Rating Action	Rating
S&P	January 2002	Ongoing	A-
S&P	January 2004	Downgraded	BBB
S&P	June 2007	Upgraded	A-
S&P	February 2012	Outlook Change	A- (Negative Watch)
S&P	May 2012	Outlook Change	A- (Stable)
S&P	December 2013	Outlook Change	A- (Negative Watch)
S&P	October 2014	Outlook Change	A- (Stable)

3. **Reports by investment analysts for the utility and corporate parent since 2011, where applicable:**

   A. Enclosed are debt investment analyst reports for FEI, and its ultimate parent, Fortis Inc. (FTS)

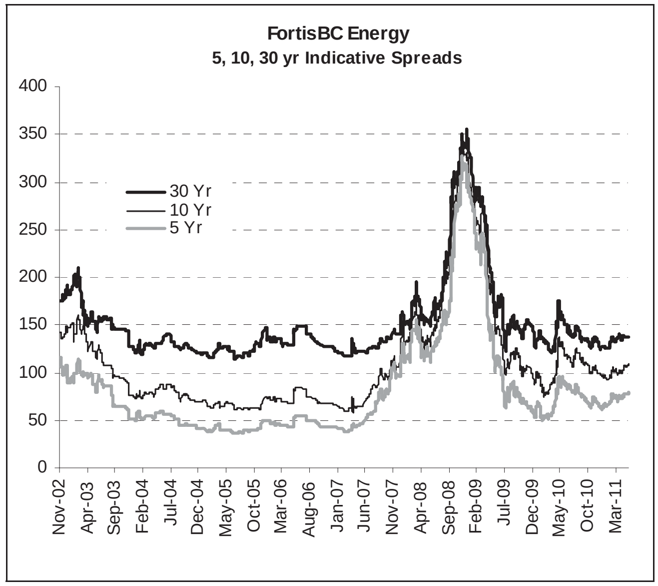
      - BMO – FEI (2011-2014)
      - Scotiabank – FEI (2011)
      - RBC – FTS Family (2011-2015)

Relative Value

Recommendation – We recommend no more than a market-weight position in the debt securities of FortisBC Energy at this time. While we expect a fairly stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. The bonds should continue to be supported by the decent competitiveness of natural gas in British Columbia and its strong ring-fencing provisions.

Sector Value – We believe FortisBC Energy's spreads are reasonably valued among its gas utility peers, with spreads of FortisBC Energy currently trading 2 bps wider than those of the respective Enbridge Gas Distribution, compared to trading 15 bps back at the beginning of 2010.

Credit Curve – FortisBC Energy Inc's 10s-30s curve is at roughly 30 bps, while its 5s-10s is around 30 bps, suggesting there is some relative value in the middle part of its curve.



Source: BMO Capital Markets

Risks

External – An extended decline in economic conditions would be expected to reduce demand for energy over time. Energy sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices and housing starts.

M&A – We do not believe FortisBC Energy Inc. will be involved in any M&A activity over the forecast period.

Regulatory – FortisBC Energy Inc. is subject to the regulatory determinations of the British Columbia Utilities Commission (BCUC), with respect to rates, capital expenditures and the authorized return on equity.

Trading Liquidity – We believe FortisBC Energy Inc. exhibits below-average trading liquidity in the Canadian bond market.

New Issuance – We are modelling up to $150 million of new issuance for FortisBC Energy in 2011.

Other – Failure on the part of various third parties to deliver natural gas supplies could have an adverse effect on FortisBC Energy and its ability to distribute natural gas to the end consumer. The company is dependant on a single source transmission pipeline.

Credit Profile

Company Financials – FortisBC Energy Inc. had a free cash flow surplus of $23.7 million in Q1/11 versus a free cash flow surplus of $37.0 million in Q1/10. The variance in free cash flow is mainly attributable to higher dividends paid ($35.0 million in Q1/11 versus $20.0 million in Q1/10). During Q1/11, the company added 954 customers (versus a net customer increase of 1,076 in Q1/10), bringing the total number of utility customers to 847,188, in part driven by increased building activity.

FortisBC Energy had roughly $1.45 billion of long-term debt outstanding at March 31, 2011. FortisBC Energy Inc.'s debt to capitalization ratio decreased by 206 bps to 59.3% as at Q1/11 compared to 61.3% as at year-end 2010, due to higher shareholders' equity and repayment of short-term notes. The company has no debt maturities in 2011. FortisBC Energy has $600 million of medium term notes available under its shelf prospectus that expires on June 4, 2012. The company also had $366.3 million available on its $500.0 million unsecured committed revolving credit facility (maturing in August 2013) and cash of $10.1 million at March 31, 2011.

Company Fundamentals – We expect a fairly stable operating and regulatory environment for FortisBC Energy Inc. The company expects the number of residential customers to increase by 6,166 in 2011.

Capex – BMO Capital Markets' is modelling capital expenditures of $231 million in 2011 and $150 million in 2012.

Credit Ratings – FortisBC Energy Inc's debt is rated A and A3 by DBRS and Moody's, respectively. The outlook from the rating agencies is Stable. We note that Moody's rates FortisBC Energy on a stand-alone basis, reflecting the ring-fencing provisions that are in place which insulate it from the greater financial and business risks of its parents, FortisBC Holdings Inc. and Fortis Inc. The ring-fencing conditions require that FortisBC Energy: (i) maintains equity in the capital structure at least as high as the deemed equity level approved by the BCUC for ratemaking purposes (currently 40%); (ii) must obtain approval from the BCUC before paying dividend payments which could cause leverage levels to increase above the approved regulatory level; and (iii) refrain from extending loans or guarantees to affiliates or investing in or providing support to non-regulated businesses.

DBRS	S&P	Moody's
A Stable	Not rated	A3 Stable

FortisBC Energy Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount ($mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding ($mm)
FortisBC Energy Inc.	11.80%	30-Sep-15	$75	Mortgage	03-Dec-90	NA	Non-callable	05534RAA2	$75
FortisBC Energy Inc.	10.30%	30-Sep-16	$200	Mortgage	21-Nov-91	104.0 bps	Make Whole (+ 35 bps)	05534RAB0	$200
FortisBC Energy Inc.	6.95%	21-Sep-29	$150	MTNs	21-Sep-99	112.0 bps	Make Whole (+ 28 bps)	05534ZAF3	$150
FortisBC Energy Inc.	6.50%	01-May-34	$150	MTNs	29-Apr-04	127.0 bps	Make Whole (+ 31 bps)	88078ZAB0	$150
FortisBC Energy Inc.	5.90%	26-Feb-35	$150	MTNs	25-Feb-05	118.0 bps	Make Whole (+ 29 bps)	88078ZAC8	$150
FortisBC Energy Inc.	5.55%	25-Sep-36	$120	MTNs	25-Sep-06	136.0 bps	Make Whole (+ 34 bps)	88078ZAE4	$120
FortisBC Energy Inc.	6.00%	02-Oct-37	$250	MTNs	02-Oct-07	148.0 bps	Make Whole (+ 37 bps)	88078ZAF1	$250
FortisBC Energy Inc.	5.80%	13-May-38	$250	MTNs	13-May-08	163.0 bps	Make Whole (+ 40 bps)	88078ZAG9	$250
FortisBC Energy Inc.	6.55%	24-Feb-39	$100	MTNs	24-Feb-09	285.0 bps	Make Whole (+ 71 bps)	88078ZAH7	$100

Source: Bloomberg

Ownership Structure

100% - FortisBC Holdings Inc.

Source: Company Reports

Corp. Lease Schedule (12/31/2010)

($mm) Year	Capital Lease Payments	Operating Lease Payments
2011		14.9
2012		14.5
2013		13.5
2014		13.1
2015		12.7
Thereafter		61.0

Source: Company Reports

Credit Facilities ($mm)

Company	Facility Size	Amount Available Q1/11	Amount Available Q4/10	Maturity	Type
FortisBC Energy Inc.	$500	$366.3	$277.3	Aug-13	Unsecured committed revolving credit facility

Source: Company Reports

Shelf Prospectus ($mm)

Company	Type	Amount	Remaining	Date	Expiry	Instruments
FortisBC Energy Inc.	Shelf	$600	$600	14-May-10	14-Jun-12	MTNs

Source: SEDAR

Pension Summary

	Pension Benefit Plans FY 2010 ($mm)	Pension Benefit Plans FY 2009 ($mm)	Other Benefit Plans FY 2010 ($mm)	Other Benefit Plans FY 2009 ($mm)
Accrued Benefit Obligation	314.9	264.4	69.1	57.8
Plan Assets	261.9	236.9	-	-
Funded Status	(53.0)	(27.5)	(69.1)	(57.8)
Accrued Benefit Asset (Liability) Net of Valuation Allowance	23.0	22.2	(57.8)	(55.7)
Discount Rate	6.00%	6.25%	6.00%	6.25%
Expected Long-term Rate of of Return on Assets	7.00%	7.25%	NA	NA
Rate of Future Increase in Compensation*	3.35%	3.13%	NA	NA

*Based on accrued benefit obligation assumptions.
Source: Company Reports.

Historical Ratings

DBRS Rating	Trend	Date	S&P Rating	Trend	Date	Moody's Rating	Trend	Date
A	Stable	23-Aug-99	NR		23-Oct-10	A3	Stable	19-Dec-05
			A	Stable	19-Jun-07	A2	UR-Neg	19-Nov-02
			BBB	CW-Pos	26-Feb-07	A2	Stable	07-Nov-01
			BBB	CW-Neg	30-May-06			
			BBB	Negative	06-Dec-05			
			BBB	CW-Neg	02-Aug-05			
			BBB	Stable	26-Jun-03			
			BBB+	CW-Neg	19-Nov-02			
			BBB+	Stable	08-May-01			

Source: DBRS, S&P, Moody's

IMPORTANT DISCLOSURES

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Distribution of Ratings (March 31, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	34.2%	15.2%	38.6%	39.2%	48.5%	53.1%
Hold	Market Perform	62.9%	12.5%	58.6%	56.8%	49.0%	41.3%
Sell	Underperform	2.9%	13.3%	2.9%	4.1%	2.5%	5.5%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

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Mkt = Market Perform - Forecast to perform roughly in line with the market;
Und = Underperform - Forecast to underperform the market;
(S) = speculative investment;
NR = No rating at this time;
R = Restricted – Dissemination of research is currently restricted.

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Prior BMO Capital Markets Ratings Systems

http://researchglobal.bmocapitalmarkets.com/documents/2009/prior_rating_systems.pdf

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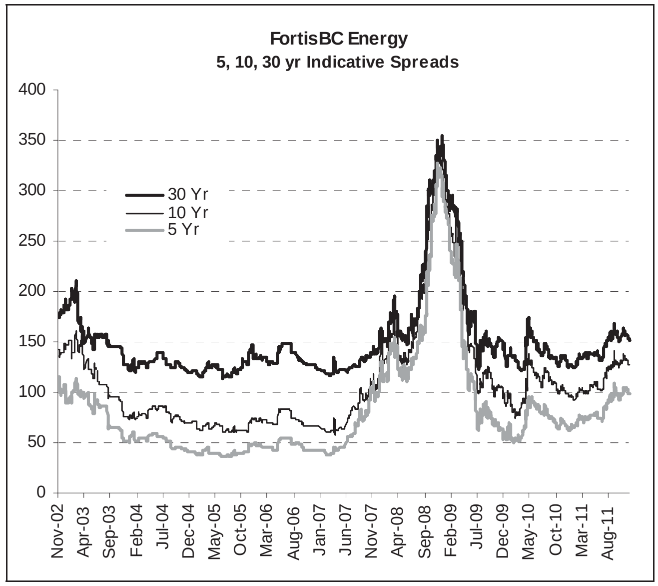
Relative Value

Recommendation – We recommend no more than a market weight position in the debt securities of FortisBC Energy at this time. While we expect a fairly stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. The bonds should continue to be supported by the decent competitiveness of natural gas in British Columbia and its strong ring-fencing provisions.

Sector Value – We believe FortisBC Energy's spreads are reasonably valued among its gas utility peers, trading at 98 bps in the 5-year (back of Enbridge Gas by 7 bps), 128 bps in the 10-year (back of Enbridge Gas by 10 bps) and 152 bps in the 30-year (back of Enbridge Gas by 2 bps).

Credit Curve – FortisBC Energy Inc's 10s–30s curve is at roughly 24 bps, while its 5s–10s is around 30 bps, suggesting there is some relative value in the middle part of its curve.



Source: BMO Capital Markets

Risks

External – An extended decline in economic conditions would be expected to reduce demand for energy over time. Energy sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices and housing starts.

M&A – We do not believe FortisBC Energy Inc. will be involved in any M&A activity over the forecast period.

Regulatory – FortisBC Energy Inc. is subject to the regulatory determinations of the British Columbia Utilities Commission (BCUC), with respect to rates, capital expenditures and the authorized return on equity.

Trading Liquidity – We believe FortisBC Energy Inc. exhibits below-average trading liquidity in the Canadian bond market.

New Issuance – During 2012, we believe the company has sufficient cash flows from operating activities to service interest on debt, pay dividends and finance capex.

Other – Failure on the part of various third parties to deliver natural gas supplies could have an adverse effect on FortisBC Energy and its ability to distribute natural gas to the end consumer. The company is dependent on a single source transmission pipeline.

Credit Profile

Company Financials – FortisBC Energy Inc. had a free cash flow deficit of $31.8 million in Q3/11 versus a free cash flow deficit of $38.5 million in Q3/10. The variance in free cash flow is mainly attributable to higher cash flow from operations ($10.1 million in Q3/11 versus $2.3 million in Q3/10). Third-quarter results reflected higher transportation volumes due to improvements in the forestry and mining sectors coupled with mining customers burning more natural gas due to a shortage of coal. This was offset by lower demand from residential and commercial consumers due to warmer weather. During the third quarter of 2011, the company added 608 customers, bringing the total number of utility customers to 847,144.

FortisBC Energy had roughly $1.45 billion of long-term debt outstanding at September 30, 2011. FortisBC Energy Inc.'s debt to capitalization ratio decreased by roughly 100 bps to 60.4% as at Q3/11 compared to 61.3% as at year-end 2010, due to higher shareholders' equity and repayment of short-term notes. The company has no debt maturities in 2012. FortisBC Energy has $600 million of medium term notes available under its shelf prospectus that expires on June 14, 2012. The company also had $319.8 million available on its $500.0 million unsecured committed revolving credit facility (maturing in August 2013) and cash of $6.6 million at September 30, 2011.

Company Fundamentals – We expect a fairly stable operating and regulatory environment for FortisBC Energy Inc.

Capex – We are modelling capital expenditures of $147 million in 2012 and $127 million in 2013.

Credit Ratings – FortisBC Energy Inc's debt is rated A and A3 by DBRS and Moody's, respectively. The outlook from the rating agencies is Stable. We note that Moody's rates FortisBC Energy on a stand-alone basis, reflecting the ring-fencing provisions that are in place which insulate it from the greater financial and business risks of its parents, FortisBC Holdings Inc. and Fortis Inc. The ring-fencing conditions require that FortisBC Energy: (i) maintains equity in the capital structure at least as high as the deemed equity level approved by the BCUC for ratemaking purposes (currently 40%); (ii) must obtain approval from the BCUC before paying dividend payments which could cause leverage levels to increase above the approved regulatory level; and (iii) refrain from extending loans or guarantees to affiliates or investing in or providing support to non-regulated businesses.

DBRS	S&P	Moody's
A Stable	Not Rated	A3 Stable

Disclosures: 1, 2, 4, 6A

FortisBC Energy Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount ($mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding ($mm)
FortisBC Energy Inc.	11.80%	30-Sep-15	$75	Mortgage	03-Dec-90	NA	Non-callable	05534RAA2	$75
FortisBC Energy Inc.	10.30%	30-Sep-16	$200	Mortgage	21-Nov-91	104.0 bps	Make Whole (+ 35 bps)	05534RAB0	$200
FortisBC Energy Inc.	6.95%	21-Sep-29	$150	MTNs	21-Sep-99	112.0 bps	Make Whole (+ 28 bps)	05534ZAF3	$150
FortisBC Energy Inc.	6.50%	01-May-34	$150	MTNs	29-Apr-04	127.0 bps	Make Whole (+ 31 bps)	88078ZAB0	$150
FortisBC Energy Inc.	5.90%	26-Feb-35	$150	MTNs	25-Feb-05	118.0 bps	Make Whole (+ 29 bps)	88078ZAC8	$150
FortisBC Energy Inc.	5.55%	25-Sep-36	$120	MTNs	25-Sep-06	136.0 bps	Make Whole (+ 34 bps)	88078ZAE4	$120
FortisBC Energy Inc.	6.00%	02-Oct-37	$250	MTNs	02-Oct-07	148.0 bps	Make Whole (+ 37 bps)	88078ZAF1	$250
FortisBC Energy Inc.	5.80%	13-May-38	$250	MTNs	13-May-08	163.0 bps	Make Whole (+ 40 bps)	88078ZAG9	$250
FortisBC Energy Inc.	6.55%	24-Feb-39	$100	MTNs	24-Feb-09	285.0 bps	Make Whole (+ 71 bps)	88078ZAH7	$100
FortisBC Energy Inc.	4.25%	09-Dec-41	$100	MTNs	09-Dec-11	163.0 bps	Make Whole (+ 41 bps)	34959ZAA0	$100

Source: Bloomberg

Ownership Structure

100% - FortisBC Holdings Inc.

Corp. Lease Schedule (12/31/2010)

($mm) Year	Capital Lease Payments	Operating Lease Payments
2011		14.9
2012		14.5
2013		13.5
2014		13.1
2015		12.7
Thereafter		61.0

Source: Company Reports

Credit Facilities ($mm)

Company	Facility Size	Amount Available Q3/11	Amount Available Q2/11	Maturity	Type
FortisBC Energy Inc.	$500	$319.8	$411.8	Aug-13	Unsecured committed revolving credit facility

Source: Company Reports

Shelf Prospectus ($mm)

Company	Type	Amount	Remaining	Date	Expiry	Instruments
FortisBC Energy Inc.	Shelf	$600	$500	14-May-10	14-Jun-12	MTNs

Source: SEDAR

Pension Summary

	Pension Benefit Plans FY 2010 ($mm)	Pension Benefit Plans FY 2009 ($mm)	Other Benefit Plans FY 2010 ($mm)	Other Benefit Plans FY 2009 ($mm)
Accrued Benefit Obligation	314.9	264.4	69.1	57.8
Plan Assets	261.9	236.9	-	-
Funded Status	(53.0)	(27.5)	(69.1)	(57.8)
Accrued Benefit Asset (Liability) Net of Valuation Allowance	23.0	22.2	(57.8)	(55.7)
Discount Rate	6.00%	6.25%	6.00%	6.25%
Expected Long-term Rate of of Return on Assets	7.00%	7.25%	NA	NA
Rate of Future Increase in Compensation*	3.35%	3.13%	NA	NA

**Based on accrued benefit obligation assumptions.

Source: Company Reports

Historical Ratings

DBRS Rating	DBRS Trend	DBRS Date	S&P Rating	S&P Trend	S&P Date	Moody's Rating	Moody's Trend	Moody's Date
A	Stable	23-Aug-99	NR		23-Oct-10	A3	Stable	19-Dec-05
			A	Stable	19-Jun-07	A2	UR-Neg	19-Nov-02
			BBB	CW-Pos	26-Feb-07	A2	Stable	07-Nov-01
			BBB	CW-Neg	30-May-06			
			BBB	Negative	06-Dec-05			
			BBB	CW-Neg	02-Aug-05			
			BBB	Stable	26-Jun-03			
			BBB+	CW-Neg	19-Nov-02			
			BBB+	Stable	08-May-01			

Source: DBRS, S&P, Moody's

IMPORTANT DISCLOSURES

Analyst's Certification
I, Benjamin Pham, CFA, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.
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Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.
Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.
Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.
Disclosure 6: This issuer is a client (or was a client) of BMO NB, BMO Capital Markets Corp., BMO CM Ltd. or an affiliate within the past 12 months: Investment Banking Services.

Distribution of Ratings (September 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	12.6%	38.8%	42.5%	48.1%	57.2%
Hold	Market Perform	58.9%	13.2%	61.2%	54.6%	50.9%	38.5%
Sell	Underperform	1.9%	0.0%	0.0%	2.9%	0.9%	4.3%

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Und = Underperform - Forecast to underperform the market;
(S) = speculative investment;
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FortisBC Energy Inc.

February 9, 2012
Brief Research Note

Ben Pham, CFA
(416) 359-4061
ben.pham@bmo.com
Assoc: Ewa Bzorek, CA

Q4 – A Solid Quarter; Limited Catalysts Keep Us On the Sidelines for Now

Impact

Neutral.

Details & Analysis

Fortis Inc. reported Q4/11 results this morning, providing a preview of quarterly financial results of its 100%-owned subsidiary FortisBC Energy (including the operations of Vancouver Island and Whistler). Highlights for FortisBC Energy: (1) reported earnings of $51 million in Q4/11 were higher than $45 million in Q4/10. The variance was due to rate base growth and lower corporate taxes, partially offset by lower-than-expected customer additions; (2) the company has forecast total capital expenditures for 2012 of approximately $244 million, compared to 2011 capex levels of $253 million. Notably, the $110 million Customer Care Enhancement project was placed in-service January 2012, with $30 million of the project costs to be incurred in the first half of 2012. The project entailed the insourcing of core elements of the company's customer care services including two company-owned call centres and billing operations, and implementation of a cost risk-sharing condition; (3) in September 2011, FortisBC Energy filed an updated revenue requirements application for 2012–2013, reflecting mid-year rate bases of $2,760 million in 2012 and $2,820 million in 2013; (4) in late 2011, the company temporarily suspended its application with the British Columbia Utilities Commission (BCUC) to amalgamate with FortisBC Energy (Vancouver Island) and FortisBC Energy (Whistler), while it provides additional information to the BCUC as requested. We are maintaining a Market Weight position in FortisBC Energy at this time. While we expect a fairly stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. During 2012, we believe the company has sufficient cash flow from operating activities to service interest on debt, pay dividends and finance capex without incurring incremental debt.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A	Not rated	A3
Stable		Stable

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Distribution of Ratings (December 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

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FortisBC Energy Inc.

May 2, 2012
Brief Research Note

Mark Laing, CA, CFA
(416) 359-4601
Mark.Laing@bmo.com
Assoc: Kathryn Nixon

Q1 – A Solid Quarter

Impact

Neutral.

Details & Analysis

Fortis Inc. reported Q1/12 results this morning, providing a preview of quarterly financial results of its 100%-owned subsidiary FortisBC Energy. Highlights for FortisBC Energy: (1) reported earnings of $82 million in Q1/12 were $7 million higher than $75 million in Q1/11. The variance was due to rate base growth and higher transportation volumes, partially offset by lower-than-expected customer additions and lower capitalized AFUDC due to a lower asset base under construction during the quarter; (2) the company did not make any material changes to its forecasted total capital expenditures for 2012 of approximately $244 million, compared to 2011 capex levels of $253 million; (3) in April 2012, the British Columbia Utilities Commission (BCUC) issued its decision approving FortisBC Energy's updated revenue requirement application for 2012–2013, reflecting mid-year rate bases of $2.760 billion in 2012 and $2.820 billion in 2013; (4) in April 2012, the company refiled its application with the BCUC to amalgamate with FortisBC Energy (Vancouver Island) and FortisBC Energy (Whistler), after the application was suspended in late 2011 in order for additional information to be provided. We are maintaining a market weight position in FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. During 2012, we believe the company has sufficient cash flows from operating activities to service interest on debt, pay dividends and finance capex without incurring incremental debt.

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Stable		Stable

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Buy	Outperform	37.7%	12.1%	52.1%	39.2%	48.3%	54.6%
Hold	Market Perform	60.0%	7.0%	47.9%	57.6%	51.0%	40.1%
Sell	Underperform	2.4%	0.0%	0.0%	3.2%	0.7%	5.3%

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FortisBC Energy Inc.

November 1, 2012
Brief Research Note

Mark Laing, CA, CFA
(416) 359-4601
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Assoc: Kathryn Nixon

Q3 – Results Reflect Timing Differences

Impact

Neutral.

Details & Analysis

Fortis Inc. reported Q3/12 results, providing a preview of quarterly financial results of its 100%-owned subsidiary FortisBC Energy Inc. Highlights for FortisBC Energy Inc.: (1) the reported loss of $6 million in Q3/12 was $2 million lower than the reported loss of $4 million in Q3/11. The variance was due to timing differences in 2012 with respect to the recognition of revenue and certain expenses. Notably, revenue is recognized based on seasonal gas consumption, whereas certain expenses are recognized evenly throughout the year; (2) the company did not make any material changes to its forecasted total capital expenditures for 2012 of approximately $244 million, compared to $253 million in 2011; (3) an oral hearing is scheduled to begin on December 12, 2012, for the Generic Cost of Capital Proceeding to determine the appropriate cost of capital for a benchmark low-risk utility effective January 1, 2013, including capital structure, ROE and cost of debt; and (4) proceedings have closed with respect to the regulatory review of the company's re-filed application with the British Columbia Utilities Commission (BCUC) to amalgamate with FortisBC Energy (Vancouver Island) and FortisBC Energy (Whistler). A decision from the BCUC is currently pending. We are maintaining a market weight position in FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. For the remainder of 2012, we believe the company has sufficient cash flow from operating activities to service interest on debt, pay dividends and finance capex without issuing additional debt.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A Stable	Not Rated	A3 Stable

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Distribution of Ratings (September 30, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.3%	17.9%	57.8%	39.0%	49.5%	54.3%
Hold	Market Perform	58.5%	7.9%	39.1%	56.4%	48.5%	40.3%
Sell	Underperform	3.1%	11.8%	3.1%	4.6%	2.0%	5.3%

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Und = Underperform - Forecast to underperform the market;
(S) = speculative investment;
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FortisBC Energy Inc.

July 31, 2012
Brief Research Note

Mark Laing, CA, CFA
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Assoc: Kathryn Nixon

Q2 Lower Than Expected

Impact

Neutral.

Details & Analysis

Fortis Inc. reported Q2/12 results this morning, providing a preview of quarterly financial results of its 100%-owned subsidiary FortisBC Energy. Highlights for FortisBC Energy: (1) reported earnings of $13 million in Q2/12 were $2 million lower than $15 million in Q2/11. The variance was due to lower-than-expected customer additions and lower capitalized AFUDC as a result of a lower asset base under construction in the quarter; (2) the company did not make any material changes to its forecast total capital expenditures for 2012 of approximately $244 million, compared to $253 million in 2011. The company indicated most of the remaining $30 million of project costs relating to the $110 million Customer Care Enhancement project, which was placed in service January 2012, were incurred in the first half of 2012; (3) in April 2012, the British Columbia Utilities Commission (BCUC) issued its decision approving FortisBC Energy's updated revenue requirement application for 2012–2013, reflecting mid-year rate bases of $2.76 billion in 2012 and $2.82 billion in 2013; (4) a regulatory review of the company's refiled application with the BCUC to amalgamate with FortisBC Energy (Vancouver Island) and FortisBC Energy (Whistler) is currently under way; and (5) in July 2012, the company extended its $500 million unsecured committed revolving credit facility agreement to August 2014 from August 2013. We are maintaining a market weight position in FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. During 2012, we believe the company has sufficient cash flows from operating activities to service interest on debt, pay dividends and finance capex without incurring incremental debt.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A	Not rated	A3
Stable		Stable

This report was prepared by an Analyst employed by a Canadian affiliate, BMO Nesbitt Burns Inc., and who is not registered as a research analyst under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 2 to 3.

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Distribution of Ratings (June 30, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	14.2%	66.0%	39.7%	49.1%	55.7%
Hold	Market Perform	58.8%	4.6%	31.9%	57.1%	48.6%	39.3%
Sell	Underperform	2.0%	9.1%	2.1%	3.2%	2.3%	5.0%

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Ratings and Sector Key
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Und = Underperform - Forecast to underperform the market;
(S) = speculative investment;
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FortisBC Energy Inc.

February 7, 2013
Brief Research Note

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Assoc: Kathryn Nixon

Q4 – Results Lower Than Expected

Impact

Neutral.

Details & Analysis

Fortis Inc. reported Q4/12 results this morning, providing a preview of the quarterly financial results of its 100%-owned subsidiary FortisBC Energy Inc. Highlights for FortisBC Energy Inc.: (1) reported earnings of $49 million in Q4/12 were $2 million lower than the reported earnings of $51 million in Q4/11. The variance was due to timing differences of operating and maintenance expenses in 2012, lower capitalized AFUDC due to lower assets under construction and lower-than-expected customer additions in 2012. This was partially offset by rate base growth due to investment in energy infrastructure, higher gas transportation volumes and lower effective income taxes; (2) capex for 2013 is forecasted to be $229 million, compared to $206 million in 2012; and (3) an oral hearing commenced in December 2012 for the Generic Cost of Capital Proceeding to determine the appropriate cost of capital for a benchmark low-risk utility effective January 1, 2013, including capital structure, ROE and cost of debt. The British Columbia Utilities Commission has designated FortisBC Energy as the benchmark utility and a decision is expected in mid-2013. We are maintaining a Market Weight position in FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. For 2013, we believe the company has sufficient cash flow from operating activities to service interest on debt, pay dividends and finance capex without issuing additional debt.

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DBRS	S&P	Moody's
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Stable		Stable

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Distribution of Ratings (December 31, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.0%	17.7%	52.9%	38.5%	50.5%	54.0%
Hold	Market Perform	60.7%	9.6%	47.1%	57.3%	48.4%	40.6%
Sell	Underperform	2.4%	0.0%	0.0%	4.2%	1.0%	5.4%

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FortisBC Inc. & FortisBC Energy Inc.

June 24, 2013
Brief Research Note

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Moody's Changes Its Outlook for the FortisBC Entities to Negative From Stable

Impact

Negative.

Details & Analysis

On June 21, 2013, Moody's changed the outlook for the FortisBC entities to Negative from Stable and affirmed the ratings for FortisBC Inc. and FortisBC Energy Inc. at Baa1 and A3, respectively. The change in outlook reflects Moody's belief that the Province of BC's recent Stage 1 generic cost of capital (GCOC) decision will result in weakened financial profiles for the entities. In its decision, the British Columbia Utilities Commission reduced the benchmark utility's (FortisBC Energy Inc.) deemed equity thickness to 38.5% from 40.0% and allowed ROE to 8.75% from 9.50%. Moody's believes that Stage 2 of the GCOC proceedings will result in a similar reduction to ROE and possibly reduce the deemed equity thickness for FortisBC Inc. and FortisBC Energy (Vancouver Island). Moody's has stated it will consider a ratings downgrade if CFO pre-WC interest coverage and CFO pre-WC to debt persist below 3.0x and 13%, respectively; a level that the agency believes is already low compared to Fortis's A3 and Baa1 rated U.S. utility peers.

	DBRS	S&P	Moody's
FortisBC Holdings - Senior Unsecured Debt Ratings	BBB (high) Stable	Not Rated	Baa2 Negative
FortisBC Energy - Senior Unsecured Debt Ratings	A Stable	Not Rated	A3 Negative
FortisBC Inc. - Senior Unsecured Debt Ratings	A (low) Stable	Not Rated	Baa1 Negative

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Distribution of Ratings (March 31, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

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FortisBC Energy Inc.

August 1, 2013
Brief Research Note

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Q2 – Results Reflect Phase I of GCOC Proceeding

Impact

Neutral.

Details & Analysis

Fortis Inc. reported Q2/13 results this morning, providing a preview of the quarterly financial results of its 100%-owned subsidiary FortisBC Energy Inc. Highlights for FortisBC Energy Inc.: (1) reported earnings of $6 million in Q2/13 were $7 million lower than the reported earnings of $13 million in Q2/12. The quarterly variance was primarily caused by the decrease in deemed equity (to 38.5% from 40.0%) and allowed ROE (to 8.75% from 9.50%) as a result of the May 2013 regulatory decision relating to the first phase of the Generic Cost of Capital (CGOC) Proceeding. The cumulative impact of the decision, effective January 1, 2013, of approximately $8 million was recognized in Q2/13; (2) a decision on the second phase of the GCOC Proceeding is expected in the first half of 2014; (3) effective January 1, 2014 through December 31, 2015 the British Columbia Utilities Commission has introduced an Automatic Adjustment Mechanism to set the ROE for the benchmark utility on an annual basis; and (4) the company did not make any material changes to forecasted total capital expenditures for 2013 of $229 million, compared to $206 million in 2012. We are maintaining a market weight position in FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. In the event the negative outlook from Moody's results in a downgrade, we highlight the potential adverse impact of having one of the two ratings in the "BBB" territory. For 2013, we believe the company has sufficient cash flow from operating activities to service interest on debt, pay dividends and finance capex without issuing additional debt.

Senior Unsecured Debt Ratings

DBRS	S&P	Moody's
A	Not Rated	A3
Stable		Negative

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Distribution of Ratings (June 30, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.9%	17.6%	52.7%	39.6%	51.0%	53.2%
Hold	Market Perform	56.8%	10.2%	45.9%	53.9%	45.5%	41.1%
Sell	Underperform	5.3%	3.2%	1.4%	6.5%	3.5%	5.6%

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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis
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FortisBC Energy Inc.

November 1, 2013
Corporate Debt – Utilities

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Q3 – Warm Weather Weighs on Results

Fortis Inc. reported Q3/13 results this morning, providing a preview of the quarterly financial results of its 100%-owned subsidiary FortisBC Energy Inc. Highlights for FortisBC Energy Inc.: (1) reported a net loss of $14 million in Q3/13 which was significantly greater than a net loss of $6 million in Q3/12. The quarterly variance was primarily caused by a decrease in deemed equity (to 38.5% from 40.0%) and allowed ROE (to 8.75% from 9.50%) as a result of the May 2013 regulatory decision relating to the first phase of the Generic Cost of Capital (CGOC) Proceeding. In addition, results were negatively impacted by lower average gas consumption and transportation volumes as a result of warmer weather; (2) a review process for the second phase of the GCOC Proceeding is under way and a decision is expected in the first half of 2014; (3) in June 2013, the BCUC decided it will review FortisBC Energy's application to reconsider an amalgamation of the three utilities. The reconsideration application will be completed in November 2013, and a decision is expected in early 2014; (4) in June 2013, the company filed an application with the BCUC for a Multi-Year Performance-Based Ratemaking Plan from 2014-2018. The application assumes a 2014 forecast mid-year rate base of $2,789 million and requests approval of a delivery rate increase for 2014 of approximately 1.4%; and (5) the company did not provide detail on its forecasted total capital expenditures for 2013; however, spending at FortisBC Energy Inc. is expected be lower than the original estimate of $229 million due to the uncertainty of the timing of alternative energy projects at FortisBC Alternative Energy Services Inc.

Our View:

- We are maintaining a market weight position in FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. In the event the negative outlook from Moody's results in a downgrade, we highlight the potential adverse impact of having one of the two ratings in the "BBB" territory. We are currently forecasting nil issuance from the company for the remainder of 2013 and approximately $150 million of issuance in 2014.

Senior Unsecured Debt Ratings:	DBRS	S&P	Moody's
	A	Not Rated	A3
	Stable		Negative

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Hold	Market Perform	56.8%	10.2%	45.9%	53.9%	45.5%	41.1%
Sell	Underperform	5.3%	3.2%	1.4%	6.5%	3.5%	5.6%

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Fixed Income Factsheet - January 2014

FortisBC Energy Inc.

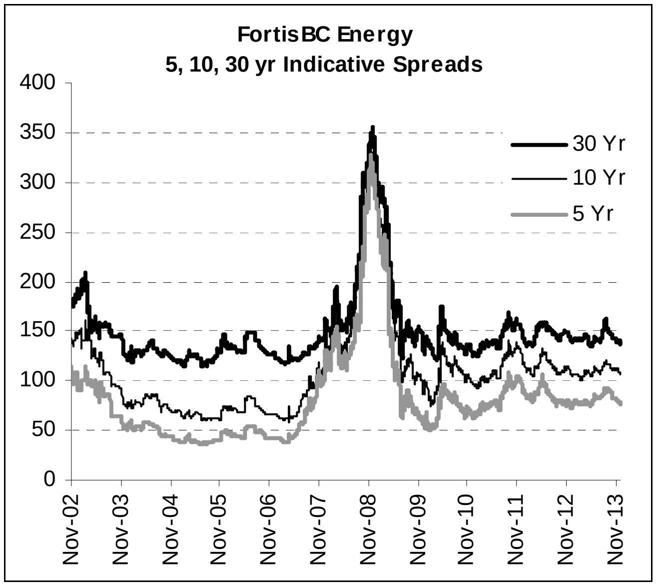
Mark Laing, CPA, CA, CFA
BMO Nesbitt Burns Inc.
(416) 359-4601 / mark.laing@bmo.com

Relative Value

Recommendation – We recommend no more than a market weight position in the debt securities of FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds.

Sector Value – We believe FortisBC Energy's spreads are reasonably valued among its gas utility peers, trading at 77 bps in the 5-year (back of Enbridge Gas by 10 bps), 107 bps in the 10-year (back of Enbridge Gas by 6 bps) and 138 bps in the 30-year (back of Enbridge Gas by 7 bps).

Credit Curve – We note FortisBC Energy Inc. has 10 issues outstanding in the Canadian market: two in the short-end and eight in the long-end of the curve.



Source: BMO Capital Markets

Risks

External – An extended decline in economic conditions would be expected to reduce demand for energy over time. Energy sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices and housing starts.

M&A – We do not believe FortisBC Energy Inc. will be involved in any material M&A activity over the foreseeable future. In June 2013, the British Columbia Utilities Commission (BCUC) decided it will review FortisBC Energy's application to reconsider an amalgamation of the three utilities. A decision on the reconsideration application is expected in early 2014.

Regulatory – FortisBC Energy is subject to the regulatory determinations of the BCUC with respect to rates, capital expenditures and the authorized return on equity.

Trading Liquidity – We believe FortisBC Energy exhibits below-average trading liquidity in the Canadian bond market.

New Issuance – During 2014, we believe the company has sufficient cash flows from operating activities to service interest on debt, pay dividends and finance capex.

Other – Failure on the part of various third parties to deliver natural gas supplies could have an adverse effect on FortisBC Energy and its ability to distribute natural gas to the end consumer. The company is dependent on a single source transmission pipeline.

Credit Profile

Company Financials – FortisBC Energy reported a loss of $17 million in Q3/13 versus a reported loss of $10 million in Q3/12. The variance was primarily due to a decrease in deemed equity (to 38.5% from 40.0%) and allowed ROE (to 8.75% from 9.50%) as a result of the May 2013 regulatory decision relating to the first phase of the Generic Cost of Capital proceeding (GCOC). In addition, results were negatively impacted by lower average gas consumption and transportation volumes as a result of warmer weather.

FortisBC Energy had roughly $1.6 billion of long-term debt outstanding at September 30, 2013. The company has no debt maturities in 2014. The company also had $400 million available on its $500 million unsecured committed revolving credit facility (maturing in August 2015) and cash of $3 million at September 30, 2013.

Company Fundamentals – We expect a stable operating and regulatory environment for FortisBC Energy.

Capex – We are modeling capital expenditures of $180 million in 2013 and approximately $170 million in 2014.

Credit Ratings – On March 18, 2013, DBRS confirmed FortisBC Energy Inc.'s debt rating at A with a stable trend. DBRS cites the company's low business risk with regulated operations in an economically strong service area. DBRS expects the company to maintain its debt to capital ratio in line with the rating category.

On June 21, 2013, Moody's changed the outlook for the FortisBC entities to Negative from Stable and affirmed the ratings for FortisBC Energy Inc. at A3. The negative outlook reflects Moody's belief that the Province of British Columbia's recent Stage 1 GCOC decision will result in weakened financial profiles for the entities. Moody's believes that Stage 2 of the GCOC proceedings will result in a reduction to ROE and possibly reduce the deemed equity thickness for the FortisBC entities. Moody's has stated it will consider a ratings downgrade if CFO pre-WC interest coverage and CFO pre-WC to debt persist below 3.0x and 13%, respectively; a level that the agency believes is already low compared to FortisBC Energy's A3 and Baa1 rated U.S. utility peers.

DBRS	S&P	Moody's
A	Not Rated	A3
Stable		Negative

Disclosures: 5, 6C

FortisBC Energy Inc.

Maturity Schedule

Company	Coupon	Maturity	Amount ($mm)	Instrument	Issue Date	Issue Spread	Callable	CUSIP	Outstanding ($mm)
FortisBC Energy Inc.	11.80%	30-Sep-15	$75	Mortgage	03-Dec-90	NA	Non-callable	05534RAA2	$75
FortisBC Energy Inc.	10.30%	30-Sep-16	$200	Mortgage	21-Nov-91	104.0 bps	Make Whole (+ 35 bps)	05534RAB0	$200
FortisBC Energy Inc.	6.95%	21-Sep-29	$150	MTNs	21-Sep-99	112.0 bps	Make Whole (+ 28 bps)	05534ZAF3	$150
FortisBC Energy Inc.	6.50%	01-May-34	$150	MTNs	29-Apr-04	127.0 bps	Make Whole (+ 31 bps)	88078ZAB0	$150
FortisBC Energy Inc.	5.90%	26-Feb-35	$150	MTNs	25-Feb-05	118.0 bps	Make Whole (+ 29 bps)	88078ZAC8	$150
FortisBC Energy Inc.	5.55%	25-Sep-36	$120	MTNs	25-Sep-06	136.0 bps	Make Whole (+ 34 bps)	88078ZAE4	$120
FortisBC Energy Inc.	6.00%	02-Oct-37	$250	MTNs	02-Oct-07	148.0 bps	Make Whole (+ 37 bps)	88078ZAF1	$250
FortisBC Energy Inc.	5.80%	13-May-38	$250	MTNs	13-May-08	163.0 bps	Make Whole (+ 40 bps)	88078ZAG9	$250
FortisBC Energy Inc.	6.55%	24-Feb-39	$100	MTNs	24-Feb-09	285.0 bps	Make Whole (+ 71 bps)	88078ZAH7	$100
FortisBC Energy Inc.	4.25%	09-Dec-41	$100	MTNs	09-Dec-11	163.0 bps	Make Whole (+ 41 bps)	34959ZAA0	$100

Source: Bloomberg

Ownership Structure

100% - FortisBC Holdings Inc.

Corp. Lease Schedule (9/30/2013)

($mm) Year	Operating Lease Payments
< 1 year	3.0
2 years	3.0
3 years	3.0
4 years	2.0
5 years	2.0
> 5 years	4.0

Source: Company Reports

Credit Facilities ($mm)

Company	Facility Size	Amount Available Q3/13	Amount Available Q2/13	Maturity	Type
FortisBC Energy Inc.	$500	$400.0	$450.0	Aug-15	Unsecured committed revolving credit facility

Source: Company Reports

Shelf Prospectus ($mm)

Company	Type	Amount	Remaining	Date	Expiry	Instruments
None						

Source: SEDAR

Pension Summary

	Pension Benefit Plans FY 2012 ($mm)	Pension Benefit Plans FY 2011 ($mm)	Other Benefit Plans FY 2012 ($mm)	Other Benefit Plans FY 2011 ($mm)
Accrued Benefit Obligation	410.0	374.1	103.0	93.3
Plan Assets	324.0	288.9	-	-
Funded Status	(86.0)	(85.2)	(103.0)	(93.3)
Accrued Benefit Asset (Liability)				
Discount Rate	4.25%	5.25%	4.25%	5.25%
Expected Long-term Rate of of Return on Assets	6.62%	6.75%	NA	NA
Rate of Future Increase in Compensation*	2.89%	2.89%	NA	NA

*Based on accrued benefit obligation assumptions.

Source: Company Reports

Historical Ratings

DBRS Rating	DBRS Trend	DBRS Date	S&P Rating	S&P Trend	S&P Date	Moody's Rating	Moody's Trend	Moody's Date
A	Stable	23-Aug-99	NR		23-Oct-10	A3	Negative	21-Jun-13
			A	Stable	19-Jun-07	A3	Stable	19-Dec-05
			BBB	CW-Pos	26-Feb-07	A2	UR-Neg	19-Nov-02
			BBB	CW-Neg	30-May-06	A2	Stable	07-Nov-01
			BBB	Negative	06-Dec-05			
			BBB	CW-Neg	02-Aug-05			
			BBB	Stable	26-Jun-03			
			BBB+	CW-Neg	19-Nov-02			
			BBB+	Stable	08-May-01			

Source: DBRS, S&P, Moody's

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

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FortisBC Energy Inc.

February 6, 2014
Corporate Debt – Utilities

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Q4 – Gas Volumes Driven by Colder Weather

Fortis Inc. reported Q4/13 results this morning, providing a preview of the quarterly financial results of its 100%-owned subsidiary FortisBC Energy Inc. Highlights for FortisBC Energy Inc.: (1) The company reported net earnings of $50 million in Q4/13, $1 million higher than the $49 million reported in Q4/12. For the full year, the company reported $127 million in 2013 versus $138 million in 2012. The quarterly variance was primarily caused by a decrease in deemed equity (to 38.5% from 40.0%) and allowed ROE (to 8.75% from 9.50%) as a result of the May 2013 regulatory decision relating to the first phase of the Generic Cost of Capital (CGOC) Proceeding. However, gas volumes and revenues were driven higher by colder weather and earnings increased due to lower-than-expected finance charges and rate base growth; (2) a review process for the second phase of the GCOC Proceeding is still under way and a decision is expected in the first half of 2014; (3) in June 2013, the British Columbia Utilities Commission (BCUC) determined it would reconsider FortisBC Energy's application to amalgamate its three utilities. The reconsideration application was completed in November 2013, and a decision is expected in early 2014; (4) in June 2013, the company filed an application with the BCUC for a Multi-Year Performance-Based Ratemaking Plan from 2014 to 2018. The application assumed a 2014 forecast mid-year rate base of $2,789 million and requested approval of a delivery rate increase for 2014 of approximately 1.4%. Effective January 1, 2014, the BCUC approved a 1.4% interim refundable rate increase and a final decision is expected in Q3/14; and (5) capital expenditures in 2013 were $215 million, slightly lower than the original estimate of $229 million due to the uncertainty of the timing of alternative energy projects at FortisBC Alternative Energy Services Inc. For 2014, the company is forecasting capital expenditures of $329 million, $100 million of which is tied to the Tilbury LNG facility.

Our View:

- We are maintaining a market weight position in FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. In the event the negative outlook from Moody's results in a downgrade, we highlight the potential adverse impact of having one of the two ratings in the "BBB" territory. We are currently forecasting nil issuance from the company for 2014.

Senior Unsecured Debt Ratings:	DBRS	S&P	Moody's
	A	Not Rated	A3
	Stable		Negative

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Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis
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FortisBC Energy Inc.

February 27, 2014
Corporate Debt – Utilities

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FortisBC Energy Receives Regulatory Approval to Amalgamate Gas Utilities

On February 27, 2014, FortisBC Energy Inc. announced that it had received approval from the British Columbia Utilities Commission (BCUC) to amalgamate FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. (Moody's: A3), FortisBC Energy (Whistler) Inc., and Terasen Gas Holdings Inc. (DBRS: BBB (high), Moody's: Baa2). The BCUC determined that the amalgamation is "*beneficial and in the public interest.*" The regulated natural gas utilities will amalgamate under one legal name, FortisBC Energy Inc., following consent from the Lieutenant Governor in Council and the receipt all other necessary approvals.

Our View:

- We view this as a positive development, especially for the smaller amalgamating entities, FortisBC Energy (Vancouver Island) Inc. (currently $350 million of senior unsecured notes outstanding) and FortisBC Energy (Whistler) Inc., as it will likely improve the competiveness of these utilities vs. alternative forms of energy. We note that the company initially applied to the BCUC for the necessary approvals to amalgamate the utilities and implement common rates across the service territories in November 2011.
- We are maintaining a Market Weight position in FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. In the event the negative outlook from Moody's results in a downgrade, we highlight the potential adverse impact of having one of the two ratings in the "BBB" territory. We are currently forecasting nil issuance from the company for 2014.

Senior Unsecured Debt Ratings:	DBRS	S&P	Moody's
	A	Not Rated	A3
	Stable		Negative

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Distribution of Ratings (December 31, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	20.4%	49.0%	38.8%	50.4%	52.5%
Hold	Market Perform	56.1%	13.8%	49.0%	54.0%	46.5%	41.8%
Sell	Underperform	5.8%	5.6%	2.0%	7.2%	3.1%	5.7%

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FortisBC Energy Inc.

May 8, 2014
Corporate Debt – Utilities

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Q1 – Amalgamation Expected by Year-End

Fortis Inc. reported Q1/14 results this morning, providing a preview of the quarterly financial results of its 100%-owned subsidiary FortisBC Energy Inc. Highlights for FortisBC Energy Inc.: (1) the company reported net earnings of $79 million in Q1/14, $6 million lower than the $85 million reported in Q1/13. The quarterly variance was primarily caused by a decrease in deemed equity (to 38.5% from 40.0%) and allowed ROE (to 8.75% from 9.50%) as a result of the May 2013 regulatory decision relating to the first phase of the Generic Cost of Capital (CGOC) Proceeding. Moreover, the cumulative impact of the regulatory decision was recognized in Q2/13; (2) on February 27, 2014, FortisBC Energy Inc. announced that it had received approval from the British Columbia Utilities Commission (BCUC) to amalgamate FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. (Moody's: A3), FortisBC Energy (Whistler) Inc. and Terasen Gas Holdings Inc. (DBRS: BBB (high), Moody's: Baa2). The BCUC determined that the amalgamation is "beneficial and in the public interest." The regulated natural gas utilities will amalgamate under one legal name, FortisBC Energy Inc., following consent from the Lieutenant Governor in Council and receipt all other necessary approvals. Upon completion of the amalgamation, which is expected by December 31, 2014, the allowed ROE and deemed equity of the amalgamated entity will be set at the same levels as the benchmark utility, FortisBC Energy Inc.; (3) in June 2013, the company filed an application with the BCUC for a Multi-Year Performance-Based Ratemaking Plan from 2014 to 2018. The application assumed a 2014 forecast midyear rate base of $2,789 million and requested approval of a delivery rate increase for 2014 of approximately 1.4%. Effective January 1, 2014, the BCUC approved a 1.4% interim refundable rate increase and a final decision is expected in H2/14; and (4) for 2014, the company is forecasting capital expenditures of $329 million, $100 million of which is tied to the Tilbury LNG facility.

Our View:

- We are maintaining a market weight position in FortisBC Energy at this time. While we expect a stable operating and regulatory environment for FortisBC Energy, we see limited near-term catalysts for the company's bonds. In the event the negative outlook from Moody's results in a downgrade, we highlight the potential adverse impact of having one of the two ratings in the "BBB" territory. We currently forecast nil issuance from the company for 2014.

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FortisBC Energy Inc. & FortisBC Inc.

June 27, 2014
Corporate Debt – Utilities

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Moody's Changes Its Outlook for the FortisBC Entities to Stable From Negative

Today, Moody's changed the outlook for the FortisBC entities to Stable from Negative and affirmed the ratings for FortisBC Inc. and FortisBC Energy Inc. at Baa1 and A3, respectively. The change in outlook reflects Moody's belief that the credit supportive regulatory framework and the entities' long-term track record of predictable cash flows and earning their allowed ROE offset the reduction in ROE following the recent generic cost of capital decision in British Columbia. While the outlook has been revised to Stable, Moody's believes the credit metrics remain weak for the current rating and have ascribed little probability for an upgrade at this time.

Our View:

- We do not expect the agency's outlook revision to have any impact on spreads, especially in the context of where the bonds trade relative to peers. Moreover, we are maintaining our Market Weight position as we see limited near-term catalysts for FortisBC Inc. and FortisBC Energy Inc. bonds.
- We currently forecast approximately $200 million of debt issuance at FortisBC Inc. in 2014 on the back of capital expenditures and a November 2014 maturity. At FortisBC Energy Inc. we are currently forecasting nil issuance.

Issuer	DBRS		S&P		Moody's	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
FortisBC Energy Inc.	A	Stable	nr		A3	Stable
FortisBC Inc.	AL	Stable	nr		Baa1	Stable

Source: Company reports

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FortisBC Energy Inc. (FEI, senior unsecured **A/ n.r./ A3),** until recently known as Terasen Gas Inc., has been seeking to offer a variety of innovative alternative energy services. On one hand, we view this as a natural response to the prevailing sentiment to improve societal energy efficiency, and reduce so-called "greenhouse gas" emissions. At least as important, we also view these services as FEI's apt response to the B.C. provincial government's Energy Plan of 2007, and the *Clean Energy Act* of 2010. However, these recent initiatives in alternative energy services have met with resistance from providers of competitive services, and seem to have the regulator questioning the role of the Fortis natural gas utilities in providing these services. These services could help stimulate demand by enabling switching to natural gas from fuels with higher carbon content, which would enable attainment of public policy goals, while making the Fortis distribution network more efficient. We think both these ends are consistent with maintaining FEI's credit quality, and we will follow the regulatory proceedings with interest. Meanwhile, the "plain vanilla" natural gas distribution business has exhibited better credit ratios, in part due to the December 2009 cost of capital review, which awarded more equity thickness and a higher ROE. LTM FFO interest coverage has been steady at 2.7x since Q1 of 2010, a material rise from the typical 2.3x coverage for much of the previous decade. With very modest new issuance requirements for the next few years, we think FEI bonds will remain steady performers, compared to the non-utility sector, and even compared to most of its utility sector peers. We see the FEI bonds as fairly valued compared to most gas distribution peers, and better value than, for instance, Gaz Métro, given what in our view is better credit quality and better ratings stability

New Name, New CEO

In July, 2010, Mr. John Walker, President and CEO of FortisBC Inc., also became President and CEO of Terasen Inc. and Terasen Gas Inc. This represented a strategic initiative to bring Fortis Inc.'s B.C. natural gas and electricity utilities under common leadership.

Subsequently, Terasen Inc. changed its name to FortisBC Holdings Inc., and Terasen Gas Inc. was re-named FortisBC Energy Inc. The other operating companies for Vancouver Island, Whistler, and Fort Nelson also changed their names to brand them as members of the Fortis group. Fortis believes that this will ensure "consistent focus and strategy", and allow the group to "combine strengths and resources to create new opportunities to better serve our customers and provide integrated energy solutions for communities."

New Initiatives

A key recent FEI initiative was the Customer Care Enhancement Project. The project comprises implementation of new customer information service software, the establishment of two call centres, and moving in-house the billing and back-office functions that had been contracted out (initially in a joint venture with Enbridge Gas) around 10 years ago. This significant project resulted in the creation of some 300 jobs, and had an estimated total cost of $115 million. The British Columbia Utilities Commission approved the project because evidence showed it would result in some customer benefits and "potentially significant but to some degree un-quantified socio-economic benefits to B.C."

The province of B.C. has been keenly interested in energy efficiency and conservation, as well as CO_2 ("greenhouse gas") emissions reductions. The *Utilities Commission Act* requires that the government's energy objectives, particularly the *Clean Energy Act* of 2010, be considered in BCUC approval of utility expenditures. In particular, this includes support of energy conservation or efficiency, or the use of clean or renewable energy sources, as well as reduction of greenhouse gas emissions. FEI's response was its Energy Efficiency and Conservation program, which was approved by the BCUC in 2009. The program includes residential and commercial energy efficiency programs, conservation and outreach programs, and other measures such as fuel switching to natural gas from fuels with higher carbon content. FEI projected savings of almost 10 million gigajoules over the lives of these various measures, offset to some degree by higher natural gas consumption due to fuel switching.

While in a narrow operational sense, we don't view such energy efficiency or alternative energy programs as beneficial for a utility's credit quality, we acknowledge that from a public policy perspective, they are a desirable, and perhaps even a necessary response to government policies, such as B.C.'s *Clean Energy Act* and regulations. Hence, in very broad sense, we do see such programs as consistent with maintaining credit quality, by growing the business while conforming with important government policy initiatives. We note that the Energy Efficiency and Conservation program's expected costs of roughly $40 million have been blessed by the regulator, and are thus highly likely to be recovered in rates, though they will be captured in a deferral account and amortized over periods of up to 10 years.

A biogas option has recently been made available. For an approximately $4 per month premium, customers can opt to replace 10% of their natural gas supply with biomethane, gathered from agricultural waste through on-farm anaerobic digesters, and from the existing Salmon Arm landfill. The program could allow estimated greenhouse gas savings of about 11,000 tonnes. However, the BCUC approved this service as a test program only, conditional on it being "distinct and severable" from the utility business, and "made no finding on the acceptability of the biogas upgrading business" for FEI.

A proposed Natural Gas Vehicle program would have seen FEI own and operate refuelling stations for fleet vehicles on customer's premises. One contract between FEI and Waste Management of Canada for a compressed natural gas fuelling station to service a 20 vehicle fleet was given conditional, interim approval. However, the BCUC expressed concerns vis-à-vis the *Clean Energy Act* and the appropriate role of a utility in stimulating demand for NGVs, as well as the potential risk of cost under-recovery of this service falling on utility ratepayers. The BCUC didn't approve FEI's request for a broader NGV program at this time.

FEI has also proposed expanding its service offerings to include Alternative Energy Solutions, now renamed Thermal Energy Services. These proposed offerings include Geo-exchange, Solar-thermal, and District Energy Systems. In response to a complaint by the Energy Services Association of Canada, and potential concerns expressed by other interveners, the BCUC will conduct an inquiry to review FEI's proposals in alternative energy services later this year. The BCUC has encouraged participants in the review to take a broad perspective, to assess (among other things) the appropriate role of traditional gas utilities in the market for alternative energy services. FEI is expected to file evidence by August 29th, which will be followed by interveners filing evidence by October 19th, followed by a procedural conference in mid-December. We expect a lengthy process for this inquiry, with a decision clarifying FEI's role in alternative energy services sometime in 2012.

Rate Application

FEI's current rates are based on a negotiated settlement agreement with customer groups for 2010 and 2011. The all-in customer rate, including changes in commodity costs, increased 10% in 2010, in part reflecting the December 2009 cost of capital decision, which lifted deemed equity capitalization to 40% from 35%, and increase the allowed ROE to 9.50% from 8.47%. (The new equity capitalization and ROE will remain in place until further review by the BCUC.) The all-in rate declined by about 6% in 2011, due to decreased commodity and midstream costs.

In May, FEI filed an application for 2012 and 2013 rates with the BCUC. The filing seeks a 5.0% increase for the typical residential customer for 2012, and a further 6.4% increase for 2013 (excluding changes in the commodity cost). An oral hearing will commence on October 3rd, and the current regulatory schedule anticipates FEI filing its final reply argument submissions on January 18th, 2012. We expect the BCUC decision on rates to be released late in Q1, or early in Q2 of 2012.

Capital Spending

FEI's 2012-2013 rate application projects capital spending of $146 million in 2011, $148 million in 2012, and $131 million in 2013. This run-rate is consistent with the recent trend, with capex of $130 million in 2009, and $137 million in 2010. Major projects include the replacement of two pipelines running under the Fraser River. These upgrades enhance pipeline seismic stability, addressing river erosion concerns, and thus improve safety and reliability. The customer care enhancement project has also been a key focus of capex. Two new B.C.-based customer contact centres, one in Burnaby, and one in Prince George, are being complemented with new customer information and billing systems. This previously approved "in-sourcing" initiative is expected to result in operating cost savings, beginning in 2012.

The construction of the Mt. Hayes liquefied natural gas storage facility on Vancouver Island was substantially complete as of May 31st. **FortisBC Energy (Vancouver Island) Inc. (n.r./ n.r./ A3)** is now filling the tank for the upcoming winter heating season. The Mt. Hayes project helped lift FEVI capex from a run-rate of roughly $18 to $25 million between 2006 and 2010, to a projected $67 million in 2011, $36 million in 2012, and $29 million in 2013. The much smaller Whistler and Fort Nelson operating companies have capex of $1 million per year for this period, except for a special project in Fort Nelson that is expected to raise its capex to $3 million in 2011.

We believe that these modest capex amounts will lead to equally modest net new issuance for the next couple of years. Due to the consequent growth in rate base, we expect nominal total debt may rise, in order to maintain the debt to capitalization ratio consistent with the regulatory deemed 60%.

Amalgamation Proposal

Terasen Inc. acquired the Vancouver Island gas distribution business from Westcoast Energy in 2002. From inception, this business had a relatively high cost structure and small customer base. Agreements between the utilities and the Federal and Provincial governments helped the Vancouver Island distribution business establish and maintain a rate structure competitive with other energy sources. These special arrangements, which included payments from the province to offset the commodity cost to natural gas customers, and a revenue deficiency deferral account, will expire at the end of 2011. Despite these special arrangements, Vancouver Island residential customer rates are approximately 60% greater compared to a Lower Mainland customer. To help prevent a further rate increase for Vancouver Island customers that FEI estimates at about 20% by 2016, FEI is proposing an amalgamation of all its B.C. operations, with a harmonized or "postage stamp" rate structure. The proposed amalgamation would be effective on January 1st, 2013. The FortisBC Whistler and FortisBC Fort Nelson operating companies would also be amalgamated, to create one natural gas distribution entity.

Since the amalgamation would blend the cost of service on Vancouver Island and the Mainland service territory of FEI, it would raise rates for a typical Lower Mainland residential customer by about 4% of the annual bill. For this reason, we expect that the application might be opposed by some consumer groups.

Evidence on FEI's proposed capital structure for the amalgamated entity will be given in the amalgamation filing, which is expected this fall. At present, all the FortisBC Energy companies have 40% equity capitalizations. FEI has a 9.50% allowed ROE, while the other operating companies have 10.00% ROEs, reflecting their higher operating risk characteristics. Should the amalgamation be approved, we think it would likely be neutral for FEI credit quality, especially if the amalgamated entity were awarded a slightly higher equity capitalization, or a blended ROE, to recognize the higher operating risk of the smaller operating entities embedded within the amalgamated whole.

Ratios and Ratings
As a result of the BCUC's December 2009 cost of capital decision, deemed common equity was raised to 40%, from 35%. FEI issued shares to Fortis Inc. in Q1 of 2010, to raise the equity thickness. This brought actual debt to capitalization down to 58.5%, from 65.2% at year-end 2009. We estimate debt to cap at 59.3% as of the end of Q1 2011 (58.3%, adjusted for gas in storage).

FEI's LTM FFO interest coverage was 2.7x at the end of Q1 this year, consistent with full-year 2010. This is improved from the 2.3x to 2.5x level typical of the previous five years, due largely to the cost of capital decision's higher deemed equity and higher ROE. LTM FFO/debt was 11.9% as of the end of Q1, improved from levels that were at times below 10% prior to the cost of capital decision. We expect these ratios to remain stable going forward.

We expect the trend on the DBRS ratings, and the outlook on the Moody's ratings, to remain stable for the foreseeable future. While we would expect both rating agencies to study the proposed amalgamation very carefully, we don't expect the proposed amalgamation, if approved, would affect ratings or outlooks, especially if the higher operating risk of the smaller entities is reflected in the amalgamated utility's cost of capital.

FortisBC Holdings Inc. (BBB(high)/ n.r./ Baa2) (formerly Terasen Inc.)
The Terasen Inc. public debt issues that have matured since the Fortis acquisition have not been replaced with new issues by Terasen Inc., which has ceased issuing public debt. Only one legacy Terasen Inc. issue remains outstanding, the 5.56% MTN due September 2014. This is a small issue, and very illiquid, but if it can be found near where we have it marked, at roughly 77 bps over the curve, we consider it very good value. The Terasen Inc. bonds have traded very cheap compared to the ring-fenced FEI (former Terasen Gas) bonds, although we always thought the Terasen Inc. credit had been oversold. Perhaps a bit of a hangover, from the days of the Kinder Morgan ownership and non-investment grade rating, remains built into the market's perception of this bond.

Despite their "Holdco" status, we like the Terasen Inc. / FortisBC Holdings Inc. bonds. The assets owned by FortisBC Holdings, namely the whole Terasen group of natural gas distribution companies, have proven to be quite valuable, and we think Fortis Inc. would not let its interest in FortisBC Energy be jeopardized by any interruption in the credit quality of FortisBC Holdings.

Most recently, FortisBC Holdings has issued two notes to Fortis Inc. A $200 million, 5.00% unsecured 10-year note was issued in December, 2010. On March of this year, FortisBC Holdings borrowed $300 million from Fortis Inc., and the proceeds were used to purchase Series F 5.25% preferred shares of FortisWest, which owns FortisBC Inc. via its ownership of Fortis Pacific Holdings. We view such capital management transactions as neutral for the credit quality of FortisBC Holdings.

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COMPANY UPDATE | **CANADIAN CREDIT COMMENT**

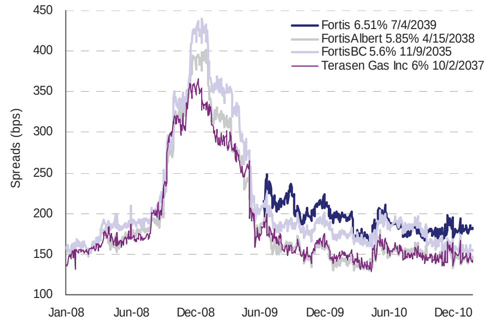
FEBRUARY 11, 2011

Fortis Inc.

Q4/10: Improved Regulation Continues to Provide Boost

Fortis Inc.	**Sector Perform**
FortisAlberta	**Sector Perform**
FortisBC	**Outperform**
Terasen Gas	**Sector Perform**
Newfoundland Power	**Sector Perform**

Fortis Historical Spreads



Source: ADI, RBC Capital Markets Research

Fortis Inc. Credit Summary ($million)

Cash Flow Summary	**2009**	**2010**	***2011E***	***2012E***
EBITDA	1,065	1,150	*1,231*	*1,304*
FFO	**690**	**734**	***740***	***790***
Capital expenditures	(1,024)	(1,073)	*(1,212)*	*(1,072)*
Dividends	(161)	(281)	*(227)*	*(235)*
Gross FCF	**(495)**	**(620)**	***(699)***	***(517)***
Changes in w/c	(41)	49	-	-
FCF after w/c	(536)	(571)	*(699)*	*(517)*
Other investing	(21)	82	-	-
FCF before financing	**(557)**	**(489)**	***(699)***	***(517)***
Debt issuance/(repay.)	551	146	*320*	*247*
Common issuance	46	80	*70*	*70*
Preferred issuance	-	242	*200*	*200*
Other financing	(9)	45	-	-
Net change in cash	**31**	**24**	***(109)***	**-**
Capital Structure				
Total debt	5,915	6,023	*6,343*	*6,589*
Non-controlling int.	123	162	*162*	*162*
Preference Shares	667	912	*1,112*	*1,312*
Shareholders' equity	3,193	3,305	*3,566*	*3,835*
Total capital	**9,898**	**10,402**	***11,183***	***11,898***
Cash and equivalents	85	109	-	-
Credit Ratios				
Total Debt / Capital	63%	62%	*62%*	*61%*
Net Debt / Capital	63%	62%	*62%*	*61%*
EBITDA / interest	2.9x	3.2x	*3.4x*	*3.4x*
EBIT / interest	1.9x	2.1x	*2.4x*	*2.4x*
Total Debt / EBITDA	5.6x	5.2x	*5.2x*	*5.1x*
FFO / Total Debt	11.7%	12.2%	*11.7%*	*12.0%*
Credit Ratios	**DBRS**	**S&P**	**Moody's**	
Rating	A (low)	A-	NR	
Outlook	Stable	Stable		

Source: Company reports, Rating Agencies, RBC Capital Markets

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All values in Canadian dollar unless otherwise noted.

Investment Thesis and Highlights

Fortis reports Q4/10 (credit neutral): Consolidated credit metrics were essentially unchanged from the previous quarter, with debt/capital at 62%, EBITDA/interest at 3.2x and FFO/debt at 12%. Consolidated EBITDA increased to $301MM in Q4/10 compared to $286MM last year, and FFO increased by 21% to $209MM compared to $173MM during Q4/09 (Exhibit 5). The increase was primarily driven by higher contributions from its regulated business (higher allowed ROE, increased deemed equity and rate base growth) and non-regulated generation, partially offset by lower results from Terasen Gas.

FCF shortfall funded with debt: During Q4/10, Fortis generated a gross FCF shortfall of $222MM, after capex of $370MM and dividends of $61MM. This compares to a gross FCF deficit of $94MM, after capex of $261MM and dividends of $6MM in Q4/09 (Exhibit 5). The shortfall was funded with debt.

Active in the debt markets: During the fourth quarter, Fortis and its subsidiaries issued $525MM in debt in 5 tranches, and Fortis Inc. issued of $250MM in preferred shares. For 2011, we expect in the order of $350MM to be issued by Fortis' subsidiaries to help fund its capex program (Exhibit 1). We also expect Fortis Inc. will look to the preferred share market again in 2011.

Capex of $5.5 billion over five years: Capex in 2010 hit a record $1.1B, and is expected to reach $1.2B in 2011. Fortis expects a large capex program over the next five years, in the order of $5.5B forecast. In addition, Fortis remains on the hunt for a utility acquisition in the U.S. with enterprise value of $1.0B to $5.0B.

Merging the BC gas utilities: Fortis intends to file an application with the BC regulator this year to amalgamate Terasen Gas (TGI), Terasen Gas Vancouver Island (TGVI), and Terasen Gas Whistler. If approved, the three utilities would form one legal entity, and the bonds issued by TGVI and TGI would rank parri passu and likely trade together. TGVI bonds currently trade at roughly a 20 bps discount to TGI long bonds.

Holdco bonds offer favourable pick-up: We think the discount that Fortis Inc. "holdco" bonds trade at, relative to the company's regulated utility opco's, provides a favourable spread pick-up (30 to 35 bps) to compensate for the structural subordination, especially when considering the diversified and stable source of cash flow generated by its utility subsidiaries. We highlight the key risk in holding Fortis Inc. bonds is the potential for a sizable U.S. utility acquisition that would result in the issuance of a material amount of holdco debt. However, based on past acquisitions by Fortis Inc., we expect such a transaction to involve sufficient equity to maintain existing credit ratings.

FortisBC bonds still offer good value: FortisBC outperformed the regulated utility peer group in 2010. While the discount offered by FortisBC bonds is not as favourable as in the past, we continue to like these bonds given there is still a 5bps pick-up to most regulated utility peers and only minimal incremental credit risk.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, please see Page 9.

Highlights, continued:

- **Rates set for 2011:** Customer rates have been set, effective January 1, 2011 at Fortis' four largest utilities, with allowed ROE's unchanged at Terasen Gas (9.5%), FortisBC (9.9%) and FortisAlberta (9.0%). The allowed ROE at FortisAlberta has been declared interim pending regulatory review currently underway. Newfoundland Power's ROE has decreased to 8.38% for 2011 from 9.0% in 2010, based on automatic-adjustment formula.
- **Dividend increased by 3.6%:** In December 2010, Fortis announced a quarterly dividend increase to $0.29/share from $0.28/share effective in Q1/10. This equates to an annual cash payout of roughly $202MM before its DRIP, an increase of $7MM over last year, which we think this is manageable.
- **Active in the debt markets last year:** In 2010, Fortis and its subsidiaries issued $525MM in new debt in 5 tranches: (1) Fortis Inc. completed a two-tranche US$200MM private placement (US$125MM 10s and US$75MM 30s) in December, with proceeds used to pay down credit facilities used to repay a $100MM maturity in October and likely to fund equity injections down to its subsidiaries. (2) Fortis Alberta issued a $125MM 4.80% 40-year note at +135 bps in October, with proceeds used to help fund the utility's capital program. (3) FortisBC issued a $100MM 5.0% 40-year note at 135 bps in November, with proceeds used to help fund capex. (4) TGVI issued a $100MM 5.20% 30-year note at 160 bps in December. We note that Fortis also issued $250MM in cumulative redeemable preference shares (January 2010), with funds used to inject $125MM of equity into Terasen Gas and pay down credit facilities.
- **Adequate liquidity:** At the end of Q4/10, Fortis Inc. and its subsidiaries had $1.4B available on its $2.1B in consolidated credit facilities, compared to $1.2B available at the end of Q3/10 (Exhibit 2). This included roughly $480MM unused under the corporation's $645MM committed credit facility. The company also had $109MM in cash and equivalents. We think this is more than adequate for the company's near-term requirements.

Outlook and Funding Expectations

- **$5.5 billion of capital spending over five years:** For 2010, consolidated capex hit a record $1.1B (in line with guidance), $969MM spent at the company's regulated utility subsidiaries. Over the next five years (2011 to 2015), capital spending on a consolidated basis is expected to reach $5.5 billion. This includes the $900MM 335MW Waneta hydroelectric plant in BC being developed in JV with Columbia Power Corporation and the Columbia Basin Trust (51% controlling interest by Fortis). The lion's share of the spending will be at its regulated utility subsidiaries, FortisAlberta and FortisBC, and Terasen Gas. Fortis expects consolidated capex to reach $1.2B in 2011, with $1.0B being spent at its regulated utilities.
- **Utility acquisitions a continued focus:** Management continues to look to acquire utility (gas and/or electric utilities or integrated including generation) assets with a size of $1 billion to $5 billion in enterprise value. Management had indicated that it came close to a transaction in 2010, but lost out to a higher bidder. At this point, nothing appears imminent. The company has stated that an acquisition would have to be EPS accretive in the first year. Geographies of focus are in Canada and the U.S. We expect any material acquisition would be funded with a mix of debt and sufficient equity (common and preferreds) to maintain current credit ratings, based on how Fortis has handled large transactions in the past (such as Terasen Gas, and FortisAlberta and FortisBC).
- **Funding expectations:** Fortis' utility subsidiaries (mainly FortisAlberta and FortisBC) will continue to require equity from Fortis over the next few years in order to maintain regulated capital structures as these utilities grow their rate base. Fortis raises funds through a combination of debt, common equity and preferred equity, such that consolidated leverage remains near 60%. Fortis' utility subsidiaries issue public debt in their own names, with proceeds used to fund capital spending and refinance debt maturities. Fortis and its subsidiaries do not have any bond maturities in 2011 (Exhibit 6), so any new issuance this year will be to fund capex.
  - **Fortis Inc.:** For 2011, we are forecasting that at the holdco level, Fortis Inc. will need to issue roughly $200MM in preferred shares in 2011 in order to maintain balance sheet leverage near current levels and fund corporate level activities. We expect borrowing at the holdco level to be minimal. In 2010, Fortis Inc. accessed the capital markets twice: (i) $250MM in cumulative redeemable preference shares (January); and (ii) a US$200MM private placement. We do not expect additional funding by Fortis for the remainder of this year.
  - **Terasen Gas:** We are forecasting that Terasen Gas will need roughly $100MM in debt, plus a small equity injection in the range of 20% in 2011 in order to fund its $281MM capital program (the most significant item in Terasen Gas' capex program in 2011 is the LNG storage facility at TGVI). In 2010, Terasen Gas received an equity injection of $125MM from Fortis Inc. in Q1/10 to boost Terasen Gas' deemed equity base to 40% (from 35%) in response to a recent regulatory decision, and issued TGVI issued $100MM in debt.
  - **FortisAlberta:** We are forecasting that FortisAlberta will need roughly $200MM in debt, plus a $50MM equity injection from Fortis, to fund its $420MM capital program in 2011. In 2010, FortisAlberta issued $125MM in debt and had received $40MM in equity contributions from Fortis Inc. as at the end of Q3/10.
  - **FortisBC:** We are forecasting that FortisBC will need approximately $20MM in debt, plus a $10MM equity injection from Fortis, to fund its $99M capital program in 2010. In 2010, FortisBC issued $100MM in debt and not received an equity contribution from Fortis Inc. as at the end of Q3/10.

- **Newfoundland Power:** We expect Newfoundland Power to generate sufficient cash flow to fund its 2011 capital program, similar to 2010. In addition, Newfoundland is expecting to receive $46MM from the sale of joint-use poles to Bell Alliant in 2011.

Exhibit 1: Capital Spending by Subsidiary ($ millions)

	Terasen Gas Companies	FortisAlberta	FortisBC	Newfoundland Power	Other Reglated Electric Utilities - Canada	**Total Regulated Utilities - Canada**	Regulated Utilities - Caribbean	Non-Regulated - Utility	Fortis Properties	**Total**
2011F	281	420	99	73	46	**919**	83	183	27	**1,212**
2010A	253	379	139	78	48	**897**	72	85	19	**1,073**

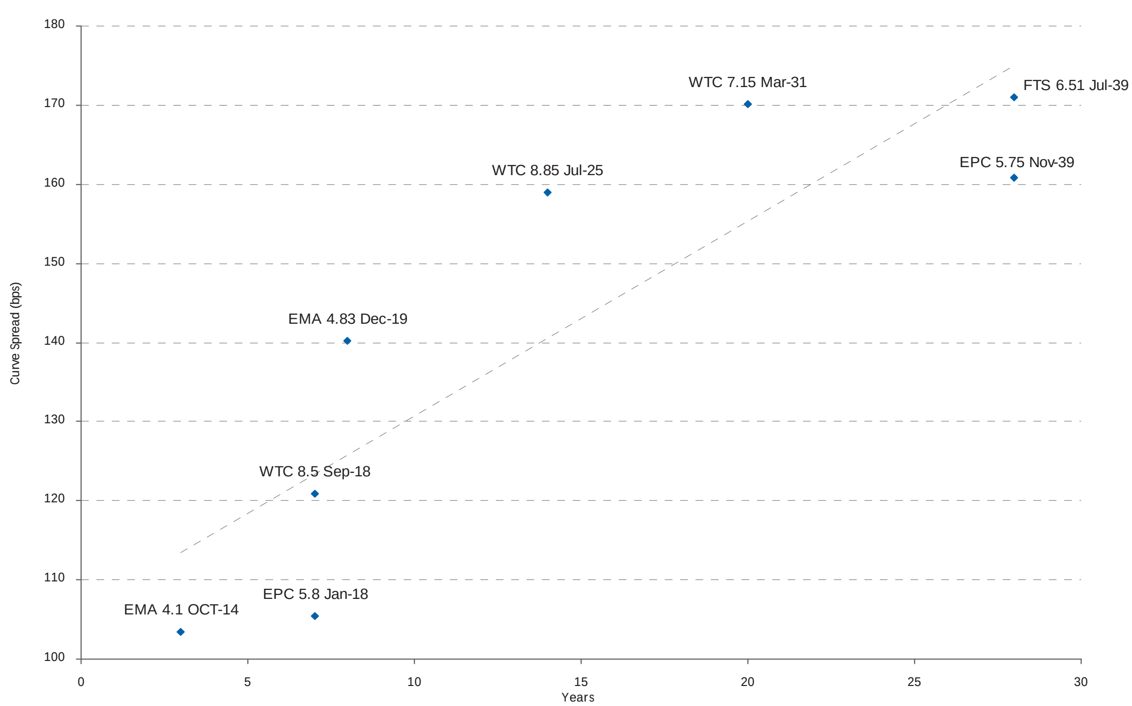
Source: Company reports

Exhibit 2: Fortis Inc Liquidity Summary ($ millions)

Liquidity Summary - Fortis Inc:	Corporate and Other	Regulated Utilities	Fortis Properties	Q4/10
Total Credit Facilities	645.0	1,451.0	13.0	**2,109.0**
Credit Facilities Utilized:				
Short-term Borrowings	-	(351.0)	(7.0)	**(358.0)**
Long-term Debt (incl current portion)	(165.0)	(53.0)	-	**(218.0)**
Letters of Credit Outstanding	(1.0)	(122.0)	(1.0)	**(124.0)**
Credit Facilities Available	**479.0**	**925.0**	**5.0**	**1,409.0**
Cash & equivalents				**109.0**
Total Available Liquidity				**1,518.0**

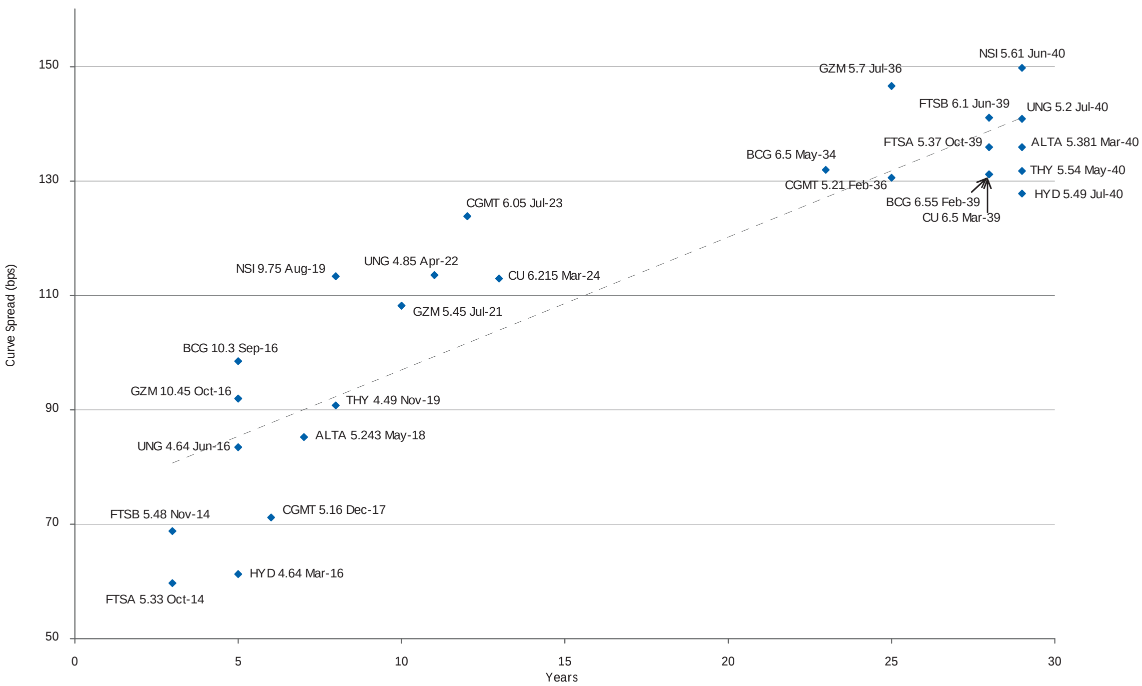
Source: Company reports, RBC Capital Markets Research

Exhibit 3: Relative Value Chart – Canadian Utility Holding Companies



Source: RBC Capital Markets Research

Exhibit 4: Relative Value Chart - Canadian Regulated Utilities



Source: RBC Capital Markets Research

Exhibit 5: Fortis Inc. Historical Consolidated Financials and Forecasts

Fortis Inc ($million)	Annual		Quarterly					Forecasts	
Earnings Summary	**2009**	**2010**	**Q4/09**	**Q1/10**	**Q2/10**	**Q3/10**	**Q4/10**	***2011E***	***2012E***
EBITDA	1,065	1,150	286	322	267	265	301	*1,231*	*1,304*
EBIT	701	740	196	225	169	148	198	*880*	*919*
Gross interest	362	358	94	90	89	92	87	*360*	*379*
Net income (as reported)	280	313	85	106	63	52	92	*390*	*405*
Cash Flow Summary									
FFO	690	734	173	204	160	165	209	***740***	***790***
Capital Expenditures	(1,024)	(1,073)	(261)	(188)	(244)	(268)	(370)	*(1,212)*	*(1,072)*
Preferred dividends	(18)	(28)	(4)	(6)	(8)	(7)	(7)	*(28)*	*(28)*
Dividends (common & non-cont.)	(143)	(253)	(2)	(98)	(51)	(50)	(54)	*(199)*	*(207)*
Gross free cash flow (FCF)	**(495)**	**(620)**	**(94)**	**(88)**	**(143)**	**(160)**	**(222)**	***(699)***	***(517)***
Changes in working capital	(41)	49	(100)	45	44	(36)	(8)	*-*	*-*
Gross FCF after working capital	(536)	(571)	(194)	(43)	(99)	(196)	(230)	*(699)*	*(517)*
Other investing activities	(21)	82	(51)	12	15	15	37	*-*	*-*
Free cash flow before financing	**(557)**	**(489)**	**(245)**	**(31)**	**(84)**	**(181)**	**(193)**	***(699)***	***(517)***
Debt issuance/(repayment)	551	146	214	(226)	45	155	172	*320*	*247*
Issue of common shares	46	80	14	23	16	19	22	*70*	*70*
Issue of preference shares	-	242	-	242	-	-	-	*200*	*200*
Other financing activities	(5)	45	-	-	1	-	44	*-*	*-*
F/X gain/(loss)	(4)	-	(1)	(1)	1	-	-	*-*	*-*
Net increase (decrease) in cash	**31**	**24**	**(18)**	**7**	**(21)**	**(7)**	**45**	***(109.0)***	**-**
Capital Structure									
Total debt	5,915	6,023	5,915	5,665	5,742	5,875	6,023	*6,343*	*6,589*
Non-controlling interest	123	162	123	118	125	122	162	*162*	*162*
Preference Shares	667	912	667	912	912	912	912	*1,112*	*1,312*
Shareholders' equity	3,193	3,305	3,193	3,212	3,248	3,255	3,305	*3,566*	*3,835*
Total capital	**9,898**	**10,402**	**9,898**	**9,907**	**10,027**	**10,164**	**10,402**	**11,183**	**11,898**
Cash and equivalents	85	109	85	92	71	64	109	-	-
Credit Ratios[1]									
Total Debt / Capital	63.1%	62.3%	63.1%	61.8%	61.8%	62.3%	62.3%	*61.7%*	*60.9%*
Net Debt / Capital	62.8%	61.9%	62.8%	61.4%	61.5%	62.0%	61.9%	*61.7%*	*60.9%*
(FFO + interest) / interest	2.9x	3.1x	2.9x	2.9x	2.9x	2.9x	3.1x	*3.1x*	*3.1x*
EBITDA / interest	2.9x	3.2x	2.9x	3.0x	3.0x	3.1x	3.2x	*3.4x*	*3.4x*
EBIT / interest	1.9x	2.1x	1.9x	2.0x	2.0x	2.0x	2.1x	*2.4x*	*2.4x*
Total Debt / EBITDA	5.6x	5.2x	5.6x	5.2x	5.2x	5.2x	5.2x	*5.2*	*5.1*
FFO / Total Debt	11.7%	12.2%	11.7%	12.3%	11.9%	11.9%	12.3%	*11.7%*	*12.0%*

1. To calculate leverage ratios, we have attributed 50%/50% debt/equity treatment to Fortis Inc. preferred equity.

Source: Company reports, RBC Capital Markets estimates

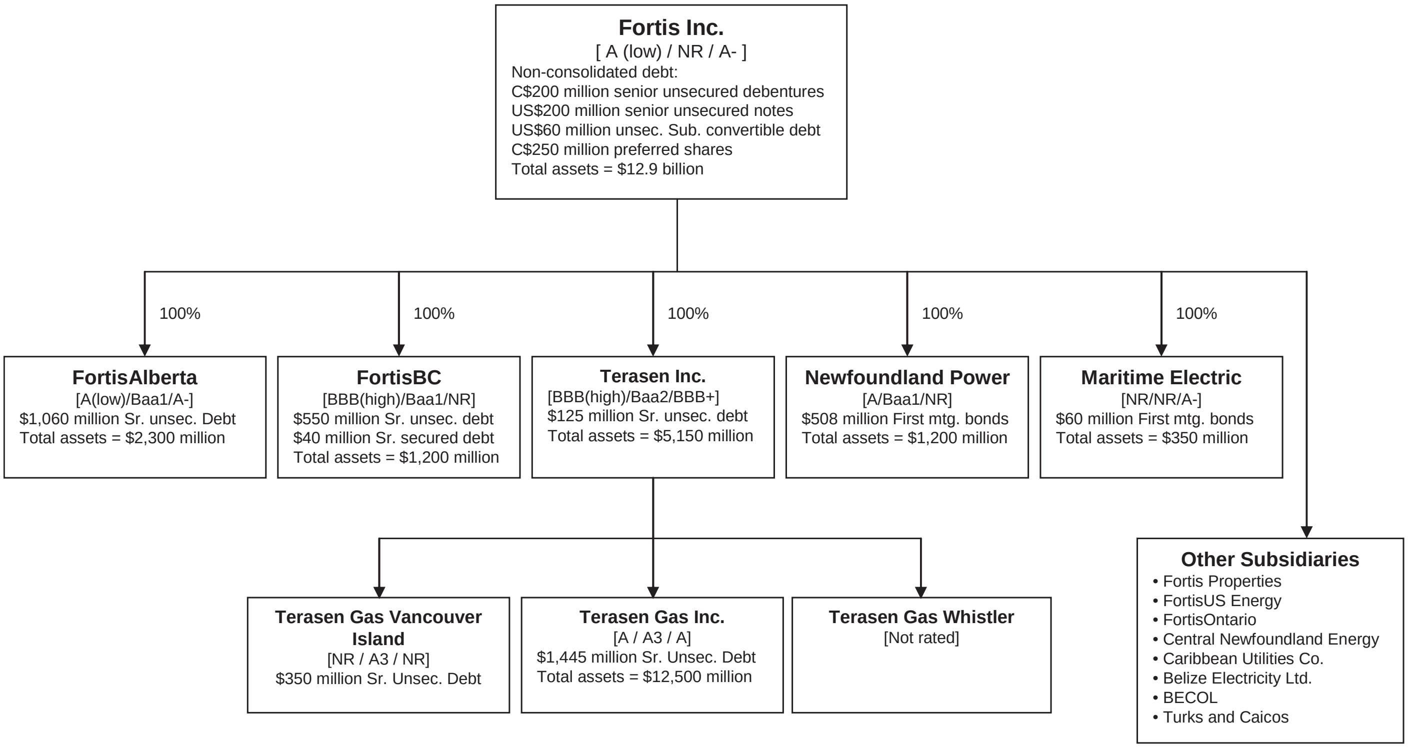
Exhibit 6: Fortis Inc and Subsidiary Bonds Outstanding

Issuer Name	Amount ($ million)	Currency	Coupon	Maturity	Issue Date	Refund Type	Security
Fortis Inc.[1]	125	USD	3.53%	12/21/2020	12/22/2010		Senior Unsecured
Fortis Inc.	200	CAD	6.51%	07/04/2039	06/26/2009	Call +65 bps	Senior Unsecured
Fortis Inc.[1]	75	USD	5.26%	12/21/2040	12/22/2010		Senior Unsecured
Total Fortis Inc.	**400**						
Terasen Inc.	125	CAD	5.56%	09/15/2014	09/10/2004	Call +23 bps	Senior Unsecured
Terasen Gas Vancouver	250	CAD	6.05%	02/15/2038	02/7/2008	Call +46 bps	Senior Unsecured
Terasen Gas Vancouver	100	CAD	5.20%	06/12/2040	12/2/2010	Call +40 bps	Senior Unsecured
Total Terasen Gas Vancouver	**350**						
Terasen Gas:							
BC Gas Utility[2]	75	CAD	11.80%	09/30/2015	11/14/1990	Putable, non-call	Mortgage
BC Gas Utility[2]	200	CAD	10.30%	09/30/2016	11/08/1991	Call +35 bps	Mortgage
BC Gas Utility[2]	150	CAD	6.95%	09/21/2029	09/16/1999	Call +28 bps	Senior Unsecured
Terasen Gas Inc.	150	CAD	6.50%	05/01/2034	04/26/2004	Call +31 bps	Senior Unsecured
Terasen Gas Inc.	150	CAD	5.90%	02/26/2035	02/22/2005	Call +29 bps	Senior Unsecured
Terasen Gas Inc.	120	CAD	5.55%	09/25/2036	09/20/2006	Call +34 bps	Senior Unsecured
Terasen Gas Inc.	250	CAD	6.00%	10/02/2037	09/27/2007	Call +37 bps	Senior Unsecured
Terasen Gas Inc.	250	CAD	5.80%	05/13/2038	05/08/2008	Call +40 bps	Senior Unsecured
Terasen Gas Inc.	100	CAD	6.55%	02/24/2039	02/24/2009	Call +71 bps	Senior Unsecured
Total Terasen Gas	**1,445**						
FortisAlberta	200	CAD	5.33%	10/31/2014	10/15/2004	Call +18 bps	Senior Unsecured
FortisAlberta	200	CAD	6.22%	10/31/2034	10/15/2004	Call +28 bps	Senior Unsecured
FortisAlberta	100	CAD	5.40%	04/21/2036	04/06/2006	Call +25 bps	Senior Unsecured
FortisAlberta	100	CAD	5.85%	04/15/2038	04/08/2008	Call +45 bps	Senior Unsecured
FortisAlberta	100	CAD	7.06%	02/14/2039	02/10/2009	Call +80 bps	Senior Unsecured
FortisAlberta	125	CAD	5.37%	10/30/2039	10/30/2009	Call +34.5 bps	Senior Unsecured
FortisAlberta	110	CAD	4.99%	01/03/2047	12/08/2006	Call +24 bps	Senior Unsecured
FortisAlberta	125	CAD	4.80%	10/27/2050	10/22/2010	Call +33.5 bps	Senior Unsecured
Total FortisAlberta	**1,060**						
West Kootenay P&L	15	CAD	9.65%	10/16/2012	10/16/1992	Call +40 bps	Senior Secured
FortisBC Inc.	140	CAD	5.48%	11/28/2014	11/23/2004	Call +24 bps	Senior Unsecured
West Kootenay P&L	25	CAD	8.80%	08/28/2023	08/27/1993	Call +40 bps	Senior Secured
FortisBC Inc.	100	CAD	5.60%	11/09/2035	10/27/2005	Call +30 bps	Senior Unsecured
FortisBC Inc.	105	CAD	6.10%	06/02/2039	06/02/2009	Call +49 bps	Senior Unsecured
FortisBC Inc.	105	CAD	5.90%	07/04/2047	06/22/2007	Call +31 bps	Senior Unsecured
FortisBC Inc.	100	CAD	5.00%	11/24/2050	11/19/2010	Call +33.5 bps	Senior Unsecured
Total FortisBC	**590**						
Newfoundland Light & Power	40	CAD	10.55%	08/01/2014	07/20/1989	Call +50 bps	First Mortgage
Newfoundland Light & Power	33	CAD	10.90%	05/02/2016	04/10/1991	Call +50 bps	First Mortgage
Newfoundland Light & Power	40	CAD	9.00%	10/01/2020	09/08/1992	Call +30 bps	First Mortgage
Newfoundland Light & Power	40	CAD	10.125%	06/15/2022	05/19/1992	Call +37 bps	First Mortgage
Newfoundland Light & Power	40	CAD	8.90%	05/07/2026	04/18/1996	Call +20 bps	First Mortgage
Newfoundland Power	50	CAD	6.80%	11/20/2028	11/02/1998	Non-call	First Mortgage
Newfoundland Power	71	CAD	7.52%	11/01/2032	10/16/2002	Call +46 bps	First Mortgage
Newfoundland Power	60	CAD	5.441%	08/15/2035	08/10/2005		First Mortgage
Newfoundland Light & Power	70	CAD	5.901%	08/17/2037	08/13/2007	Call +35 bps	First Mortgage
Newfoundland Power	65	CAD	6.606%	05/25/2039	08/10/2005	Call +50 bps	First Mortgage
Total Newfoundland Power	**508**						
Maritime Electric	**60**	CAD	6.054%	04/2/2038	03/27/2008	Call +50 bps	First Mortgage
Total Bonds Outstanding	**4,538**						

(1) USD Private placements. (2) Terasen Gas was formerly called BC Gas Utility.

Source: Company reports, RBC Capital Markets Research

Exhibit 7: Fortis Inc Organizational Structure



Source: Company reports, RBC Capital Markets Research

Diversified group of regulated utility operating companies provide stability: Fortis' diversified portfolio of low-risk monopoly electricity and gas distribution utilities provides a stable source of cash flow to service holdco debt. Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service holdco debt. Cash inflows from its subsidiaries are expected to exceed $190 million annually. In turn, Fortis regularly injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.

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			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
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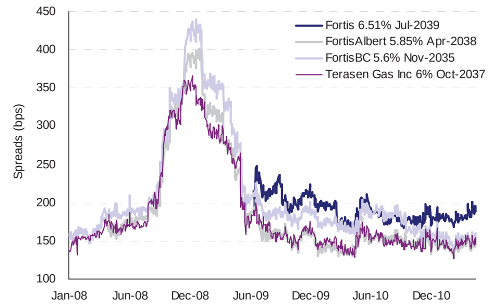
Fortis Inc Historical Spreads



Source: ADI, RBC Capital Markets Research

Cash Flow Summary ($MM)	2009	2010	*2011E*	*2012E*
EBITDA	1,065	1,150	*1,231*	*1,304*
FFO	**690**	**734**	***740***	***790***
Capital expenditures	(1,024)	(1,073)	*(1,212)*	*(1,072)*
Dividends	(161)	(281)	*(227)*	*(235)*
Gross FCF	**(495)**	**(620)**	***(699)***	***(517)***
Changes in w/c	(41)	49	*-*	*-*
FCF after w/c	(536)	(571)	*(699)*	*(517)*
Other investing	(21)	82	*-*	*-*
FCF before financing	**(557)**	**(489)**	***(699)***	***(517)***
Debt issuance/(repay.)	551	146	*320*	*247*
Common issuance	46	80	*70*	*70*
Preferred issuance	-	242	*200*	*200*
Other financing	(9)	45	*-*	*-*
Net change in cash	**31**	**24**	***(109)***	***-***
Capital Structure				
Total debt	5,915	6,023	*6,343*	*6,589*
Non-controlling int.	123	162	*162*	*162*
Preference Shares	667	912	*1,112*	*1,312*
Shareholders' equity	3,193	3,305	*3,566*	*3,835*
Total capital	**9,898**	**10,402**	***11,183***	***11,898***
Cash and equivalents	85	109	*-*	*-*
Credit Ratios				
Total Debt / Capital[1]	63%	62%	*62%*	*61%*
Net Debt / Capital[1]	63%	62%	*62%*	*61%*
EBITDA / interest	2.9x	3.2x	*3.4x*	*3.4x*
EBIT / interest	1.9x	2.0x	*2.4x*	*2.4x*
Total Debt / EBITDA	5.6x	5.2x	*5.2x*	*5.1x*
FFO / Total Debt	11.7%	12.2%	*11.7%*	*12.0%*
Credit Ratios		**DBRS**	**S&P**	***Moody's***
Rating		A(L)	A-	NR
Outlook		Stable	Stable	-

1. 50% equity and 50% debt treatment to pref. shares

Source: RBC Capital Markets estimates, Company reports, Rating agencies

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All values in Canadian dollar unless otherwise noted.

COMPANY UPDATE | **CANADIAN CREDIT COMMENT**

MAY 5, 2011

Fortis Inc.

Q1/11: Utilities in the West Provide a Boost

Fortis Inc.	**Sector Perform**
FortisAlberta Inc.	**Sector Perform**
FortisBC Inc.	**Outperform**
FortisBC Energy Inc.	**Sector Perform**
FortisBC Energy (Van.Island) Inc.	**Outperform**
Newfoundland Power Inc.	**Sector Perform**

Fortis reports Q1/11 (credit neutral): Fortis reported Q1/11 EPS of $0.67 versus RBC and consensus estimates of $0.63 and $0.62. FFO for the quarter was $242MM higher than $204MM in Q1/10, and credit metrics showed modest improvement sequentially with total debt-to-capital and FFO-to-interest of 57% and 3.1x, respectively (Exhibit 2). The cash flow and earnings improvement was mainly driven by FortisAlberta and FortisBC from rate base growth and higher regulated rates.

Gross FCF shortfall funded with favourable change in WC: Fortis generated a Gross FCF deficit of $51MM after accounting for capex ($233MM) and dividends ($60MM). The gap was funded primarily with a favourable swing in WC of $57MM during the quarter.

Capex of $5.5 billion over five years: Capex in 2010 hit a record $1.1B, and is expected to reach $1.2B in 2011. Fortis expects its capex program to reach $5.5B over the next five years, the majority of which will be at its regulated Canadian utilities. In addition, Fortis remains on the hunt for a utility acquisition in the U.S. with an enterprise value of $1.0B to $5.0B.

Less capital markets activity expected this year than last: Our forecasts indicate FortisAlberta and FortisBC Energy ("FBCE") could tap the debt markets later this year for $200MM and $100MM, respectively. We think Fortis Inc. may need to issue up to $200MM in preferred shares in order to fund equity injections into its operating company and maintain credit metrics. This compares to last years where Fortis and its subsidiaries issued $525MM in debt in 5 tranches, and Fortis Inc. issued of $250MM in preferred shares.

Merging the BC gas utilities: Fortis intends to file an application with the BCUC this year to amalgamate its three B.C.-based gas utilities. If approved, the three utilities would form one legal entity and bonds issued by FBCE and FortisBC Energy (Vancouver Island) Inc. ("FBCV") would rank parri passu. Our Outperform ranking on FBCV is based on the view that spreads on FBCV bonds would tighten to trade in line with FBCE bonds after the amalgamation.

Holdco bonds offer favourable pick-up: We think the discount that Fortis Inc. "holdco" bonds trade at, relative to the company's regulated utility opco's, provides a favourable spread pick-up (30 to 35 bps) to compensate for the structural subordination, especially when considering the diversified and stable source of cash flow generated by its utility subsidiaries. We highlight the key risk in holding Fortis Inc. bonds is the potential for a sizable U.S. utility acquisition that would result in the issuance of a material amount of holdco debt. However, based on past acquisitions by Fortis Inc., we expect such a transaction to involve sufficient equity to maintain existing credit ratings.

FortisBC bonds still offer good value: FortisBC outperformed the regulated utility peer group in 2010. While the discount offered by FortisBC bonds is not as favourable as in the past, we continue to like these bonds given there is still a 5bps pick-up to most regulated utility peers.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, please see Page 8.

Highlights, continued:

Rates for 2011: Customer rates have been set, effective January 1, 2011 at Fortis' four largest utilities, with allowed ROE's unchanged at FortisBC Energy (9.5% on deemed equity of 40%), FortisBC (9.9% on deemed equity of 40%) and FortisAlberta (9.0% on deemed equity of 41% - interim pending finalization by the AUC). Newfoundland Power's ROE has decreased to 8.38% +/-50bps on a deemed equity of 45% for 2011 (from 9.0% in 2010), based on the utility's automatic-adjustment formula.

Adequate liquidity: Adequate liquidity: At the end of Q1/11, Fortis Inc and its subsidiaries had $1.5B available under its $2.1B credit facilities. The company also had $86MM in cash and equivalents. We believe this is adequate to meet the company's near-term requirements.

Outlook and Funding Expectations

$5.5 billion of capital spending over five years: Management confirmed the $1.2B capex guidance for 2011 provided earlier in the year. Approximately 63% will be spent on regulated electric utilities, the bulk of which will be at FortisAlberta and Fortis BC Electric, while regulated gas utilities and non-regulated operations (including the $900MM Waneta hydroelectric expansion project in British Columbia – expected to be completed in 2015) will receive 20% and 17%, respectively. Fortis is expecting to maintain record investment over the next five years, with forecasted spending of $5.5B during this period. We note the $1.1B spent in 2010 was a record for the company.

Utility acquisitions a continued focus: Management continues to look to acquire utility (gas and/or electric utilities or integrated including generation) assets with a size of $1 billion to $5 billion in enterprise value. Management had indicated that it came close to a transaction in 2010, but lost out to a higher bidder. The company has stated that an acquisition would have to be EPS accretive in the first year. Geographies of focus are in Canada and the U.S. We expect any material acquisition would be funded with a mix of debt and sufficient equity (common and preferreds) to maintain current credit ratings, based on how Fortis has handled large transactions in the past (such as Terasen Gas, and FortisAlberta and FortisBC).

Funding expectations: Fortis' utility subsidiaries (mainly FortisAlberta and FortisBC) will continue to require equity from Fortis in order to maintain regulated capital structures as these utilities grow their rate base. Fortis raises funds through a combination of debt, common equity and preferred equity, such that consolidated leverage remains near 60%. Fortis' utility subsidiaries issue public debt in their own names, with proceeds used to fund capital spending and refinance debt maturities. Fortis and its subsidiaries do not have any bond maturities in 2011 (Exhibit 5), so any new issuance this year will be to fund capex. For a detailed look at each of the issuing entities, please refer to our report titled, "Utilities in Canada: Credit Outlook 2011" published April 7, 2011:

- **Fortis Inc.:** For 2011, we are forecasting that at the holdco level, Fortis Inc. will need to issue roughly $200MM in preferred shares in 2011 in order to maintain balance sheet leverage near current levels and fund corporate level activities. We expect borrowing at the holdco level to be minimal. In 2010, Fortis Inc. accessed the capital markets twice: (i) $250MM in cumulative redeemable preference shares (January); and (ii) a US$200MM private placement.
- **FortisBC Energy:** For 2011, we are forecasting a modest gross FCF shortfall of about $65MM, which is in line with 2010. We think this shortfall will most likely be funded with the company's credit facilities but could be termed out with a public debt issuance of $100MM later this year. In 2010, FBCE received an equity injection of $125MM from Fortis Inc. in Q1/10 to boost Terasen Gas' deemed equity base to 40% (from 35%) in response to a recent regulatory decision, and FBCV issued $100MM in debt.
- **FortisAlberta:** We are forecasting that FortisAlberta will need $150MM to $200MM in debt, plus a $60MM equity injection from Fortis, to fund its $420MM capital program in 2011. In 2010, FortisAlberta issued $125MM in debt and had received $55MM in equity contributions from Fortis Inc.
- **FortisBC:** We are forecasting FortisBC to draw approximately $30MM on its short-term credit facilities, and will not require an equity injection from Fortis, to fund its $99M capital program in 2011. In 2010, FortisBC issued $100MM in debt and received a $10MM equity contribution from Fortis Inc.
- **Newfoundland Power:** We expect Newfoundland Power to fund its 2011 capital program with cash flow and proceeds from the $46MM sale of joint-use poles to Bell Alliant.

Exhibit 1: Capital Spending by Subsidiary ($ millions)

	FortisBC Energy Companies	FortisAlberta	FortisBC	Newfoundland Power	Other Reglated Electric Utilities - Canada	**Total Regulated Utilities - Canada**	Regulated Utilities - Caribbean	Non-Regulated - Utility	Fortis Properties	**Total**
2011F	281	420	99	73	46	**919**	83	183	27	**1,212**
2010A	253	379	139	78	48	**897**	72	85	19	**1,073**

Source: Company reports

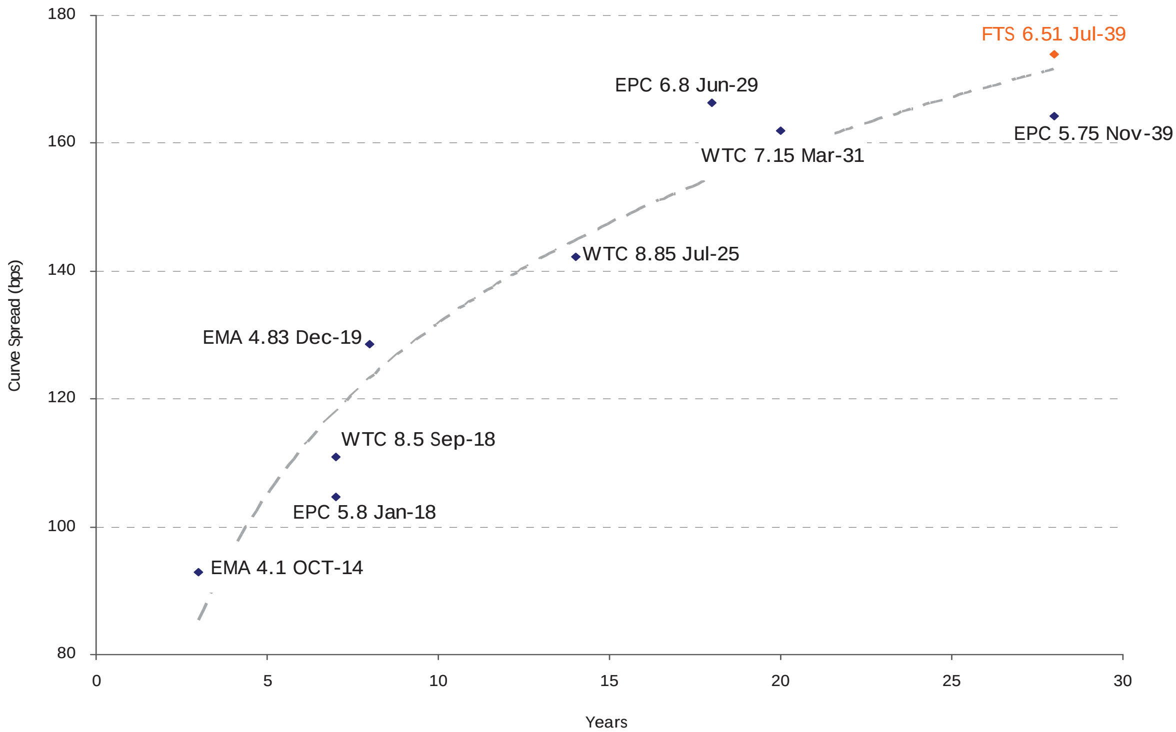
Exhibit 2: Fortis Inc. Historical Consolidated Financials and Forecasts

Fortis Inc ($million)	Annual		Quarterly					Forecasts	
Earnings Summary	**2009**	**2010**	**Q1/10**	**Q2/10**	**Q3/10**	**Q4/10**	**Q1/11**	***2011E***	***2012E***
EBITDA	1,065	1,150	322	267	265	301	348	*1,231*	*1,304*
EBIT	701	740	225	169	148	198	245	*880*	*919*
Gross interest	362	361	90	89	92	90	94	*360*	*379*
Net income (as reported)	280	313	106	63	52	92	124	*390*	*405*
Cash Flow Summary									
FFO	690	734	204	160	165	209	242	***740***	***790***
Capital Expenditures	(1,024)	(1,073)	(188)	(244)	(268)	(370)	(233)	*(1,212)*	*(1,072)*
Preferred dividiends	(18)	(28)	(6)	(8)	(7)	(7)	(7)	*(28)*	*(28)*
Dividends (common & non-cont.)	(143)	(253)	(98)	(51)	(50)	(54)	(53)	*(199)*	*(207)*
Gross free cash flow (FCF)	**(495)**	**(620)**	**(88)**	**(143)**	**(160)**	**(222)**	**(51)**	***(699)***	***(517)***
Changes in working capital	(41)	49	45	44	(36)	(8)	57	*-*	*-*
Gross FCF after working capital	(536)	(571)	(43)	(99)	(196)	(230)	6	*(699)*	*(517)*
Other investing activities	(21)	82	12	15	15	37	14	*-*	*-*
Free cash flow before financing	**(557)**	**(489)**	**(31)**	**(84)**	**(181)**	**(193)**	**20**	***(699)***	***(517)***
Debt issuance/(repayment)	551	146	(226)	45	155	172	(87)	*320*	*247*
Issue of common shares	46	80	23	16	19	22	27	*70*	*70*
Issue of preference shares	-	242	242	-	-	-	-	*200*	*200*
Other financing activities	(5)	45	-	1	-	44	17	*-*	*-*
F/X gain/(loss)	(4)	-	(1)	1	-	-	-	*-*	*-*
Net increase (decrease) in cash	**31**	**24**	**7**	**(21)**	**(7)**	**45**	**(23)**	***(109)***	**-**
Capital Structure									
Total debt	5,915	6,023	5,665	5,742	5,875	6,023	5,915	*6,343*	*6,589*
Non-controlling interest	123	162	118	125	122	162	175	*162*	*162*
Preference Shares	667	912	912	912	912	912	912	*1,112*	*1,312*
Shareholders' equity	3,193	3,305	3,212	3,248	3,255	3,305	3,397	*3,566*	*3,835*
Total capital	**9,898**	**10,402**	**9,907**	**10,027**	**10,164**	**10,402**	**10,399**	**11,183**	**11,898**
Cash and equivalents	85	109	92	71	64	109	86	-	-
Credit Ratios[1]									
Total Debt / Capital	59.8%	57.9%	57.2%	57.3%	57.8%	57.9%	56.9%	56.7%	55.4%
Total Debt / Capital[1]	63.1%	62.3%	61.8%	61.8%	62.3%	62.3%	61.3%	*61.7%*	*60.9%*
Net Debt / Capital	59.4%	57.5%	56.8%	57.0%	57.5%	57.5%	56.5%	56.7%	55.4%
Net Debt / Capital[1]	62.8%	61.9%	61.4%	61.5%	62.0%	61.9%	60.9%	*61.7%*	*60.9%*
(FFO + interest) / interest	2.9x	3.0x	2.9x	2.9x	2.9x	3.0x	3.1x	*3.1x*	*3.1x*
EBITDA / interest	2.9x	3.2x	3.0x	3.0x	3.1x	3.2x	3.2x	*3.4x*	*3.4x*
EBIT / interest	1.9x	2.0x	2.0x	2.0x	2.0x	2.0x	2.1x	*2.4x*	*2.4x*
Total Debt / EBITDA	5.6x	5.2x	5.2x	5.2x	5.2x	5.2x	5.0x	*5.2*	*5.1*
FFO / Total Debt	11.7%	12.2%	12.3%	11.9%	11.9%	12.3%	13.1%	*11.7%*	*12.0%*

1. To calculate adjusted leverage ratios, we have attributed 50%/50% debt/equity treatment to Fortis Inc. preferred equity.

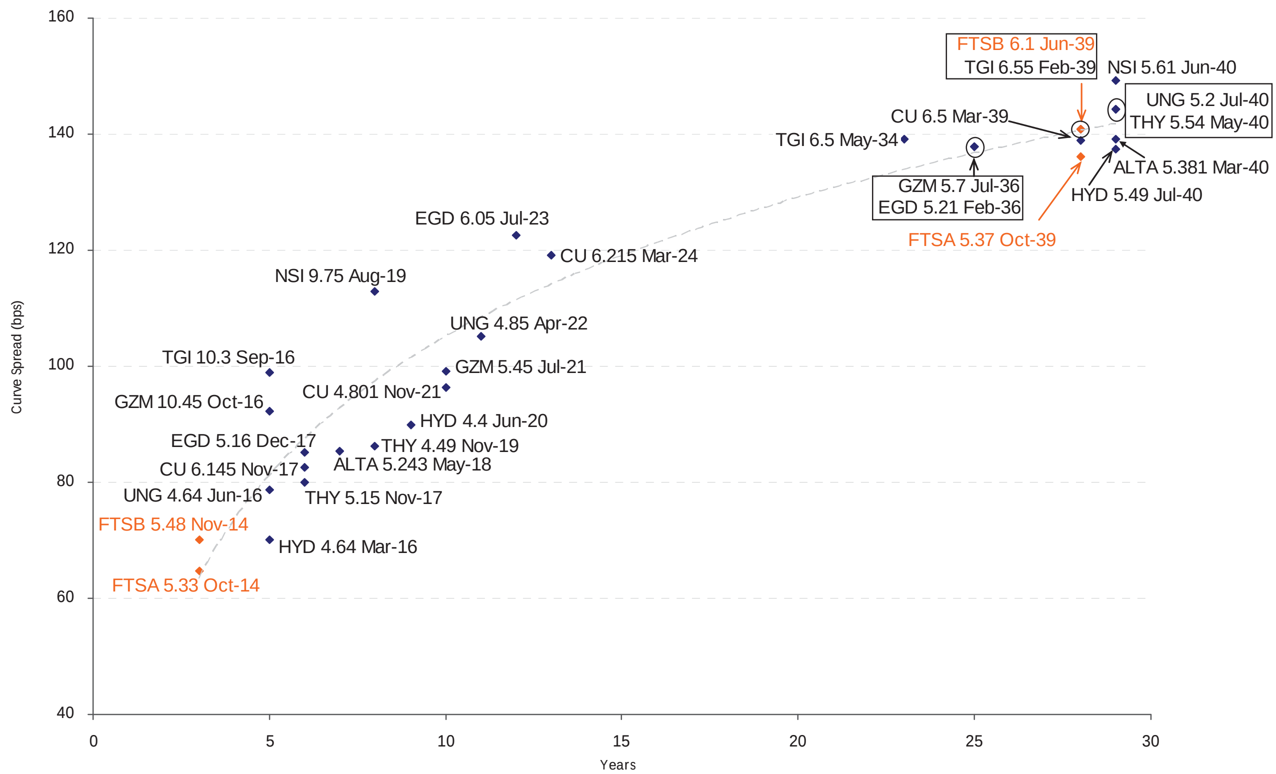
Source: Company reports, RBC Capital Markets estimates

Exhibit 3: Relative Value Chart - Canadian Utility Holding Companies



Source: RBC Capital Markets Research

Exhibit 4: Relative Value Chart - Canadian Regulated Utilities



Source: RBC Capital Markets Research

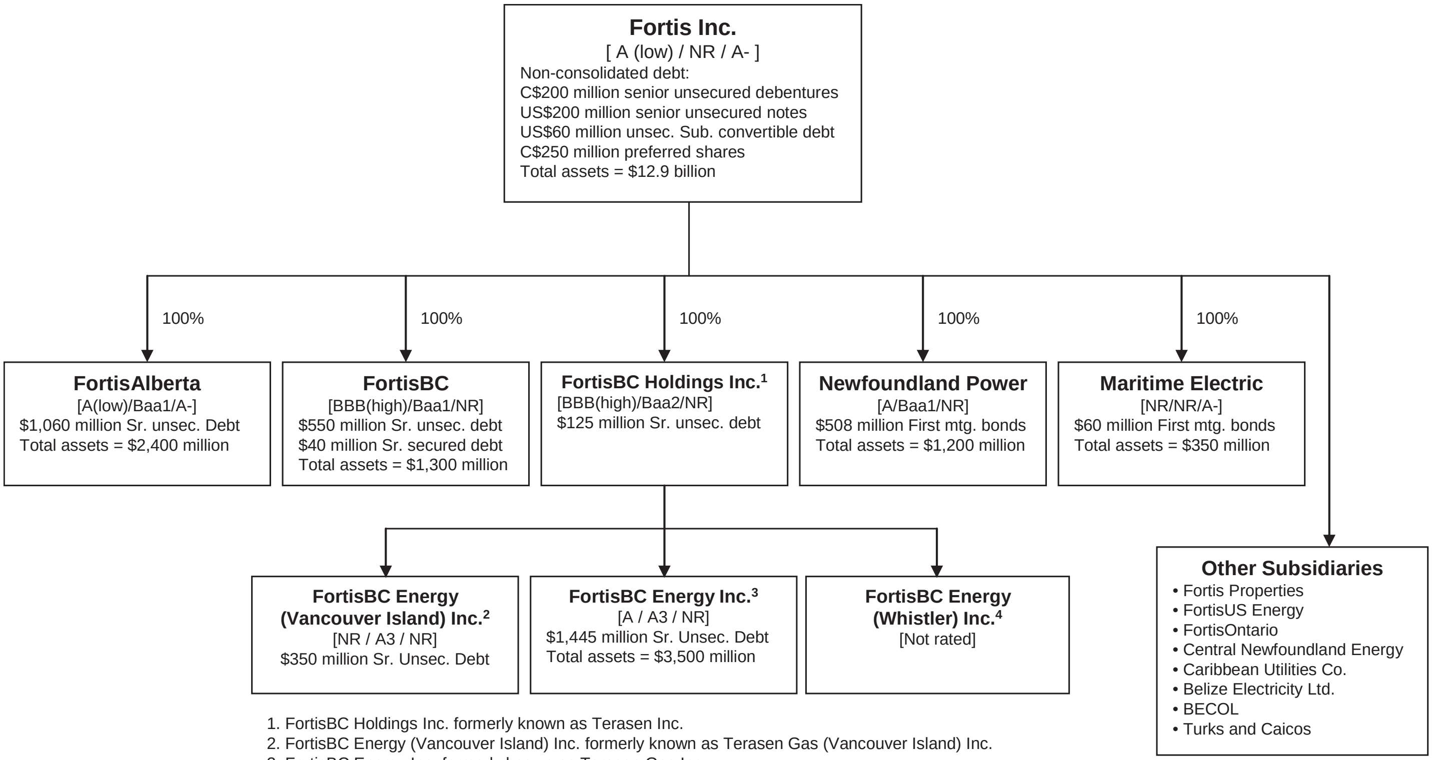
Exhibit 5: Fortis Inc and Subsidiary Bonds Outstanding

Issuer Name	Amount ($ million)	Currency	Coupon	Maturity	Issue Date	Refund Type	Security
Fortis Inc.[1]	125	USD	3.53%	12/21/2020	12/22/2010		Senior Unsecured
Fortis Inc.	200	CAD	6.51%	07/04/2039	06/26/2009	Call +65 bps	Senior Unsecured
Fortis Inc.[1]	75	USD	5.26%	12/21/2040	12/22/2010		Senior Unsecured
Total Fortis Inc.	**400**						
Terasen Inc.	125	CAD	5.56%	09/15/2014	09/10/2004	Call +23 bps	Senior Unsecured
Terasen Gas Vancouver	250	CAD	6.05%	02/15/2038	02/7/2008	Call +46 bps	Senior Unsecured
Terasen Gas Vancouver	100	CAD	5.20%	06/12/2040	12/2/2010	Call +40 bps	Senior Unsecured
Total Terasen Gas Vancouver	**350**						
Terasen Gas:							
BC Gas Utility[2]	75	CAD	11.80%	09/30/2015	11/14/1990	Putable, non-call	Mortgage
BC Gas Utility[2]	200	CAD	10.30%	09/30/2016	11/08/1991	Call +35 bps	Mortgage
BC Gas Utility[2]	150	CAD	6.95%	09/21/2029	09/16/1999	Call +28 bps	Senior Unsecured
Terasen Gas Inc.	150	CAD	6.50%	05/01/2034	04/26/2004	Call +31 bps	Senior Unsecured
Terasen Gas Inc.	150	CAD	5.90%	02/26/2035	02/22/2005	Call +29 bps	Senior Unsecured
Terasen Gas Inc.	120	CAD	5.55%	09/25/2036	09/20/2006	Call +34 bps	Senior Unsecured
Terasen Gas Inc.	250	CAD	6.00%	10/02/2037	09/27/2007	Call +37 bps	Senior Unsecured
Terasen Gas Inc.	250	CAD	5.80%	05/13/2038	05/08/2008	Call +40 bps	Senior Unsecured
Terasen Gas Inc.	100	CAD	6.55%	02/24/2039	02/24/2009	Call +71 bps	Senior Unsecured
Total Terasen Gas	**1,445**						
FortisAlberta	200	CAD	5.33%	10/31/2014	10/15/2004	Call +18 bps	Senior Unsecured
FortisAlberta	200	CAD	6.22%	10/31/2034	10/15/2004	Call +28 bps	Senior Unsecured
FortisAlberta	100	CAD	5.40%	04/21/2036	04/06/2006	Call +25 bps	Senior Unsecured
FortisAlberta	100	CAD	5.85%	04/15/2038	04/08/2008	Call +45 bps	Senior Unsecured
FortisAlberta	100	CAD	7.06%	02/14/2039	02/10/2009	Call +80 bps	Senior Unsecured
FortisAlberta	125	CAD	5.37%	10/30/2039	10/30/2009	Call +34.5 bps	Senior Unsecured
FortisAlberta	110	CAD	4.99%	01/03/2047	12/08/2006	Call +24 bps	Senior Unsecured
FortisAlberta	125	CAD	4.80%	10/27/2050	10/22/2010	Call +33.5 bps	Senior Unsecured
Total FortisAlberta	**1,060**						
West Kootenay P&L	15	CAD	9.65%	10/16/2012	10/16/1992	Call +40 bps	Senior Secured
FortisBC Inc.	140	CAD	5.48%	11/28/2014	11/23/2004	Call +24 bps	Senior Unsecured
West Kootenay P&L	25	CAD	8.80%	08/28/2023	08/27/1993	Call +40 bps	Senior Secured
FortisBC Inc.	100	CAD	5.60%	11/09/2035	10/27/2005	Call +30 bps	Senior Unsecured
FortisBC Inc.	105	CAD	6.10%	06/02/2039	06/02/2009	Call +49 bps	Senior Unsecured
FortisBC Inc.	105	CAD	5.90%	07/04/2047	06/22/2007	Call +31 bps	Senior Unsecured
FortisBC Inc.	100	CAD	5.00%	11/24/2050	11/19/2010	Call +33.5 bps	Senior Unsecured
Total FortisBC	**590**						
Newfoundland Light & Power	40	CAD	10.55%	08/01/2014	07/20/1989	Call +50 bps	First Mortgage
Newfoundland Light & Power	33	CAD	10.90%	05/02/2016	04/10/1991	Call +50 bps	First Mortgage
Newfoundland Light & Power	40	CAD	9.00%	10/01/2020	09/08/1992	Call +30 bps	First Mortgage
Newfoundland Light & Power	40	CAD	10.125%	06/15/2022	05/19/1992	Call +37 bps	First Mortgage
Newfoundland Light & Power	40	CAD	8.90%	05/07/2026	04/18/1996	Call +20 bps	First Mortgage
Newfoundland Power	50	CAD	6.80%	11/20/2028	11/02/1998	Non-call	First Mortgage
Newfoundland Power	71	CAD	7.52%	11/01/2032	10/16/2002	Call +46 bps	First Mortgage
Newfoundland Power	60	CAD	5.441%	08/15/2035	08/10/2005		First Mortgage
Newfoundland Light & Power	70	CAD	5.901%	08/17/2037	08/13/2007	Call +35 bps	First Mortgage
Newfoundland Power	65	CAD	6.606%	05/25/2039	08/10/2005	Call +50 bps	First Mortgage
Total Newfoundland Power	**508**						
Maritime Electric	**60**	CAD	6.054%	04/2/2038	03/27/2008	Call +50 bps	First Mortgage
Total Bonds Outstanding	**4,538**						

(1) USD Private placements. (2) Terasen Gas was formerly called BC Gas Utility.

Source: Company reports, RBC Capital Markets Research

Exhibit 6: Fortis Inc Organizational Structure



1. FortisBC Holdings Inc. formerly known as Terasen Inc.
2. FortisBC Energy (Vancouver Island) Inc. formerly known as Terasen Gas (Vancouver Island) Inc.
3. FortisBC Energy Inc. formerly known as Terasen Gas Inc.
4. FortisBC Energy (Whistler) Inc. formerly known as Terasen Gas (Whistler) Inc.

Source: Company reports, RBC Capital Markets Research

Diversified group of regulated utility operating companies provide stability: Fortis' diversified portfolio of low-risk monopoly electricity and gas distribution utilities provides a stable source of cash flow to service holdco debt. Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service holdco debt. In turn, Fortis regularly injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.

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RBC Capital Markets, Credit Research

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	107	33.65	63	58.88
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SELL[U]	64	20.13	30	46.88

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RBC Capital Markets®

CREDIT | RESEARCH

Volume 22

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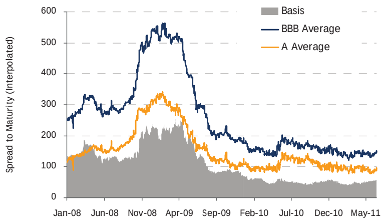
Corporate Spread Differentials (10yr)



Source: ADI, RBC Capital Markets

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All figures in C$ unless otherwise noted.

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Credit Weekly

Fortis Expands South of the Border

Fortis completed its equity offering this week, lifting our research restriction.

We view the recently announced Central Vermont Public Service (CVPS) acquisition by Fortis as generally positive for credit given: (1) the added diversification from a stable regulated utility; (2) smaller than expected size; and (3) supportive funding strategy. The US$700MM (including US$230MM of debt) acquisition is expected to close in the next six to 12 months.

Stable regulated utility adds diversification: In our view, Fortis' business profile will improve with the addition of a stable regulated utility like CVPS. CVPS will also provide a solid building block for future acquisitions as it is fairly close to Forts' existing Central and Eastern Canadian operations. Moreover, these assets are strategically located near other utilities that are currently owned by larger European-based companies that may decide to sell in the future.

Smaller than expected size: With the exception of the size, the acquisition was in-line with management's goal of adding a regulated electric utility with single state regulation, and good prospects for rate base growth. CVPS' enterprise value of US$700MM was much lower than the US$3-US$5B target that Fortis had been guiding towards over the past couple years. We believe the smaller than expected size is more supportive for credit as it puts less pressure on the company's balance sheet, should be more manageable to integrate, and allows Fortis time to become familiar with the state regulation.

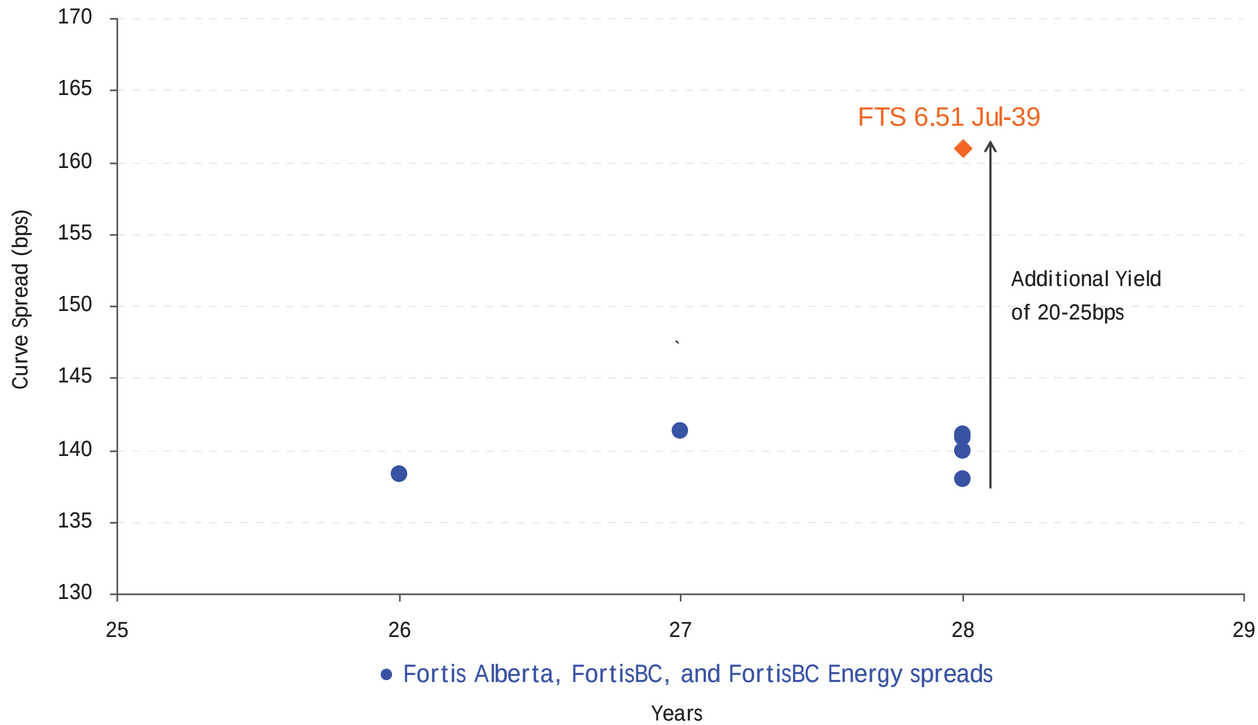
Acquisition expected to be funded in-line with current capital structure: We expect Fortis will ultimately fund the CVPS acquisition in a manner similar to past utility acquisitions, namely with a mix of common and preferred equity as well as debt that will maintain the company's consolidated capital structure close to 60%/40% (debt/equity). With the transaction not expected to close for at least six to 12 months, Fortis' recent equity offering ($300MM before over-allotment) provides the company with cash to inject equity into its utility subsidiaries and fund other growth projects like the Waneta Hydroelectric Plant. Management intends to finance the equity portion ($280MM) of the CVPS acquisition with preferred shares closer to the time of offering (depending on market conditions at the time), which would leave about $190MM of incremental new debt required at Fortis. With this funding plan as a basis, our forecasts out to 2012 indicate Fortis' credit profile will remain largely unchanged.

Fortis Inc. bonds offer favourable yield pick-up over Opco bonds: For investors seeking additional yield in the utility space, we continue to like the favourable spread pick up of 20-25bps offered by Fortis HoldCo bonds versus its Opco bonds. In our view, the structural subordination on the Holdco bonds is largely offset by the diversified and stable source of cash flows generated by Fortis' utility subsidiaries – which in our view should improve with the acquisition of CVPS.

CVPS / Acquisition overview: With close to 160,000 customers, CVPS is the largest integrated electric utility in Vermont. Its service territory covers about two-thirds of Vermont, with current energy supply coming from nuclear (50%), hydro (40%) and other (10%). Also, through its 41% interest in Vermont Transco, CVPS owns and operates a high-voltage electric transmission system. CVPS' ROE for 2011 is 9.45%, which is largely in-line with Fortis' existing utilities, while CVPS' equity thickness of 57% is much higher than Fortis' Canadian regulated utilities (40-45% range). CVPS' rate base of US$426MM in 2010 is forecasted to grow at 9% CAGR until 2015, higher than the estimated 6% for Fortis' other utilities. The $700MM acquisition cost represents about 1.4x the 2011 mid-year rate base (adjusted for debt at Vermont Transco). Using the forward P/E valuation of 21x (using the mid-point of CVPS' 2011 EPS guidance) reflects full value for the company.

Matthew Kolodzie

Exhibit 1: Relative Value Chart – Fortis HoldCo vs. OpCo Spreads



Source: Bloomberg, RBC Capital Markets

Calendar of Events

June 2011				
Monday 20	**Tuesday 21**	**Wednesday 22**	**Thursday 23**	**Friday 24**
				July 2011
Monday 27	**Tuesday 28**	**Wednesday 29**	**Thursday 30**	**Friday 1**
		Shaw Comm. Q3	Empire Co. (Sobeys) Q4	
Monday 4	**Tuesday 5**	**Wednesday 6**	**Thursday 7**	**Friday 8**
			Cogeco Cable Q3	
Monday 11	**Tuesday 12**	**Wednesday 13**	**Thursday 14**	**Friday 15**
			Corus Q3 JP Morgan Q2	Nexen Q2 Citigroup Q2
Monday 18	**Tuesday 19**	**Wednesday 20**	**Thursday 21**	**Friday 22**
		Goldman Sachs Q2	Encana Q2 Wells Fargo Q2 Morgan Stanley Q2	Loblaw Q2 Shoppers Drug Mart Q2 Ford Q2 General Electric Q2
Monday 25	**Tuesday 26**	**Wednesday 27**	**Thursday 28**	**Friday 29**
	Rogers Comm. Q2 Cenovus Q2	Capital Power Inc. LP Q2 Enbridge Income Fund Q2 Talisman Energy Q2	Bell Aliant Q2 Sherritt Q2 Enbridge Q2 Husky Energy Q2 Suncor Energy Q2 Enbridge Energy Partners Q2 Sun Life Q2	George Weston Q2 Honda Q1 Thomson Reuters Q2 Genworth Q2 Fairfax Finl. Q2 AltaGas Q2 Canadian Oil Sands Q2 Canadian Utilities Ltd Q2 TransAlta Q2 TransCanada Q2

Source: Bloomberg, RBC Capital Markets

New Issuance Activity (June 10 – June 16)

Issuer	Issued (MM)	Coupon (%)	Maturity	Ratings (DBRS/MDY/S&P)	Spread	Benchmark	Announced
Sydney Airport Finance	CAD 225	4.602	27-Jul-18	- / Baa2 / BBB	n/a	n/a	14-Jun-11
Canadian Satellite Radio	CAD 62	9.75	21-Jun-18	- / - / -	708.1bps	CAN 4.25 1JUN18	14-Jun-11
Canexus Income Fund	CAD 60	5.75	31-Dec-18	- / - / -	n/a	n/a	15-Jun-11
South Coast BC Trans. Authority	CAD 200	4.65	20-Jun-41	AA / Aa2 / -	117bps	CAN 4 1JUN41	15-Jun-11
Union Gas Ltd.	CAD 300	4.88	21-Jun-41	Ae / - / -	147bps	CAN 4 1JUN41	16-Jun-11
Bank of Nova Scotia	CAD 200	FRN	21-Dec-12	AAe / Aa1e / -	25bps	1M CDOR	16-Jun-11
Videotron Ltee	CAD 300	6.875	15-Jul-21	BBHe / Ba1e / -	395.2bps	CAN 3.25 6/21	16-Jun-11

Source: Bloomberg, RBC Capital Markets

Rating Actions (June 10 – June 16)

Rating Agencies	Agency	Rating Action	Rating Type	To	From	Date
Armtec Holdings Ltd.	DBRS	Under Review	Senior Unsecured Debt	BB *-	BB	10-Jun-11
Armtec Holdings Ltd.	DBRS	Under Review	LT Issuer Rating	BBL *-	BBL	10-Jun-11
Armtec Holdings Ltd.	S&P	Downgraded / UR.	LT Local Issuer Credit	B+ *-	BB-	13-Jun-11
Capstone Infrastructure Corp.	S&P	Announcement	LT Local Issuer Credit	BBB-/Stable	NR	13-Jun-11
OPTI Canada Inc.	S&P	Downgraded	LT Local Issuer Credit	SD[1]	CCC-	16-Jun-11

*- Under Review with Negative Implications

1. Selective default

Source: Bloomberg, RBC Capital Markets

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Market Commentary

Corporate Bonds (S. Thom): A very whippy week that started off with a soft tone, offered a glimmer of hope thereafter due to some less-downbeat economic data, proceeded to tumble on renewed Greek debt concerns and is ending on an upbeat note. For all the yo-yo like action in the market, the IG looks to be ending the week largely unchanged from where we started, out 0.5bps to 99.7 as of this morning (having closed in a range of 96.5-100.4 during the week). Looking at specific areas, Deposit Notes ended largely unchanged; new generation bank sub-debt was out 1-4bps with old generation out less so, similar story for bank hybrids – with par-call out more than non-par-call; Lifeco paper was whippy, with buyers emerging on widening (the sector still represents interesting value in our view); telcos were better offered (particular pressure on Shaw in the belly at one stage); airports were active in the belly on the Sydney Airport Finance Co. deal (see new issue summary); investors were extending in infrastructure and utilities (which continue to look expensive); and Maple banks / brokers remain under pressure with the ongoing regulatory noise.

HY Commentary (O. von Richter): The week began on a quiet note as heightened volatility and a weak market backdrop sent most investors to the safety of the sidelines. The light flow that we did see was better buying with a preference for higher rated credits. Later in the week as tone improved Videotron tapped the market with a C$300mm 10NC5 transaction that priced at par with a coupon of 6.875%. The bonds traded up in very active 2-way secondary trade and are closing the week $100.5-101.5. Next week, RBCCM is hosting its annual C$ High Yield Conference in Toronto. Next Tuesday SkyLink Aviation is holding its Q1 earnings call at 2pm.

ABS/CMBS (L. McKean): An active week in the asset-backed space as secondary volumes were good and a new Auto deal was brought to market. Spreads are generally ending the week 3-5bps wider in the front-end and 1-2bps in the 5-year area – as the 5-year space continues to benefit from strong client interest. The catalyst for the move in spreads was heightened global market volatility (read, Greece) and the wider spread levels did generate client interest – so we'd characterize activity as better buying. At the end of the week Canadian Capital Auto Receivables Asset Trust II (CCARAT) brought a $541MM 3-tranche deal to market. CCARAT 2011-2 is a securitization of new and used auto loans (retail car and light truck), both subvented and non-subvented.

Swaps (R. Nambiar): A rollercoaster of a week as uncertainties in Greece continues to leave the market on edge driving significant risk-on/risk-off swings in the market. Over the week, Canadian swap spreads are ~1 bps wider in the belly and ~1 to 2 bps tighter in the wings.

Tuesday, stronger than expected US PPI and Retail Sales drove a sell-off in bonds. However, early Wednesday, Moody's placed France's three largest banks under review citing the banks' exposures to Greek debt as the main catalyst, driving a risk-off move. Then concerns that the Greece government would fall apart and that the Prime Minister would resign reversed Tuesday's move. Lost in the news was a hawkish statement from Carney which had no impact on the market as global stability would have to resume before the BoC is expected to take tightening action.

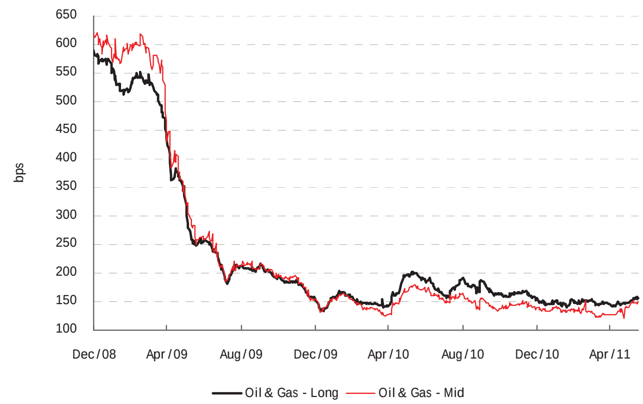
Over the week Canadian swap spreads saw strong paying in the belly as levels to pay Canada versus the US improved. In addition, the market saw paying from asset swappers, mortgage book paying and rate receiving form a variety of investors. As we reach attractive paying levels, we expect to see more natural payers and market speculators paying spreads.

Of note, Canada saw a 2-year auction and subsequent roll of the benchmark bond. GoCs are ending the week ~2 to 7 bps tighter across the curve led by the belly and long end.

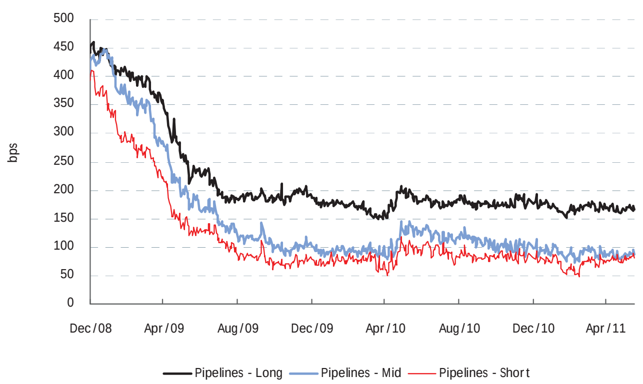
Spread Indices by Sector

Infrastructure

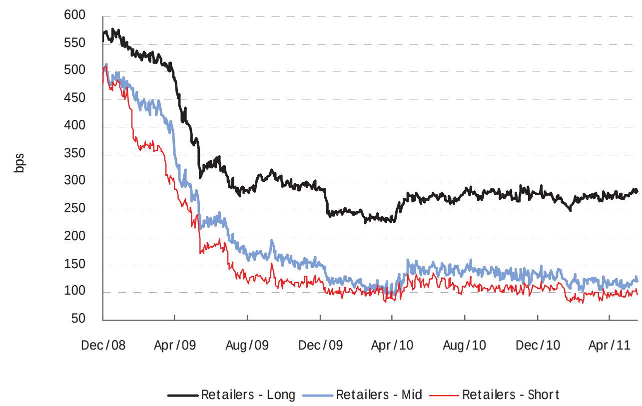
Oil & Gas



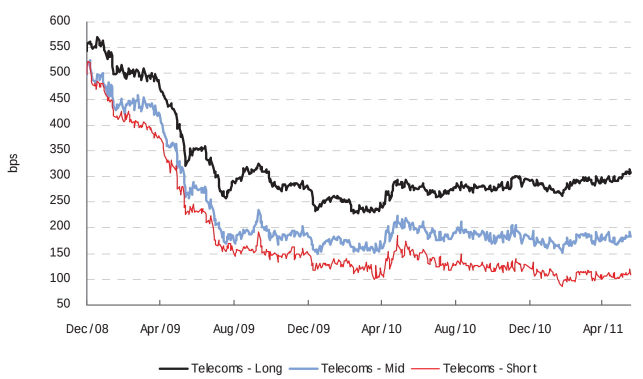
Pipelines



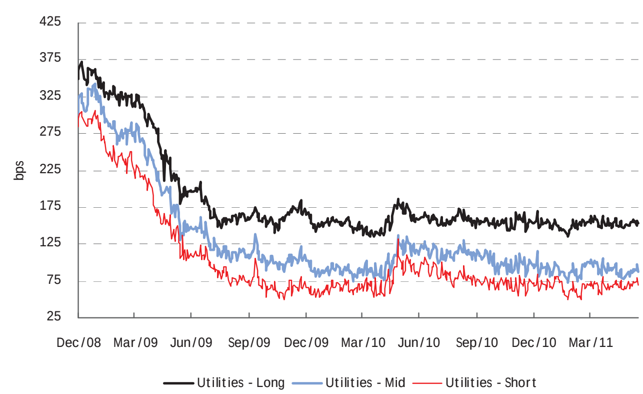
Retailers



Telecom

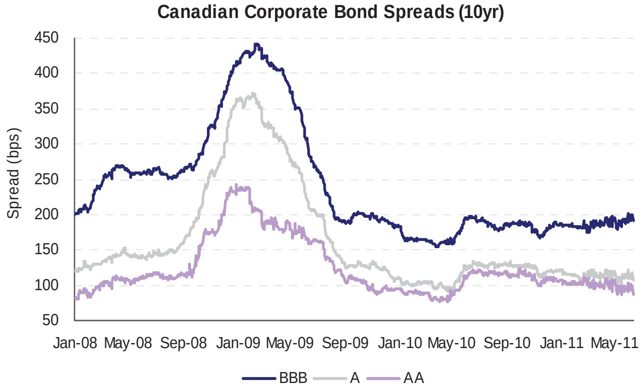


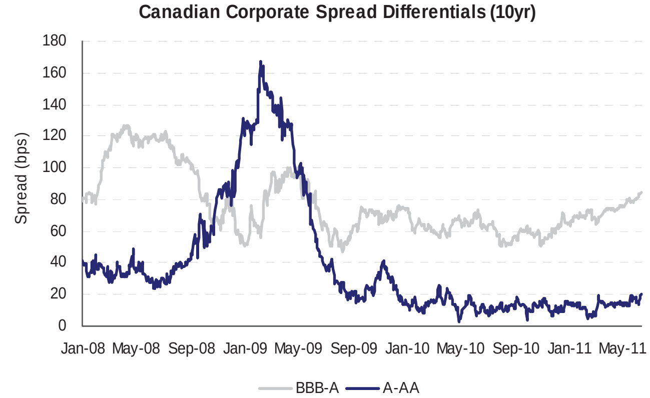
Utilities

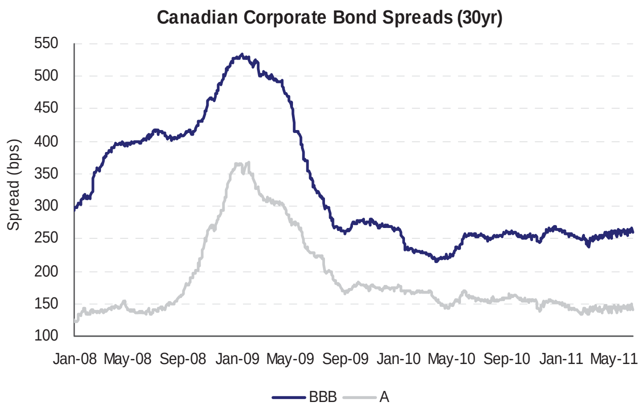


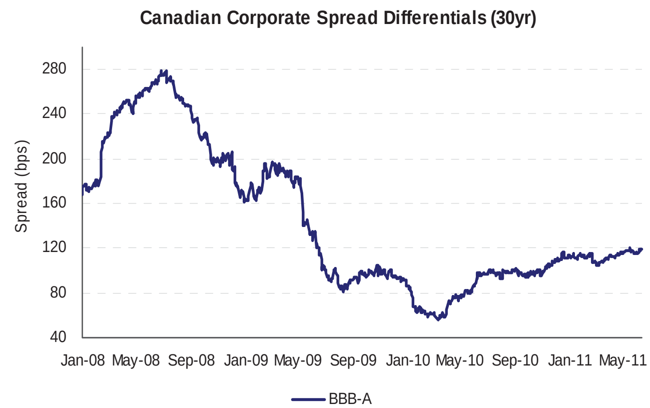
Source: Advantage Data Inc, RBC Capital Markets

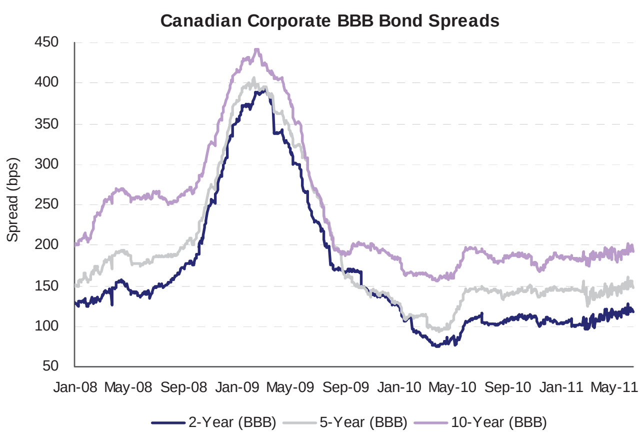
Spread Indices by Rating

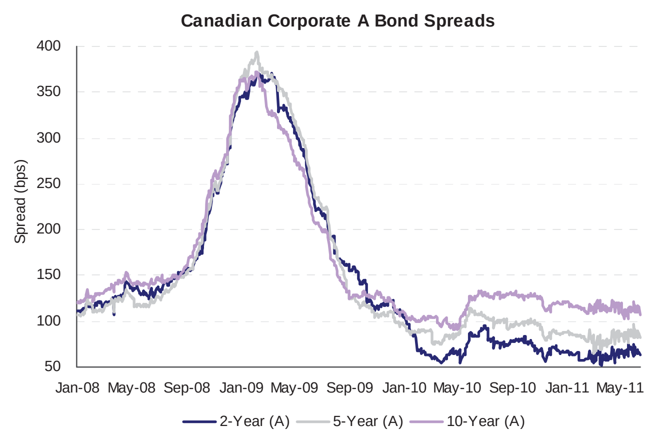












Source: Bloomberg, RBC Capital Markets

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Outperform (O): Provides superior relative risk-reward ratio and/or is expected to materially outperform the sector average over 12 months.

Sector Perform (SP): Provides an adequate relative risk-reward ratio and/or total return is expected to be in line with the sector average over 12 months.

Underperform (U): Provides an inferior relative risk-reward ratio and/or total return is expected to be materially below the sector average over 12 months.

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Distribution of Ratings
RBC Capital Markets, Credit Research

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
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HOLD[SP]	147	46.23	98	66.67
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RATINGS REVISION | **CANADIAN CREDIT COMMENT**

AUGUST 4, 2011

Fortis Inc.

Q2/11: Common Offering Gives Balance Sheet a Boost

Fortis Inc.	**Sector Perform**
FortisAlberta Inc.	**Sector Perform**
FortisBC Inc.	**Sector Perform from Outperform**
FortisBC Energy Inc.	**Sector Perform**
FortisBC Energy (Van. Island) Inc.	**Outperform**
Newfoundland Power Inc.	**Sector Perform**

Fortis reports Q2/11 (credit positive): Fortis reported Q2/11 EPS of $0.33 versus RBC and consensus estimates of $0.36 and $0.35. FFO increased to $180MM, compared to $160MM a year ago (Exhibit 1), mainly due to rate base growth at the western Canadian utilities. Net adjusted debt-to-capital improved to 57.9%, from 60.9% in Q1/11 following the company's $300MM common equity offering in June ($341MM with over-allotment in July). Interest coverage ratios were largely unchanged sequentially. The company's $1.2B capex program for 2011 remains on track, with $519MM spent year-to-date. Also, in July, Fortis terminated its agreement to acquire Central Vermont Public Service Corp. (CVPS) after being out-bid by Gaz Metro, and Fortis received US$19.5MM in termination fees and expenses.

Gross FCF shortfall funded with common equity: Fortis generated a Gross FCF shortfall of $152MM after capex of $286MM and dividends of $46MM. This compares to a gross FCF shortfall of $143MM in Q2/10. The shortfall in Q2/11 was funded with proceeds from the company's common equity offering. The company's cash position increased by $212MM, to $298MM, at the end of Q2/11.

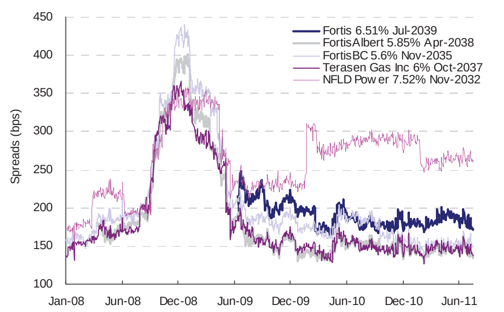
Less capital markets activity expected this year than last: Our forecasts indicate FortisAlberta and FortisBC Energy ("FBCE") could tap the debt markets later this year for $200MM and $100MM, respectively. We do not expect to see Fortis Inc. access the capital markets again this year, following its equity offering. This compares to last year when Fortis and its subsidiaries issued $525MM in debt in five tranches, and Fortis Inc. issued of $250MM in preferred shares.

FortisBC rating lowered to Sector Perform: FortisBC bonds outperformed the regulated utility peer group over the past few years, mainly in reaction to an improved regulatory framework and credit ratings upgrades. FortisBC bonds now trade 3 or 4 bps back of sister companies FortisAlberta and FortisBC Energy ("FBCE"), which we think is fair given FortisBC's smaller size. We think there is little upside potential left for FortisBC bonds, on a relative value basis, which has prompted us to lower our rating to Sector Perform from Outperform.

Merging the BC gas utilities: Fortis intends to file an application with the BCUC in Q3/11 to amalgamate its three B.C.-based gas utilities. If approved, the three utilities would form one legal entity and bonds issued by FBCE and FortisBC Energy (Vancouver Island) Inc. ("FBCV") would rank parri passu. Our Outperform rating on FBCV is based on the view that FBCV spreads would tighten to trade in line with FBCE bonds after the amalgamation.

Holdco bonds offer favourable pick-up: We think the discount that Fortis Inc. "holdco" bonds trade at, relative to its regulated utility opco's, provides a favourable spread pick-up (30 to 35 bps) to compensate for the structural subordination, especially when considering the diversified and stable source of cash flow generated by its utility subsidiaries. Furthermore, we think management will remain disciplined with respect to seeking out utility acquisition opportunities in the US, as demonstrated by its willingness to avoid a bidding war on CVPS.

Fortis Inc Historical Spreads



Source: ADI, RBC Capital Markets Research

Fortis Inc. Credit Summary ($million)

Cash Flow Summary ($MM)	**2009**	**2010**	***2011E***	***2012E***
EBITDA	1,065	1,150	*1,211*	*1,325*
FFO	**690**	**734**	***710***	***790***
Capital expenditures	(1,024)	(1,073)	*(1,212)*	*(1,122)*
Dividends	(161)	(281)	*(227)*	*(235)*
Gross FCF	**(495)**	**(620)**	***(729)***	***(567)***
Changes in w/c	(41)	49	-	-
FCF after w/c	(536)	(571)	*(729)*	*(567)*
Acquisitions	-	-	-	-
Other investing	(21)	82	-	-
FCF before financing	**(557)**	**(489)**	***(729)***	***(567)***
Debt issuance/(repay.)	551	146	*227*	*467*
Common issuance	46	80	*393*	*100*
Preferred issuance	-	242	-	-
Other financing	(9)	45	-	-
Net change in cash	**31**	**24**	***(109)***	**-**
Capital Structure				
Total debt	5,915	6,023	*6,250*	*6,717*
Non-controlling int.	123	162	*162*	*162*
Preference Shares	667	912	*912*	*912*
Shareholders' equity	3,193	3,305	*3,849*	*4,139*
Total capital	**9,898**	**10,402**	***11,173***	***11,930***
Cash and equivalents	85	109	-	-
Credit Ratios				
Adjusted Debt / Capital[1]	63%	62%	*60%*	*60%*
Net Adj. Debt / Capital[1]	63%	62%	*60%*	*60%*
EBITDA / interest	2.9x	3.2x	*3.4x*	*3.5x*
EBIT / interest	1.9x	2.0x	*2.4x*	*2.5x*
Total Debt / EBITDA	5.6x	5.2x	*5.2x*	*5.1x*
FFO / Total Debt	11.7%	12.2%	*11.4%*	*11.8%*
Credit Ratios		**DBRS**	**S&P**	***Moody's***
Rating		A(L)	A-	NR
Outlook		Stable	Stable	-

1. 50% equity and 50% debt treatment to pref. shares

Source: RBC Capital Markets estimates, Company reports, Rating agencies

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All values in Canadian dollar unless otherwise noted.

Priced as of prior trading day's market close, ET (unless otherwise noted).

For Required Conflicts Disclosures, please see Page 8.

Highlights (continued)

Shoring up the balance sheet: Fortis recently issued $341MM (including over-allotment) of common equity, which is more favourable for credit than what we had expected. In our previous forecasts, we had assumed $200MM in preferred shares (generally 50% equity treatment from the rating agencies) would be issued in 2011 to help fund growth and maintain balance sheet leverage. Proceeds from the equity offering will be used to reduce outstanding credit facilities, inject equity into its utility subsidiaries to fund growth and maintain regulated capital structures, and to fund corporate level projects such as the Waneta Expansion Project.

Fortis collects termination fee and recoups expenses on termination of CVPS acquisition: Following the termination of the merger agreement with CVPS in July, Fortis received a US$17.5MM termination fee and US$2MM for associated expenses. While the loss of the acquisition is disappointing from the perspective of improving diversification with another relatively stable regulated utility, we think fixed income investors should take comfort in management's disciplined approach by not entering into a bidding war. We continue to believe management will remain patient until the right opportunity comes along.

Belize expropriation a minor impact: Belize Electricity Limited (book value of $112MM at the end of Q2/11) was expropriated by the Government of Belize effective June 20, 2011. Fortis has initiated proceedings for compensation from the Government. We believe this event to be immaterial for fixed income investors as Belize Electricity has contributed minimal earnings since 2008 (less than 1% of total earnings in 2010). As for the non-regulated hydroelectric generation assets in Belize, the Government of Belize has indicated publicly that it does not plan to expropriate these assets.

Adequate liquidity: At the end of Q2/11, Fortis Inc. and its subsidiaries had $1.5B available under its $2.1B credit facilities. The company also had $298MM in cash and equivalents. We believe this is adequate to meet the company's near-term requirements.

Outlook and Funding Expectations

Modest uplift to five-year capital program to $5.7B: With $519MM spent at the mid-year mark, Fortis remains on track to achieve its $1.2B capital program for 2011. The company's five-year plan (out to 2015) has been increased to $5.7B from $5.5B (provided at the beginning of the year) to reflect higher capital investments expected at the FortisBC Energy companies, partly offset by lower spending at Belize Electricity. Over the next five years, regulated electric utilities, including FortisAlberta and FortisBC Electric, will receive the bulk of the investment with 61%, followed by regulated gas utilities (23%) and non-regulated operations (16%).

Funding expectations: Fortis' utility subsidiaries (mainly FortisAlberta and FortisBC) will continue to require equity from Fortis in order to maintain regulated capital structures as these utilities grow their rate base. Fortis raises funds through a combination of debt, common equity, and preferred equity, such that consolidated leverage remains near 60%. Fortis' utility subsidiaries issue public debt in their own names, with proceeds used to fund capital spending and refinance debt maturities. Fortis and its subsidiaries do not have any bond maturities in 2011 (Exhibit 5), so any new issuance this year will be to fund capex. For a detailed look at each of the issuing entities, please refer to our report published on April 7, 2011: "Utilities in Canada: Credit Outlook 2011."

- **Fortis Inc.:** After issuing $341MM in common equity, we do not expect to see Fortis Inc. access the capital markets again this year. This compares to 2010, during which Fortis Inc. accessed the capital markets twice: (i) $250MM in cumulative redeemable preference shares (January); and (ii) a US$200MM debt private placement.
- **FortisBC Energy:** For 2011, we are forecasting a modest gross FCF shortfall of about $65MM, which is in line with 2010. We think this shortfall will likely be funded with FBCE's credit facilities but could be termed out with a public debt issuance of $100MM later this year. In 2010, FBCE received a $125MM equity injection from Fortis Inc. to boost its deemed equity base to 40% (from 35%) in response to a recent regulatory decision, and FBCV issued $100MM in debt.
- **FortisAlberta:** We are forecasting that FortisAlberta will need $150MM to $200MM in debt, plus a $60MM equity injection from Fortis, to fund its $420MM capital program in 2011. This compares to 2010, where FortisAlberta issued $125MM in debt and had received $55MM in equity contributions from Fortis Inc.
- **FortisBC:** We are forecasting FortisBC to draw approximately $30MM on its short-term credit facilities, and will not require an equity injection from Fortis, to fund its $99M capital program in 2011. In 2010, FortisBC issued $100MM in debt and received a $10MM equity contribution from Fortis Inc.
- **Newfoundland Power:** We expect Newfoundland Power to fund the majority of its 2011 capital program with cash flow and a minimal amount of borrowing. On July 22, 2011, the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) denied the application for the $46MM sale of Newfoundland Power's joint-use poles to Bell Aliant. Newfoundland Power is currently reviewing its options, including appealing the decision and providing further evidence to PUB.

Exhibit 1: Fortis Inc. Historical Consolidated Financials and Forecasts

Fortis Inc.	Annual		Quarterly							Forecasts	
Consolidated ($ millions)	**2009**	**2010**	**Q2/10**	**Q3/10**	**Q4/10**	**Q1/11**	**Q2/11**	**LTM**	**YTD**	***2011E***	***2012E***
Earnings Summary											
EBITDA	1,065	1,150	267	265	301	348	279	1,193	627.0	*1,211*	*1,325*
EBIT	701	740	169	148	198	245	176	767	421.0	*861*	*940*
Gross interest	362	361	89	92	90	94	93	369	187.0	*360*	*374*
Net income (as reported)	292	323	66	55	94	125	69	343	194.0	*350*	*396*
Cash Flow Summary											
FFO	690	734	160	165	209	242	180	796	422	***710***	***790***
Capital Expenditures	(1,024)	(1,073)	(244)	(268)	(370)	(233)	(286)	(1,157)	(519)	*(1,212)*	*(1,122)*
Preferred dividends	(18)	(28)	(8)	(7)	(7)	(7)	(8)	(29)	(15)	*(28)*	*(28)*
Dividends (common & non-cont.)	(143)	(253)	(51)	(50)	(54)	(53)	(38)	(195)	(91)	*(199)*	*(207)*
Gross free cash flow (FCF)	**(495)**	**(620)**	**(143)**	**(160)**	**(222)**	**(51)**	**(152)**	**(585)**	**(203)**	***(729)***	***(567)***
Changes in working capital	(41)	49	44	(36)	(8)	57	48	61	105	*-*	*-*
Gross FCF after working capital	(536)	(571)	(99)	(196)	(230)	6	(104)	(524)	(98)	*(729)*	*(567)*
Divestitures / Acquisitions										*-*	*-*
Other investing activities	(21)	82	15	15	37	14	18	84	32	*-*	*-*
Free cash flow before financing	**(557)**	**(489)**	**(84)**	**(181)**	**(193)**	**20**	**(86)**	**(440)**	**(66)**	***(729)***	***(567)***
Debt drawn/(repaid)	551	146	45	155	172	(87)	(32)	208	(119)	*227*	*467*
Issue of common shares[1]	46	80	16	19	22	27	290	358	317	*393*	*100*
Issue of preference shares	-	242	-	-	-	-	-	-	-	*-*	*-*
Other financing activities	(5)	45	1	-	44	17	40	101	57	*-*	*-*
F/X gain/(loss)	(4)	-	1	-	-	-	-	-	-	*-*	*-*
Net increase (decrease) in cash	**31**	**24**	**(21)**	**(7)**	**45**	**(23)**	**212**	**227**	**189**	***(109)***	***-***
Capital Structure											
Total debt	5,915	6,023	5,742	5,875	6,023	5,915	5,857	5,857		*6,250*	*6,717*
Non-controlling interest	123	162	125	122	162	175	178	178		*162*	*162*
Preference Shares	667	912	912	912	912	912	912	912		*912*	*912*
Shareholders' equity	3,193	3,305	3,248	3,255	3,305	3,397	3,738	3,738		*3,849*	*4,139*
Total capital	**9,898**	**10,402**	**10,027**	**10,164**	**10,402**	**10,399**	**10,685**	**10,685**		**11,173**	**11,930**
Cash and equivalents	85	109	71	64	109	86	298	298		-	-
Credit Ratios[2]											
Total Debt / Capital	59.8%	57.9%	57.3%	57.8%	57.9%	56.9%	54.8%	54.8%		*55.9%*	*56.3%*
Adjusted Debt / Capital[2]	63.1%	62.3%	61.8%	62.3%	62.3%	61.3%	59.1%	59.1%		*60.0%*	*60.1%*
Net Debt / Capital	59.4%	57.5%	57.0%	57.5%	57.5%	56.5%	53.5%	53.5%		*55.9%*	*56.3%*
Net Adjusted Debt / Capital[2]	62.8%	61.9%	61.5%	62.0%	61.9%	60.9%	57.9%	57.9%		*60.0%*	*60.1%*
(FFO + interest) / interest	2.9x	3.0x	2.9x	2.9x	3.0x	3.1x	3.2x	3.2x		*3.0x*	*3.1x*
EBITDA / interest	2.9x	3.2x	3.0x	3.1x	3.2x	3.2x	3.2x	3.2x		*3.4x*	*3.5x*
EBIT / interest	1.9x	2.0x	2.0x	2.0x	2.0x	2.1x	2.1x	2.1x		*2.4x*	*2.5x*
Total Debt / EBITDA	5.6x	5.2x	5.2x	5.2x	5.2x	5.0x	4.9x	4.9		*5.2*	*5.1*
FFO / Total Debt	11.7%	12.2%	11.9%	11.9%	12.3%	13.1%	13.6%	13.6%		*11.4%*	*11.8%*

1. Issue of common shares includes the company's DRIP, which we have assumed to be $100MM in 2011 and 2012.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

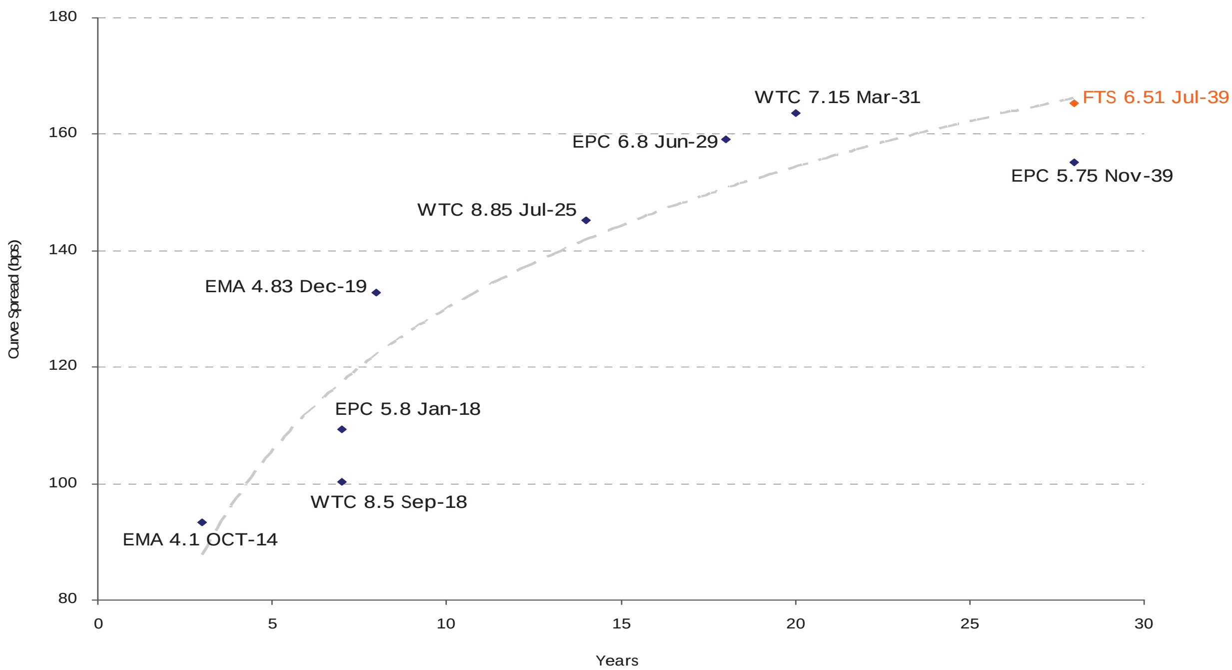
Source: Company reports, RBC Capital Markets estimates

Exhibit 2: Capital Spending by Subsidiary ($ millions)

	FortisBC Energy Companies	FortisAlberta	FortisBC	Newfoundland Power	Other Reglated Electric Utilities - Canada	**Total Regulated Utilities - Canada**	Regulated Utilities - Caribbean	Non-Regulated - Utility	Fortis Properties	**Total**
2011F	271	420	99	73	46	**909**	83	183	27	**1,202**
2010A	253	379	139	78	48	**897**	72	85	19	**1,073**

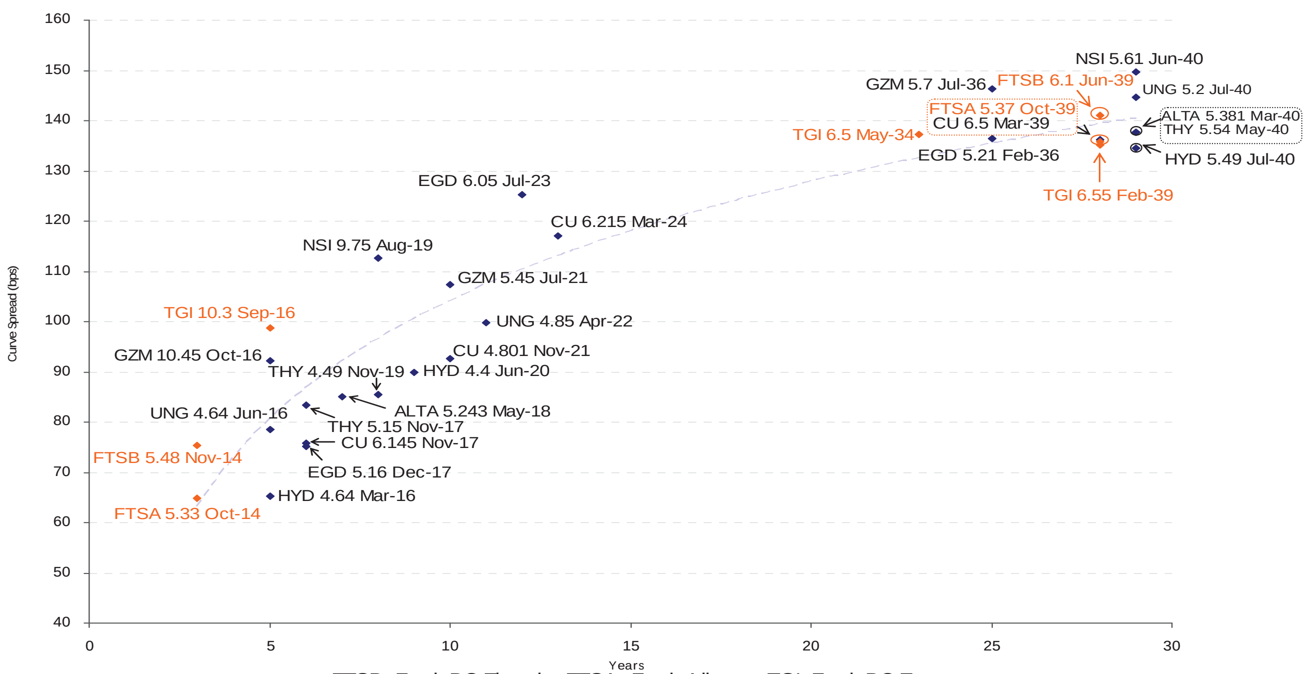
Source: Company reports

Exhibit 3: Relative Value Chart - Canadian Utility Holding Companies



Source: RBC Capital Markets Research

Exhibit 4: Relative Value Chart - Canadian Regulated Utilities



FTSB: FortisBC Electric, FTSA: FortisAlberta, TGI: FortisBC Energy

Source: RBC Capital Markets Research

Exhibit 5: Fortis Inc and Subsidiary Bonds Outstanding

Issuer Name	Amount ($MM)	Currency	Coupon	Maturity	Issue Date	Call	Collateral
Fortis Inc.	125	USD	3.53%	12/21/2020	12/22/2010		Senior Unsecured
Fortis Inc.	200	CAD	6.51%	07/04/2039	06/26/2009	Call +65 bps	Senior Unsecured
Fortis Inc.	75	USD	5.26%	12/21/2040	12/22/2010		Senior Unsecured
Total Fortis Inc.	**400**						
Terasen Inc.	**125**	CAD	5.56%	09/15/2014	09/10/2004	Call +23 bps	Senior Unsecured

Issuer Name	Amount ($MM)		Coupon	Maturity	Issue Date	Call	Collateral
Terasen Gas:							
BC Gas Utility[1,2]	75	CAD	11.80%	09/30/2015	11/14/1990	Putable, non-call	Mortgage
BC Gas Utility[1,2]	200	CAD	10.30%	09/30/2016	11/08/1991	Call +35 bps	Mortgage
BC Gas Utility[1,2]	150	CAD	6.95%	09/21/2029	09/16/1999	Call +28 bps	Senior Unsecured
Terasen Gas Inc.[2]	150	CAD	6.50%	05/01/2034	04/26/2004	Call +31 bps	Senior Unsecured
Terasen Gas Inc.[2]	150	CAD	5.90%	02/26/2035	02/22/2005	Call +29 bps	Senior Unsecured
Terasen Gas Inc.[2]	120	CAD	5.55%	09/25/2036	09/20/2006	Call +34 bps	Senior Unsecured
Terasen Gas Inc.[2]	250	CAD	6.00%	10/02/2037	09/27/2007	Call +37 bps	Senior Unsecured
Terasen Gas Inc.[2]	250	CAD	5.80%	05/13/2038	05/08/2008	Call +40 bps	Senior Unsecured
Terasen Gas Vancouver[3]	250	CAD	6.05%	02/15/2038	02/7/2008	Call +46 bps	Senior Unsecured
Terasen Gas Inc.[2]	100	CAD	6.55%	02/24/2039	02/24/2009	Call +71 bps	Senior Unsecured
Terasen Gas Vancouver[3]	100	CAD	5.20%	06/12/2040	12/2/2010	Call +40 bps	Senior Unsecured
Total Terasen Gas	**1,445**						
Total TGV	**350**						

Issuer Name	Amount ($MM)		Coupon	Maturity	Issue Date	Call	Collateral
FortisAlberta	200	CAD	5.33%	10/31/2014	10/15/2004	Call +18 bps	Senior Unsecured
FortisAlberta	200	CAD	6.22%	10/31/2034	10/15/2004	Call +28 bps	Senior Unsecured
FortisAlberta	100	CAD	5.40%	04/21/2036	04/06/2006	Call +25 bps	Senior Unsecured
FortisAlberta	100	CAD	5.85%	04/15/2038	04/08/2008	Call +45 bps	Senior Unsecured
FortisAlberta	100	CAD	7.06%	02/14/2039	02/10/2009	Call +80 bps	Senior Unsecured
FortisAlberta	125	CAD	5.37%	10/30/2039	10/30/2009	Call +34.5 bps	Senior Unsecured
FortisAlberta	110	CAD	4.99%	01/03/2047	12/08/2006	Call +24 bps	Senior Unsecured
FortisAlberta	125	CAD	4.80%	10/27/2050	10/22/2010	Call +33.5 bps	Senior Unsecured
Total FortisAlberta	**1,060**						

Issuer Name	Amount ($MM)		Coupon	Maturity	Issue Date	Call	Collateral
West Kootenay P&L	15	CAD	9.65%	10/16/2012	10/16/1992	Call +40 bps	Senior Secured
FortisBC Inc.	140	CAD	5.48%	11/28/2014	11/23/2004	Call +24 bps	Senior Unsecured
West Kootenay P&L	25	CAD	8.80%	08/28/2023	08/27/1993	Call +40 bps	Senior Secured
FortisBC Inc.	100	CAD	5.60%	11/09/2035	10/27/2005	Call +30 bps	Senior Unsecured
FortisBC Inc.	105	CAD	6.10%	06/02/2039	06/02/2009	Call +49 bps	Senior Unsecured
FortisBC Inc.	105	CAD	5.90%	07/04/2047	06/22/2007	Call +31 bps	Senior Unsecured
FortisBC Inc.	100	CAD	5.00%	11/24/2050	11/19/2010	Call +33.5 bps	Senior Unsecured
Total FortisBC	**590**						

Issuer Name	Amount ($MM)		Coupon	Maturity	Issue Date	Call	Collateral
Newfoundland Light & Power	40	CAD	10.55%	08/01/2014	07/20/1989	Call +50 bps	First Mortgage
Newfoundland Light & Power	33	CAD	10.90%	05/02/2016	04/10/1991	Call +50 bps	First Mortgage
Newfoundland Light & Power	40	CAD	9.00%	10/01/2020	09/08/1992	Call +30 bps	First Mortgage
Newfoundland Light & Power	40	CAD	10.125%	06/15/2022	05/19/1992	Call +37 bps	First Mortgage
Newfoundland Light & Power	40	CAD	8.90%	05/07/2026	04/18/1996	Call +20 bps	First Mortgage
Newfoundland Power	50	CAD	6.80%	11/20/2028	11/02/1998	Non-call	First Mortgage
Newfoundland Power	71	CAD	7.52%	11/01/2032	10/16/2002	Call +46 bps	First Mortgage
Newfoundland Power	60	CAD	5.441%	08/15/2035	08/10/2005		First Mortgage
Newfoundland Light & Power	70	CAD	5.901%	08/17/2037	08/13/2007	Call +35 bps	First Mortgage
Newfoundland Power	65	CAD	6.606%	05/25/2039	08/10/2005	Call +50 bps	First Mortgage
Total Newfoundland Power	**508**						
Maritime Electric	**60**	CAD	6.054%	04/2/2038	03/27/2008	Call +50 bps	First Mortgage
Total Bonds Outstanding	**4,538**						

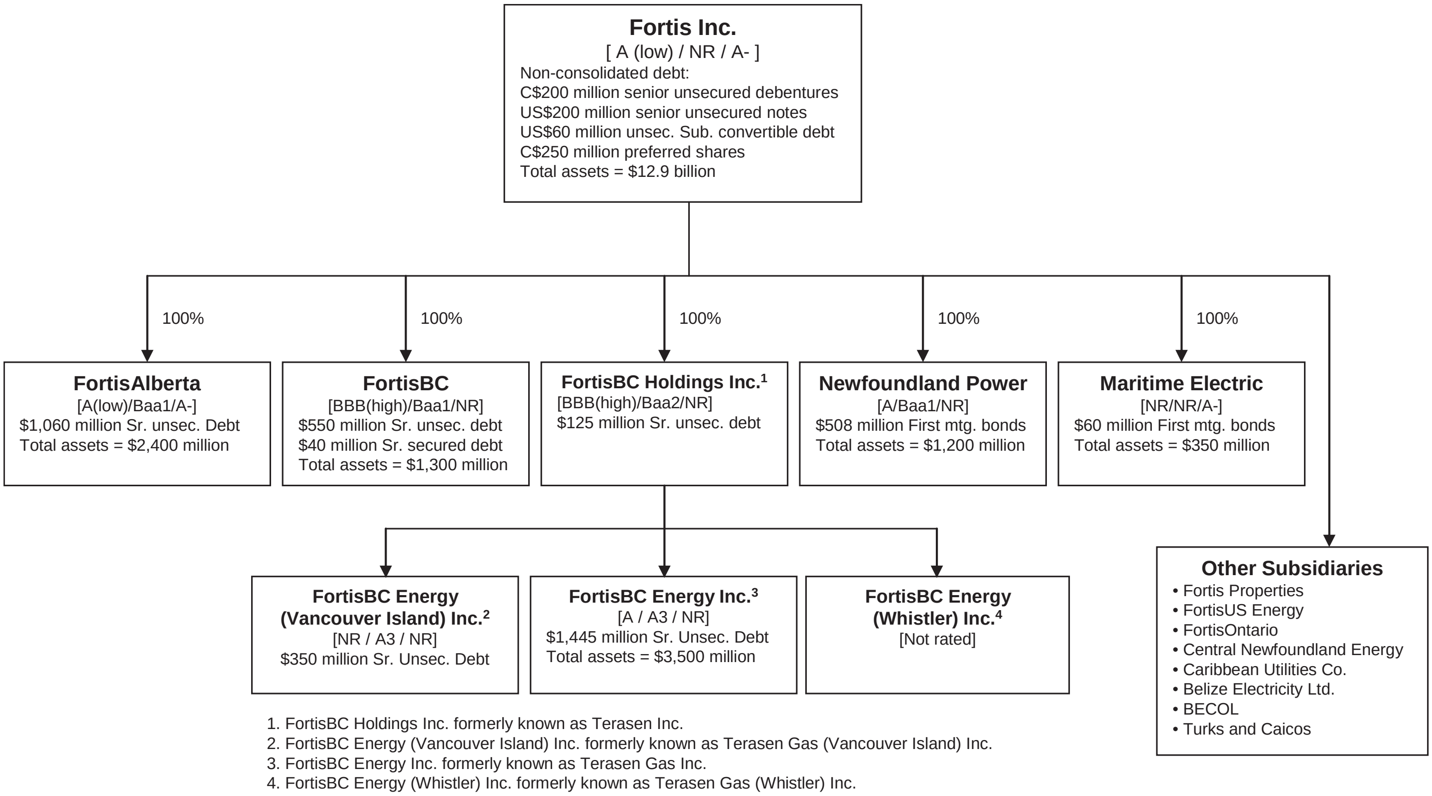
(1) Terasen Gas Inc. was formerly called BC Gas Utility.

(2) Terasen Gas Inc. has been renamed as FortisBC Energy Inc.

(3) Terasen Gas (Vancouver Island) Inc. has been renamed as FortisBC Energy (Vancouver Island) Inc.

Source: Company reports, RBC Capital Markets Research

Exhibit 6: Fortis Inc Organizational Structure



Source: Company reports, RBC Capital Markets Research

Diversified group of regulated utility operating companies provide stability: Fortis' diversified portfolio of low-risk monopoly electricity and gas distribution utilities provides a stable source of cash flow to service holdco debt. Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service holdco debt. In turn, Fortis regularly injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.

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COMPANY UPDATE | **CANADIAN CREDIT COMMENT**

NOVEMBER 4, 2011

Fortis Inc.

Q3/11: Another Stable Quarter

Fortis Inc.	**Sector Perform**
FortisAlberta Inc.	**Sector Perform**
FortisBC Inc.	**Sector Perform**
FortisBC Energy Inc.	**Sector Perform**
FortisBC Energy (Van. Island) Inc.	**Outperform**
Newfoundland Power Inc.	**Sector Perform**

Fortis reports Q3/11 (credit neutral): Fortis reported Q3/11 normalized EPS of $0.25 compared to RBC and consensus estimates of $0.24. Overall, Canadian regulated utilities posted a good quarter with $40MM of earnings which was in-line with RBC estimate of $38MM, and all the other segments were within +/- $1MM. Following the in-line quarter, key credit metrics remained largely unchanged sequentially, with net adjusted debt-to-capital and EBITDA-to-interest ending the quarter at 58% and 3.3x, respectively (Exhibit 1).

Gross FCF shortfall funded with cash: Fortis generated a gross FCF shortfall of $180MM, after capex of $287MM and dividends of $47MM compared to a shortfall of $160MM a year ago. The gap was essentially funded with cash proceeds from the common equity offering in the previous quarter.

Capital investment plan remains on track: Having spent $806MM through the first nine months of this year, Fortis remains on track to reach its $1.2B capital program for 2011. Management expects a comparable capex figure next year, and maintained its five-year capital program guidance of $5.7B through to 2015.

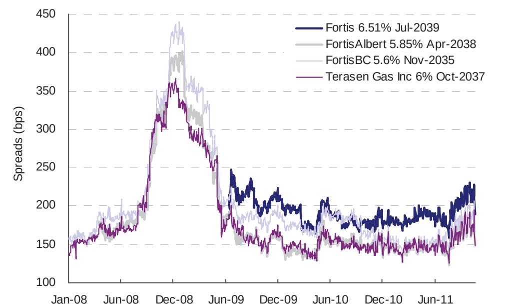
Newfoundland Power sells joint-use poles: At the end of the quarter, Newfoundland Power received regulatory approval to sell 40% of its joint-use poles to Bell Aliant. The sale brought in $46MM to the company in October.

Application filed to amalgamate BC gas utilities: Fortis filed an application in November to the BCUC to amalgamate its three BC-based gas utilities. Pending approval from the BCUC and consent from the BC government, the amalgamation will become effective January 1, 2013. If approved, the three utilities would form one legal entity and bonds issued by FortisBC Energy (FBCE) and FortisBC Energy (Vancouver Island) (FBCV) Inc would rank parri-passu. Our Outperform rating on FBCV is based on the view that the spreads would tighten to trade in-line with FBCE bonds following the amalgamation.

Approximately $500MM in external funding expected over next 12 months: We think FortisAlberta and FortisBC Energy Inc. could each potentially issue debt in the order of $100MM over the next 12 months, with FortisAlberta likely not until Q4/12. At the holding company level, Fortis Inc. may need to raise external capital in the order of $250MM-$350MM next year to fund projects such as the Waneta hydroelectric plant and equity injections down to its utility opcos.

HoldCo bonds offer good value: We continue to think the discount that Fortis Inc. "holdco" bonds trade at, relative to its regulated utility opco's, provides a favourable spread pick-up (45 to 60 bps) to compensate for the structural subordination, especially when considering the diversified and stable source of cash flow generated by its utility subsidiaries. Furthermore, we think management will remain disciplined with respect to seeking out utility acquisition opportunities in the US, as demonstrated by its willingness to avoid getting into a bidding war over Central Vermont Power Public Service (CVPS) earlier this year.

Historical Spreads



Source: ADI, RBC Capital Markets Research

Fortis Inc. Credit Summary

Cash Flow Summary ($MM)	2010	2011E	2012E	2012E
FFO	**734**	**710**	**790**	**830**
Capital expenditures	(1,073)	(1,212)	(1,122)	(1,020)
Dividends	(281)	(227)	(235)	(243)
Gross FCF	**(620)**	**(729)**	**(567)**	**(433)**
Changes in w/c	49	25	-	-
FCF after w/c	(571)	(704)	(567)	(433)
Acquisitions	-	-	-	-
Other investing	82	-	-	-
FCF before financing	**(489)**	**(704)**	**(567)**	**(433)**
Debt issuance/(repay.)	146	202	503	333
Common issuance	80	393	64	100
Preferred issuance	242	-	-	-
Other financing	45	-	-	-
Net change in cash	**24**	**(109)**	**-**	**-**
Capital Structure ($MM)				
Total debt	6,023	6,225	6,728	7,062
Non-controlling int.	162	162	162	162
Preference Shares	912	912	912	912
Shareholders' equity	3,305	3,849	4,104	4,400
Total capital	**10,402**	**11,148**	**11,906**	**12,535**
Cash and equivalents	109	-	-	-
Credit Ratios				
Adjusted Debt / Capital[1]	62%	60%	60%	60%
Net Adj. Debt / Capital[1]	62%	60%	60%	60%
EBITDA / interest	3.2x	3.4x	3.6x	3.5x
EBIT / interest	2.0x	2.4x	2.5x	2.5x
Total Debt / EBITDA	5.2x	5.1x	5.1x	5.0x
FFO / Total Debt	12.2%	11.4%	11.7%	11.8%
Credit Ratios		**DBRS**	**S&P**	**Moody's**
Rating		A(L)	A-	NR
Outlook		Stable	Stable	-

1. 50% equity and 50% debt treatment to pref. shares

Source: RBC Capital Markets estimates, Company reports, Rating agencies

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All values in Canadian dollar unless otherwise noted.

Priced as of prior trading day's market close, ET (unless otherwise noted).

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Highlights

Belize Update: Following the expropriation of Belize Electricity Limited (book value of $112MM at the end of Q2/11) in June, Fortis has commissioned an independent valuation of its previous investment in the asset and expects to submit a claim to the Government of Belize in Q4/11. For fixed income investors, we believe the outcome of the claim to be immaterial as the asset has contributed minimal earnings since 2008 (less than 1% of total earnings in 2010). With respect to the non-regulated hydroelectric generation assets in Belize, the Government of Belize has indicated that it does not plan to expropriate these assets.

Newfoundland Power sells joint-use poles: At the end of the quarter, Newfoundland Power received regulatory approval to sell 40% of its joint-use poles to Bell Aliant. The sale brought in $46MM to the company in October.

Fortis Properties acquires a hotel in Winnipeg: Shortly after the quarter, Fortis Properties acquired the 160-room, Hilton Suites Winnipeg Airport hotel for $25MM in October.

Termination fee collected and expenses recouped from CVPS: Following the termination of the merger agreement with CVPS, Fortis received $11MM (after-tax) in July. More importantly, the discipline and patience management has shown by not entering into a bidding war should give additional comfort to fixed income investors as the company continues its search for a major utility acquisition in the U.S.

Work continues on Waneta Expansion: The 335MW, hydro project in BC is currently running on schedule and is projected to be in service in the spring of 2015, at an estimated cost of $900MM. This is a non-regulated asset that will sell energy and capacity to BC Hydro and FortisBC Electric under 40-year power sales contracts.

Adequate liquidity: At the end of Q3/11, Fortis Inc. and its subsidiaries had $108MM of cash on hand and $1.9B available under its $2.3B credit facilities. Fortis improved its liquidity by increasing the corporate credit facility to $800MM (from $600) and extending the maturity to 2015 (from 2012). Also during the quarter, FortisAlberta raised its committed facility to $250MM (from $200MM) with the same maturity of 2015. We believe this is more than adequate to meet near-term funding needs.

Outlook and Funding Expectations

Five-year capital program of $5.7B: Having spent $806MM through the first nine months of this year, Fortis remains on track to reach its $1.2B capital program for 2011. The company maintained its five-year (out to 2015) capital plan guidance at $5.7B. Under the plan, regulated electric utilities, including FortisAlberta and FortisBC Electric, will receive the bulk of the investment with 61%, followed by regulated gas utilities (23%) and non-regulated operations (16%).

Funding expectations: Fortis' utility subsidiaries (mainly FortisAlberta and FortisBC) will continue to require equity from Fortis in order to maintain regulated capital structures as these utilities grow their rate base. Fortis raises funds through a combination of debt, common equity, and preferred equity, such that consolidated leverage remains near 60%. Fortis' utility subsidiaries issue public debt in their own names, with proceeds used to fund capital spending and refinance debt maturities. Fortis and its subsidiaries do not have any remaining bond maturities in 2011 and only has a small $15MM maturity at FortisBC next year (Exhibit 5). New issuance in 2012 will essentially be for the purpose of funding capex.

- **Fortis Inc.:** After issuing $341MM in common equity in June of this year, we do not expect to see Fortis Inc. access the capital markets again this year. Looking out to 2012, Fortis Inc. may need to raise external capital in the order of $250MM-$350MM to fund projects such as the Waneta hydroelectric plant and equity injections down to its utility opcos. We would expect a mix of debt and equity (common and prefs) to maintain its consolidated capital structure near 60%.
- **FortisBC Energy:** We think funding needs at FortisBC Energy will be fairly light through to the end of next year, with FFO expected to fund the majority of capex and dividends (expected to be ~$200MM and ~50MM annually, respectively). At most we could see the utility issue in the order of $100MM over the next year or so.
- **FortisAlberta:** FortisAlberta had $73MM drawn on its credit facilities at the end of Q3/11, which were likely paid down with proceeds from the company's $125MM bond issued on October 14, 2011. Year to date, the utility has received a $30MM equity injection from its parent, and by our estimate could use another $30MM in Q4/11. For 2012, our estimate is that FortisAlberta could issue another $100MM-$150MM in debt in the latter part of the year and receive another $50MM-$60MM equity injection to fund capital spending and maintain its regulated capital structure.
- **FortisBC:** FortisBC last issued debt in 2010 ($100MM), and also received a $10MM equity contribution from Fortis Inc. that year. We could see FortisBC tap the debt markets on a biannual basis for something in the range of $100MM. We think equity contributions over the next couple of years will be minimal.
- **Newfoundland Power:** We expect Newfoundland Power to fund the majority of its 2011 capital program with cash flow and a minimal amount of borrowing.

Exhibit 1: Fortis Inc. Historical Consolidated Financials and Forecasts

Fortis Inc.	Annual		Quarterly							Forecasts		
Consolidated ($ millions)	2009	2010	Q3/10	Q4/10	Q1/11	Q2/11	Q3/11	LTM	YTD	2011E	2012E	2013E
Earnings Summary												
EBITDA	1,065	1,150	265	301	348	279	273	1,201	900	*1,211*	*1,325*	*1,404*
EBIT	701	740	148	198	245	176	168	787	589	*861*	*940*	*990*
Gross interest	362	361	92	90	94	93	92	369	279	*360*	*372*	*402*
Cash Flow Summary												
FFO	690	734	165	209	242	180	154	785	576	***710***	***790***	***830***
Capital Expenditures	(1,024)	(1,073)	(268)	(370)	(233)	(286)	(287)	(1,176)	(806)	*(1,212)*	*(1,122)*	*(1,020)*
Preferred dividiends	(18)	(28)	(7)	(7)	(7)	(8)	(7)	(29)	(22)	*(28)*	*(28)*	*(28)*
Dividends (common & non-cont.)	(143)	(253)	(50)	(54)	(53)	(38)	(40)	(185)	(131)	*(199)*	*(207)*	*(215)*
Gross free cash flow (FCF)	**(495)**	**(620)**	**(160)**	**(222)**	**(51)**	**(152)**	**(180)**	**(605)**	**(383)**	***(729)***	***(567)***	***(433)***
Changes in working capital	(41)	49	(36)	(8)	57	48	(3)	94	102	*25*	*-*	*-*
Gross FCF after working capital	(536)	(571)	(196)	(230)	6	(104)	(183)	(511)	(281)	*(704)*	*(567)*	*(433)*
Divestitures / Acquisitions										*-*	*-*	*-*
Other investing activities	(21)	82	15	37	14	18	18	87	50	*-*	*-*	*-*
Free cash flow before financing	**(557)**	**(489)**	**(181)**	**(193)**	**20**	**(86)**	**(165)**	**(424)**	**(231)**	***(704)***	***(567)***	***(433)***
Debt drawn/(repaid)	551	146	155	172	(87)	(32)	(86)	(33)	(205)	*202*	*503*	*333*
Issue of common shares[1]	46	80	19	22	27	290	40	379	357	*393*	*64*	*100*
Issue of preference shares	-	242	-	-	-	-	-	-	-	*-*	*-*	*-*
Other financing activities	(5)	45	-	44	17	40	20	121	77	*-*	*-*	*-*
F/X gain/(loss)	(4)	-	-	-	-	-	1	1	1	*-*	*-*	*-*
Net increase (decrease) in cash	**31**	**24**	**(7)**	**45**	**(23)**	**212**	**(190)**	**44**	**(1)**	***(109)***	**-**	**-**
Capital Structure												
Total debt	5,915	6,023	5,875	6,023	5,915	5,857	5,837	5,837		*6,225*	*6,728*	*7,062*
Non-controlling interest	123	162	122	162	175	178	205	205		*162*	*162*	*162*
Preference Shares	667	912	912	912	912	912	912	912		*912*	*912*	*912*
Shareholders' equity	3,193	3,305	3,255	3,305	3,397	3,738	3,809	3,809		*3,849*	*4,104*	*4,400*
Total capital	**9,898**	**10,402**	**10,164**	**10,402**	**10,399**	**10,685**	**10,763**	**10,763**		**11,148**	**11,906**	**12,535**
Cash and equivalents	85	109	64	109	86	298	108	108		-	-	-
Credit Ratios[2]												
Total Debt / Capital	59.8%	57.9%	57.8%	57.9%	56.9%	54.8%	54.2%	54.2%		*55.8%*	*56.5%*	*56.3%*
Adjusted Debt / Capital[2]	63.1%	62.3%	62.3%	62.3%	61.3%	59.1%	58.5%	58.5%		*59.9%*	*60.3%*	*60.0%*
Net Debt / Capital	59.4%	57.5%	57.5%	57.5%	56.5%	53.5%	53.8%	53.8%		*55.8%*	*56.5%*	*56.3%*
Net Adjusted Debt / Capital[2]	62.8%	61.9%	62.0%	61.9%	60.9%	57.9%	58.0%	58.0%		*59.9%*	*60.3%*	*60.0%*
(FFO + interest) / interest	2.9x	3.0x	2.9x	3.0x	3.1x	3.2x	3.1x	3.1x		*3.0x*	*3.1x*	*3.1x*
EBITDA / interest	2.9x	3.2x	3.1x	3.2x	3.2x	3.2x	3.3x	3.3x		*3.4x*	*3.6x*	*3.5x*
EBIT / interest	1.9x	2.0x	2.0x	2.0x	2.1x	2.1x	2.1x	2.1x		*2.4x*	*2.5x*	*2.5x*
Total Debt / EBITDA	5.6x	5.2x	5.2x	5.2x	5.0x	4.9x	4.9x	4.9		*5.1*	*5.1*	*5.0*
FFO / Total Debt	11.7%	12.2%	11.9%	12.3%	13.1%	13.6%	13.4%	13.4%		*11.4%*	*11.7%*	*11.8%*

1. Issue of common shares includes the company's DRIP, which we have assumed to be $100MM in 2011 and 2012.

2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

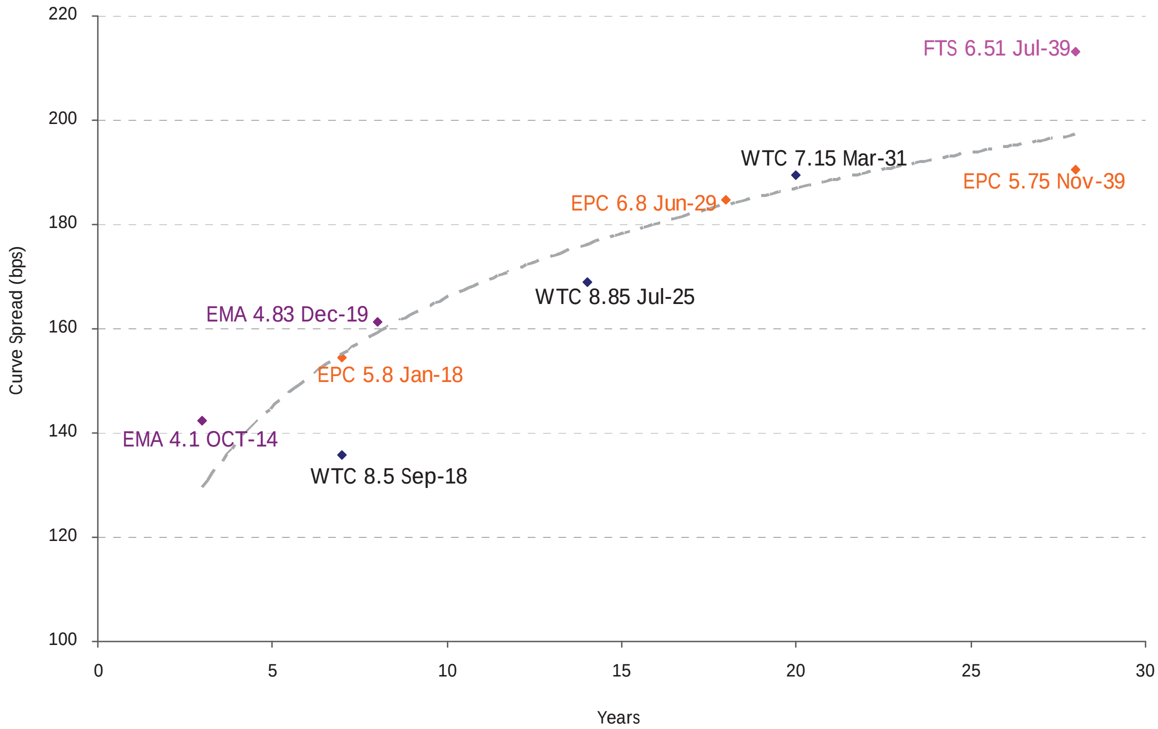
Source: Company reports, RBC Capital Markets estimates

Exhibit 2: Capital Spending by Subsidiary ($ millions)

	FortisBC Energy Companies	FortisAlberta	FortisBC	Newfoundland Power	Other Reglated Electric Utilities - Canada	**Total Regulated Utilities - Canada**	Regulated Utilities - Caribbean	Non-Regulated - Utility	Fortis Properties	**Total**
2011F	271	420	99	73	46	**909**	83	183	27	**1,202**
2010A	253	379	139	78	48	**897**	72	85	19	**1,073**

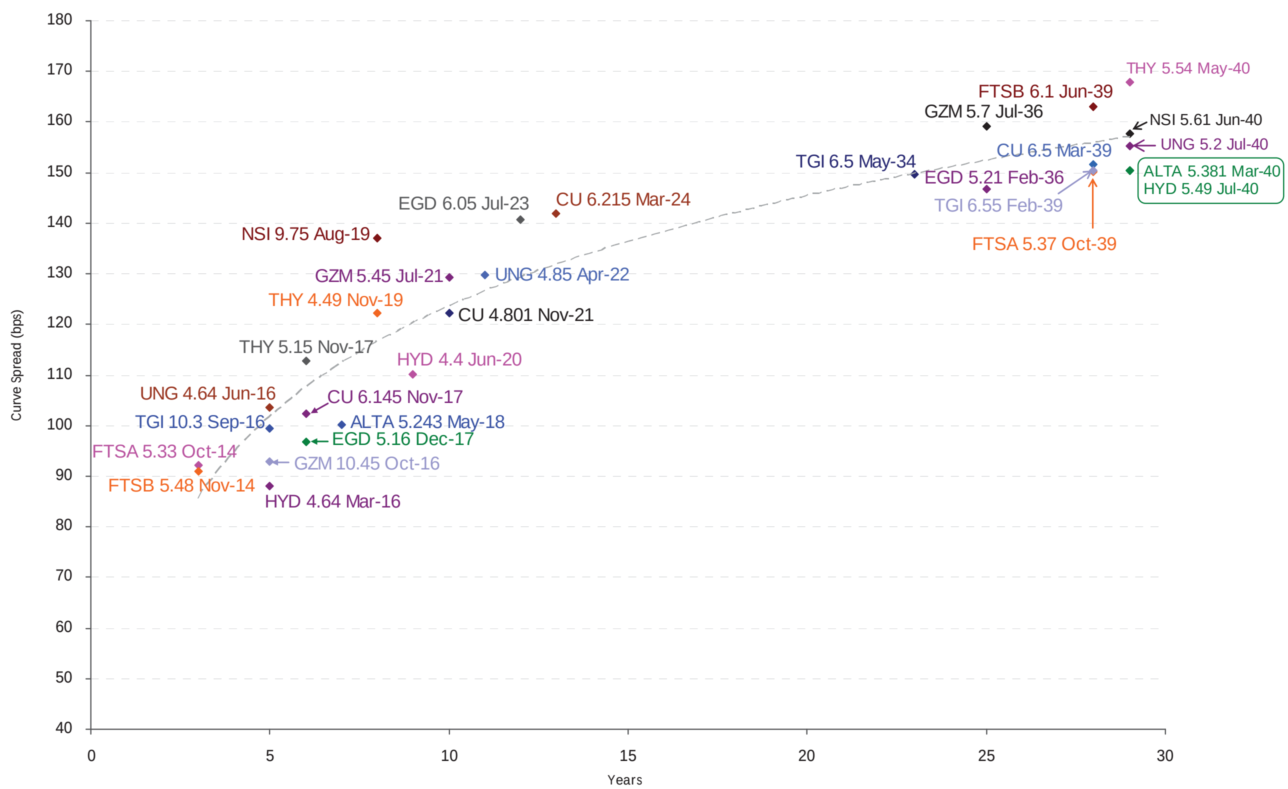
Source: Company reports

Exhibit 3: Relative Value Chart – Canadian Utility Holding Companies



Source: RBC Capital Markets Research

Exhibit 4: Relative Value Chart – Canadian Regulated Utilities



Source: RBC Capital Markets Research

Exhibit 5: Fortis Inc and Subsidiary Bonds Outstanding

Issuer Name	Amount ($MM)	Currency	Coupon	Maturity	Issue Date	Call	Collateral
Fortis Inc.	125	USD	3.53%	12/21/2020	12/22/2010		Senior Unsecured
Fortis Inc.	200	CAD	6.51%	07/04/2039	06/26/2009	Call +65 bps	Senior Unsecured
Fortis Inc.	75	USD	5.26%	12/21/2040	12/22/2010		Senior Unsecured
Total Fortis Inc.	**400**						
Terasen Inc.	**125**	CAD	5.56%	09/15/2014	09/10/2004	Call +23 bps	Senior Unsecured

Issuer Name	Amount ($MM)		Coupon	Maturity	Issue Date	Call	Collateral
Terasen Gas:							
BC Gas Utility[1,2]	75	CAD	11.80%	09/30/2015	11/14/1990	Putable, non-call	Mortgage
BC Gas Utility[1,2]	200	CAD	10.30%	09/30/2016	11/08/1991	Call +35 bps	Mortgage
BC Gas Utility[1,2]	150	CAD	6.95%	09/21/2029	09/16/1999	Call +28 bps	Senior Unsecured
Terasen Gas Inc.[2]	150	CAD	6.50%	05/01/2034	04/26/2004	Call +31 bps	Senior Unsecured
Terasen Gas Inc.[2]	150	CAD	5.90%	02/26/2035	02/22/2005	Call +29 bps	Senior Unsecured
Terasen Gas Inc.[2]	120	CAD	5.55%	09/25/2036	09/20/2006	Call +34 bps	Senior Unsecured
Terasen Gas Inc.[2]	250	CAD	6.00%	10/02/2037	09/27/2007	Call +37 bps	Senior Unsecured
Terasen Gas Inc.[2]	250	CAD	5.80%	05/13/2038	05/08/2008	Call +40 bps	Senior Unsecured
Terasen Gas Vancouver[3]	250	CAD	6.05%	02/15/2038	02/7/2008	Call +46 bps	Senior Unsecured
Terasen Gas Inc.[2]	100	CAD	6.55%	02/24/2039	02/24/2009	Call +71 bps	Senior Unsecured
Terasen Gas Vancouver[3]	100	CAD	5.20%	06/12/2040	12/2/2010	Call +40 bps	Senior Unsecured
Total Terasen Gas	**1,445**						
Total TGV	**350**						

Issuer Name	Amount ($MM)		Coupon	Maturity	Issue Date	Call	Collateral
FortisAlberta	200	CAD	5.33%	10/31/2014	10/15/2004	Call +18 bps	Senior Unsecured
FortisAlberta	200	CAD	6.22%	10/31/2034	10/15/2004	Call +28 bps	Senior Unsecured
FortisAlberta	100	CAD	5.40%	04/21/2036	04/06/2006	Call +25 bps	Senior Unsecured
FortisAlberta	100	CAD	5.85%	04/15/2038	04/08/2008	Call +45 bps	Senior Unsecured
FortisAlberta	100	CAD	7.06%	02/14/2039	02/10/2009	Call +80 bps	Senior Unsecured
FortisAlberta	125	CAD	5.37%	10/30/2039	10/30/2009	Call +34.5 bps	Senior Unsecured
FortisAlberta	110	CAD	4.99%	01/03/2047	12/08/2006	Call +24 bps	Senior Unsecured
FortisAlberta	125	CAD	4.54%	10/18/2041	10/14/2011	Call +39.5 bps	Senior Unsecured
FortisAlberta	125	CAD	4.80%	10/27/2050	10/22/2010	Call +33.5 bps	Senior Unsecured
Total FortisAlberta	**1,185**						

Issuer Name	Amount ($MM)		Coupon	Maturity	Issue Date	Call	Collateral
West Kootenay P&L	15	CAD	9.65%	10/16/2012	10/16/1992	Call +40 bps	Senior Secured
FortisBC Inc.	140	CAD	5.48%	11/28/2014	11/23/2004	Call +24 bps	Senior Unsecured
West Kootenay P&L	25	CAD	8.80%	08/28/2023	08/27/1993	Call +40 bps	Senior Secured
FortisBC Inc.	100	CAD	5.60%	11/09/2035	10/27/2005	Call +30 bps	Senior Unsecured
FortisBC Inc.	105	CAD	6.10%	06/02/2039	06/02/2009	Call +49 bps	Senior Unsecured
FortisBC Inc.	105	CAD	5.90%	07/04/2047	06/22/2007	Call +31 bps	Senior Unsecured
FortisBC Inc.	100	CAD	5.00%	11/24/2050	11/19/2010	Call +33.5 bps	Senior Unsecured
Total FortisBC	**590**						

Issuer Name	Amount ($MM)		Coupon	Maturity	Issue Date	Call	Collateral
Newfoundland Light & Power	40	CAD	10.55%	08/01/2014	07/20/1989	Call +50 bps	First Mortgage
Newfoundland Light & Power	33	CAD	10.90%	05/02/2016	04/10/1991	Call +50 bps	First Mortgage
Newfoundland Light & Power	40	CAD	9.00%	10/01/2020	09/08/1992	Call +30 bps	First Mortgage
Newfoundland Light & Power	40	CAD	10.125%	06/15/2022	05/19/1992	Call +37 bps	First Mortgage
Newfoundland Light & Power	40	CAD	8.90%	05/07/2026	04/18/1996	Call +20 bps	First Mortgage
Newfoundland Power	50	CAD	6.80%	11/20/2028	11/02/1998	Non-call	First Mortgage
Newfoundland Power	71	CAD	7.52%	11/01/2032	10/16/2002	Call +46 bps	First Mortgage
Newfoundland Power	60	CAD	5.441%	08/15/2035	08/10/2005		First Mortgage
Newfoundland Light & Power	70	CAD	5.901%	08/17/2037	08/13/2007	Call +35 bps	First Mortgage
Newfoundland Power	65	CAD	6.606%	05/25/2039	08/10/2005	Call +50 bps	First Mortgage
Total Newfoundland Power	**508**						
Maritime Electric	**60**	CAD	6.054%	04/2/2038	03/27/2008	Call +50 bps	First Mortgage
Total Bonds Outstanding	**4,663**						

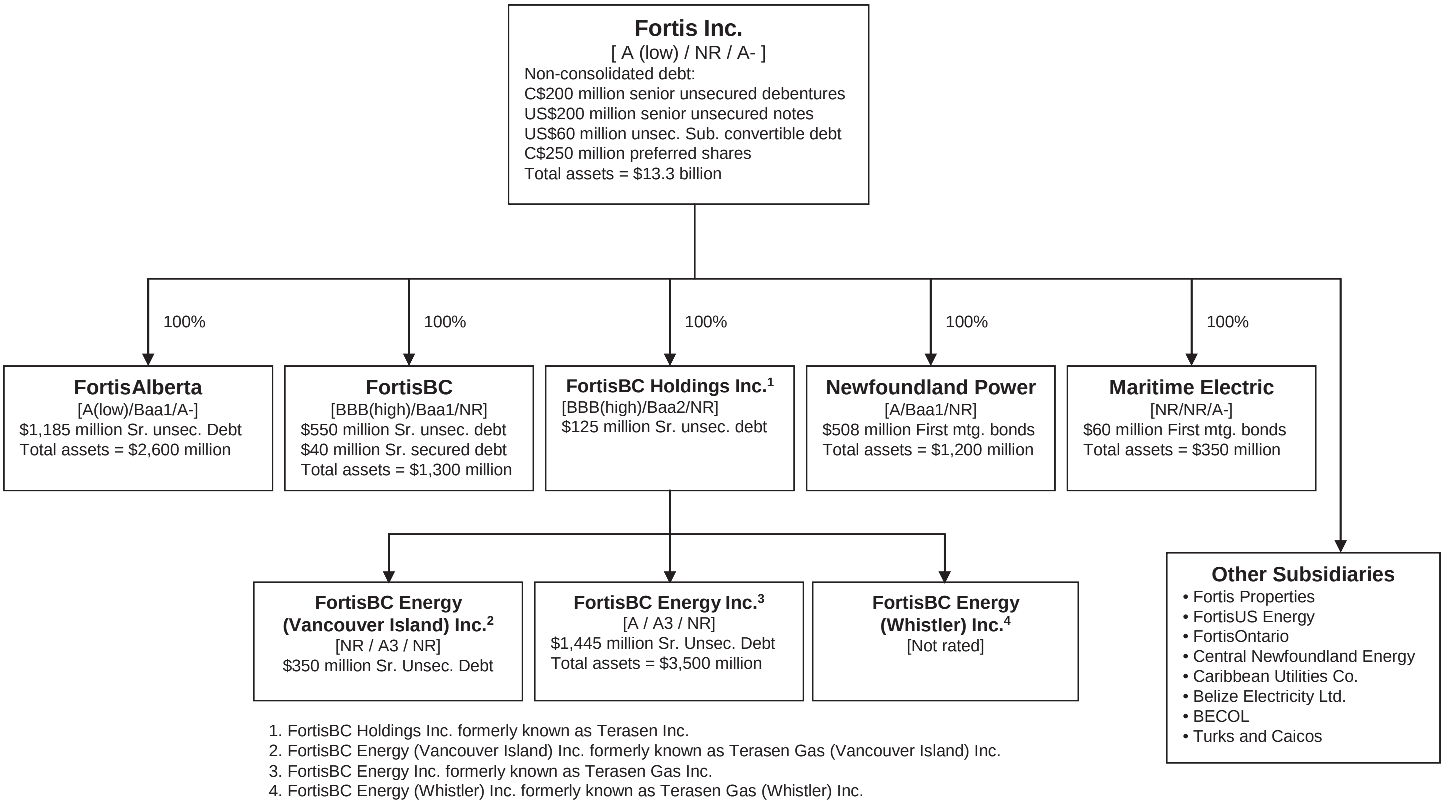
(1) Terasen Gas Inc. was formerly called BC Gas Utility.

(2) Terasen Gas Inc. has been renamed as FortisBC Energy Inc.

(3) Terasen Gas (Vancouver Island) Inc. has been renamed as FortisBC Energy (Vancouver Island) Inc.

Source: Company reports, RBC Capital Markets Research

Exhibit 6: Fortis Inc Organizational Structure

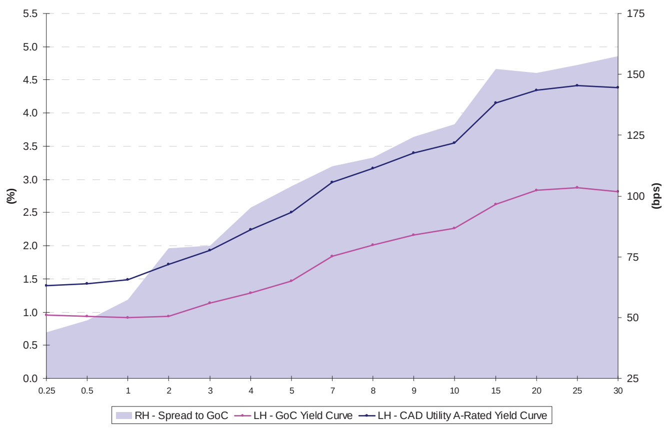


Source: Company reports, RBC Capital Markets Research

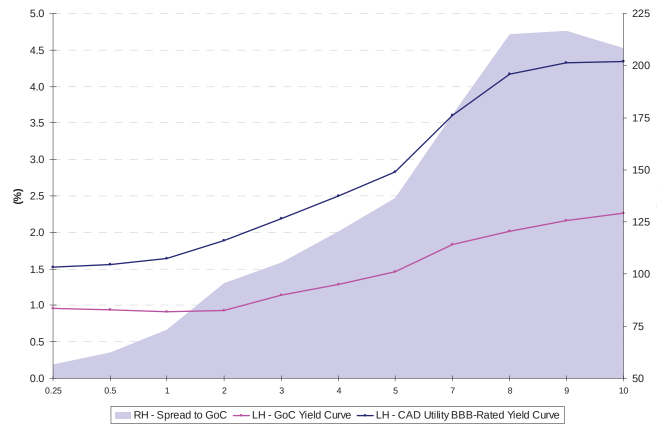
Diversified group of regulated utility operating companies provide stability: Fortis' diversified portfolio of low-risk monopoly electricity and gas distribution utilities provides a stable source of cash flow to service holdco debt. Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service holdco debt. In turn, Fortis regularly injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.

Change in Market Yields & Spreads

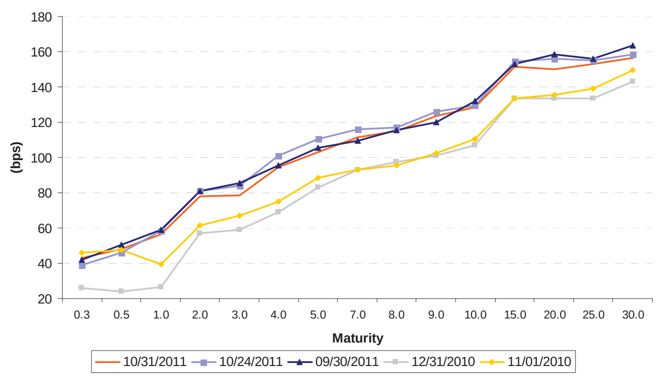
A Rated Utility Yield Curve & Spread to GoC



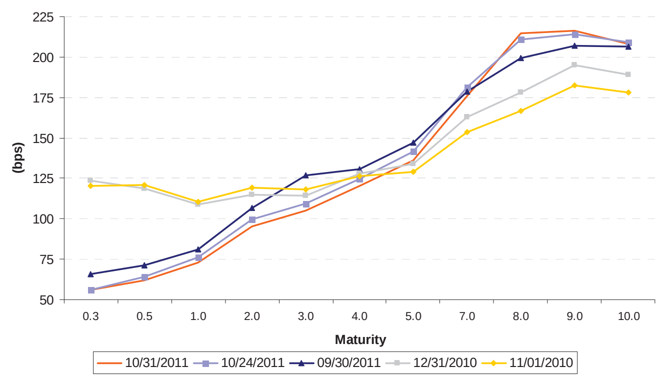
BBB Rated Utility Yield Curve & Spread to GoC



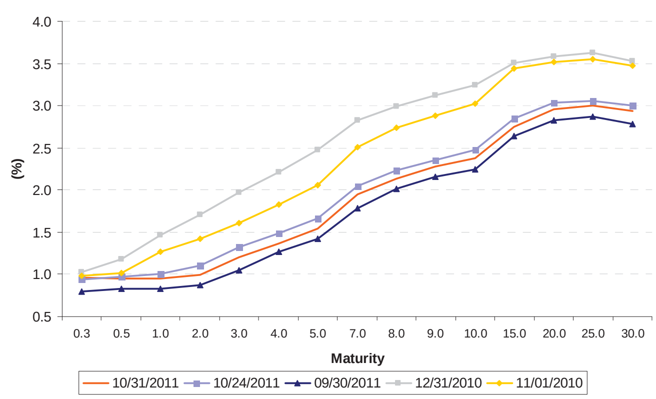
A Rated Utility Yield Curve



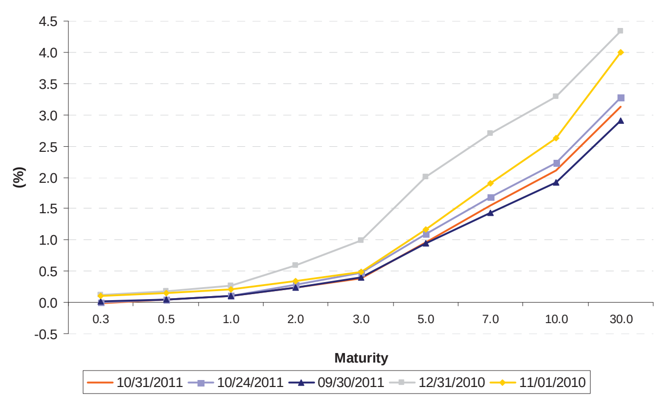
BBB Rated Utility Yield Curve



GoC Yield Curve



U.S. Yield Curve



	5 Yr GoC Yield (%)	10 Yr GoC Yield (%)	30 Yr GoC Yield (%)	10 Yr A-Rated Utility Yield (%)	20 Yr A-Rated Utility Yield (%)	30 Yr A-Rated Utility Yield (%)	5 Yr BBB-Rated Utility Yield (%)	10 Yr BBB-Rated Utility Yield (%)	10 Yr A-Rated Utility Spreads (bps)	20 Yr A-Rated Utility Spreads (bps)	30 Yr A-Rated Utility Spreads (bps)	5 Yr BBB-Rated Utility Spreads (bps)	10 Yr BBB-Rated Utility Spreads (bps)
Q1/11	0.28	0.25	0.24	0.25	0.21	0.19	0.13	0.12	0.38	-1.91	-4.41	-15.70	-12.92
Q2/11	-0.08	-0.05	0.02	0.07	0.05	0.04	-0.15	-0.15	11.56	6.58	2.30	-6.04	-10.38
Q3/11	-1.15	-1.08	-0.82	-0.84	-0.60	-0.64	-0.99	-0.86	24.37	23.38	18.70	15.57	21.38
YTD	-0.92	-0.86	-0.59	-0.64	-0.46	-0.45	-0.90	-0.67	21.67	16.47	13.54	2.10	19.20
YoY	-0.51	-0.65	-0.53	-0.47	-0.41	-0.46	-0.44	-0.35	18.03	14.56	7.01	7.12	29.71
MoM	0.13	0.13	0.16	0.10	0.05	0.09	0.02	0.15	-3.30	-8.31	-7.06	-10.75	1.65
WoW	-0.11	-0.09	-0.06	-0.10	-0.14	-0.08	-0.17	-0.11	-0.91	-6.02	-2.01	-5.34	-1.32

Source: Bloomberg, RBC Capital Markets

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COMPANY UPDATE | **CANADIAN CREDIT COMMENT**

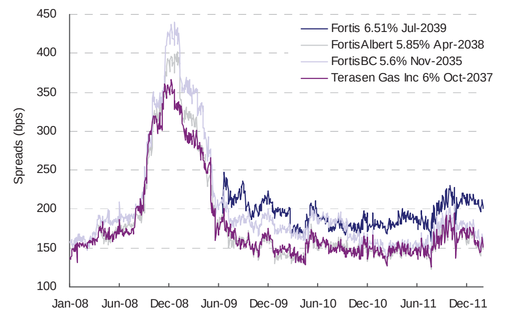
FEBRUARY 10, 2012

Fortis Inc.

Q4/11: Another Record Capex Year Ahead

Fortis Inc.	**Sector Perform**
FortisAlberta Inc.	**Sector Perform**
FortisBC Inc.	**Sector Perform**
FortisBC Energy Inc.	**Sector Perform**
FortisBC Energy (Van. Island) Inc.	**Outperform**
Newfoundland Power Inc.	**Sector Perform**

Historical Spreads



Source: ADI

Fortis Inc. Credit Summary

Cash Flow Summary ($MM)	2010	2011	*2012E*	*2013E*
EBITDA	1,150	1,185	*1,325*	*1,404*
FFO	**734**	**806**	***849***	***898***
Capital expenditures	(1,073)	(1,174)	*(1,300)*	*(1,100)*
Dividends	(281)	(189)	*(234)*	*(242)*
Gross FCF	**(620)**	**(557)**	***(685)***	***(444)***
Changes in w/c	49	98	-	-
FCF after w/c	(571)	(459)	*(685)*	*(444)*
Acquisitions	-	-	-	-
Other investing	82	49	-	-
FCF before financing	**(489)**	**(410)**	***(685)***	***(444)***
Debt issuance/(repay.)	146	(36)	*532*	*344*
Common issuance	80	345	*64*	*100*
Preferred issuance	242	-	-	-
Other financing	45	81	-	-
Net change in cash	**24**	**(20)**	***(89)***	**-**
Capital Structure ($MM)				
Total debt	6,023	5,944	*6,476*	*6,820*
Non-controlling int.	162	208	*208*	*208*
Preference Shares	912	912	*912*	*912*
Shareholders' equity	3,305	3,877	*4,189*	*4,552*
Total capital	**10,402**	**10,941**	***11,785***	***12,492***
Cash and equivalents	109	89	-	-
Credit Ratios				
Adjusted Debt / Capital[1]	62%	58%	*59%*	*58%*
Net Adj. Debt / Capital[1]	62%	58%	*59%*	*58%*
EBITDA / interest	3.2x	3.2x	*3.6x*	*3.6x*
EBIT / interest	2.0x	2.1x	*2.5x*	*2.5x*
Total Debt / EBITDA	5.2x	5.0x	*4.9x*	*4.9x*
FFO / Total Debt	12.2%	13.6%	*13.1%*	*13.2%*
Credit Ratios		**DBRS**	**S&P**	***Moody's***
Rating		A(L)	A-	NR
Outlook		Stable	Stable	-

1. 50% equity and 50% debt treatment to pref. shares

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All values in Canadian dollar unless otherwise noted.

Fortis reports Q4/11 (Credit Neutral): Fortis reported Q4/11 normalized EPS of $0.46 compared to RBC and consensus estimates of $0.49 and $0.47. The variance was primarily driven by Caribbean Regulated Utilities and Properties. Overall, Canadian regulated utilities were largely in line with estimates. After accounting for capex and dividends, Fortis generated a Gross FCF deficit of $189MM (vs a deficit of $222MM in Q4/10) with new debt funding the gap. Key credit metrics were unchanged sequentially, ending the year with debt-to-EBITDA and EBITDA-to-interest of 4.9x and 3.3x, respectively (Exhibit 1).

Dividend boosted: In December 2011, Fortis announced a $0.01/share increase to its quarterly dividend to $0.30/share, representing an incremental increase in cash outlay of just under $2MM annually. Also during the quarter, the company's US$40MM convertible debentures were converted into 1.4MM common shares.

Regulatory update: In its December 2012 decision, the AUC pushed out its consideration for an automatic ROE adjustment formula for at least another year and lowered the allowed ROE for Alberta-based utilities (including FortisAlberta) to 8.75% for 2012, from 9.0% previously. Similarly, Newfoundland Power's regulator suspended the utility's automatic ROE adjustment formula, but retained its ROE at 8.38% for 2012, unchanged from 2011. These decisions are a direct reflection on the low government bond yield environment. We expect both provincial regulators to continue to assess automatic adjustment formulae for future rate years. In Alberta, the regulator is expected this year to decide on a 5-year performance based regulatory framework that could come into effect as early as 2013. The existing allowed ROEs for the FortisBC gas and electric utilities are to be maintained at 9.5% and 9.9%, respectively, pending the Generic Cost of Capital Proceeding expected to occur in early 2012.

Heavy capex continues into 2012 and beyond: Following a record capex of $1.2B in 2011, management is guiding towards another record year with $1.3B this year. Over the next five years, capex is expected to reach $5.5B.

Approximately $500MM in external funding expected in 2012: We think both FortisAlberta and FortisBC Energy Inc. will likely tap the debt capital markets again in 2012, each in the range of $100MM-$150MM. At the holding company level, Fortis Inc. may need to raise external capital in the order of $250MM-$300MM this year to fund projects such as the Waneta hydroelectric plant and equity injections down to its utility opcos.

HoldCo bonds still looking attractive: We continue to believe the discount on Fortis' HoldCo bonds versus its regulated OpCos provide good value. The healthy spread pick up of ~50bps (long duration bonds) to compensate for the structural subordination provides an attractive entry point, in our view, especially when considering the diversified and stable source of cash flows generated by its regulated utility subsidiaries. For investors concerned about a major acquisition, we believe management will remain disciplined (as it has been with past transaction) and will not lever up the balance sheet to complete an acquisition.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, please see Page 8.

Highlights

FortisAlberta's ROE lowered with Generic Cost of Capital decision in Alberta: On December 8, 2011, the Alberta Utilities Commission (AUC) released its Generic Cost of Capital (GCoC) decision, where the AUC: (i) reduced the allowed ROE for Alberta based utilities to 8.75% (from 9.0% previously) for 2012 and on an interim basis for 2013; and (ii) decided that it would not introduce a formula to automatically adjust allowed ROEs on an annual basis. The decision to reduce the ROE was applied retroactively to Q4/11, negatively impacting FortisAlberta's earnings by $2MM. As part of the process to finalize the 2013 ROE, the AUC noted that it would re-examine the potential to bring back a formula-based automatic adjustment mechanism. FortisAlberta filed a performance-based regulation ("PBR") proposal in July 2011, based on an AUC initiative to apply PBR as early as 2013 for a 5-year term.

Suspension of automatic adjustment formula for Newfoundland Power: On December 14, 2011, the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) approved the suspension of the automatic adjustment formula used to set Newfoundland Power's rate of return on its 2012 rate base. As a result of the suspension, Newfoundland Power's ROE remains at 8.38% with customer rates unchanged in 2012. This is a modest credit positive, in our view, as the ROE would have been much lower given the formula's linkage to the forecast of long-term Canada bond yields, which are near record lows. A full cost of capital review is expected to be held by the PUB in 2012.

Application filed to amalgamate BC gas utilities: Fortis filed an application with the BCUC in November 2011 to amalgamate its three BC-based gas utilities. The application was subsequently suspended by the utilities to provide additional information to BCUC. Pending approval from BCUC and consent from the BC government, the amalgamation will become effective January 1, 2013. If approved, the three utilities would form one legal entity and bonds issued by FortisBC Energy (FBCE) and FortisBC Energy (Vancouver Island) (FBCV) Inc. would rank parri-passu. Our Outperform rating on FBCV is based on the view that the spreads would tighten to trade in-line with FBCE bonds following the amalgamation.

Belize Update: The Government of Belize's independent valuation of Belize Electricity Ltd. (booked as a LT other asset totaling $106MM at the end of 2011) came in 'significantly lower' than the fair value determined by Fortis' independent valuator. The company is currently pursuing alternatives to obtain fair compensation from the government. For fixed income investors, we believe the outcome of the claim to be immaterial as the asset has contributed minimal earnings since 2008. With respect to the non-regulated hydroelectric generation assets in Belize, the Government of Belize has indicated that it does not plan to expropriate these assets.

A busy Q4 in the debt capital markets: During the quarter, four of Fortis' regulated utility subsidiaries issued a total of $307MM debt: (i) FortisAlberta issued $125MM 4.54% due 10/18/2041 at 158 bps; (ii) Maritime Electric issued $30MM 4.915% due 12/05/2061 at 220 bps; (iii) FortisBC Energy Inc. issued $100MM 4.25% due 12/09/2041 at 163 bps; and (iv) FortisOntario issued a $52MM 5.118% with a 30-year maturity. Proceeds from these debt offerings were mainly used to repay credit facility borrowings incurred to fund capex. In total, $688MM of capital was raised in 2011, including $341MM of common equity, with proceeds used to repay credit facility borrowings and inject equity into the regulated utilities in western Canada and the non-regulated Waneta Expansion project.

Work continues on Waneta Expansion: The 335MW hydroelectric project in BC is currently running on schedule and is projected to be in service in the spring of 2015 at an estimated cost of $900MM. To date, $244MM has been spent. The non-regulated asset will sell energy and capacity to BC Hydro and FortisBC Electric under a 40-year power sales contract.

Adequate liquidity: At the end of Q4/11, Fortis Inc and its subsidiaries had $89MM of cash on its book and $1.9B available under its $2.2B credit facilities. We believe the current liquidity is adequate to meet near-term funding requirements.

Outlook and Funding Expectations

Five-year capital program of $5.5B: Fortis has guided towards a five-year (out to 2016) capital spending program of $5.5B, which the company expects will be funded mainly at the subsidiary level. The company projects its consolidated rate base will reach $10.3B in 2016, compared to $8.1B in 2011, for a CAGR of approximately 5%. Under the plan, regulated electric utilities, including FortisAlberta and FortisBC Electric, will receive the bulk of the investment with 64%, followed by regulated gas utilities (23%) and non-regulated operations (13%).

Funding expectations: Fortis' utility subsidiaries (mainly FortisAlberta) will continue to require equity from Fortis in order to maintain regulated capital structures as these utilities grow their rate base. Fortis raises funds through a combination of debt, common equity, and preferred equity, such that consolidated leverage remains near 60%. Fortis' utility subsidiaries issue public debt in their own names, with proceeds used to fund capital spending and refinance debt maturities. There is only one small $15MM maturity at FortisBC in 2012 (Exhibit 5), hence new issuance this year will essentially be for the purpose of funding capex.

- **Fortis Inc.:** Fortis Inc. may need to raise external capital in the order of $250MM-$300MM this year to fund projects such as the Waneta hydroelectric plant and equity injections down to its utility opcos. Over the next few years, we expect capital funding to be a mix of debt and equity (common and prefs) to maintain consolidated debt in its capital structure below 60%.
- **FortisBC Energy:** In 2012, we think FortisBC Energy will need to borrow in the range of $100MM-$150MM and would require a $25-$30MM equity injection to fund capex (guidance of $244MM the FortisBC Energy group of companies) and dividends to it parent. FortisBC Energy had ~$65MM outstanding on its credit facility at the end of 2011. In 2011, FortisBC Energy issued $100MM in long-term debt and did not receive an equity injection.

- **FortisAlberta:** In 2011, the utility received $55MM in equity injections from its parent and issued $125MM in long term debt (noted above) to help fund $405MM in capex. FortisAlberta had $30MM drawn on its credit facilities at the end of 2011. For 2012, our estimate is that FortisAlberta could issue another $100MM-$150MM in debt in the latter part of the year and receive another $50MM-$60MM equity injection to fund capital spending ($419MM) and maintain its regulated capital structure.
- **FortisBC:** FortisBC last issued debt in 2010 ($100MM) and received a $10MM equity injection from Fortis Inc. that year. In 2011, FortisBC did not issue long-term debt or receive an equity injection from its parent, as the utility's capital program was funded with cash flow and $15MM in short term borrowing. We think FortisBC's borrowing requirements in 2012 will be minimal, as we estimate that the majority of its $111MM capex budget this year will be funded with FFO. We estimate the utility could draw in the order of $35MM on its credit facility this year. We also think equity contributions over the next couple of years will not be required.
- **Newfoundland Power:** We expect Newfoundland Power to fund the majority of its $82MM 2012 capital program with cash flow and a minimal amount of short-term borrowing. The last time we saw this utility issue debt was in 2007.

Exhibit 1: Fortis Inc. Historical Consolidated Financials and Forecasts

Fortis Inc.								*Forecast*	
Consolidated ($ millions)	**2010**	**2011**	**Q4/10**	**Q1/11**	**Q2/11**	**Q3/11**	**Q4/11**	***2012E***	***2013E***
Earnings Summary									
EBITDA	1,150	1,185	301	348	279	273	310	*1,325*	*1,404*
EBIT	740	766	198	245	176	168	202	*940*	*983*
Gross interest	361	370	90	94	93	92	90	*372*	*387*
Cash Flow Summary									
FFO	734	806	209	242	180	154	231	***849***	***898***
Capital Expenditures	(1,073)	(1,174)	(370)	(233)	(286)	(287)	(368)	*(1,300)*	*(1,100)*
Preferred dividends	(28)	(29)	(7)	(7)	(8)	(7)	(7)	*(28)*	*(28)*
Dividends (common & non-cont.)	(253)	(160)	(54)	(53)	(38)	(40)	(45)	*(206)*	*(214)*
Gross free cash flow (FCF)	**(620)**	**(557)**	**(222)**	**(51)**	**(152)**	**(180)**	**(189)**	***(685)***	***(444)***
Changes in working capital	49	98	(8)	57	48	(3)	(4)	-	-
Gross FCF after working capital	(571)	(459)	(230)	6	(104)	(183)	(193)	*(685)*	*(444)*
Divestitures / Acquisitions								-	-
Other investing activities	82	49	37	14	18	18	(1)	-	-
Free cash flow before financing	**(489)**	**(410)**	**(193)**	**20**	**(86)**	**(165)**	**(194)**	***(685)***	***(444)***
Debt drawn/(repaid)	146	(36)	172	(87)	(32)	(86)	168	*532*	*344*
Issue of common shares[1]	80	345	22	27	290	40	4	*64*	*100*
Issue of preference shares	242	-	-	-	-	-	-	-	-
Other financing activities	45	81	44	17	40	20	4	-	-
F/X gain/(loss)	-	-	-	-	-	1	(1)	-	-
Net increase (decrease) in cash	**24**	**(20)**	**45**	**(23)**	**212**	**(190)**	**(19)**	***(89.0)***	**-**
Capital Structure									
Total debt	6,023	5,944	6,023	5,915	5,857	5,837	5,944	*6,476*	*6,820*
Non-controlling interest	162	208	162	175	178	205	208	*208*	*208*
Preference Shares	912	912	912	912	912	912	912	*912*	*912*
Shareholders' equity	3,305	3,877	3,305	3,397	3,738	3,809	3,877	*4,189*	*4,552*
Total capital	**10,402**	**10,941**	**10,402**	**10,399**	**10,685**	**10,763**	**10,941**	**11,785**	**12,492**
Cash and equivalents	109	89	109	86	298	108	89	-	-
Credit Ratios[2]									
Total Debt / Capital	57.9%	54.3%	57.9%	56.9%	54.8%	54.2%	54.3%	*54.9%*	*54.6%*
Adjusted Debt / Capital[2]	62.3%	58.5%	62.3%	61.3%	59.1%	58.5%	58.5%	*58.8%*	*58.2%*
Net Debt / Capital	57.5%	54.0%	57.5%	56.5%	53.5%	53.8%	54.0%	*54.9%*	*54.6%*
Net Adjusted Debt / Capital[2]	61.9%	58.2%	61.9%	60.9%	57.9%	58.0%	58.2%	*58.8%*	*58.2%*
(FFO + interest) / interest	3.0x	3.2x	3.0x	3.1x	3.2x	3.1x	3.2x	*3.3x*	*3.3x*
EBITDA / interest	3.2x	3.2x	3.2x	3.2x	3.2x	3.3x	3.3x	*3.6x*	*3.6x*
EBIT / interest	2.0x	2.1x	2.0x	2.1x	2.1x	2.1x	2.1x	*2.5x*	*2.5x*
Total Debt / EBITDA	5.2x	5.0x	5.2x	5.0x	4.9x	4.9x	4.9x	*4.9*	*4.9*
FFO / Total Debt	12.2%	13.6%	12.3%	13.1%	13.6%	13.4%	13.6%	*13.1%*	*13.2%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

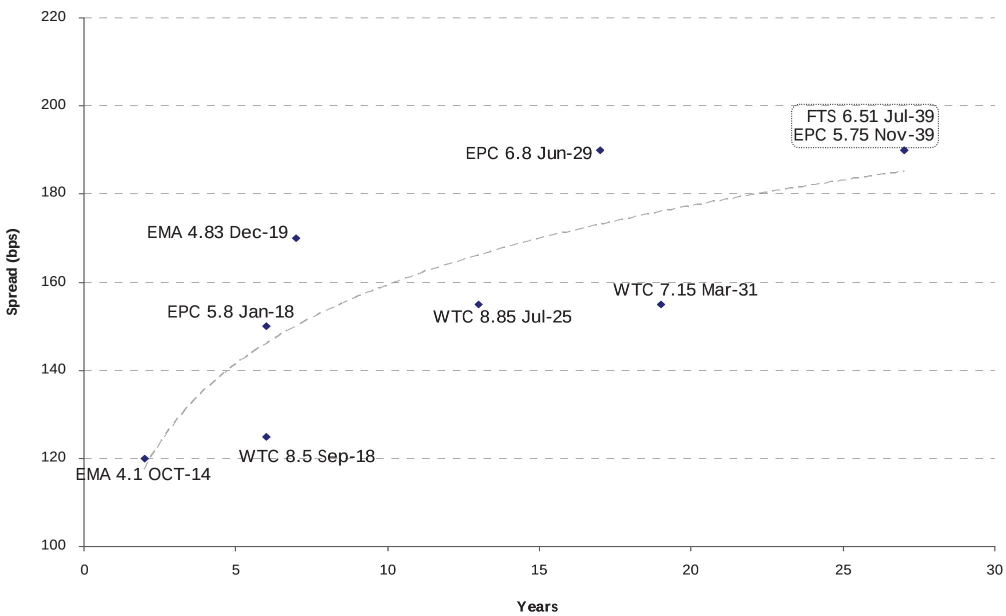
Source: Company reports, RBC Capital Markets estimates

Exhibit 2: Capital Spending by Subsidiary ($ millions)

	FortisBC Energy Companies	FortisAlberta	FortisBC	Newfoundland Power	Other Reglated Electric Utilities - Canada	**Total Regulated Utilities - Canada**	Regulated Utilities - Caribbean	Non-Regulated - Utility	Fortis Properties	**Total**
2011	253	416	102	81	47	**899**	71	174	30	**1,174**
2012F	244	419	111	82	61	**917**	55	256	63	**1,291**

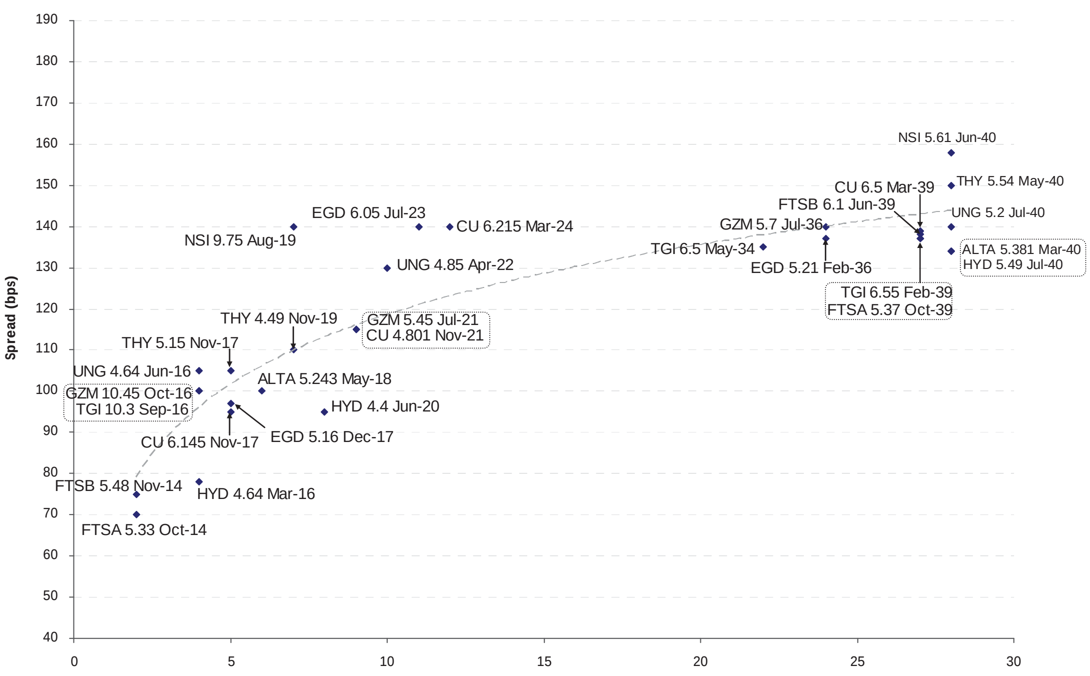
Source: Company reports

Exhibit 3: Relative Value Chart – Canadian Utility Holding Companies



Source: RBC Capital Markets

Exhibit 4: Relative Value Chart – Canadian Regulated Utilities



Source: RBC Capital Markets

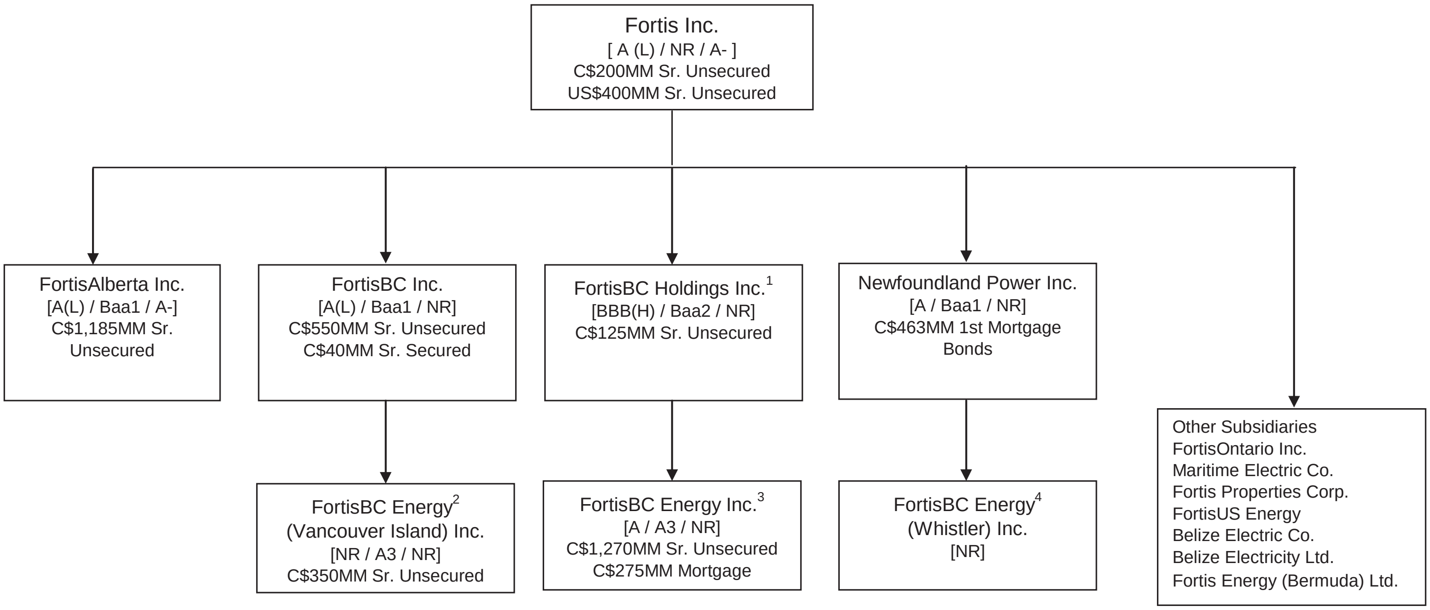
Exhibit 5: Fortis Inc. and Major Subsidiary Bonds Outstanding

Issuer Name	Amount ($MM)	Currency	Coupon	Maturity	Issue Date	Call	Collateral
Fortis Inc.	125	USD	3.53%	12/21/2020	12/22/2010		Senior Unsecured
Fortis Inc.	200	USD	6.60%	09/01/2037	09/6/2007		Senior Unsecured
Fortis Inc.	200	CAD	6.51%	07/04/2039	06/26/2009	Call +65 bps	Senior Unsecured
Fortis Inc.	75	USD	5.26%	12/21/2040	12/22/2010		Senior Unsecured
Total Fortis Inc.	**600**						
FortisBC Holdings	**125**	CAD	5.56%	09/15/2014	09/10/2004	Call +23 bps	Senior Unsecured
BC Gas Utility[1,2]	75	CAD	11.80%	09/30/2015	11/14/1990	Putable, non-call	Mortgage
BC Gas Utility[1,2]	200	CAD	10.30%	09/30/2016	11/08/1991	Call +35 bps	Mortgage
BC Gas Utility[1,2]	150	CAD	6.95%	09/21/2029	09/16/1999	Call +28 bps	Senior Unsecured
Terasen Gas Inc.[2]	150	CAD	6.50%	05/01/2034	04/26/2004	Call +31 bps	Senior Unsecured
Terasen Gas Inc.[2]	150	CAD	5.90%	02/26/2035	02/22/2005	Call +29 bps	Senior Unsecured
Terasen Gas Inc.[2]	120	CAD	5.55%	09/25/2036	09/20/2006	Call +34 bps	Senior Unsecured
Terasen Gas Inc.[2]	250	CAD	6.00%	10/02/2037	09/27/2007	Call +37 bps	Senior Unsecured
Terasen Gas Inc.[2]	250	CAD	5.80%	05/13/2038	05/08/2008	Call +40 bps	Senior Unsecured
Terasen Gas Vancouver[3]	250	CAD	6.05%	02/15/2038	02/7/2008	Call +46 bps	Senior Unsecured
Terasen Gas Inc.[2]	100	CAD	6.55%	02/24/2039	02/24/2009	Call +71 bps	Senior Unsecured
Terasen Gas Vancouver[3]	100	CAD	5.20%	06/12/2040	12/2/2010	Call +40 bps	Senior Unsecured
FortisBC Energy Inc.	100	CAD	4.25%	12/09/2041	12/06/2011	Call +41 bps	Senior Unsecured
FortisBC Energy Inc.	**1,545**						
FortisBC Energy (Van) Inc.	**350**						
FortisAlberta	200	CAD	5.33%	10/31/2014	10/15/2004	Call +18 bps	Senior Unsecured
FortisAlberta	200	CAD	6.22%	10/31/2034	10/15/2004	Call +28 bps	Senior Unsecured
FortisAlberta	100	CAD	5.40%	04/21/2036	04/06/2006	Call +25 bps	Senior Unsecured
FortisAlberta	100	CAD	5.85%	04/15/2038	04/08/2008	Call +45 bps	Senior Unsecured
FortisAlberta	100	CAD	7.06%	02/14/2039	02/10/2009	Call +80 bps	Senior Unsecured
FortisAlberta	125	CAD	5.37%	10/30/2039	10/30/2009	Call +34.5 bps	Senior Unsecured
FortisAlberta	125	CAD	4.54%	10/18/2041	10/14/2011	Call +39.5 bps	Senior Unsecured
FortisAlberta	110	CAD	4.99%	01/03/2047	12/08/2006	Call +24 bps	Senior Unsecured
FortisAlberta	125	CAD	4.80%	10/27/2050	10/22/2010	Call +33.5 bps	Senior Unsecured
Total FortisAlberta	**1,185**						
West Kootenay P&L	15	CAD	9.65%	10/16/2012	10/16/1992	Call +40 bps	Senior Secured
FortisBC Inc.	140	CAD	5.48%	11/28/2014	11/23/2004	Call +24 bps	Senior Unsecured
West Kootenay P&L	25	CAD	8.80%	08/28/2023	08/27/1993	Call +40 bps	Senior Secured
FortisBC Inc.	100	CAD	5.60%	11/09/2035	10/27/2005	Call +30 bps	Senior Unsecured
FortisBC Inc.	105	CAD	6.10%	06/02/2039	06/02/2009	Call +49 bps	Senior Unsecured
FortisBC Inc.	105	CAD	5.90%	07/04/2047	06/22/2007	Call +31 bps	Senior Unsecured
FortisBC Inc.	100	CAD	5.00%	11/24/2050	11/19/2010	Call +33.5 bps	Senior Unsecured
Total FortisBC	**590**						
Newfoundland Light & Power	30	CAD	10.55%	08/01/2014	07/20/1989	Call +50 bps	First Mortgage
Newfoundland Light & Power	32	CAD	10.90%	05/02/2016	04/10/1991	Call +50 bps	First Mortgage
Newfoundland Light & Power	34	CAD	9.00%	10/01/2020	09/08/1992	Call +30 bps	First Mortgage
Newfoundland Light & Power	33	CAD	10.125%	06/15/2022	05/19/1992	Call +37 bps	First Mortgage
Newfoundland Light & Power	34	CAD	8.90%	05/07/2026	04/18/1996	Call +20 bps	First Mortgage
Newfoundland Power	44	CAD	6.80%	11/20/2028	11/02/1998	Non-call	First Mortgage
Newfoundland Power	68	CAD	7.52%	11/01/2032	10/16/2002	Call +46 bps	First Mortgage
Newfoundland Power	56	CAD	5.441%	08/15/2035	08/10/2005		First Mortgage
Newfoundland Light & Power	67	CAD	5.901%	08/17/2037	08/13/2007	Call +35 bps	First Mortgage
Newfoundland Power	64	CAD	6.606%	05/25/2039	08/10/2005	Call +50 bps	First Mortgage
Total Newfoundland Power	**463**						
Total Bonds Outstanding	**4,858**						

(1) Terasen Gas Inc. was formerly called BC Gas Utility.
(2) Terasen Gas Inc. has been renamed as FortisBC Energy Inc.
(3) Terasen Gas (Vancouver Island) Inc. has been renamed as FortisBC Energy (Vancouver Island) Inc.

Source: Bloomberg, Company reports, RBC Capital Markets Research

Exhibit 6: Simplified Organizational Structure



1. FortisBC Holdings Inc. formerly known as Terasen Inc.
2. FortisBC Energy (Vancouver Island) Inc. formerly known as Terasen Gas (Vancouver Island) Inc.
3. FortisBC Energy Inc. formerly known as Terasen Gas Inc.
4. FortisBC Energy (Whistler) Inc. formerly known as Terasen Gas (Whistler) Inc.

Source: Bloomberg, Company reports, RBC Capital Markets Research

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis regularly injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.

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COMPANY UPDATE | **CANADIAN CREDIT COMMENT**

MAY 3, 2012

Fortis Inc.

Q1/12: In-line Results, Capital Spending Plan Maintained

Fortis Inc.	**Sector Perform***
FortisAlberta Inc.	**Sector Perform***
FortisBC Inc.	**Sector Perform***
FortisBC Energy Inc.	**Sector Perform***
FortisBC Energy (Van. Island) Inc.	**Outperform***
Newfoundland Power Inc.	**Sector Perform***

*Investment rankings on CAD debt

Fortis reports Q1/12 (credit neutral): Fortis reported Q1/12 normalized EPS of $0.66, in-line with RBC's estimate of $0.65 and $0.66 a year ago (adjusted for US GAAP conversion). Fortis generated a gross FCF deficit of $37MM after capex and dividends (vs. a deficit of $51MM in Q1/11). The shortfall was essentially funded by a positive swing in working capital. Key credit metrics were unchanged sequentially, with EBITDA-to-interest and debt-to-EBITDA of 3.3x and 5.1x, respectively (Exhibit 1). In our view, the key near-term credit driver for Fortis is the pending CH Energy acquisition that was announced in February 2012.

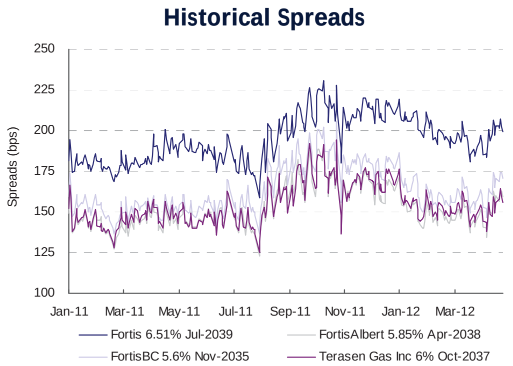
Capex budget maintained: Fortis has maintained its $1.3Bln capital spending budget for this year, and $5.5Bln over the five-year period 2012-2016.

Approximately $500MM in external funding expected in 2012: We think both FortisAlberta and FortisBC Energy Inc. will likely tap the debt capital markets again in 2012, each in the range of $100MM-$150MM. At the holding company level, Fortis Inc. may need to raise external capital in the order of $250MM-$300MM this year to fund projects such as the Waneta hydroelectric plant and equity injections down to its utility opcos. For more details on 2012 capital requirements by issuer, see our report on Fortis Q4/11 dated Feb. 10, 2012.

CH Energy acquisition expected to close by end of Q1/13: Fortis agreed to acquire CH Energy for approximately US$1.5Bln, including the assumption of about US$500MM of debt. Management indicated to us that the remaining US$1.0Bln will likely be funded with: (i) ~$500MM in common equity, (ii) $100MM to $150MM of preferreds, and (iii) USD 10-year holdco debt for the balance. Funding for the transaction will be premised on maintaining "A(low)/A-" level credit ratings. See Exhibit 3 for our estimate of the impact of the transaction on credit metrics. Fortis expects the transaction to close by the end of Q1/13.

Maintaining "A-" level credit ratings: In response to the transaction, S&P placed Fortis' "A-" rating on Credit Watch Negative, and DBRS placed its A(low) rating Under Review Developing. S&P pointed to concerns over increased holdco debt as a key ratings consideration, with a focus on consolidated adjusted FFO-to-debt remaining above 10% and company level debt coverage from subsidiary cash flow of at least 20%. In our conversations with S&P, the analysts also expressed concern beyond the CH Energy acquisition and the potential for a longer term trend of growing holdco debt as Fortis expands US operations further. DBRS would like to see Fortis' non-consolidated FFO-to-capital remain below 20% (currently 14%), which DBRS says is the upper threshold for an A(low) rating.

HoldCo bonds offer attractive pick-up: We believe the ~35bps discount on Fortis' HoldCo bonds versus its regulated OpCos provides good value. In our view the structural subordination at the Holdco level is offset by the well-diversified and stable source of cash flows generated by its regulated utility subsidiaries. With respect to acquisitions, we believe management will remain disciplined (as it has been with past transactions) in terms of the capital structure.



Source: ADI

Fortis Inc. Credit Summary

Cash Flow Summary ($MM)	2010	2011	*2012E*
EBITDA	1,150	1,185	*1,325*
FFO	**734**	**806**	***849***
Capital expenditures	(1,073)	(1,174)	*(1,300)*
Dividends	(281)	(189)	*(234)*
Gross FCF	**(620)**	**(557)**	***(685)***
Changes in w/c	49	98	-
FCF after w/c	(571)	(459)	*(685)*
Acquisitions	-	(25)	-
Other investing	82	74	-
FCF before financing	**(489)**	**(410)**	***(685)***
Debt issuance/(repay.)	146	(36)	*532*
Common issuance	80	345	*64*
Preferred issuance	242	-	-
Other financing	45	81	-
Net change in cash	**24**	**(20)**	***(89)***
Capital Structure ($MM)			
Total debt	6,023	5,944	*6,476*
Non-controlling int.	162	208	*208*
Preference Shares	912	912	*912*
Shareholders' equity	3,305	3,877	*4,189*
Total capital	**10,402**	**10,941**	***11,785***
Cash and equivalents	109	89	-
Credit Ratios			
Adjusted Debt / Capital[1]	62%	58%	*59%*
Net Adj. Debt / Capital[1]	62%	58%	*59%*
EBITDA / interest	3.2x	3.2x	*3.6x*
EBIT / interest	2.0x	2.1x	*2.5x*
Total Debt / EBITDA	5.2x	5.0x	*4.9x*
FFO / Total Debt	12.2%	13.6%	*13.1%*
Credit Ratios	**DBRS**	**S&P**	***Moody's***
Rating	A(L)	A-	NR
Outlook	U/R Dev.	CW-neg	-

1. 50% equity and 50% debt treatment to pref. shares

Source: RBC Capital Markets estimates, Company reports, Rating agencies

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All values in Canadian dollar unless otherwise noted.

Priced as of prior trading day's market close, ET (unless otherwise noted).

For Required Conflicts Disclosures, please see Page 8.

Exhibit 1: Fortis Inc. Historical Consolidated Financials and Forecasts

Fortis Inc. Consolidated ($ millions)	2010	2011	Q1/11	Q2/11	Q3/11	Q4/11	Q1/12	*2012E*
Earnings Summary								
EBITDA	1,150	1,185	348	279	273	310	369	*1,325*
EBIT	740	766	245	176	168	202	250	*940*
Gross interest	361	372	94	93	92	93	95	*372*
Cash Flow Summary								
FFO	734	806	242	180	154	231	249	***849***
Capital Expenditures	(1,073)	(1,174)	(233)	(286)	(287)	(368)	(229)	*(1,300)*
Preferred dividends	(28)	(29)	(7)	(8)	(7)	(7)	(11)	*(28)*
Dividends (common & non-cont.)	(253)	(160)	(53)	(38)	(40)	(45)	(46)	*(206)*
Gross free cash flow (FCF)	**(620)**	**(557)**	**(51)**	**(152)**	**(180)**	**(189)**	**(37)**	***(685)***
Changes in working capital	49	98	57	48	(3)	(4)	79	-
Gross FCF after working capital	(571)	(459)	6	(104)	(183)	(193)	42	*(685)*
Divestitures / Acquisitions	-	(25)	-	-	-	(25)	-	-
Other investing activities	82	74	14	18	18	24	18	-
Free cash flow before financing	**(489)**	**(410)**	**20**	**(86)**	**(165)**	**(194)**	**60**	***(685)***
Debt drawn/(repaid)	146	(36)	(87)	(32)	(86)	168	(80)	*532*
Issue of common shares[1]	80	345	27	290	40	4	2	*64*
Issue of preference shares	242	-	-	-	-	-	-	-
Advances from non-controlling	45	81	17	40	20	4	41	-
F/X gain/(loss)	-	-	-	-	1	(1)	-	-
Net increase (decrease) in cash	**24**	**(20)**	**(23)**	**212**	**(190)**	**(19)**	**23**	***(89.0)***
Capital Structure								
Total debt	6,023	5,944	5,915	5,857	5,837	5,944	6,296	*6,476*
Non-controlling interest	162	208	175	178	205	208	246	*208*
Preference Shares	912	912	912	912	912	912	912	*912*
Shareholders' equity	3,305	3,877	3,397	3,738	3,809	3,877	3,901	*4,189*
Total capital	**10,402**	**10,941**	**10,399**	**10,685**	**10,763**	**10,941**	**11,355**	**11,785**
Cash and equivalents	109	89	86	298	108	89	110	-
Credit Ratios[2]								
Total Debt / Capital	57.9%	54.3%	56.9%	54.8%	54.2%	54.3%	55.4%	*54.9%*
Adjusted Debt / Capital[2]	62.3%	58.5%	61.3%	59.1%	58.5%	58.5%	59.5%	*58.8%*
Net Debt / Capital	57.5%	54.0%	56.5%	53.5%	53.8%	54.0%	55.0%	*54.9%*
Net Adjusted Debt / Capital[2]	61.9%	58.2%	60.9%	57.9%	58.0%	58.2%	59.1%	*58.8%*
(FFO + interest) / interest	3.0x	3.2x	3.1x	3.2x	3.1x	3.2x	3.2x	*3.3x*
EBITDA / interest	3.2x	3.2x	3.2x	3.2x	3.3x	3.3x	3.3x	*3.6x*
EBIT / interest	2.0x	2.1x	2.1x	2.1x	2.1x	2.1x	2.1x	*2.5x*
Total Debt / EBITDA	5.2x	5.0x	5.0x	4.9x	4.9x	5.0x	5.1x	*4.9*
FFO / Total Debt	12.2%	13.6%	13.1%	13.6%	13.4%	13.6%	12.9%	*13.1%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

Exhibit 2: Capital Spending by Subsidiary ($ millions)

	FortisBC Energy Companies	FortisAlberta	FortisBC	Newfoundland Power	Other Reglated Electric Utilities - Canada	**Total Regulated Utilities - Canada**	Regulated Utilities - Caribbean	Non-Regulated - Utility	Fortis Properties	**Total**
2011	253	416	102	81	47	**899**	71	174	30	**1,174**
2012F	244	419	111	82	61	**917**	55	256	63	**1,291**

Source: Company reports

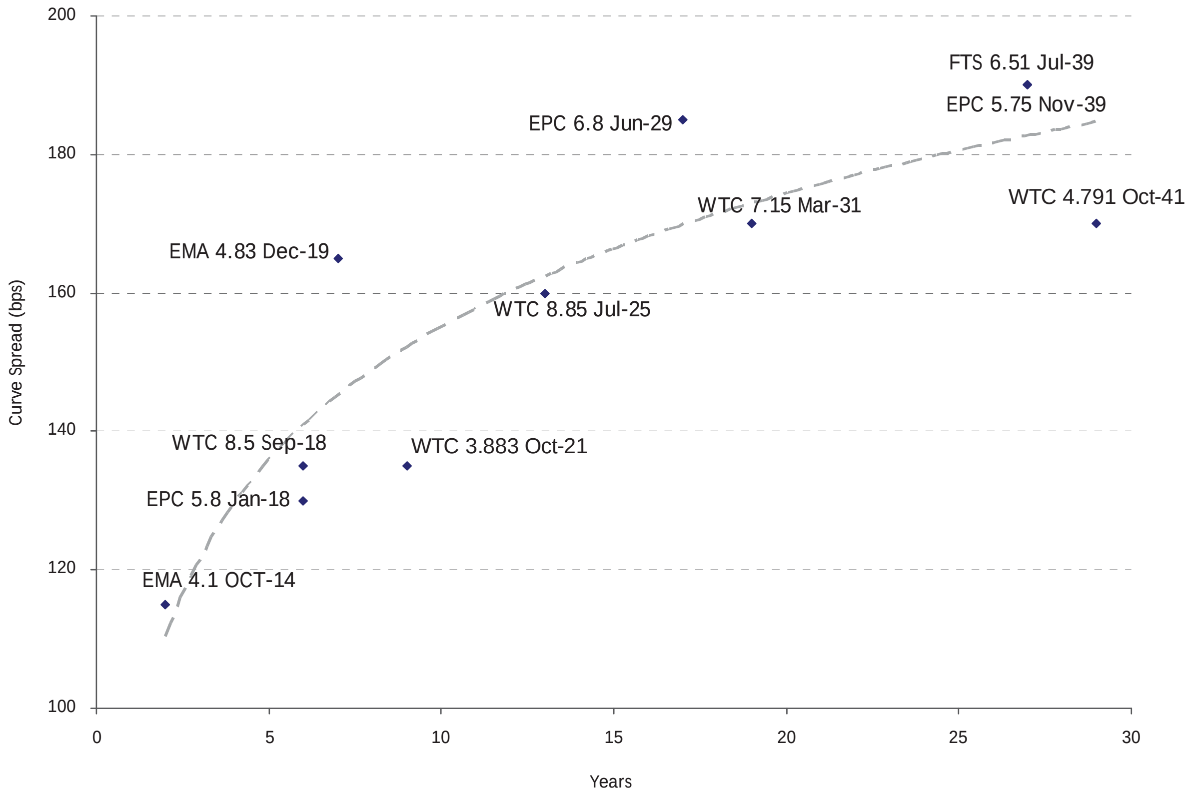
Exhibit 3: CH Energy Acquisition

CHE Acquisition	**Fortis***	**CH***	**Post**
Total debt	5,944	850	*6,794*
Non-controlling interest	208	-	*208*
Preference Shares	912	150	*1,062*
Shareholders' equity	3,877	500	*4,377*
Total capital	10,941	1,500	*12,441*
EBITDA	1,185	141	*1,326*
FFO	806	120	*926*
Total Debt / Capital	54.3%	56.7%	*54.6%*
Adjusted Debt / Capital	58.5%	61.7%	*58.9%*
FFO/Debt	13.6%	14.1%	*13.6%*
Debt/EBITDA	5.0x	6.0x	*5.1x*

*2011 financials

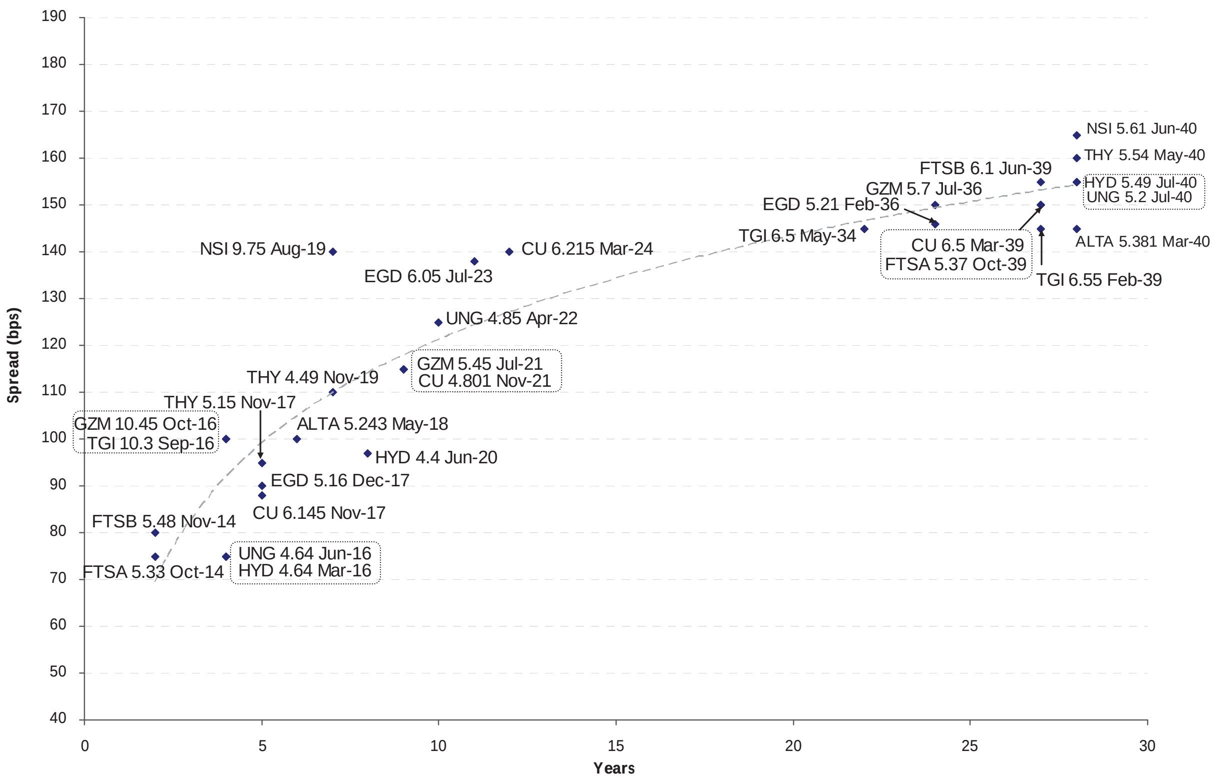
Source: RBC Capital Markets estimates, Bloomberg

Exhibit 4: Relative Value Chart – Canadian Utility Holding Companies



Source: RBC Capital Markets

Exhibit 5: Relative Value Chart – Canadian Regulated Utilities



Source: RBC Capital Markets

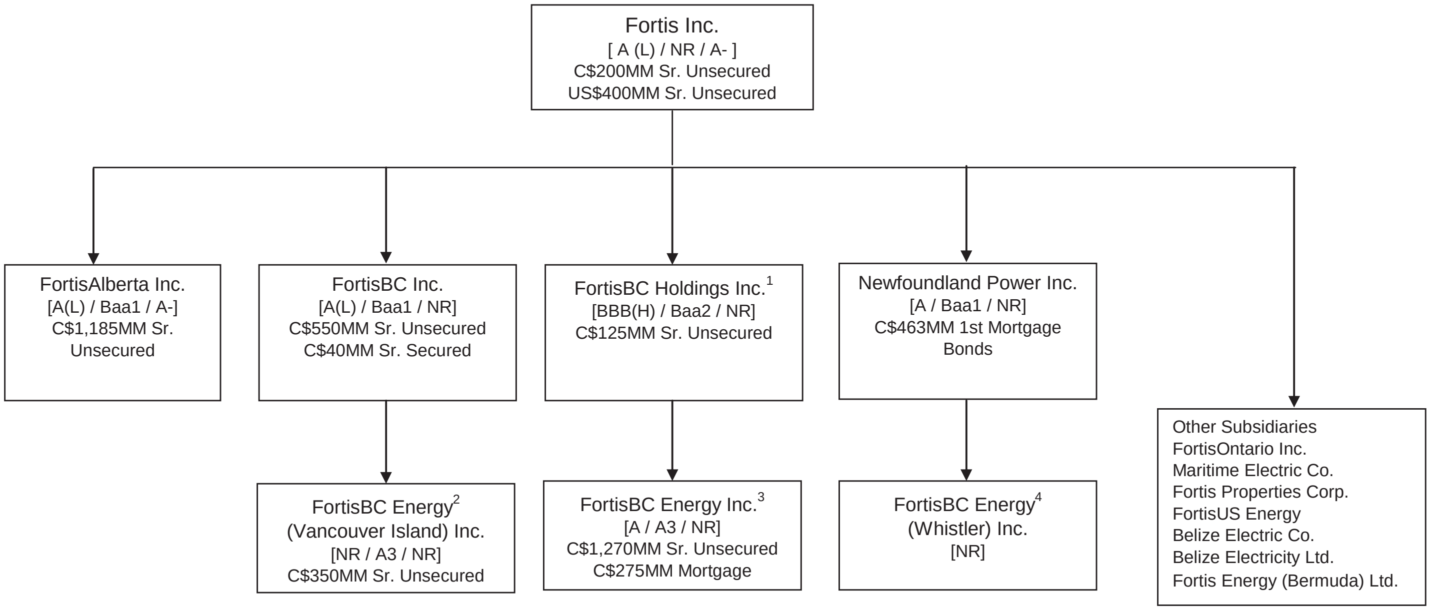
Exhibit 6: Fortis Inc. and Major Subsidiary Bonds Outstanding

Issuer Name	Amount ($MM)	Currency	Coupon	Maturity	Issue Date	Call	Collateral
Fortis Inc.	125	USD	3.53%	12/21/2020	12/22/2010		Senior Unsecured
Fortis Inc.	200	USD	6.60%	09/01/2037	09/6/2007		Senior Unsecured
Fortis Inc.	200	CAD	6.51%	07/04/2039	06/26/2009	Call +65 bps	Senior Unsecured
Fortis Inc.	75	USD	5.26%	12/21/2040	12/22/2010		Senior Unsecured
Total Fortis Inc.	**600**						
FortisBC Holdings	**125**	CAD	5.56%	09/15/2014	09/10/2004	Call +23 bps	Senior Unsecured
BC Gas Utility[1,2]	75	CAD	11.80%	09/30/2015	11/14/1990	Putable, non-call	Mortgage
BC Gas Utility[1,2]	200	CAD	10.30%	09/30/2016	11/08/1991	Call +35 bps	Mortgage
BC Gas Utility[1,2]	150	CAD	6.95%	09/21/2029	09/16/1999	Call +28 bps	Senior Unsecured
Terasen Gas Inc.[2]	150	CAD	6.50%	05/01/2034	04/26/2004	Call +31 bps	Senior Unsecured
Terasen Gas Inc.[2]	150	CAD	5.90%	02/26/2035	02/22/2005	Call +29 bps	Senior Unsecured
Terasen Gas Inc.[2]	120	CAD	5.55%	09/25/2036	09/20/2006	Call +34 bps	Senior Unsecured
Terasen Gas Inc.[2]	250	CAD	6.00%	10/02/2037	09/27/2007	Call +37 bps	Senior Unsecured
Terasen Gas Inc.[2]	250	CAD	5.80%	05/13/2038	05/08/2008	Call +40 bps	Senior Unsecured
Terasen Gas Vancouver[3]	250	CAD	6.05%	02/15/2038	02/7/2008	Call +46 bps	Senior Unsecured
Terasen Gas Inc.[2]	100	CAD	6.55%	02/24/2039	02/24/2009	Call +71 bps	Senior Unsecured
Terasen Gas Vancouver[3]	100	CAD	5.20%	06/12/2040	12/2/2010	Call +40 bps	Senior Unsecured
FortisBC Energy Inc.	100	CAD	4.25%	12/09/2041	12/06/2011	Call +41 bps	Senior Unsecured
FortisBC Energy Inc.	**1,545**						
FortisBC Energy (Van) Inc.	**350**						
FortisAlberta	200	CAD	5.33%	10/31/2014	10/15/2004	Call +18 bps	Senior Unsecured
FortisAlberta	200	CAD	6.22%	10/31/2034	10/15/2004	Call +28 bps	Senior Unsecured
FortisAlberta	100	CAD	5.40%	04/21/2036	04/06/2006	Call +25 bps	Senior Unsecured
FortisAlberta	100	CAD	5.85%	04/15/2038	04/08/2008	Call +45 bps	Senior Unsecured
FortisAlberta	100	CAD	7.06%	02/14/2039	02/10/2009	Call +80 bps	Senior Unsecured
FortisAlberta	125	CAD	5.37%	10/30/2039	10/30/2009	Call +34.5 bps	Senior Unsecured
FortisAlberta	125	CAD	4.54%	10/18/2041	10/14/2011	Call +39.5 bps	Senior Unsecured
FortisAlberta	110	CAD	4.99%	01/03/2047	12/08/2006	Call +24 bps	Senior Unsecured
FortisAlberta	125	CAD	4.80%	10/27/2050	10/22/2010	Call +33.5 bps	Senior Unsecured
Total FortisAlberta	**1,185**						
West Kootenay P&L	15	CAD	9.65%	10/16/2012	10/16/1992	Call +40 bps	Senior Secured
FortisBC Inc.	140	CAD	5.48%	11/28/2014	11/23/2004	Call +24 bps	Senior Unsecured
West Kootenay P&L	25	CAD	8.80%	08/28/2023	08/27/1993	Call +40 bps	Senior Secured
FortisBC Inc.	100	CAD	5.60%	11/09/2035	10/27/2005	Call +30 bps	Senior Unsecured
FortisBC Inc.	105	CAD	6.10%	06/02/2039	06/02/2009	Call +49 bps	Senior Unsecured
FortisBC Inc.	105	CAD	5.90%	07/04/2047	06/22/2007	Call +31 bps	Senior Unsecured
FortisBC Inc.	100	CAD	5.00%	11/24/2050	11/19/2010	Call +33.5 bps	Senior Unsecured
Total FortisBC	**590**						
Newfoundland Light & Power	30	CAD	10.55%	08/01/2014	07/20/1989	Call +50 bps	First Mortgage
Newfoundland Light & Power	32	CAD	10.90%	05/02/2016	04/10/1991	Call +50 bps	First Mortgage
Newfoundland Light & Power	34	CAD	9.00%	10/01/2020	09/08/1992	Call +30 bps	First Mortgage
Newfoundland Light & Power	33	CAD	10.125%	06/15/2022	05/19/1992	Call +37 bps	First Mortgage
Newfoundland Light & Power	34	CAD	8.90%	05/07/2026	04/18/1996	Call +20 bps	First Mortgage
Newfoundland Power	44	CAD	6.80%	11/20/2028	11/02/1998	Non-call	First Mortgage
Newfoundland Power	68	CAD	7.52%	11/01/2032	10/16/2002	Call +46 bps	First Mortgage
Newfoundland Power	56	CAD	5.441%	08/15/2035	08/10/2005		First Mortgage
Newfoundland Light & Power	67	CAD	5.901%	08/17/2037	08/13/2007	Call +35 bps	First Mortgage
Newfoundland Power	64	CAD	6.606%	05/25/2039	08/10/2005	Call +50 bps	First Mortgage
Total Newfoundland Power	**463**						
Total Bonds Outstanding	**4,858**						

(1) Terasen Gas Inc. was formerly called BC Gas Utility.
(2) Terasen Gas Inc. has been renamed as FortisBC Energy Inc.
(3) Terasen Gas (Vancouver Island) Inc. has been renamed as FortisBC Energy (Vancouver Island) Inc.

Source: Bloomberg, Company reports, RBC Capital Markets Research

Exhibit 7: Simplified Organizational Structure



1. FortisBC Holdings Inc. formerly known as Terasen Inc.
2. FortisBC Energy (Vancouver Island) Inc. formerly known as Terasen Gas (Vancouver Island) Inc.
3. FortisBC Energy Inc. formerly known as Terasen Gas Inc.
4. FortisBC Energy (Whistler) Inc. formerly known as Terasen Gas (Whistler) Inc.

Source: Bloomberg, Company reports, RBC Capital Markets Research

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis regularly injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.

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Sector Perform (SP): Provides an adequate relative risk-reward ratio and/or total return is expected to be in line with the sector average over 12 months.

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August 2, 2013

Fortis Inc.

Q2/13: CH Acquisition Closes, Results In-Line

Our View: Within the Fortis group's regulated utility opco bonds, we think FortisBC provides the best value given the discount to FortisBC Energy and FortisAlberta for a similar credit risk profile. We continue to believe Fortis holdco bonds provide good relative value with a pickup in the 15 bps range over its regulated utility opco bonds. In our view, the current discount for the structural subordination at the holdco level is more than offset by the well diversified and stable source of cash flow generated by its various utility subsidiaries. Furthermore, management has demonstrated a commitment to maintaining "A" level credit ratings.

Key Points

Fortis reports Q2/13 (credit neutral): EBITDA of $302MM was in line with expectations and up from $297MM in Q2/12, with stronger results from Canadian Regulated Utilities led by FortisAlberta (Exhibit 1). Fortis generated a gross FCF shortfall of $188MM after capex of $298MM and dividends of $61MM (Exhibit 2). Total consolidated debt increased by ~1.2B to $7.7B at quarter-end, primarily in connection with the closing of the CH Energy acquisition (see below). Adjusted debt-to-capital and EBITDA-to-interest remained stable at 60% and 3.3x, respectively. Adjusted debt-to-EBITDA weakened to 6.4x (5.5x in Q1/13); however, we expect incremental EBITDA from CH Energy will help bring leverage back down to 5.6x by YE2014.

CH Energy acquisition closes: On June 27, Fortis closed the US$1.5B acquisition of CH Energy, including assumed debt of US$518MM of debt. The transaction was funded with the conversion of subscription receipts for $567MM and the balance with credit facility drawings.

Waneta on track: To date, $513MM has been spent on the $900MM Waneta Expansion (51% w.i.), which remains on track for a H1/15 start-up. Spending on Waneta in 2013 is now expected to come in lower than the originally estimated $227MM, mainly due to timing of payments.

Capital investment budget maintained: Fortis maintained its five-year (2013–2017) capital budget of $6B, with 36% spent to meet customer growth, 41% for sustaining capex, and 23% for facilities, equipment, IT and other assets. Roughly $1.3B is expected to be spent in 2013.

Another $200MM expected to be borrowed by year-end: Subsequent to quarter-end, Fortis issued $125MM net of preferred shares and priced US$325MM of unsecured notes (due to close on October 1). We estimate that Fortis, on a consolidated basis, will need ~$200MM in incremental borrowing before year-end. A portion of this may be debt issued by its regulated subsidiaries.

Company Note – Update

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform
FortisBC Energy (Vancouver Island) Inc.	
CAD	Underperform
Newfoundland Power Inc.	
CAD	Sector Perform

Key Benchmark Levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$127.3	172	167	4.68%

Source: Bloomberg

Rating Agencies

	Rating	Outlook
DBRS	A(L)	Stable
Moody's	NR	NR
S&P	A-	Stable

Source: Bloomberg

Key Credit Statistics

	LTM 06/30/12	LTM 06/30/13
Debt/Capital (%)	60%	60%
Debt/EBITDA (x)	5.6x	6.4x
FFO/Debt (%)	12%	11%
EBITDA/Interest (x)	3.3x	3.3x
Total Debt Outstanding ($MM)	6,484	7,719

Debt is adjusted for 50% equity treatment of preferred shares.

Source: Company reports, RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 8.

Exhibit 1: Fortis – Segmented EBITDA

EBITDA	2011	2012	Q2/12	Q3/12	Q4/12	Q1/13	Q2/13
Regulated Gas & Electric							
FortisBC Energy companies	419	470	92	67	135	188	91
FortisAlberta	264	290	73	77	71	78	79
FortisBC	141	145	33	35	36	43	32
Newfoundland Power	129	127	34	29	33	29	36
Other Canadian	73	78	19	21	17	21	19
Total Electric Canadian	607	640	159	162	157	171	166
Electric Carribean	73	69	19	20	15	17	19
Non-regulated							
Fortis Generation	25	21	8	6	2	3	4
Fortis Properties	75	76	22	23	19	11	24
Corporate and Other	14	10	4	3	-	3	4
Inter-segment eliminations	(22)	(22)	(7)	(5)	(6)	(6)	(6)
Consolidated EBITDA	**1,191**	**1,264**	**297**	**276**	**322**	**387**	**302**

Source: Company reports, RBC Capital Markets

Regulatory Update

BCUC regulatory decision prompts Moody's Negative Outlook on FortisBC Energy and FortisBC: In response to the British Columbia Utilities Commission's (BCUC) decision on phase one of the Generic Cost of Capital (GCOC) proceeding (issued in May 2013), Moody's placed the ratings of FortisBC Energy, FortisBC, and other FortisBC entities on Negative Outlook. The "trigger points" in the GCOC decision for S&P were: (i) a reduction in the common equity ratio for FortisBC Inc., the "benchmark utility", to 38.5% from 40%; and (ii) a lower allowed ROE of 8.75% from 9.50% previously. With this GCOC decision, Moody's noted that FFO-to-debt could fall below 13% over the next few years, and indicated that a ratings downgrade could result if FFO-to-debt and FFO interest coverage were to fall below 13% and 3.0x for a sustained period. A decision on phase two of the GCOC Proceeding is expected in H1/14. In Q2/13, FortisBC Energy and FortisBC each filed an application for a multi-year Performance-Based Regulatory (PBR) plan for 2014 through 2018. The review process for these applications is expected to continue through 2013.

PBR in Alberta, rate finalization pending: FortisAlberta, along with all regulated distribution utilities in Alberta, moved to a five-year PBR framework that commenced January 1, 2013. FortisAlberta and other distribution utilities have raised concerns about uncertainties regarding the tracking of certain capital expenditures under the approved PBR framework and have requested leave to appeal the PBR decision at the Alberta Court of Appeal. In March, FortisAlberta received a decision approving an interim rate increase (effective January 1, 2013), including interim approval of 60% of the revenue requirement for certain capital spending in 2013 that would not otherwise be recovered under PBR. A hearing on the Capital Tracker Application started in June and a final decision on rates is expected in H2/13. A hearing on the 2013 GCOC proceeding is scheduled for early 2014 to establish: (i) the allowed ROE and capital structure for distribution utilities in Alberta for 2013; (ii) the allowed ROE for 2014; and (iii) an interim allowed ROE for 2015.

Newfoundland Power cost of capital set through 2015: In April, Newfoundland Power received a cost of capital decision whereby the ROE and equity component of its capital structure will remain at 8.8% and 45%, respectively, for 2013 through 2015.

Exhibit 2: Fortis – Historical Financials and RBC CM Estimates

Fortis Inc.	Annual		Quarterly							Forecasts	
Consolidated ($MM)	**2011**	**2012**	**Q2/12**	**Q3/12**	**Q4/12**	**Q1/13**	**Q2/13**	**LTM**	**YTD**	***2013E***	***2014E***
Earnings Summary											
EBITDA	1,191	1,264	297	276	322	387	302	1,287	689	*1,398*	*1,538*
EBIT	775	794	183	158	203	258	172	791	430	*859*	*958*
Gross Interest	372	385	95	98	97	96	99	390	195	*420*	*451*
Net income (as reported)	366	371	77	59	102	145	70	376	215	*373*	*431*
Cash Flow Summary											
FFO	**816**	**898**	**172**	**164**	**313**	**262**	**171**	**910**	**433**	***982***	***1,121***
Capital Expenditures	(1,171)	(1,130)	(282)	(283)	(336)	(250)	(298)	(1,167)	(548)	*(1,300)*	*(1,200)*
Preferred Dividends	(46)	(46)	(12)	(11)	(12)	(14)	(14)	(51)	(28)	*(55)*	*(55)*
Dividends	(160)	(179)	(44)	(44)	(45)	(43)	(47)	(179)	(90)	*(185)*	*(191)*
Gross Free Cash Flow (FCF)	**(561)**	**(457)**	**(166)**	**(174)**	**(80)**	**(45)**	**(188)**	**(487)**	**(233)**	***(558)***	***(325)***
Changes in Working Capital	99	78	83	57	(141)	18	120	54	138	-	-
Gross FCF after Working Capital	**(462)**	**(379)**	**(83)**	**(117)**	**(221)**	**(27)**	**(68)**	**(433)**	**(95)**	***(558)***	***(325)***
Divestitures/Acquisitions	(25)	(21)	-	(7)	(7)	(55)	(1,000)	(1,069)	(1,055)	*(1,055)*	-
Other Investing Activities	81	71	9	13	24	16	9	62	25	-	-
FCF before Financing	**(406)**	**(329)**	**(74)**	**(111)**	**(204)**	**(66)**	**(1,059)**	**(1,440)**	**(1,125)**	***(1,613)***	***(325)***
Net change in debt	(40)	85	175	8	(18)	48	558	596	606	*800*	*250*
Issue of Common Shares[1]	345	24	4	6	12	10	579	607	589	*600*	*40*
Issue of Preference Shares	-	194	-	-	194	-	-	194	-	*125*	-
Advances from Non-Controlling	81	106	28	14	23	22	21	80	43	*80*	-
F/X Gain/Other	-	(13)	(12)	(1)	-	-	-	(1)	-	-	-
Net Change in Cash	**(20)**	**67**	**121**	**(84)**	**7**	**14**	**99**	**36**	**113**	***(8)***	***(35)***
Capital Structure											
Total Debt	6,383	6,471	6,484	6,475	6,471	6,544	7,719			*7,771*	*8,021*
Non-controlling Interest	208	310	275	288	310	333	356			*310*	*310*
Preference Shares	912	1,108	912	912	1,108	1,108	1,108			*1,233*	*1,233*
Shareholders' Equity	3,823	3,992	3,929	3,933	3,992	4,114	4,699			*4,780*	*5,060*
Total Capital	**11,326**	**11,881**	**11,600**	**11,608**	**11,881**	**12,099**	**13,882**			***14,094***	***14,624***
Cash and Equivalents	87	154	231	147	154	168	267			*146*	*111*
Credit Ratios[2]											
Total Debt / Capital	56%	54%	56%	56%	54%	54%	56%			*55%*	*55%*
Adjusted Debt / Capital[2]	60%	59%	60%	60%	59%	59%	60%			*60%*	*59%*
Net Debt / Capital	56%	54%	55%	55%	54%	53%	55%			*55%*	*55%*
Net Adjusted Debt / Capital[2]	60%	59%	59%	59%	59%	58%	59%			*59%*	*59%*
(FFO + Interest) / Interest	3.2x	3.3x	3.2x	3.2x	3.3x	3.4x	3.3x			*3.3x*	*3.5x*
EBITDA / Interest	3.2x	3.3x	3.3x	3.3x	3.3x	3.3x	3.3x			*3.3x*	*3.4x*
EBIT / Interest	2.1x	2.1x	2.1x	2.1x	2.1x	2.1x	2.0x			*2.0x*	*2.1x*
Total Debt / EBITDA	5.4x	5.1x	5.3x	5.2x	5.1x	5.1x	6.0x			*5.6x*	*5.2x*
Adjusted Debt / EBITDA[2]	5.7x	5.6x	5.6x	5.5x	5.6x	5.5x	6.4x			*6.0x*	*5.6x*
FFO / Total Debt	13%	14%	12%	13%	14%	14%	12%			*13%*	*14%*
FFO / Adjusted Debt[2]	12%	13%	12%	12%	13%	13%	11%			*12%*	*13%*
Preferred Shares / Capital	8%	9%	8%	8%	9%	9%	8%			*9%*	*8%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

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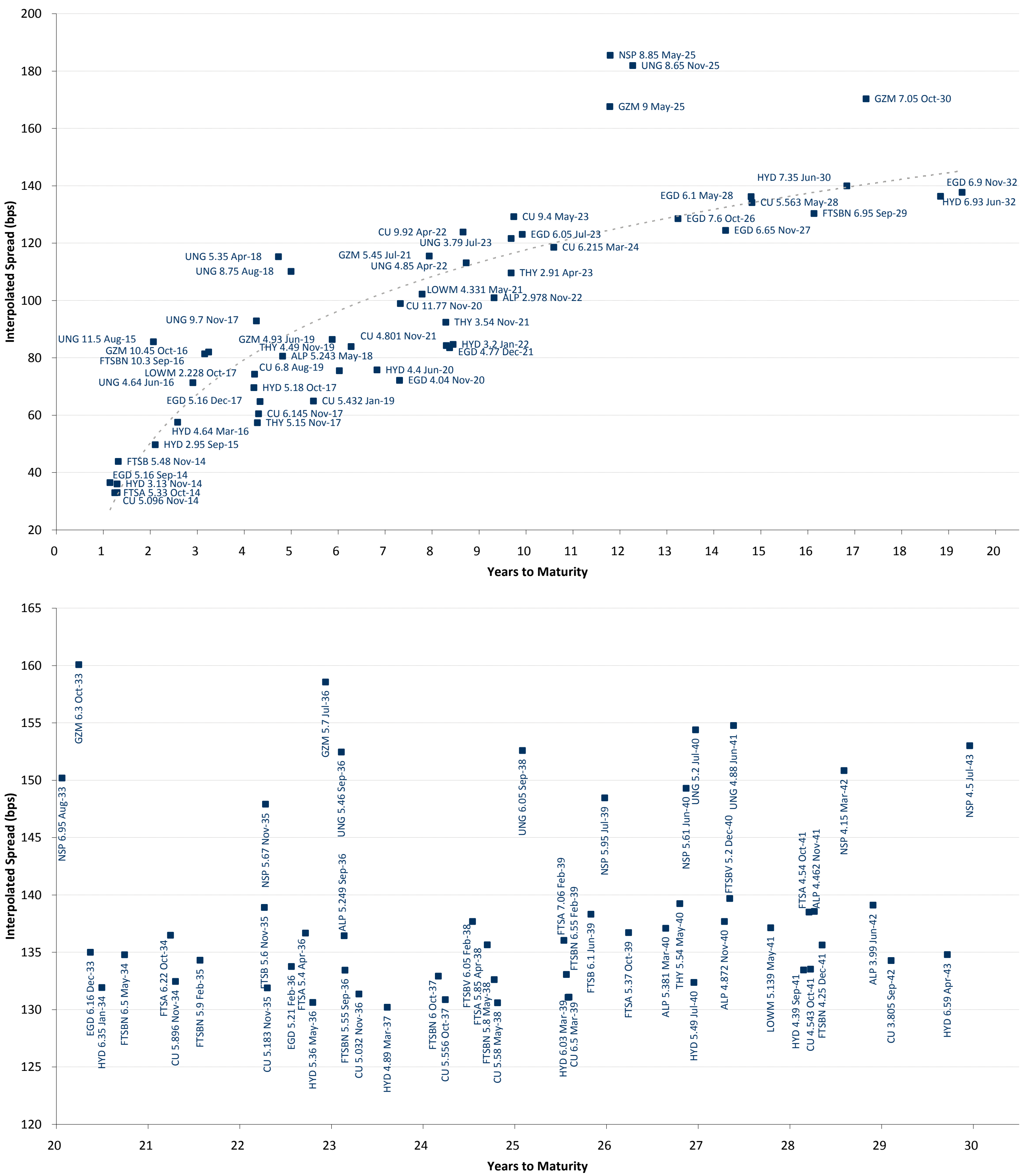
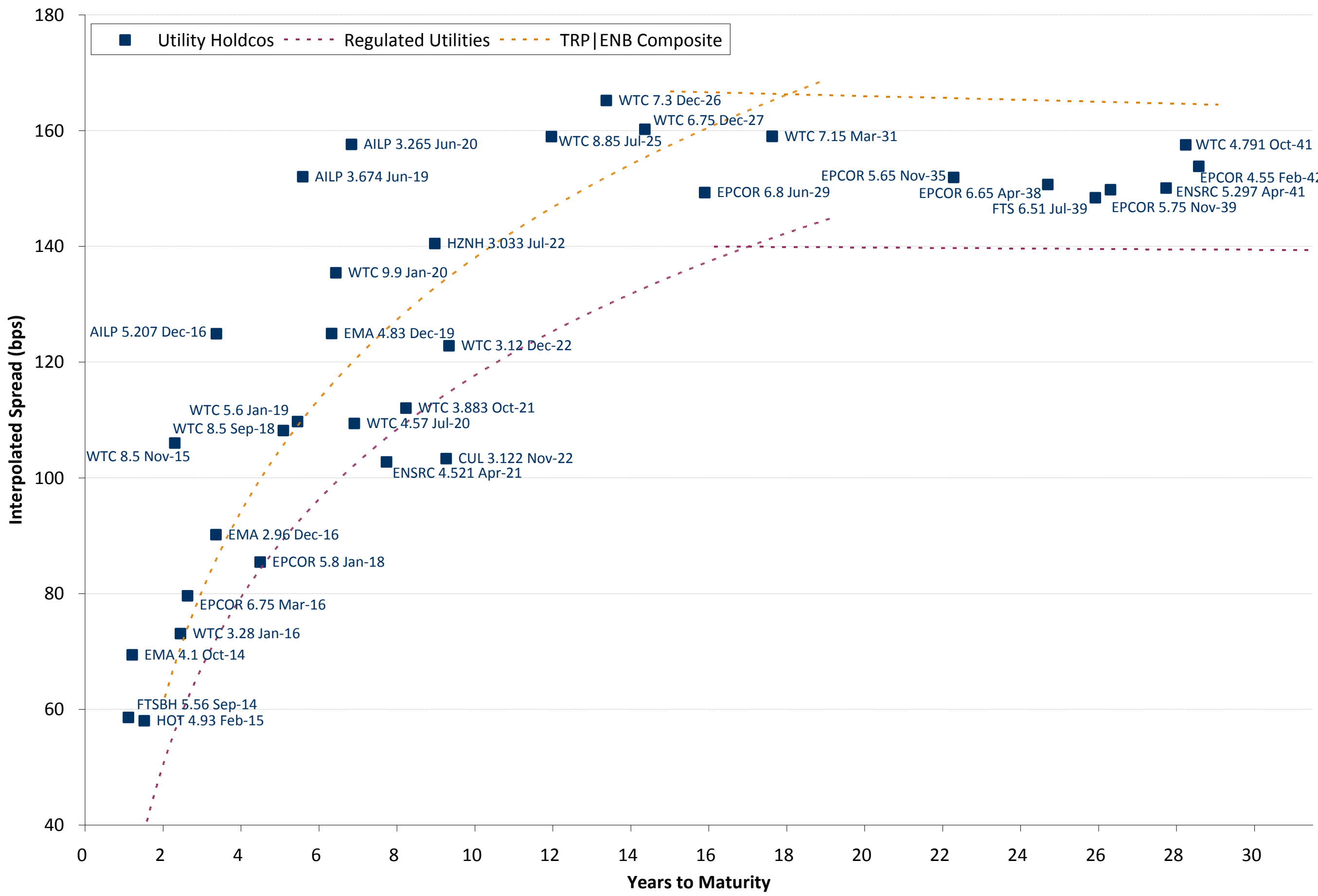
Exhibit 3: Relative Value – Regulated Utilities



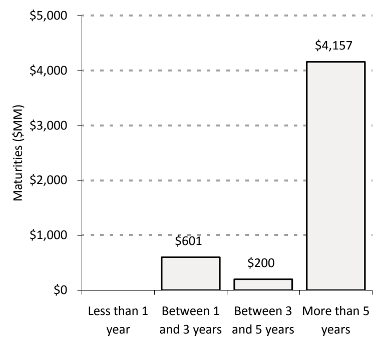
Source: Bloomberg, RBC Capital Markets

Exhibit 4: Relative Value – Utility Holdcos



Source: Bloomberg, RBC Capital Markets

Exhibit 5: Fortis Inc. and Subsidiaries – Bonds Outstanding and Maturity Schedule



Note: Assumes USD/CAD exchange rate of 1.00.

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	07/04/2039	06/26/2009	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	125	3.53%	12/21/2020	12/22/2010	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	09/01/2037	09/06/2007	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	12/21/2040	12/22/2010	-	Sr. Unsecured	-
Total US$ Outstanding	**400**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Holdings Inc.	125	5.56%	09/15/2014	09/10/2004	+23 bps	Sr. Unsecured	88079ZAB9
Total C$ Outstanding	**125**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	09/30/2015	11/14/1990	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	09/30/2016	11/08/1991	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	09/21/2029	09/16/1999	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	05/01/2034	04/26/2004	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	02/26/2035	02/22/2005	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	09/25/2036	09/20/2006	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	10/02/2037	09/27/2007	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	5.80%	05/13/2038	05/08/2008	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	02/24/2039	02/24/2009	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	4.25%	12/09/2041	12/06/2011	+41 bps	Sr. Unsecured	34959ZAA0
Total C$ Outstanding	**1,545**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	02/15/2038	02/07/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	06/12/2040	12/02/2010	+40 bps	Sr. Unsecured	88100BAB5
Total C$ Outstanding	**350**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	200	5.33%	10/31/2014	10/15/2004	+18 bps	Sr. Unsecured	34957EAA9
FortisAlberta Inc.	200	6.22%	10/31/2034	10/15/2004	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	04/21/2036	04/06/2006	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	04/15/2038	04/08/2008	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	02/14/2039	02/10/2009	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	10/30/2039	10/30/2009	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	10/18/2041	10/14/2011	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	110	4.99%	01/03/2047	12/08/2006	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	10/27/2050	10/22/2010	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	10/23/2052	10/18/2012	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,310**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	140	5.48%	11/28/2014	11/23/2004	+24 bps	Sr. Unsecured	34957UAA3
FortisBC Inc.	25	8.80%	08/28/2023	08/27/1993	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	11/09/2035	10/27/2005	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	06/02/2039	06/02/2009	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	105	5.90%	07/04/2047	06/22/2007	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	11/24/2050	11/19/2010	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**575**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	29	10.55%	08/01/2014	07/20/1989	+50 bps	First Mortgage	651350BD1
Newfoundland Power Inc.	32	10.90%	05/02/2016	04/10/1991	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	10/01/2020	09/08/1992	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	33	10.125%	06/15/2022	05/19/1992	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	34	8.90%	05/07/2026	04/18/1996	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	43	6.80%	11/20/2028	11/02/1998	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	68	7.52%	11/01/2032	10/16/2002	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	55	5.441%	08/15/2035	08/10/2005	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	66	5.901%	08/17/2037	08/13/2007	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	62	6.606%	05/25/2039	08/10/2005	+50 bps	First Mortgage	6513508Y9
Total C$ Outstanding	**453**						

Source: Bloomberg, RBC Capital Markets

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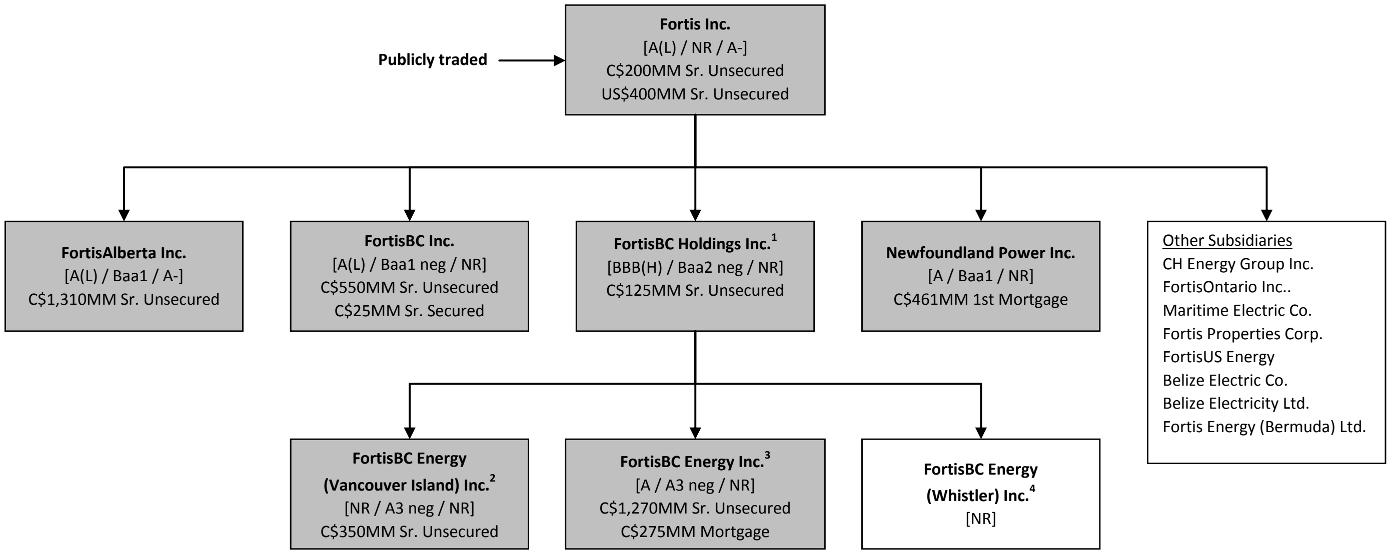
Exhibit 6: Fortis Inc. and Subsidiaries – Simplified Organizational Structure



1. FortisBC Holdings Inc. formerly known as Terasen Inc.
2. FortisBC Energy (Vancouver Island) Inc. formerly known as Terasen Gas (Vancouver Island) Inc.
3. FortisBC Energy Inc. formerly known as Terasen Gas Inc.
4. FortisBC Energy (Whistler) Inc. formerly known as Terasen Gas (Whistler) Inc.

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Source: Bloomberg, company reports, rating agencies and RBC Capital Markets

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FEBRUARY 8, 2013

Fortis Inc.

Q4/12: Plenty of Growth on the Horizon

Fortis Inc.	Sector Perform*
FortisAlberta Inc.	Sector Perform*
FortisBC Inc.	Sector Perform*
FortisBC Energy Inc.	Sector Perform*
Newfoundland Power Inc.	Sector Perform*

*Investment rankings on CAD debt

Holdco bonds and FortisBC provide best value in the group: Within the Fortis group's regulated utility opco bonds, we think FortisBC provides the best value given the discount to FortisBC Energy and FortisAlberta for a similar credit risk profile. We continue to believe Fortis holdco bonds provide good relative value with a pick up in the 30–35 bps range over its regulated utility opco bonds. In our view, the current discount for the structural subordination at the holdco level is more than offset by the well diversified and stable source of cash flow generated by its various utility subsidiaries. Furthermore, Fortis upsized the common equity component of the pending $1.5B CH Energy acquisition to $600MM, reflecting management's commitment to maintaining "A" level credit ratings.

Highlights and Outlook

Fortis reports Q4/12 (credit neutral): EBITDA of $322MM was in line with expectations, with stronger results from FortisAlberta offset by FortisBC Energy coming in below expectations. Key credit metrics remain stable, with adjusted debt-to-capital of 59%, EBITDA-to-interest of 3.3x, and debt-to-EBITDA of 5.1x (Exhibit 1). Fortis generated a gross FCF shortfall of $80MM after capex of $336MM and dividends of $57MM. In November, Fortis issued $200MM in preferred shares, with partial proceeds used to repay credit facility borrowings used to fund the Waneta expansion project. FortisAlberta issued $125MM in 40-yr MTNs in October 2012 to help fund capital spending.

Kelowna utility acquisition pending: The previously announced offer by FortisBC to acquire the City of Kelowna's electric utility for $55MM is expected to close by the end of Q1/13.

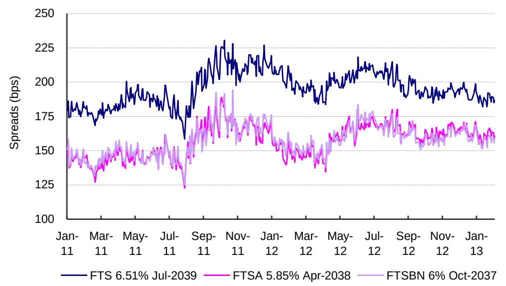
Capital investment budget maintained: Fortis maintained its five-year (2013–2017) capital budget of $6B, which is expected to grow the utility rate base at a 6% annual compound growth rate. Roughly $1.3B is expected to be spent in 2013.

Waneta Expansion progresses: Since the start of construction in late 2010, $436MM has been spent on the $900MM Waneta Expansion (51% owned by Fortis), with $227MM expected to be spent in 2013. The 335MW hydro project in B.C. remains on track for an in-service date of H1/15.

CH Energy acquisition awaiting one final approval: Fortis is awaiting approval from the New York State Public Service Commission in order to proceed with its US$1.5B CH Energy acquisition. The expected closing of this transaction has been pushed out one quarter to Q2/13. The acquisition (net of US$500MM assumed debt) will be funded with common equity ($600MM in subscription receipts issued in June), preferred shares, and USD holdco debt.

Potential for $450MM+ of debt issuance in 2013: We estimate that Fortis, on a consolidated basis, will borrow an additional $450MM+ (net of the assumed CH Energy debt) to fund capital spending and the CH Energy acquisition. There are no debt maturities within the Fortis group this year (Exhibit 4). A portion of this could be issued by its regulated subsidiaries.

Historical Spreads



Source: Advantage Data

Cash Flow Summary	2011	2012	2013E	2014E
EBITDA	1,191	1,264	*1,481*	*1,570*
FFO	**816**	**898**	***1,107***	***1,130***
Capital Expenditures	(1,171)	(1,130)	*(1,300)*	*(1,200)*
Dividends	(206)	(225)	*(231)*	*(237)*
Gross FCF	**(561)**	**(457)**	***(424)***	***(307)***
Changes in W/C	99	78	-	-
FCF after W/C	(462)	(379)	*(424)*	*(307)*
Acquisitions	(25)	(21)	*(1,555)*	-
Other Investing	81	71	-	-
FCF before Financing	**(406)**	**(329)**	***(1,979)***	***(307)***
Debt Issuance/(Repay.)	(40)	85	*1,000*	*250*
Common Issuance	345	24	*648*	*48*
Preferred Issuance	-	194	*200*	-
Other Financing	81	93	-	-
Net Change in Cash	**(20)**	**67**	***(131)***	***(9)***
Capital Structure				
Total Debt	6,383	6,471	*7,471*	*7,721*
Non-controlling Int.	208	310	*310*	*310*
Preference Shares	912	1,108	*1,308*	*1,308*
Shareholders' Equity	3,823	3,992	*4,971*	*5,338*
Total Capital	**11,326**	**11,881**	***14,060***	***14,677***
Cash and Equivalents	87	154	*23*	*14*
Credit Ratios				
Adjusted Debt / Capital[1]	60%	59%	*58%*	*57%*
Net Adj. Debt / Capital[1]	60%	59%	*58%*	*57%*
EBITDA / Interest	3.2x	3.3x	*3.9x*	*3.6x*
EBIT / Interest	2.1x	2.1x	*2.7x*	*2.3x*
Total Debt / EBITDA	5.4x	5.1x	*5.0x*	*4.9x*
FFO / Total Debt	13%	14%	*15%*	*15%*
Credit Ratios		**DBRS**	**S&P**	**Moody's**
Rating		A(L)	A-	NR
Outlook		Stable	Stable	-

1. 50% equity and 50% debt treatment to pref. shares

Source: RBC Capital Markets estimates, company reports, rating agencies

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All values in Canadian dollar unless otherwise noted.

For Required Conflicts Disclosures, please see Page 8.

Regulatory and Other Developments

PBR begins in Alberta: FortisAlberta, along with all regulated distribution utilities in Alberta, moved to a five-year Performance Based Regulatory ("PBR") framework that commenced January 1, 2013. FortisAlberta and other distribution utilities have raised concerns about uncertainties regarding the treatment of certain capital expenditures under the approved PBR framework. The utilities have sought clarification on this matter from the Alberta Utilities Commission ("AUC") and have also requested leave to appeal the PBR decision at the Alberta Court of Appeal.

Final allowed ROE and capital structures pending for 2013: Final allowed ROE and capital structure for 2013 remain outstanding for FortisBC, FortisAlberta, and Newfoundland Power. In Alberta, a General Cost of Capital ("GCOC") proceeding was initiated in October 2012. In B.C., a public hearing took place in December 2012, which was related to the first phase of a GCOC proceeding initiated by the B.C. regulator in 2012. For Newfoundland Power, a public hearing commenced in January 2013 for 2013/2014 customer rates and cost of capital.

Amalgamation of the B.C. utilities targeted for January 2014: FortisBC Energy's request to amalgamate its three gas utilities into one legal entity and to implement common rates and services, effective January 1, 2014, remains pending.

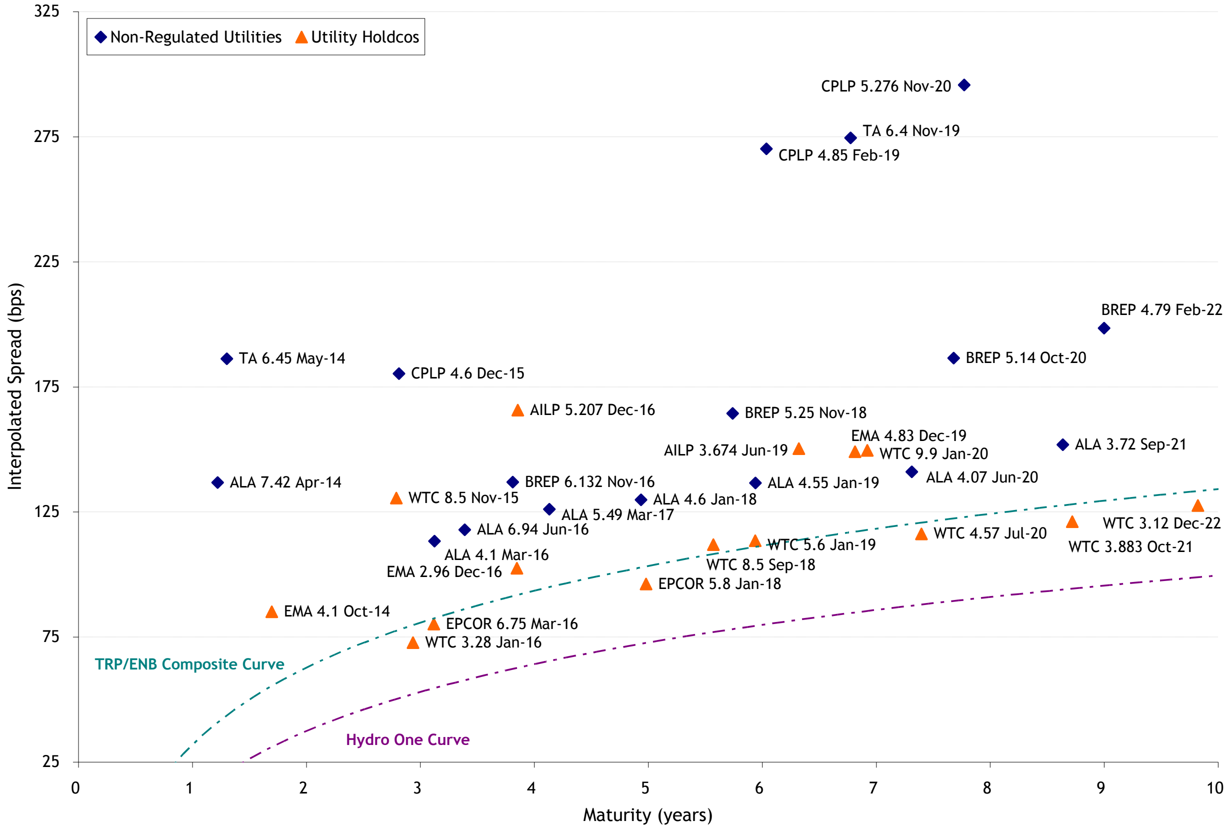
Exhibit 1: Fortis Inc. Historical Consolidated Financials and Forecasts

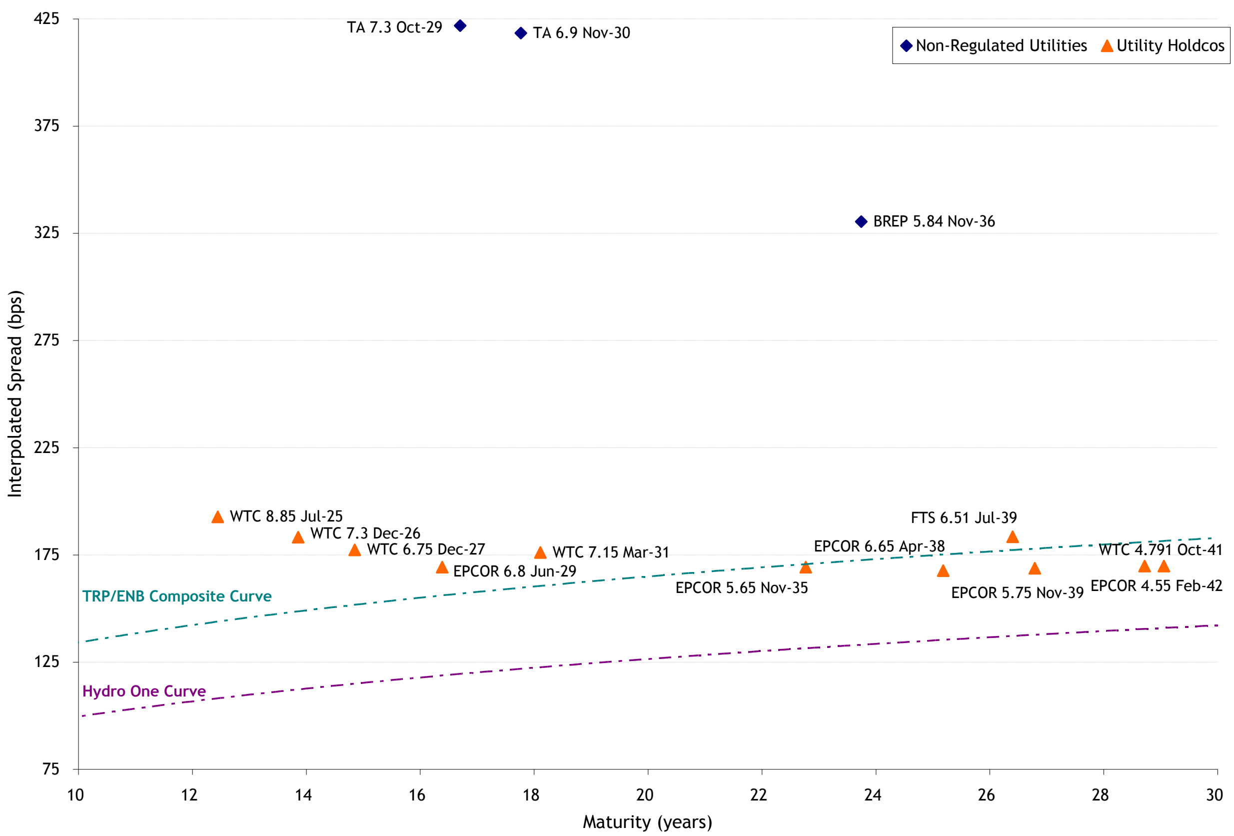
Fortis Inc.	Annual							*Forecasts*	
Consolidated ($MM)	2011	2012	Q4/11	Q1/12	Q2/12	Q3/12	Q4/12	*2013E*	*2014E*
Earnings Summary									
EBITDA	1,191	1,264	311	369	297	276	322	*1,481*	*1,570*
EBIT	775	794	204	250	183	158	203	*1,020*	*1,001*
Gross Interest	372	385	87	95	95	98	97	*375*	*433*
Cash Flow Summary									
FFO	816	898	236	249	172	164	313	***1,107***	***1,130***
Capital Expenditures	(1,171)	(1,130)	(367)	(229)	(282)	(283)	(336)	*(1,300)*	*(1,200)*
Preferred Dividends	(46)	(46)	(12)	(11)	(12)	(11)	(12)	*(46)*	*(46)*
Dividends	(160)	(179)	(45)	(46)	(44)	(44)	(45)	*(185)*	*(191)*
Gross Free Cash Flow (FCF)	**(561)**	**(457)**	**(188)**	**(37)**	**(166)**	**(174)**	**(80)**	***(424)***	***(307)***
Changes in Working Capital	99	78	(6)	79	83	57	(141)	-	-
Gross FCF after Working Capital	(462)	(379)	(194)	42	(83)	(117)	(221)	*(424)*	*(307)*
Divestitures/Acquisitions	(25)	(21)	(25)	-	-	(7)	(7)	*(1,555)*	-
Other Investing Activities	81	71	25	18	9	13	24	-	-
FCF before Financing	**(406)**	**(329)**	**(194)**	**60**	**(74)**	**(111)**	**(204)**	***(1,979)***	***(307)***
Net change in debt	(40)	85	167	(80)	175	8	(18)	*1,000*	*250*
Issue of Common Shares[1]	345	24	4	2	4	6	12	*648*	*48*
Issue of Preference Shares	-	194	-	-	-	-	194	*200*	-
Advances from Non-Controlling	81	106	4	41	28	14	23	-	-
F/X Gain/Other	-	(13)	(1)	-	(12)	(1)	-	-	-
Net Change in Cash	**(20)**	**67**	**(20)**	**23**	**121**	**(84)**	**7**	***(131)***	***(9)***
Capital Structure									
Total Debt	6,383	6,471	6,383	6,296	6,484	6,475	6,471	*7,471*	*7,721*
Non-controlling Interest	208	310	208	246	275	288	310	*310*	*310*
Preference Shares	912	1,108	912	912	912	912	1,108	*1,308*	*1,308*
Shareholders' Equity	3,823	3,992	3,823	3,901	3,929	3,933	3,992	*4,971*	*5,338*
Total Capital	**11,326**	**11,881**	**11,326**	**11,355**	**11,600**	**11,608**	**11,881**	***14,060***	***14,677***
Cash and Equivalents	87	154	87	110	231	147	154	*23*	*14.1*
Credit Ratios[2]									
Total Debt / Capital	56%	54%	56%	55%	56%	56%	54%	*53%*	*53%*
Adjusted Debt / Capital[2]	60%	59%	60%	59%	60%	60%	59%	*58%*	*57%*
Net Debt / Capital	56%	54%	56%	55%	55%	55%	54%	*53%*	*53%*
Net Adjusted Debt / Capital[2]	60%	59%	60%	59%	59%	59%	59%	*58%*	*57%*
(FFO + Interest) / Interest	3.2x	3.3x	3.2x	3.2x	3.2x	3.2x	3.3x	*3.9x*	*3.6x*
EBITDA / Interest	3.2x	3.3x	3.2x	3.3x	3.3x	3.3x	3.3x	*3.9x*	*3.6x*
EBIT / Interest	2.1x	2.1x	2.1x	2.1x	2.1x	2.1x	2.1x	*2.7x*	*2.3x*
Total Debt / EBITDA	5.4x	5.1x	5.4x	5.2x	5.3x	5.2x	5.1x	*5.0*	*4.9*
FFO / Total Debt	13%	14%	13%	13%	12%	13%	14%	*15%*	*15%*
Preferred Shares / Capital	8.1%	9.3%	8.1%	8.0%	7.9%	7.9%	9.3%	*9.3%*	*8.9%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

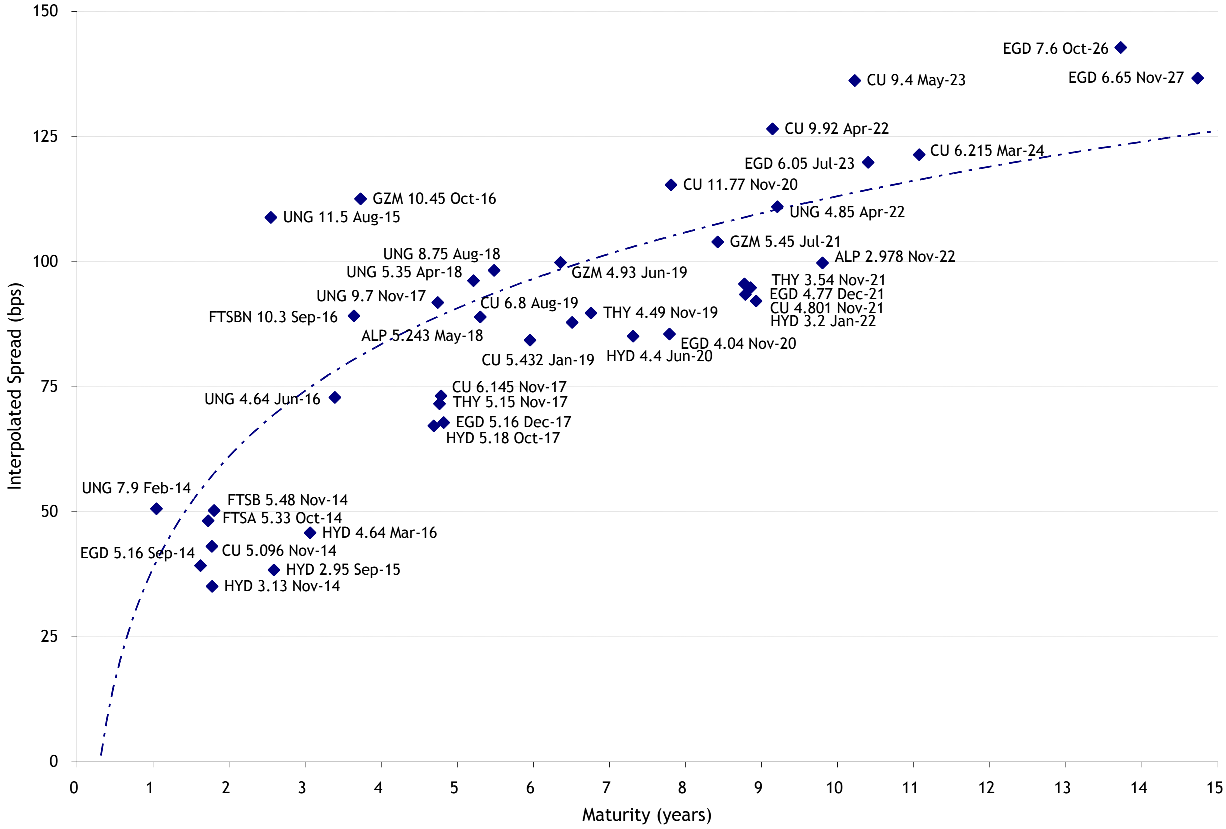
Exhibit 2: Relative Value Chart – Canadian Non-Regulated Utilities and Utility Holdcos

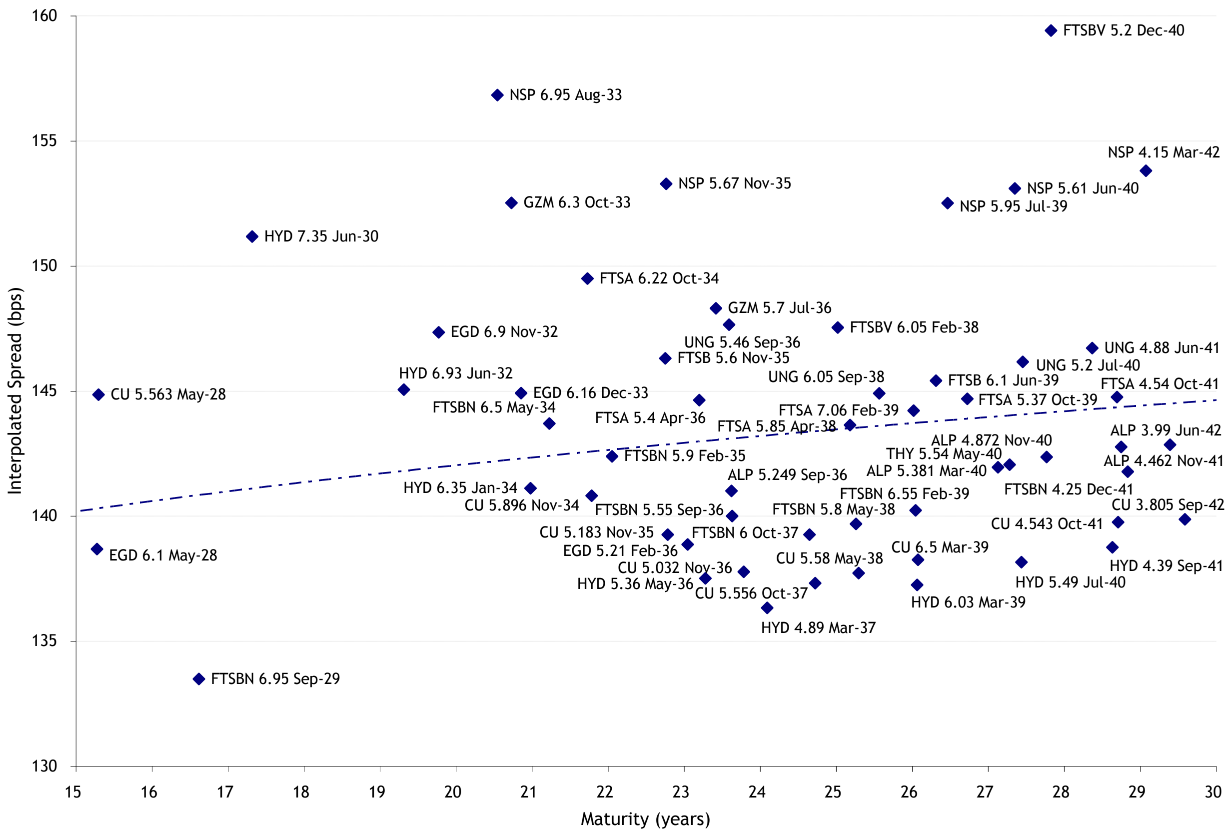




Source: Bloomberg, RBC Capital Markets

Exhibit 3: Relative Value Chart - Canadian Regulated Utilities





Source: Bloomberg, RBC Capital Markets

Exhibit 4: Fortis Inc. and Major Subsidiary Bonds Outstanding

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type
Fortis Inc.	200	6.51%	07/04/2039	06/26/2009	Call +65 bps	Sr. Unsecured
Total C$ Outstanding	**200**					

Issuer	Amount (US$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type
Fortis Inc.	125	3.53%	12/21/2020	12/22/2010	-	Sr. Unsecured
Fortis Inc.	200	6.60%	09/01/2037	09/06/2007	-	Sr. Unsecured
Fortis Inc.	75	5.26%	12/21/2040	12/22/2010	-	Sr. Unsecured
Total US$ Outstanding	**400**					

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type
FortisBC Holdings Inc.	125	5.56%	09/15/2014	09/10/2004	Call +23 bps	Sr. Unsecured
Total C$ Outstanding	**125**					

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type
FortisBC Energy Inc.	75	11.80%	09/30/2015	11/14/1990	Putable, non-call	Mortgage
FortisBC Energy Inc.	200	10.30%	09/30/2016	11/08/1991	Call +35 bps	Mortgage
FortisBC Energy Inc.	150	6.95%	09/21/2029	09/16/1999	Call +28 bps	Sr. Unsecured
FortisBC Energy Inc.	150	6.50%	05/01/2034	04/26/2004	Call +31 bps	Sr. Unsecured
FortisBC Energy Inc.	150	5.90%	02/26/2035	02/22/2005	Call +29 bps	Sr. Unsecured
FortisBC Energy Inc.	120	5.55%	09/25/2036	09/20/2006	Call +34 bps	Sr. Unsecured
FortisBC Energy Inc.	250	6.00%	10/02/2037	09/27/2007	Call +37 bps	Sr. Unsecured
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	02/15/2038	02/07/2008	Call +46 bps	Sr. Unsecured
FortisBC Energy Inc.	250	5.80%	05/13/2038	05/08/2008	Call +40 bps	Sr. Unsecured
FortisBC Energy Inc.	100	6.55%	02/24/2039	02/24/2009	Call +71 bps	Sr. Unsecured
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	06/12/2040	12/02/2010	Call +40 bps	Sr. Unsecured
FortisBC Energy Inc.	100	4.25%	12/09/2041	12/06/2011	Call +41 bps	Sr. Unsecured
Total C$ Outstanding	**1,895**					

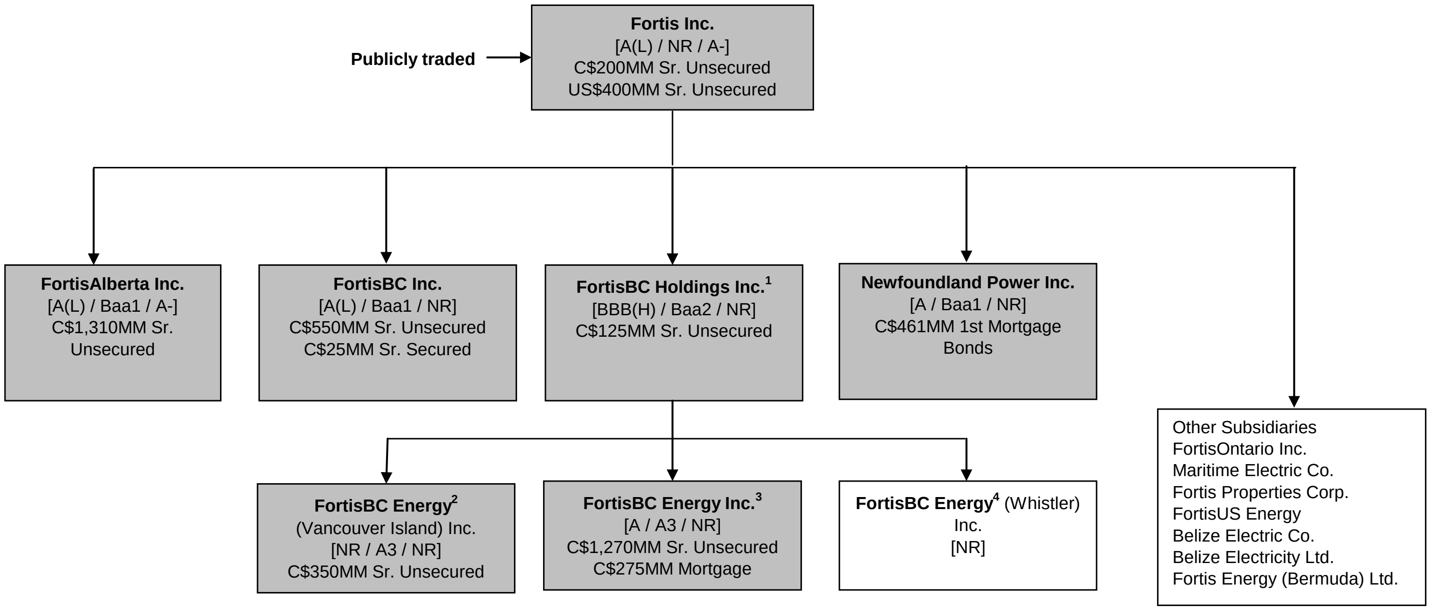
Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type
FortisAlberta Inc.	200	5.33%	10/31/2014	10/15/2004	Call +18 bps	Sr. Unsecured
FortisAlberta Inc.	200	6.22%	10/31/2034	10/15/2004	Call +28 bps	Sr. Unsecured
FortisAlberta Inc.	100	5.40%	04/21/2036	04/06/2006	Call +25 bps	Sr. Unsecured
FortisAlberta Inc.	100	5.85%	04/15/2038	04/08/2008	Call +45 bps	Sr. Unsecured
FortisAlberta Inc.	100	7.06%	02/14/2039	02/10/2009	Call +80 bps	Sr. Unsecured
FortisAlberta Inc.	125	5.37%	10/30/2039	10/30/2009	Call +34.5 bps	Sr. Unsecured
FortisAlberta Inc.	125	4.54%	10/18/2041	10/14/2011	Call +39.5 bps	Sr. Unsecured
FortisAlberta Inc.	110	4.99%	01/03/2047	12/08/2006	Call +24 bps	Sr. Unsecured
FortisAlberta Inc.	125	4.80%	10/27/2050	10/22/2010	Call +33.5 bps	Sr. Unsecured
FortisAlberta Inc.	125	3.98%	10/23/2052	10/18/2012	Call +37 bps	Sr. Unsecured
Total C$ Outstanding	**1,310**					

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type
FortisBC Inc.	140	5.48%	11/28/2014	11/23/2004	Call +24 bps	Sr. Unsecured
FortisBC Inc.	25	8.80%	08/28/2023	08/27/1993	Call +40 bps	Sr. Secured
FortisBC Inc.	100	5.60%	11/09/2035	10/27/2005	Call +30 bps	Sr. Unsecured
FortisBC Inc.	105	6.10%	06/02/2039	06/02/2009	Call +49 bps	Sr. Unsecured
FortisBC Inc.	105	5.90%	07/04/2047	06/22/2007	Call +31 bps	Sr. Unsecured
FortisBC Inc.	100	5.00%	11/24/2050	11/19/2010	Call +33.5 bps	Sr. Unsecured
Total C$ Outstanding	**575**					

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type
Newfoundland Power Inc.	30	10.55%	08/01/2014	07/20/1989	Call +50 bps	First Mortgage
Newfoundland Power Inc.	32	10.90%	05/02/2016	04/10/1991	Call +50 bps	First Mortgage
Newfoundland Power Inc.	33	9.00%	10/01/2020	09/08/1992	Call +30 bps	First Mortgage
Newfoundland Power Inc.	33	10.125%	06/15/2022	05/19/1992	Call +37.5 bps	First Mortgage
Newfoundland Power Inc.	34	8.90%	05/07/2026	04/18/1996	Call +20 bps	First Mortgage
Newfoundland Power Inc.	44	6.80%	11/20/2028	11/02/1998	-	First Mortgage
Newfoundland Power Inc.	68	7.52%	11/01/2032	10/16/2002	Call +46 bps	First Mortgage
Newfoundland Power Inc.	56	5.441%	08/15/2035	08/10/2005	Call +26 bps	First Mortgage
Newfoundland Power Inc.	67	5.901%	08/17/2037	08/13/2007	Call +35 bps	First Mortgage
Newfoundland Power Inc.	64	6.606%	05/25/2039	08/10/2005	Call +50 bps	First Mortgage
Total C$ Outstanding	**461**					

Source: Bloomberg, Company reports, RBC Capital Markets Research

Exhibit 5: Simplified Organizational Structure



1. FortisBC Holdings Inc. formerly known as Terasen Inc.
2. FortisBC Energy (Vancouver Island) Inc. formerly known as Terasen Gas (Vancouver Island) Inc.
3. FortisBC Energy Inc. formerly known as Terasen Gas Inc.
4. FortisBC Energy (Whistler) Inc. formerly known as Terasen Gas (Whistler) Inc.

Source: Bloomberg, Company reports, RBC Capital Markets Research

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis regularly injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.

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Required Disclosures

Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of Fortis Inc.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Fortis Inc. in the past 12 months.

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RBC Capital Markets is currently providing Fortis Inc. with non-investment banking securities-related services.

RBC Capital Markets is currently providing Fortis Inc. with non-securities services.

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.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Fortis Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-investment banking securities-related services to Fortis Inc.

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Explanation of RBC Capital Markets Credit Rating System

The rating assigned to a security of a subject company in an analyst's 'sector' represents the analyst's view of how that security will perform over the next 12 months relative to all similar securities, issued by other subject companies in the analyst's sector. An analyst's 'sector' is the universe of subject companies in a particular industry for which the analyst provides research coverage. Different securities of a subject company may have different ratings, depending on the currency in which a security is denominated and/or the security's position in the subject company's capital structure.

Top Pick (TP): Represents the analyst's best ideas in the Outperform category; provides best relative risk-reward ratio and/or is expected to significantly outperform the sector over 12 months.

Outperform (O): Provides superior relative risk-reward ratio and/or is expected to materially outperform the sector average over 12 months.

Sector Perform (SP): Provides an adequate relative risk-reward ratio and/or total return is expected to be in line with the sector average over 12 months.

Underperform (U): Provides an inferior relative risk-reward ratio and/or total return is expected to be materially below the sector average over 12 months.

Distribution of Ratings

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Distribution of Ratings
RBC Capital Markets, Credit Research

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	107	32.92	80	74.77
HOLD[SP]	167	51.38	123	73.65
SELL[U]	51	15.69	28	54.9

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May 7, 2013

Fortis Inc.

Q1/13: Results In-line, CH Acquisition Hits Roadblock

Our View: Within the Fortis group's regulated utility opco bonds, we think FortisBC provides the best value given the discount to FortisBC Energy and FortisAlberta for a similar credit risk profile. We continue to believe Fortis holdco bonds provide good relative value with a pick up in the 20 bps range over its regulated utility opco bonds. In our view, the current discount for the structural subordination at the holdco level is more than offset by the well diversified and stable source of cash flow generated by its various utility subsidiaries. Furthermore, management has demonstrated a commitment to maintaining "A" level credit ratings.

Key Points

Fortis reports Q1/13 (credit neutral): EBITDA of $387MM was in line with expectations and up from $369MM in Q1/12, with stronger results from Canadian Regulated Utilities led by FortisAlberta (Exhibit 1). Fortis generated a gross FCF shortfall of $45MM after capex of $250MM and dividends of $57MM (Exhibit 2). In March, the $55MM acquisition of the City of Kelowna's electric utility by FortisBC closed. Total consolidated debt increased by about $73MM to $6.54B at quarter's end. Key credit metrics remain stable, with adjusted debt-to-capital of 59%, EBITDA-to-interest of 3.3x, and adjusted debt-to-EBITDA of 5.5x.

Waneta progresses: Since construction began in late 2010, $483MM has been spent on the $900MM Waneta Expansion (51% owned by Fortis) and a total of $227MM is expected to be spent in 2013. The 335MW hydro project in B.C. remains on track for an in-service date of H1/15.

Capital investment budget maintained: Fortis maintained its five-year (2013–2017) capital budget of $6B, which is expected to grow the utility rate base at a 6% annual compound growth rate. Roughly $1.3B is expected to be spent in 2013.

CH Energy acquisition hits roadblock: On May 3, two Administrative Law Judges (ALJ) submitted their recommended decision to the New York State Public Service Commission regarding Fortis' proposed US$1.5B acquisition of CH Energy. In their decision, the ALJs concluded the benefits of the acquisition are outweighed by the detriments remaining after mitigation. Fortis plans to engage in further discussion with the Commission in an attempt to obtain approval. A final decision is expected to be issued in June 2013. The $600MM subscription receipts issued in June 2012 to fund the acquisition contain a release condition that is dependent on receiving regulatory approval by June 30, 2013.

Potential for $500MM+ of debt issuance in 2013: We estimate Fortis, on a consolidated basis, will borrow an additional $500MM+ (net of the assumed CH Energy debt), to fund capital spending and the CH Energy acquisition. There are no debt maturities within the Fortis group this year. A portion of this will likely be issued by its regulated subsidiaries.

Company Note - Update

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform
Newfoundland Power Inc.	
CAD	Sector Perform

Key Benchmark Levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$137.7	175	168	4.14%

Source: Bloomberg

Rating Agencies

	Rating	Outlook
DBRS	A(L)	Stable
Moody's	NR	NR
S&P	A-	Stable

Source: Bloomberg

Key Credit Statistics

	LTM 03/31/12	LTM 03/31/13
Debt/Capital (%)	59%	59%
Debt/EBITDA (x)	5.6x	5.5x
FFO/ Debt (%)	12%	13%
EBITDA/Interest (x)	3.3x	3.3x
Total Debt Outstanding ($MM)	$6,296	$6,544

Debt is adjusted for 50% treatment of preferred equity.

Source: Company reports and RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).
For Required Conflicts Disclosures, see page 7.

Exhibit 1: Fortis – Segmented EBITDA

EBITDA	2011	2012	Q1/12	Q2/12	Q3/12	Q4/12	Q1/13
Regulated Gas & Electric							
FortisBC Energy companies	419	470	176	92	67	135	188
FortisAlberta	264	290	69	73	77	71	78
FortisBC	141	145	41	33	35	36	43
Newfoundland Power	129	127	30	35	29	33	29
Other Canadian	73	78	21	19	21	17	21
Total Electric Canadian	607	640	161	160	162	157	171
Electric Carribean	73	69	15	19	20	15	17
Non-regulated							
Fortis Generation	25	21	6	7	6	2	3
Fortis Properties	75	76	12	22	23	19	11
Corporate and Other	14	10	3	4	3	-	3
Inter-segment eliminations	(22)	(22)	(4)	(7)	(5)	(6)	(6)
Consolidated EBITDA	**1,191**	**1,264**	**369**	**297**	**276**	**322**	**387**

Source: Company reports and RBC Capital Markets ($MM)

Regulatory Update

PBR begins in Alberta, rate finalization pending: FortisAlberta, along with all regulated distribution utilities in Alberta, moved to a 5-year Performance Based Regulatory ("PBR") framework that commenced January 1, 2013. FortisAlberta and other distribution utilities have raised concerns over uncertainties regarding the treatment of certain capital expenditures under the approved PBR framework, and have requested leave to appeal the PBR decision at the Alberta Court of Appeal. In March, FortisAlberta received a decision approving an interim rate increase (effective January 1, 2013), including interim approval of 60% of the revenue requirement for certain capital spending in 2013 that would not otherwise be recovered under PBR. A final decision on rates is expect in H2/13.

Final allowed ROE and capital structures pending for 2013 for FortisAlberta and FortisBC: Final allowed ROE and capital structure for 2013 remain to be determined for FortisBC and FortisAlberta. In B.C., a decision on the first phase of a General Cost of Capital ("GCOC") proceeding, which affects FortisBC Energy, is expected from the B.C. regulator by mid-2013. The process for the second phase, which affects the other B.C. utilities, commenced in March 2013. In Alberta, the process for the GCOC Proceeding is scheduled to begin in Q2/13.

Newfoundland Power cost of capital set through 2015: In April, Newfoundland Power received a cost of capital decision whereby the ROE and equity component of its capital structure will remain at 8.8% and 45%, respectively, for 2013 through 2015.

Amalgamation of BC utilities denied: In February, the BCUC denied the application to amalgamate FortisBC Energy Inc. ("FEI"), FortisBC Energy (Vancouver Island) Inc. ("FEVI") and FortisBC Energy (Whistler) Inc ("FEW"). The application included the proposal to issue postage stamp rates on all FortisBC Energy customers in all regions. The denial of the application was on the basis of the BCUC's conclusion that the postage stamp rate proposal would result in rates that would be "unjust, unreasonable, unduly discriminatory or unduly preferential". Essentially, the BCUC was of the view that lower rates for FEVI customers at the expense of higher rates for FEI customers would be unfair. Management has indicated to us that a possible next step may be to approach the provincial government to request an Order in Council that would essentially over-ride the regulatory decision and allow the amalgamation to take place. However, the timing and outcome would be highly dependent on the results of the forthcoming election in that province.

Exhibit 2: Fortis – Historical Financials and RBC CM Estimates

Fortis Inc.	Annual		Quarterly						*Forecasts*	
Consolidated ($MM)	**2011**	**2012**	**Q1/12**	**Q2/12**	**Q3/12**	**Q4/12**	**Q1/13**	**LTM**	***2013E***	***2014E***
Earnings Summary										
EBITDA	1,191	1,264	369	297	276	322	387	1,282	*1,398*	*1,538*
EBIT	775	794	250	183	158	203	258	802	*900*	*923*
Gross Interest	372	385	95	95	98	97	96	386	*407*	*439*
Cash Flow Summary										
FFO	816	898	249	172	164	313	262	911	***1,022***	***1,101***
Capital Expenditures	(1,171)	(1,130)	(229)	(282)	(283)	(336)	(250)	(1,151)	*(1,300)*	*(1,200)*
Preferred Dividends	(46)	(46)	(11)	(12)	(11)	(12)	(14)	(49)	*(55)*	*(55)*
Dividends	(160)	(179)	(46)	(44)	(44)	(45)	(43)	(176)	*(185)*	*(191)*
Gross Free Cash Flow (FCF)	**(561)**	**(457)**	**(37)**	**(166)**	**(174)**	**(80)**	**(45)**	**(465)**	***(518)***	***(345)***
Changes in Working Capital	99	78	79	83	57	(141)	18	17	-	-
Gross FCF after Working Capital	(462)	(379)	42	(83)	(117)	(221)	(27)	(448)	*(518)*	*(345)*
Divestitures/Acquisitions	(25)	(21)	-	-	(7)	(7)	(55)	(69)	*(1,555)*	-
Other Investing Activities	81	71	18	9	13	24	16	62	-	-
FCF before Financing	**(406)**	**(329)**	**60**	**(74)**	**(111)**	**(204)**	**(66)**	**(455)**	***(2,073)***	***(345)***
Net change in debt	(40)	85	(80)	175	8	(18)	48	213	*1,100*	*250*
Issue of Common Shares[1]	345	24	2	4	6	12	10	32	*640*	*40*
Issue of Preference Shares	-	194	-	-	-	194	-	194	*200*	-
Advances from Non-Controlling	81	106	41	28	14	23	22	87	-	-
F/X Gain/Other	-	(13)	-	(12)	(1)	-	-	(13)	-	-
Net Change in Cash	**(20)**	**67**	**23**	**121**	**(84)**	**7**	**14**	**58**	***(133)***	***(55)***
Capital Structure										
Total Debt	6,383	6,471	6,296	6,484	6,475	6,471	6,544		*7,571*	*7,821*
Non-controlling Interest	208	310	246	275	288	310	333		*310*	*310*
Preference Shares	912	1,108	912	912	912	1,108	1,108		*1,308*	*1,308*
Shareholders' Equity	3,823	3,992	3,901	3,929	3,933	3,992	4,114		*4,842*	*5,126*
Total Capital	**11,326**	**11,881**	**11,355**	**11,600**	**11,608**	**11,881**	**12,099**		***14,031***	***14,565***
Cash and Equivalents	87	154	110	231	147	154	168		*21*	*(34)*
Credit Ratios[2]										
Total Debt / Capital	56%	54%	55%	56%	56%	54%	54%		*54%*	*54%*
Adjusted Debt / Capital[2]	60%	59%	59%	60%	60%	59%	59%		*59%*	*58%*
Net Debt / Capital	56%	54%	55%	55%	55%	54%	53%		*54%*	*54%*
Net Adjusted Debt / Capital[2]	60%	59%	59%	59%	59%	59%	58%		*59%*	*58%*
(FFO + Interest) / Interest	3.2x	3.3x	3.2x	3.2x	3.2x	3.3x	3.4x		*3.5x*	*3.5x*
EBITDA / Interest	3.2x	3.3x	3.3x	3.3x	3.3x	3.3x	3.3x		*3.4x*	*3.5x*
EBIT / Interest	2.1x	2.1x	2.1x	2.1x	2.1x	2.1x	2.1x		*2.2x*	*2.1x*
Total Debt / EBITDA	5.4x	5.1x	5.2x	5.3x	5.2x	5.1x	5.1x		*5.4*	*5.1*
Adjusted Debt / EBITDA[2]	5.7x	5.6x	5.6x	5.6x	5.5x	5.6x	5.5x		*5.9*	*5.5*
FFO / Total Debt	13%	14%	13%	12%	13%	14%	14%		*13%*	*14%*
FFO / Adjusted Debt[2]	12%	13%	12%	12%	12%	13%	13%		*12%*	*13%*
Preferred Shares / Capital	8.1%	9.3%	8.0%	7.9%	7.9%	9.3%	9.2%		*9.3%*	*9.0%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports and RBC Capital Markets estimates

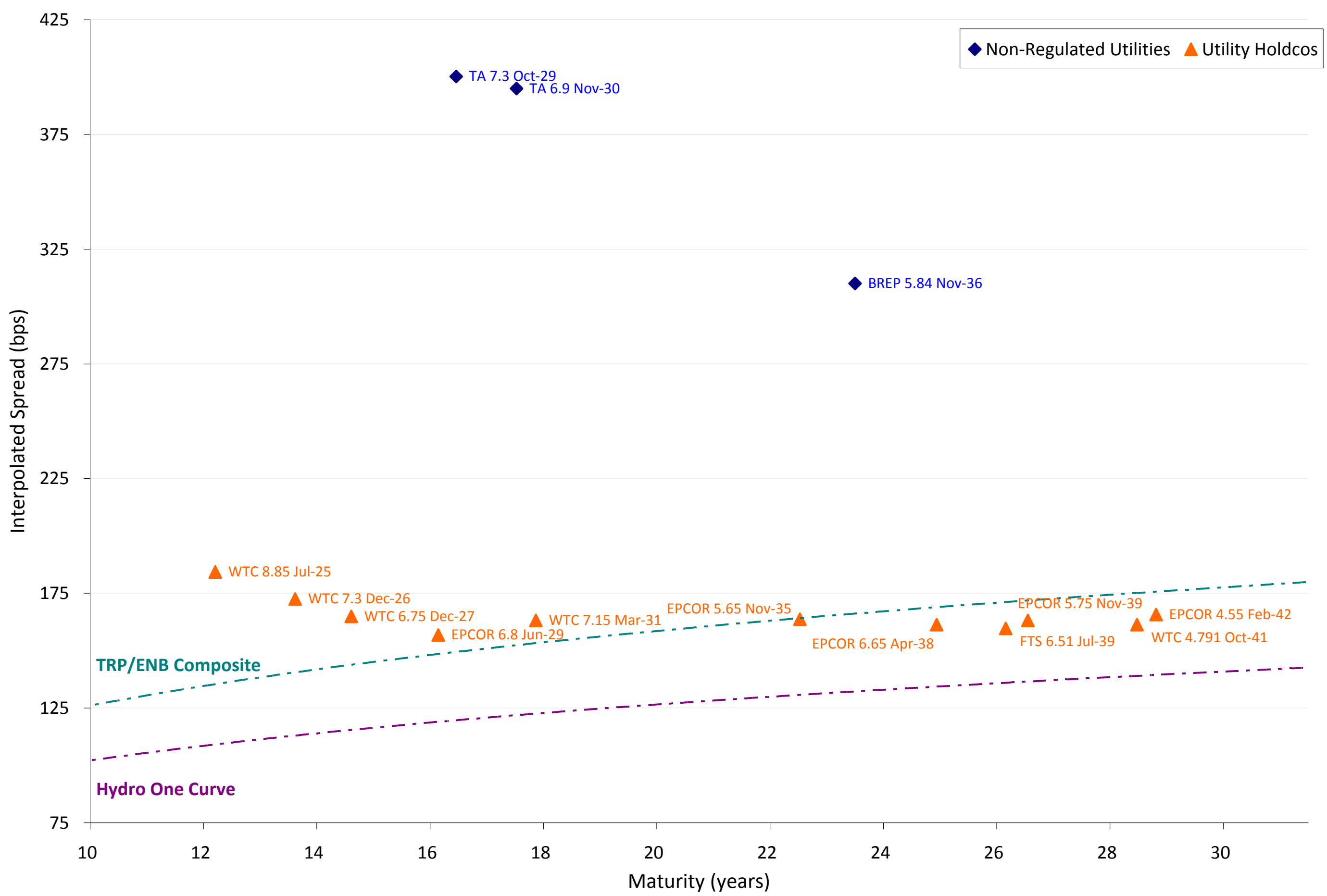
Exhibit 3: Relative Value – Regulated Utilities

		Interpolated Spread (bps)[1]			Credit Ratings		
Issuer	**RBC Rating**	**5Y**	**10Y**	**30Y**	**S&P**	**Moody's**	**DBRS**
Altalink LP	Sector Perform	79	97	141	A-	NR	A
CU Inc	Sector Perform	78	96	140	A	NR	AH
Enbridge Gas Distribution Inc	Sector Perform	79	98	143	A-	NR	A
FortisAlberta Inc	Sector Perform	79	97	141	A-	Baa1	AL
FortisBC Energy (Vancouver Island) Inc	Sector Perform	83	102	148	NR	A3	NR
FortisBC Energy Inc	Sector Perform	79	97	141	NR	A3	A
FortisBC Inc	Sector Perform	81	100	145	NR	Baa1	AL
Gaz Metro Inc	Sector Perform	84	103	149	A	NR	A
Hydro One Inc	Sector Perform	77	95	139	A+	A1	AH
Nova Scotia Power Inc	Outperform	86	106	153	BBB+	WR	AL
Toronto Hydro Corp	Outperform	80	99	144	A	NR	AH
Union Gas Ltd	Sector Perform	79	98	143	BBB+	NR	A

1. Interpolated spreads are based on secondary bid spreads.

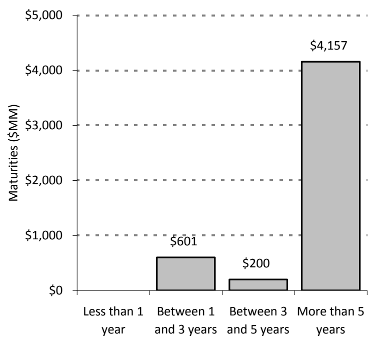
Source: Bloomberg and RBC Capital Markets

Exhibit 4: Relative Value Chart – Non-Regulated Utilities and Utility Holdcos



Source: Bloomberg and RBC Capital Markets

Exhibit 5: Fortis Inc. and Subsidiaries – Bonds Outstanding and Maturity Schedule



Note: Assumes USD/CAD exchange rate of 1.00.

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	07/04/2039	06/26/2009	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	125	3.53%	12/21/2020	12/22/2010	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	09/01/2037	09/06/2007	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	12/21/2040	12/22/2010	-	Sr. Unsecured	-
Total US$ Outstanding	**400**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Holdings Inc.	125	5.56%	09/15/2014	09/10/2004	+23 bps	Sr. Unsecured	88079ZAB9
Total C$ Outstanding	**125**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	09/30/2015	11/14/1990	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	09/30/2016	11/08/1991	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	09/21/2029	09/16/1999	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	05/01/2034	04/26/2004	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	02/26/2035	02/22/2005	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	09/25/2036	09/20/2006	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	10/02/2037	09/27/2007	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	5.80%	05/13/2038	05/08/2008	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	02/24/2039	02/24/2009	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	4.25%	12/09/2041	12/06/2011	+41 bps	Sr. Unsecured	34959ZAA0
Total C$ Outstanding	**1,545**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	02/15/2038	02/07/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	06/12/2040	12/02/2010	+40 bps	Sr. Unsecured	88100BAB5
Total C$ Outstanding	**350**						

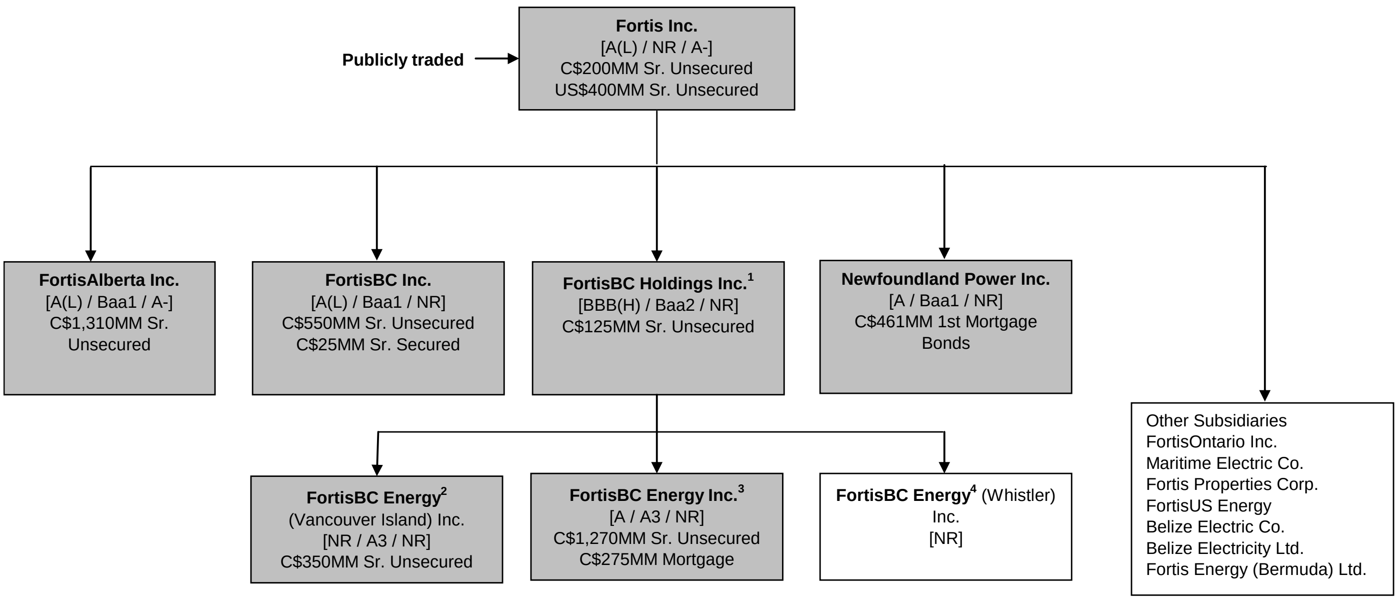
Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	200	5.33%	10/31/2014	10/15/2004	+18 bps	Sr. Unsecured	34957EAA9
FortisAlberta Inc.	200	6.22%	10/31/2034	10/15/2004	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	04/21/2036	04/06/2006	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	04/15/2038	04/08/2008	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	02/14/2039	02/10/2009	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	10/30/2039	10/30/2009	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	10/18/2041	10/14/2011	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	110	4.99%	01/03/2047	12/08/2006	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	10/27/2050	10/22/2010	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	10/23/2052	10/18/2012	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,310**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	140	5.48%	11/28/2014	11/23/2004	+24 bps	Sr. Unsecured	34957UAA3
FortisBC Inc.	25	8.80%	08/28/2023	08/27/1993	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	11/09/2035	10/27/2005	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	06/02/2039	06/02/2009	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	105	5.90%	07/04/2047	06/22/2007	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	11/24/2050	11/19/2010	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**575**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	29	10.55%	08/01/2014	07/20/1989	+50 bps	First Mortgage	651350BD1
Newfoundland Power Inc.	32	10.90%	05/02/2016	04/10/1991	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	10/01/2020	09/08/1992	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	33	10.125%	06/15/2022	05/19/1992	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	34	8.90%	05/07/2026	04/18/1996	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	43	6.80%	11/20/2028	11/02/1998	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	68	7.52%	11/01/2032	10/16/2002	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	55	5.441%	08/15/2035	08/10/2005	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	66	5.901%	08/17/2037	08/13/2007	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	62	6.606%	05/25/2039	08/10/2005	+50 bps	First Mortgage	6513508Y9
Total C$ Outstanding	**453**						

Source: Bloomberg

Exhibit 6: Fortis Inc. and Subsidiaries – Simplified Organizational Structure



1. FortisBC Holdings Inc. formerly known as Terasen Inc.
2. FortisBC Energy (Vancouver Island) Inc. formerly known as Terasen Gas (Vancouver Island) Inc.
3. FortisBC Energy Inc. formerly known as Terasen Gas Inc.
4. FortisBC Energy (Whistler) Inc. formerly known as Terasen Gas (Whistler) Inc.

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis regularly injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.

Source: Bloomberg, company reports and RBC Capital Markets

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Distribution of Ratings RBC Capital Markets, Credit Research			Investment Banking Serv./Past 12 Mos.	
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November 1, 2013

Company Note

Fortis Inc.

Q3/13: CH Energy Adding to the Bottom Line

Our View: Within the Fortis group's regulated utility opco bonds, we think FortisBC provides the best relative value given the discount to FortisBC Energy and FortisAlberta for a similar credit risk profile. We continue to believe Fortis holdco bonds provide good relative value with a pick up in the +20 bps range over its regulated utility opco bonds. In our view, the current discount for the structural subordination at the holdco level is more than offset by the well diversified and stable source of cash flow generated by its various utility subsidiaries. Furthermore, management has demonstrated a commitment to maintaining "A" level credit ratings.

Key Points

Fortis reports Q3/13 (credit neutral): EBITDA of $316MM was slightly below expectations on weaker-than-expected results at FortisBC Energy. EBITDA was up compared to a year ago ($276MM in Q3/12), mainly as a result of the CH Energy acquisition in June (Exhibit 1). Fortis generated a gross FCF shortfall of $142MM after capex of $262MM and dividends of $67MM (Exhibit 2). Total consolidated debt was essentially unchanged at $7.7B. Proceeds from the $150MM offering by FortisAlberta in September were used to reduce credit facility borrowings. In July, Fortis issued $250MM in preferreds, with part of the proceeds used to redeem $125MM in preferreds. Credit metrics were largely in line with the previous quarter, with adjusted debt-to-capital at 59%, EBITDA-to-interest at 3.3x, and FFO-to-adjusted debt at 11%. In October, Fortis closed a US$325MM private placement, with proceeds used to repay a portion of the US$ credit facility drawings associated with the CH Energy acquisition.

Capital investment budget maintained: Fortis maintained its five-year (2013–2017) capital budget of $6B, with the majority directed towards the regulated utilities. Roughly $1.2B is expected to be spent in 2013, about $150MM below the original 2013 budget. Year-to-date capital spending has totaled $809MM, of which $672MM has been on regulated utilities.

Waneta on track: Since the start of construction in 2010, $534MM has been spent on the $900MM Waneta Expansion (51% w.i.), which remains on track for a H1/15 start-up.

Modest borrowing expected before year end: We estimate Fortis, on a consolidated basis, will generate a FCF shortfall of roughly $88MM in the fourth quarter, which could easily be covered by its various credit facilities. Looking out to 2014, we estimate consolidated borrowing needs of about $200–300MM in addition to almost $500MM of debt maturities (Exhibit 5).

Pending regulatory decisions: Capital Tracker application and 2013–2015 GCOC for FortisAlberta, Phase Two of GCOC for FortisBC, and PBR application for FortisBC and FortisBC Energy. See page 2 for more details.

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform
FortisBC Energy (Vancouver Island) Inc.	
CAD	Underperform
Newfoundland Power Inc.	
CAD	Sector Perform

Key Benchmark Levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$126.2	181	173	4.73%

Source: Bloomberg, RBC Capital Markets

Ratings Agencies

	Rating	Outlook
DBRS	A(L)	Stable
Moody's	NR	NR
S&P	A-	Stable

Source: Bloomberg

Key Credit Statistics

	LTM 09/30/12	LTM 09/30/13
Debt/Capital (%)	60%	59%
Debt/EBITDA (x)	5.2x	5.8x
FFO/Debt (%)	12%	11%
EBITDA/Interest (x)	3.3x	3.3x
Total Debt Outstanding ($MM)	6,475	7,658

Debt is adjusted for 50% equity treatment of pref. shares.

Source: Company reports, RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 8.

Exhibit 1: Fortis – Segmented EBITDA

EBITDA	2011	2012	Q3/12	Q4/12	Q1/13	Q2/13	Q3/13
Regulated Gas & Electric							
FortisBC Energy companies	419	470	67	135	188	91	60
Central Hudson	-	-	-	-	-	-	36
FortisAlberta	264	290	77	71	78	79	80
FortisBC	141	145	35	36	43	32	36
Newfoundland Power	129	127	29	33	29	36	32
Other Canadian	73	78	21	17	21	19	21
Total Electric Canadian	607	640	162	157	171	166	169
Electric Carribean	73	69	20	15	17	19	20
Non-regulated							
Fortis Generation	25	21	6	2	3	4	10
Fortis Properties	75	76	23	19	11	24	23
Corporate and Other	14	10	3	-	3	4	4
Inter-segment eliminations	(22)	(22)	(5)	(6)	(6)	(6)	(6)
Consolidated EBITDA	**1,191**	**1,264**	**276**	**322**	**387**	**302**	**316**

Source: Company reports, RBC Capital Markets

Regulatory Update

British Columbia – Phase 2 of Generic Cost of Capital decision is underway: In May 2013, the British Columbia Utilities Commission (BCUC) released a decision on Phase One of its Generic Cost of Capital (GCOC) review. In its decision, the BCUC: (i) reduced the common equity ratio for FortisBC Inc., as the "benchmark utility", to 38.5% from 40%; (ii) lowered the allowed ROE to 8.75% from 9.50% previously, and (iii) introduced an automatic adjustment to set the ROE annually. The allowed ROE for FortisBC Inc., FortisBC Energy (Vancouver) and FortisBC Energy (Whistler) was also reduced by 75 bps as a part of this Phase One decision, with FortisBC now having an ROE of 9.15%. Phase Two of the GCOC proceeding is currently underway, whereby the BCUC will determine appropriate risk premiums and capital structures for the three smaller utilities – a decision is expected in H1/14. In July, FortisBC Energy and FortisBC each filed an application for a multi-year Performance-Based Regulatory (PBR) plan for 2014 through 2018. The review process for these applications is expected to continue throughout 2013 and 2014, with a decision expected in mid-2014. In response to the Phase One decision, Moody's placed the ratings of FortisBC Energy and FortisBC on Negative outlook, with a potential ratings downgrade should FFO-to-debt be forecasted to fall below 13% for several years.

Alberta – Awaiting decision on Capital Tracker application under the new PBR framework and the Generic Cost of Capital proceeding: All regulated distribution utilities in Alberta, including FortisAlberta, moved to a 5-year PBR framework that commenced January 1, 2013. In March, the Alberta Utilities Commission (AUC) set rates on an interim rate basis (effective January 1, 2013), including an interim approval of 60% of the revenue requirement associated with the 2013 Capital Tracker application ($14.5MM of $24MM). A hearing on the Capital Tracker application started in June and a final decision on rates is expected in Q4/13. A hearing on the 2013 GCOC proceeding is scheduled for early 2014 to establish: (i) the allowed ROE and capital structure for 2013, (ii) the allowed ROE for 2014, and (iii) an interim allowed ROE for 2015. In this Proceeding, the AUC may consider the possible re-establishment of a formula-based approach to setting the allowed ROE on an annual basis.

Newfoundland Power cost of capital set through 2015: In April, Newfoundland Power received a cost of capital decision whereby the ROE and equity component of its capital structure would remain at 8.8% and 45%, respectively, for 2013 through 2015.

Central Hudson's rates set through 2015: Central Hudson's allowed ROE is currently set at 10% on a deemed common equity of 48%, which had been in effect since July 1, 2010, under a three-year rate order issued by the New York State Public Service Commission ("PSC"). In June 2013, the PSC extended the original three-year rate for two more years, through June 30, 2015, as a required condition to close the acquisition by Fortis. Effective July 1, 2013, Central Hudson is also subject to a modified earnings sharing mechanism, whereby earnings in excess of the allowed ROE are equally shared by the company and customers up to an achieved ROE that is 50bps above the allowed ROE, and earnings in excess of 50bps above the allowed ROE are shared 10%/90% (company/customers).

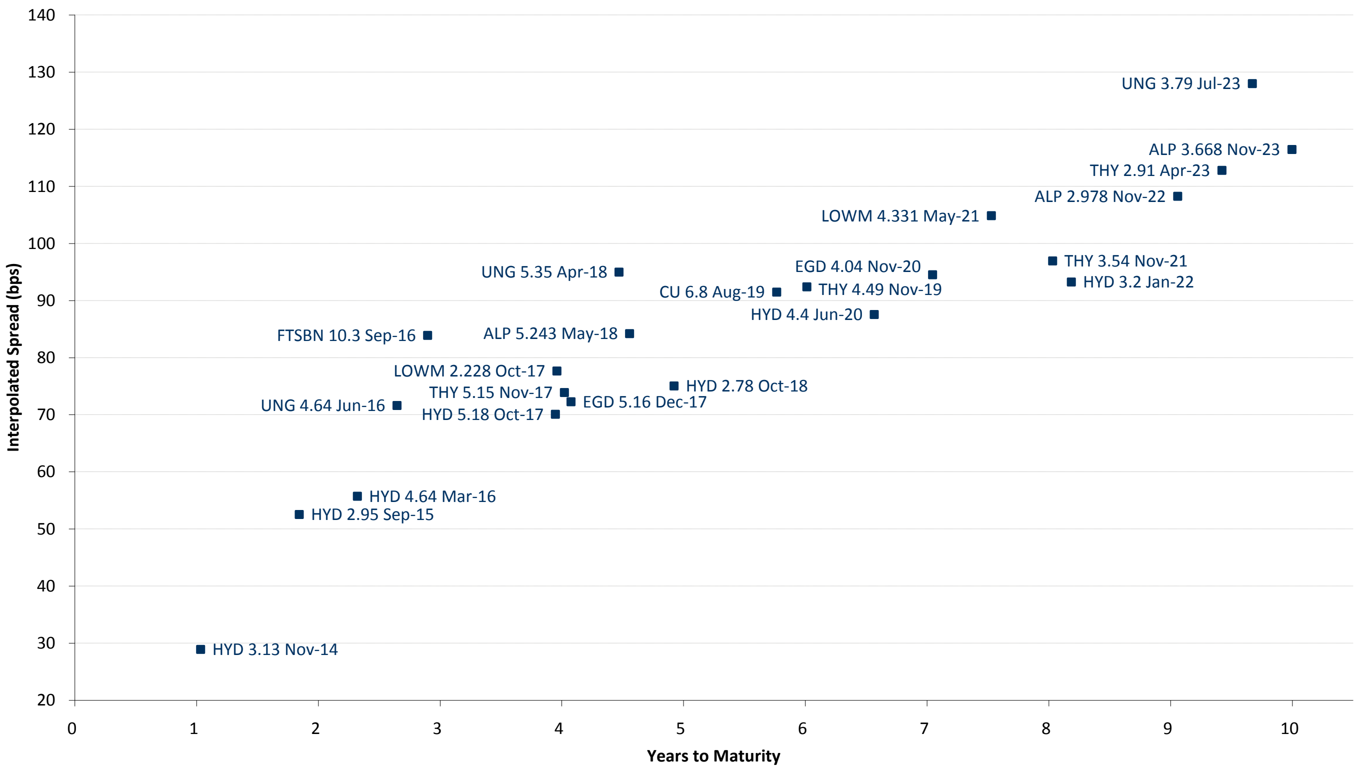
Exhibit 2: Fortis – Historical Financials and RBC CM Estimates

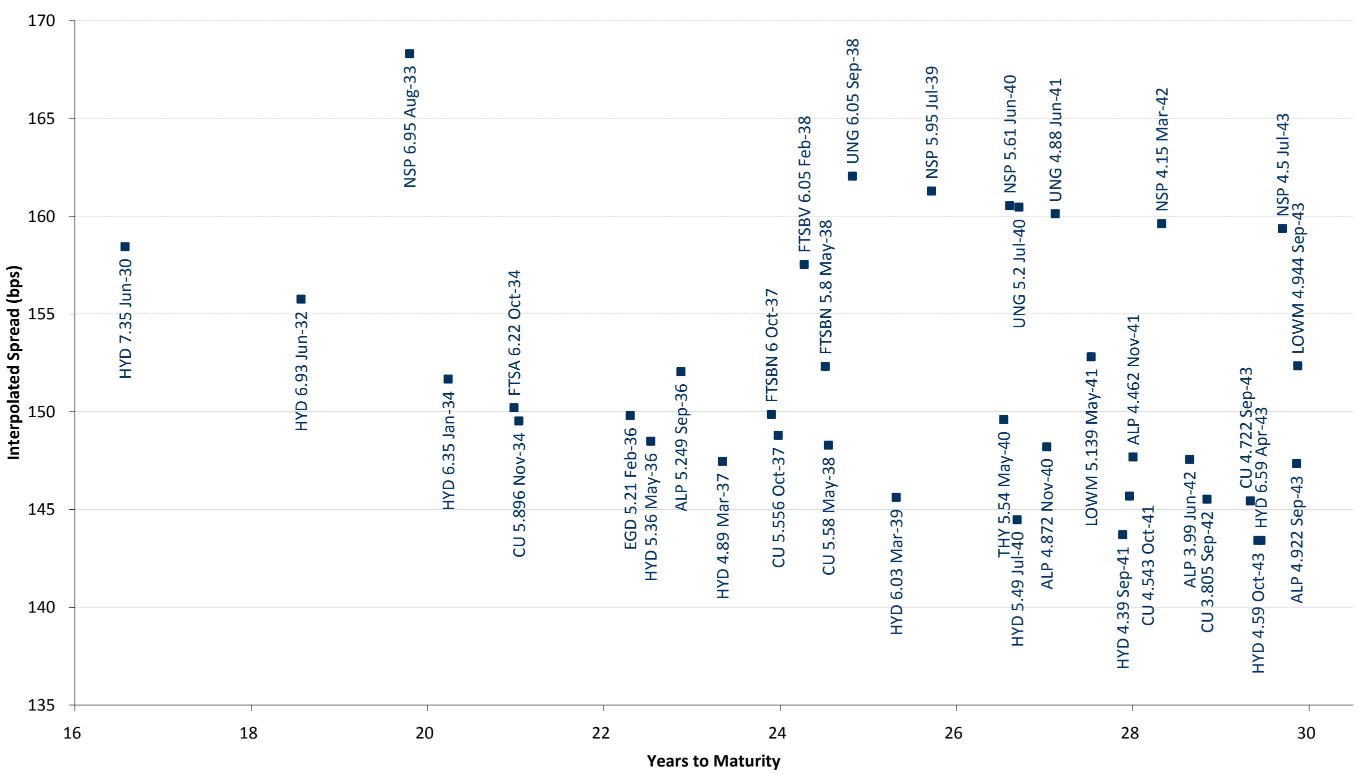
Fortis Inc.	Annual		Quarterly							*Forecasts*		
Consolidated ($MM)	**2011**	**2012**	**Q3/12**	**Q4/12**	**Q1/13**	**Q2/13**	**Q3/13**	**LTM**	**YTD**	***2013E***	***2014E***	***2015E***
Earnings Summary												
EBITDA	1,191	1,264	276	322	387	302	316	1,327	1,005	*1,398*	*1,538*	*1,685*
EBIT	775	794	158	203	258	172	175	808	605	*860*	*961*	*1,107*
Gross Interest	372	385	98	97	96	99	108	400	303	*420*	*445*	*459*
Cash Flow Summary												
FFO	**816**	**898**	**164**	**313**	**262**	**171**	**187**	**933**	**620**	***982***	***1,126***	***1,239***
Capital Expenditures	(1,171)	(1,130)	(283)	(336)	(250)	(298)	(262)	(1,146)	(810)	*(1,200)*	*(1,200)*	*(1,200)*
Preferred Dividends	(46)	(46)	(11)	(12)	(14)	(14)	(16)	(56)	(44)	*(55)*	*(55)*	*(55)*
Dividends	(160)	(179)	(44)	(45)	(43)	(47)	(51)	(186)	(141)	*(185)*	*(191)*	*(197)*
Gross Free Cash Flow (FCF)	**(561)**	**(457)**	**(174)**	**(80)**	**(45)**	**(188)**	**(142)**	**(455)**	**(375)**	***(458)***	***(320)***	***(213)***
Changes in Working Capital	99	78	57	(141)	18	120	(85)	(88)	53	*-*	*-*	*-*
Gross FCF after Working Capital	**(462)**	**(379)**	**(117)**	**(221)**	**(27)**	**(68)**	**(227)**	**(543)**	**(322)**	***(458)***	***(320)***	***(213)***
Divestitures/Acquisitions	(25)	(21)	(7)	(7)	(55)	(1,000)	-	(1,062)	(1,055)	*(1,055)*	*-*	*-*
Other Investing Activities	81	71	13	24	16	9	13	62	38	*-*	*-*	*-*
FCF before Financing	**(406)**	**(329)**	**(111)**	**(204)**	**(66)**	**(1,059)**	**(214)**	**(1,543)**	**(1,339)**	***(1,513)***	***(320)***	***(213)***
Net change in debt	(40)	85	8	(18)	48	558	(19)	569	587	*700*	*250*	*200*
Issue of Common Shares[1]	345	24	6	12	10	579	3	604	592	*600*	*40*	*40*
Issue of Preference Shares	-	194	-	194	-	-	117	311	117	*117*	*-*	*-*
Advances from Non-Controlling	81	106	14	23	22	21	1	67	44	*80*	*-*	*-*
F/X Gain/Other	-	(13)	(1)	-	-	-	-	-	-	*-*	*-*	*-*
Net Change in Cash	**(20)**	**67**	**(84)**	**7**	**14**	**99**	**(112)**	**8**	**1**	***(16)***	***(30)***	***27***
Capital Structure												
Total Debt	6,383	6,471	6,475	6,471	6,544	7,719	7,658			*7,671*	*7,921*	*8,121*
Non-controlling Interest	208	310	288	310	333	356	355			*310*	*310*	*310*
Preference Shares	912	1,108	912	1,108	1,108	1,108	1,229			*1,225*	*1,225*	*1,225*
Shareholders' Equity	3,823	3,992	3,933	3,992	4,114	4,699	4,688			*4,781*	*5,069*	*5,462*
Total Capital	**11,326**	**11,881**	**11,608**	**11,881**	**12,099**	**13,882**	**13,930**			***13,987***	***14,525***	***15,118***
Cash and Equivalents	87	154	147	154	168	267	155			*138*	*108*	*135*
Credit Ratios[2]												
Total Debt / Capital	56%	54%	56%	54%	54%	56%	55%			*55%*	*55%*	*54%*
Adjusted Debt / Capital[2]	60%	59%	60%	59%	59%	60%	59%			*59%*	*59%*	*58%*
Net Debt / Capital	56%	54%	55%	54%	53%	55%	54%			*54%*	*54%*	*53%*
Net Adjusted Debt / Capital[2]	60%	59%	59%	59%	58%	59%	59%			*59%*	*58%*	*57%*
(FFO + Interest) / Interest	3.2x	3.3x	3.2x	3.3x	3.4x	3.3x	3.3x			*3.3x*	*3.5x*	*3.7x*
EBITDA / Interest	3.2x	3.3x	3.3x	3.3x	3.3x	3.3x	3.3x			*3.3x*	*3.5x*	*3.7x*
EBIT / Interest	2.1x	2.1x	2.1x	2.1x	2.1x	2.0x	2.0x			*2.0x*	*2.2x*	*2.4x*
Total Debt / EBITDA	5.4x	5.1x	5.2x	5.1x	5.1x	6.0x	5.8x			*5.5x*	*5.1x*	*4.8x*
Adjusted Debt / EBITDA[2]	5.7x	5.6x	5.5x	5.6x	5.5x	6.4x	6.2x			*5.9x*	*5.5x*	*5.2x*
FFO / Total Debt	13%	14%	13%	14%	14%	12%	12%			*13%*	*14%*	*15%*
FFO / Adjusted Debt[2]	12%	13%	12%	13%	13%	11%	11%			*12%*	*13%*	*14%*
Preferred Shares / Capital	8%	9%	8%	9%	9%	8%	9%			*9%*	*8%*	*8%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

Exhibit 3: Relative Value – Regulated Utilities

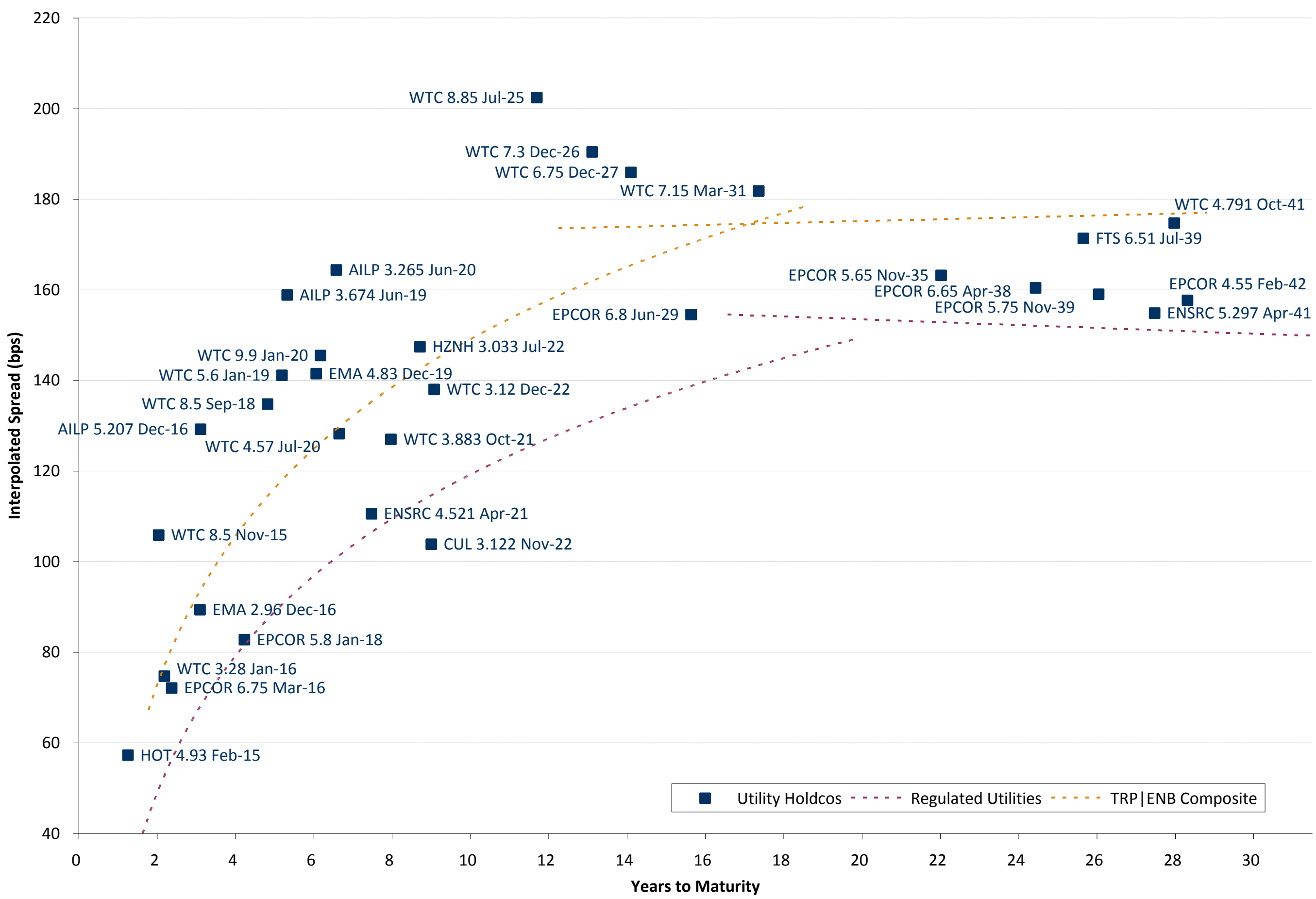




Source: Bloomberg, RBC Capital Markets

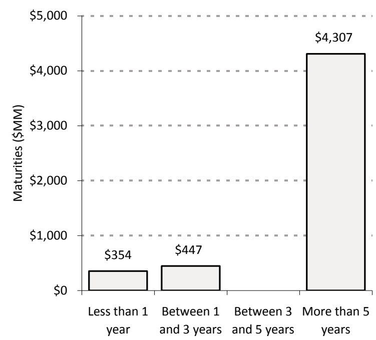
Matthew Kolodzie, CFA, P.Eng. (416) 842-6152; matthew.kolodzie@rbccm.com

Exhibit 4: Relative Value – Utility Holdcos



Source: Bloomberg, RBC Capital Markets

Exhibit 5: Fortis Inc. and Subsidiaries – Bonds Outstanding and Maturity Schedule



Note: Assumes USD/CAD exchange rate of 1.00.

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	07/04/2039	06/26/2009	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	125	3.53%	12/21/2020	12/22/2010	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	09/01/2037	09/06/2007	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	12/21/2040	12/22/2010	-	Sr. Unsecured	-
Total US$ Outstanding	**400**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Holdings Inc.	125	5.56%	09/15/2014	09/10/2004	+23 bps	Sr. Unsecured	88079ZAB9
Total C$ Outstanding	**125**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	09/30/2015	11/14/1990	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	09/30/2016	11/08/1991	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	09/21/2029	09/16/1999	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	05/01/2034	04/26/2004	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	02/26/2035	02/22/2005	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	09/25/2036	09/20/2006	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	10/02/2037	09/27/2007	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	5.80%	05/13/2038	05/08/2008	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	02/24/2039	02/24/2009	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	4.25%	12/09/2041	12/06/2011	+41 bps	Sr. Unsecured	34959ZAA0
Total C$ Outstanding	**1,545**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	02/15/2038	02/07/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	06/12/2040	12/02/2010	+40 bps	Sr. Unsecured	88100BAB5
Total C$ Outstanding	**350**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	200	5.33%	10/31/2014	10/15/2004	+18 bps	Sr. Unsecured	34957EAA9
FortisAlberta Inc.	200	6.22%	10/31/2034	10/15/2004	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	04/21/2036	04/06/2006	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	04/15/2038	04/08/2008	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	02/14/2039	02/10/2009	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	10/30/2039	10/30/2009	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	10/18/2041	10/14/2011	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	150	4.85%	09/11/2043	09/10/2013	+39.5 bps	Sr. Unsecured	34957ZAR5
FortisAlberta Inc.	110	4.99%	01/03/2047	12/08/2006	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	10/27/2050	10/22/2010	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	10/23/2052	10/18/2012	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,460**						

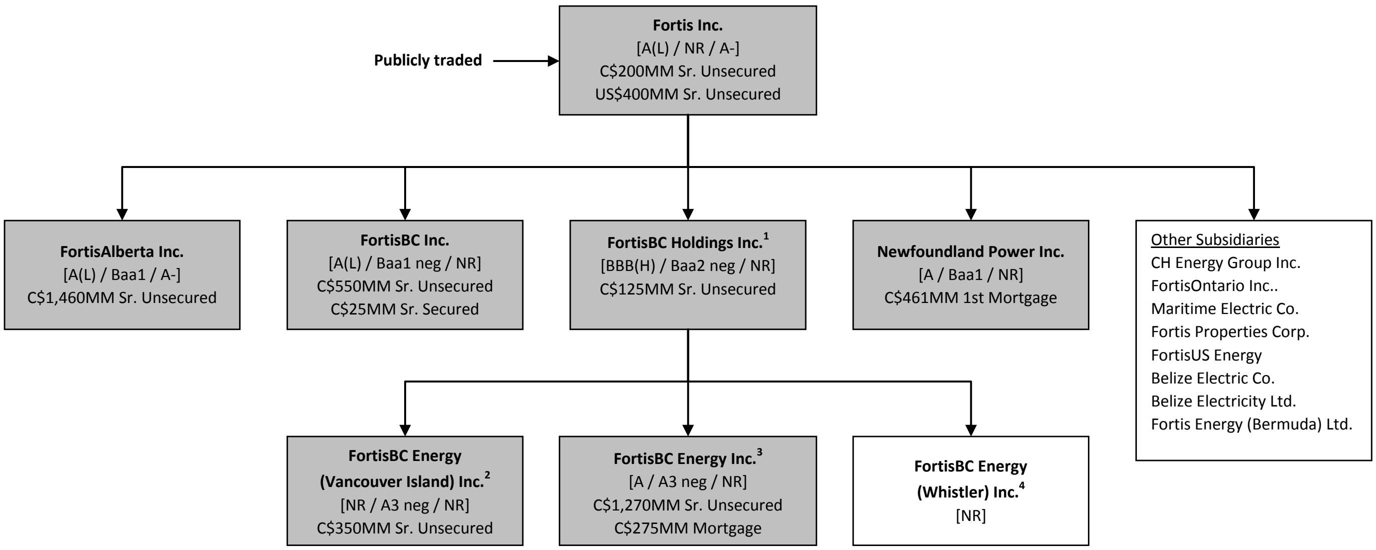
Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	140	5.48%	11/28/2014	11/23/2004	+24 bps	Sr. Unsecured	34957UAA3
FortisBC Inc.	25	8.80%	08/28/2023	08/27/1993	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	11/09/2035	10/27/2005	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	06/02/2039	06/02/2009	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	105	5.90%	07/04/2047	06/22/2007	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	11/24/2050	11/19/2010	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**575**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	29	10.55%	08/01/2014	07/20/1989	+50 bps	First Mortgage	651350BD1
Newfoundland Power Inc.	32	10.90%	05/02/2016	04/10/1991	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	10/01/2020	09/08/1992	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	33	10.125%	06/15/2022	05/19/1992	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	34	8.90%	05/07/2026	04/18/1996	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	43	6.80%	11/20/2028	11/02/1998	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	68	7.52%	11/01/2032	10/16/2002	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	55	5.441%	08/15/2035	08/10/2005	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	66	5.901%	08/17/2037	08/13/2007	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	62	6.606%	05/25/2039	08/10/2005	+50 bps	First Mortgage	6513508Y9
Total C$ Outstanding	**453**						

Source: Bloomberg, RBC Capital Markets

Exhibit 6: Fortis Inc. and Subsidiaries – Simplified Organizational Structure

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.



1. FortisBC Holdings Inc. formerly known as Terasen Inc.
2. FortisBC Energy (Vancouver Island) Inc. formerly known as Terasen Gas (Vancouver Island) Inc.
3. FortisBC Energy Inc. formerly known as Terasen Gas Inc.
4. FortisBC Energy (Whistler) Inc. formerly known as Terasen Gas (Whistler) Inc.

Source: Bloomberg, company reports, rating agencies, RBC Capital Markets

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Company Note

Fortis Inc.

Q4/13: Another record year of capex ahead

Our view: Within the Fortis group's regulated utility opco bonds, we think FortisBC provides the best relative value given the discount to FortisBC Energy and FortisAlberta for a similar credit risk profile. We continue to believe Fortis holdco bonds provide good relative value with a pickup in the +30 bps range over its regulated utility opco bonds. In our view, the current discount for the structural subordination at the holdco level is more than offset by the well diversified and stable source of cash flow generated by its various utility subsidiaries. Furthermore, management has demonstrated a commitment to maintaining "A" level credit ratings.

Key points

Fortis reports Q4/13 (credit neutral). EBITDA of $386MM was in line with expectations up compared to a year ago ($322MM in Q4/12) mainly due to the CH Energy acquisition in Jun/13 (Exhibit 1). Fortis generated a gross FCF shortfall of $87MM after capex of $355MM and dividends of $63MM (Exhibit 2). Total consolidated debt was increased by $130MM to $7.79B at YE2013. Credit metrics were largely in line with the previous quarter, with adjusted debt-to-capital at 59%, EBITDA-to-interest at 3.6x, and FFO-to-adjusted debt at 11%. In October, Fortis closed a US$325MM private placement, with proceeds used to repay a portion of the US$ credit facility drawings associated with the CH Energy acquisition. Quarterly dividends will increase to $0.32 on March 1, 2014, from $0.31 previously.

Record capital spending in 2014. Fortis expects a five-year (2014–2018) capex budget of $6.5B, with the majority directed toward the regulated utilities. The pending UNS Energy acquisition could add $1.5B to capex over 2015–2018. In 2014, a record $1.43B is expected to be spent, up from $1.18B in 2013 (Exhibit 3).

Net new borrowing could exceed $500MM in 2014. On a consolidated basis, we estimate that Fortis will generate a FCF shortfall of almost $560MM in 2014, which we expect to be funded mainly with debt issued at its utility subsidiaries. In addition, Fortis subsidiaries have $465MM of maturities in 2014 ($200MM at FortisAlberta, $140MM at FortisBC, and $125MM at FortisBC Holdings—see Exhibit 5).

Waneta on track. Since the start of construction in 2010, $579MM has been spent on the $900MM 335 MW Waneta Expansion (Fortis owns 51%), which remains on track for a H1/15 start-up.

UNS Energy acquisition. In Dec/13, Fortis announced an agreement to acquire UNS Energy for US$4.3B including the assumption of US$1.8B of debt. UNS Energy operates regulated electricity generation and energy electricity and natural gas delivery in Arizona. We view this transaction favourably given that it will increase geographic and regulatory diversification and will be financed prudently with roughly 42% of financing in equity.

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform
FortisBC Energy (Vancouver Island) Inc.	
CAD	Underperform
Newfoundland Power Inc.	
CAD	Sector Perform

Key benchmark levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$128.2	176	166	4.61%

Source: Bloomberg, RBC Capital Markets

Ratings agencies

	Rating	Outlook
DBRS	A(L)	UR-Dev.
Moody's	NR	NR
S&P	A-	Negative

Source: Bloomberg, rating agencies

Key credit statistics

	LTM 12/31/12	LTM 12/31/13
Debt/Capital (%)	59%	59%
Debt/EBITDA (x)	5.6x	6.0x
FFO/Debt (%)	13%	11%
EBITDA/Interest (x)	3.3x	3.6x
Total Debt Outstanding ($MM)	6,471	7,788

Debt is adjusted for 50% equity treatment of pref. shares.

Source: Company reports, RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 8.

Exhibit 1: Segmented EBITDA

EBITDA	2011	2012	2013	Q4/12	Q1/13	Q2/13	Q3/13	Q4/13
Regulated Gas & Electric								
FortisBC Energy companies	419	470	483	135	188	91	60	144
Central Hudson	-	-	71	-	-	-	36	35
FortisAlberta	264	290	314	71	78	79	80	77
FortisBC	141	145	149	36	43	32	36	38
Newfoundland Power	129	127	130	33	29	36	32	33
Other Canadian	73	78	76	17	21	19	21	15
Total Electric Canadian	607	640	669	157	171	166	169	163
Electric Carribean	73	69	78	15	17	19	20	22
Non-regulated								
Fortis Generation	25	21	24	2	3	4	10	7
Fortis Properties	75	76	78	19	11	24	25	18
Corporate and Other	14	10	13	-	3	4	4	2
Inter-segment eliminations	(22)	(22)	(23)	(6)	(6)	(6)	(6)	(5)
Consolidated EBITDA	**1,191**	**1,264**	**1,393**	**322**	**387**	**302**	**318**	**386**

Source: Company reports, RBC Capital Markets

Recent developments

Another utility acquisition in the U.S. adds diversification and favourable regulatory frameworks. In December 2013, Fortis announced an agreement to acquire UNS Energy Corporation for US$4.3B including the assumption of US$1.8B of debt. UNS Energy is headquartered in Tucson, Arizona, and through three subsidiaries operates regulated electricity generation, and electricity and natural gas delivery to approximately 654,000 customers in Arizona. The transaction is expected to close by YE2014 and add approximately $3B to Fortis' consolidated regulated rate base.

- To finance the acquisition, Fortis issued $1.8B of 4% convertible unsecured subordinated debentures, on an installment basis at a price of $1,000 per debenture, of which $333 was paid on closing of the offering and the remaining $667 is payable upon closing of the acquisition. Fortis has also obtained a commitment from a Canadian bank for a non-revolving bridge credit facility.
- We view the proposed acquisition favourably, as it will increase size and improve diversification. Post closing, no more than one-third of total assets will be located in any one regulatory jurisdiction. Furthermore, the intended financing of the transaction, with roughly 42% equity, is supportive of the company's credit strength.
- The UNS Energy utilities have attractive regulatory frameworks: (i) TEP, the largest of the three utilities, has an allowed ROE of 10% on a deemed equity of 43.5% ; (ii) UNS Electric has an ROE of 9.5% on a deemed equity of 52.6%; (iii) and UNS Gas has an ROE of 9.75% on a deemed equity of 50.8%. These frameworks compare favourably to the 8.75% ROE in Alberta and BC on deemed equity that is 41% or lower (depending on the utility).
- In response to the announced acquisition, DBRS placed its A(low) rating "under review with developing implications" and S&P revised the outlook on its A- rating to "negative" from "stable". S&P indicated that the outlook would likely be revised to stable when the subordinated debentures are converted to equity.

Sale of Griffith. In January 2014, CH Energy Group sold its non-regulated subsidiary, Griffith, for US$70MM plus working capital.

Regulatory update

British Columbia – Awaiting decision on Phase 2 of Generic Cost of Capital (GCOC). In May 2013, the British Columbia Utilities Commission (BCUC) released a decision on Phase 1 of its GCOC review. In its decision, the BCUC: (i) reduced the common equity ratio for FortisBC Energy Inc., its "benchmark utility", to 38.5% from 40%; (ii) lowered the allowed ROE to 8.75% from 9.50% previously; and (iii) introduced an automatic adjustment to set the ROE annually. The allowed ROE for FortisBC Inc., FortisBC Energy (Vancouver), and FortisBC Energy (Whistler) was also reduced by 75 bps as a part of this Phase 1 decision, with FortisBC now having an ROE of 9.15%. Phase 2 of the GCOC proceeding is currently under way, whereby the BCUC will determine appropriate risk premiums and capital structures for the three smaller utilities—a decision is expected in H1/14. In response to the Phase 1 GCOC decision, Moody's placed the ratings of FortisBC Energy and FortisBC on Negative outlook, with a potential ratings downgrade should FFO-to-debt be forecasted to fall below 13% for several years. In July 2013, FortisBC Energy and FortisBC each filed an application for a multi-year Performance-Based Regulatory (PBR) plan for 2014 through 2018. The review process for these applications is under way, and a decision is expected in Q3/14. Effective January 1, 2014, the BCUC approved a 1.4% interim refundable rate increase for FortisBC Energy and a 3.3% interim refundable increase to FortisBC.

Alberta – AUC issues Decision on Capital Tracker application; Generic Cost of Capital proceeding continues. All regulated distribution utilities in Alberta, including FortisAlberta, moved to a five-year PBR framework that commenced January 1, 2013. In March, the Alberta Utilities Commission (AUC) set rates on an interim rate basis (effective January 1, 2013), including an interim approval of 60% of the revenue requirement associated with the 2013 Capital Tracker application. In December, the AUC issued a Capital Tracker Decision, whereby the AUC provided criteria that must be met in order to be included in the Capital Tracker. In addition, the AUC directed FortisAlberta to: (i) re-file its 2013 Capital Tracker application in May 2014 using a prescribed format, with a decision expected by YE2014; and (ii) file a combined 2014 and 2015 Capital Tracker Application in March 2014. A hearing on the 2013 GCOC proceeding is scheduled for early 2014 to establish: (i) the allowed ROE and capital structure for 2013; (ii) the allowed ROE for 2014; and (iii) an interim allowed ROE for 2015. In this proceeding, the AUC may consider the possible re-establishment of a formula-based approach to setting the allowed ROE on an annual basis.

Newfoundland Power cost of capital set through 2015. In April 2013, Newfoundland Power received a cost-of-capital decision whereby the ROE and equity component of its capital structure would remain at 8.8% and 45%, respectively, for 2013 through 2015.

Central Hudson's rates set through 2015. Central Hudson's allowed ROE is currently set at 10% on a deemed common equity of 48%, which had been in effect since July 1, 2010, under a three-year rate order issued by the New York State Public Service Commission ("PSC"). In June 2013, the PSC extended the original three-year rate for two more years, through June 30, 2015, as a required condition to close the acquisition by Fortis. Effective July 1, 2013, Central Hudson is also subject to a modified earnings sharing mechanism, whereby earnings in excess of the allowed ROE are equally shared by the company and customers up to an achieved ROE that is 50bps above the allowed ROE, and earnings in excess of 50bps above the allowed ROE are shared 10%/90% (company/customers). In mid-2014, Central Hudson will file a general rate application (its first as a Fortis utility) to set rates effective July 1, 2015.

Exhibit 2: Historical financials and RBC CM estimates

Fortis Inc. Consolidated ($MM)	Annual 2011	2012	2013	Quarterly Q4/12	Q1/13	Q2/13	Q3/13	Q4/13	*Forecasts 2014E*	*2015E*
Earnings Summary										
EBITDA	1,191	1,264	1,393	322	387	302	318	386	*1,533*	*2,117*
Gross Interest	372	385	389	97	89	92	103	105	*452*	*608*
Cash Flow Summary										
FFO	**816**	**914**	**944**	**317**	**260**	**171**	**182**	**331**	***1,125***	***1,581***
Capital Expenditures	(1,171)	(1,146)	(1,175)	(340)	(250)	(298)	(272)	(355)	*(1,430)*	*(1,875)*
Preferred Dividends	(46)	(46)	(56)	(12)	(14)	(14)	(16)	(12)	*(55)*	*(55)*
Dividends	(160)	(179)	(192)	(45)	(43)	(47)	(51)	(51)	*(198)*	*(205)*
Gross Free Cash Flow (FCF)	**(561)**	**(457)**	**(479)**	**(80)**	**(47)**	**(188)**	**(157)**	**(87)**	***(558)***	***(554)***
Changes in Working Capital	99	78	(45)	(141)	18	120	(85)	(98)	-	-
Gross FCF after Working Capital	**(462)**	**(379)**	**(524)**	**(221)**	**(29)**	**(68)**	**(242)**	**(185)**	***(558)***	***(554)***
Divestitures/Acquisitions	(25)	(21)	(1,055)	(7)	(55)	(1,000)	-	-	-	*(4,300)*
Other Investing Activities	81	71	66	24	16	9	30	11	-	-
FCF before Financing	**(406)**	**(329)**	**(1,513)**	**(204)**	**(68)**	**(1,059)**	**(212)**	**(174)**	***(558)***	***(4,854)***
Net change in debt	(40)	85	658	(18)	48	558	(19)	71	*500*	*2,800*
Issue of Common Shares[1]	345	24	596	12	10	579	3	4	*20*	*1,820*
Issue of Preference Shares	-	194	117	194	-	-	117	-	-	*300*
Advances from Non-Controlling	81	106	63	23	22	21	1	19	-	-
F/X Gain/Other	-	(13)	(3)	-	-	-	-	(3)	-	-
Net Change in Cash	**(20)**	**67**	**(82)**	**7**	**12**	**99**	**(110)**	**(83)**	***(38)***	***66***
Capital Structure										
Total Debt	6,383	6,471	7,788	6,471	6,544	7,719	7,658	7,788	*8,288*	*11,088*
Non-controlling Interest	208	310	375	310	333	356	355	375	*375*	*375*
Preference Shares	912	1,108	1,229	1,108	1,108	1,108	1,229	1,229	*1,229*	*1,529*
Shareholders' Equity	3,823	3,992	4,772	3,992	4,114	4,699	4,688	4,772	*4,969*	*7,127*
Total Capital	**11,326**	**11,881**	**14,164**	**11,881**	**12,099**	**13,882**	**13,930**	**14,164**	***14,861***	***20,119***
Cash and Equivalents	87	154	72	154	168	267	155	72	*34*	*100*
Credit Ratios[2]										
Total Debt / Capital	56%	54%	55%	54%	54%	56%	55%	55%	*56%*	*55%*
Adjusted Debt / Capital[2]	60%	59%	59%	59%	59%	60%	59%	59%	*60%*	*59%*
Net Debt / Capital	56%	54%	55%	54%	53%	55%	54%	55%	*56%*	*55%*
Net Adjusted Debt / Capital[2]	60%	59%	59%	59%	58%	59%	59%	59%	*60%*	*59%*
(FFO + Interest) / Interest	3.2x	3.4x	3.4x	3.4x	3.4x	3.5x	3.4x	3.4x	*3.5x*	*3.6x*
EBITDA / Interest	3.2x	3.3x	3.6x	3.3x	3.4x	3.4x	3.5x	3.6x	*3.4x*	*3.5x*
Total Debt / EBITDA	5.4x	5.1x	5.6x	5.1x	5.1x	6.0x	5.8x	5.6x	*5.4x*	*5.2x*
Adjusted Debt / EBITDA[2]	5.7x	5.6x	6.0x	5.6x	5.5x	6.4x	6.2x	6.0x	*5.8x*	*5.6x*
FFO / Total Debt	13%	14%	12%	14%	14%	12%	12%	12%	*14%*	*14%*
FFO / Adjusted Debt[2]	12%	13%	11%	13%	13%	11%	11%	11%	*13%*	*13%*
Preferred Shares / Capital	8%	9%	9%	9%	9%	8%	9%	9%	*8%*	*8%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

Exhibit 3: Segmented capital spending

	FortisBC Energy	FortisAlberta	FortisBC	Newfound-land Power	Other Regulated Eletric Utilities - Canadian	**Total Regulated Utilities - Canadian**	Central Hudson	Regulated Electric Utilities - Caribbean	**Total Regulated Utilities**	**Non-Regulated - Fortis Generation1**	**Non-Regulated Non-Utility**	**Total**
2013A	215	429	69	92	56	**861**	57	52	**970**	**146**	**59**	**1,175**
2014E	329	413	130	105	56	**1,033**	122	61	**1,216**	**131**	**83**	**1,430**
Y/Y Change	114	(16)	61	13	0	**172**	65	9	**246**	**(15)**	**24**	**255**

1. Approximately $126MM of non-regulated generation spending will be on the contstruction of the Waneta Expansion.

Source: Company reports

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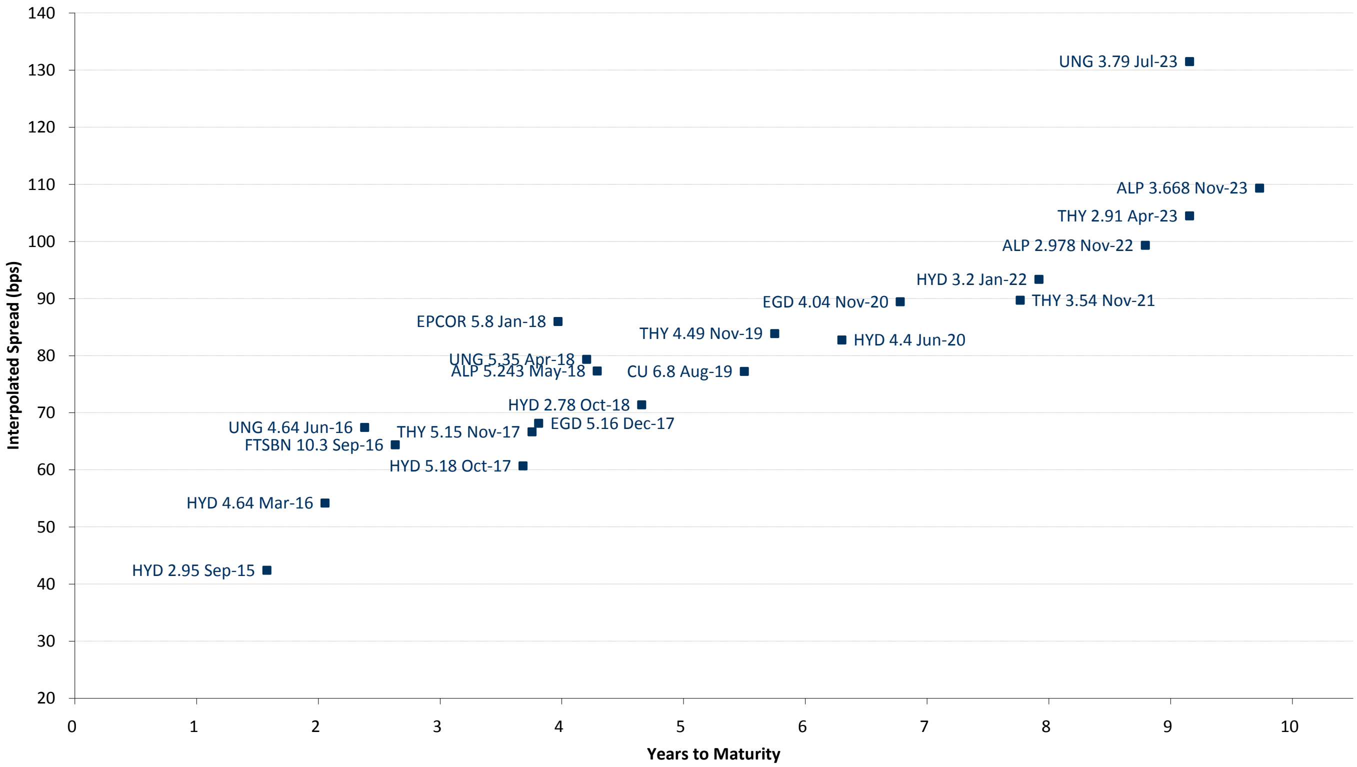
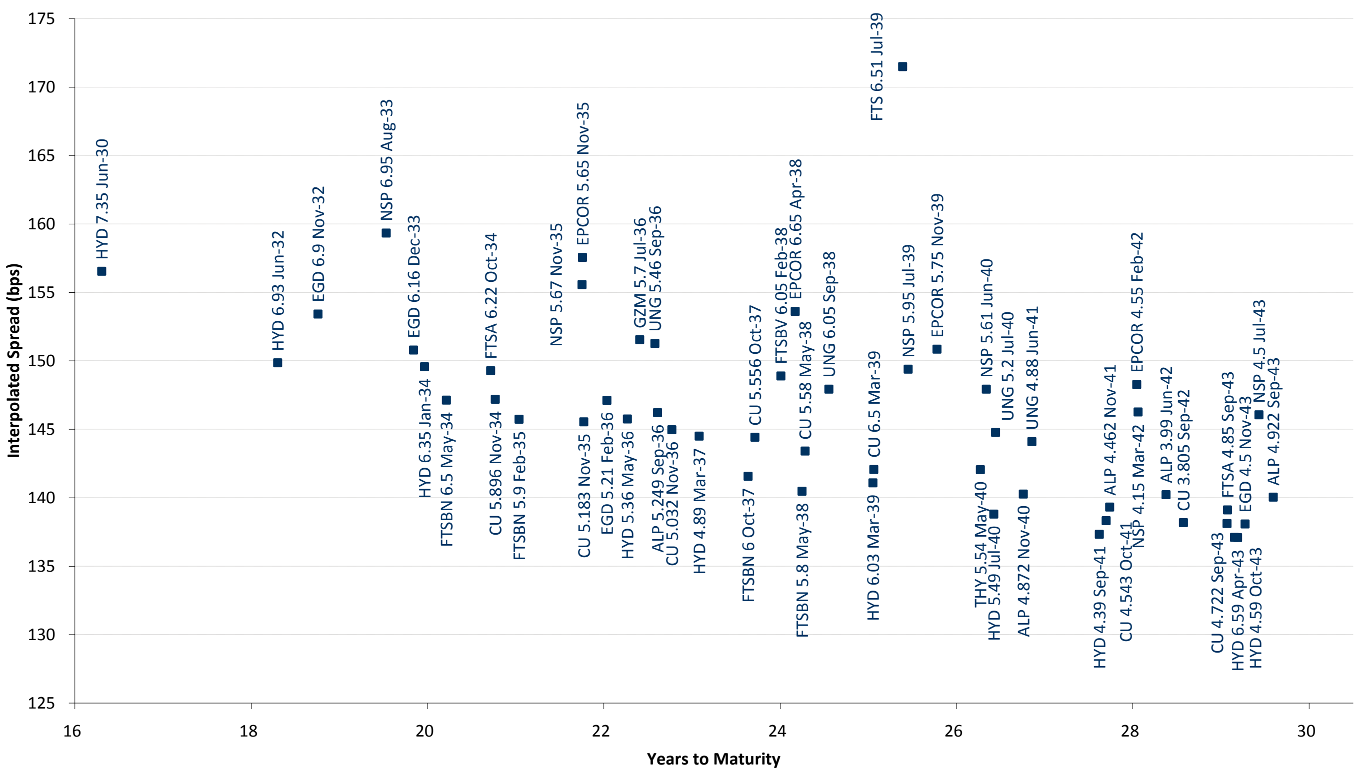
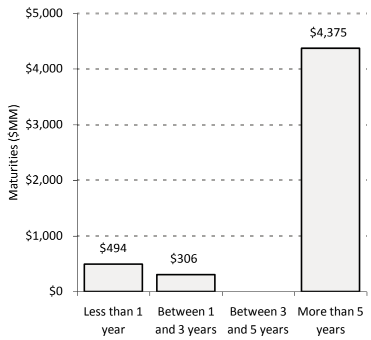
Exhibit 4: Relative value – regulated utilities





Source: Bloomberg, RBC Capital Markets

Exhibit 5: Bonds outstanding and maturity schedule



Note: Assumes USD/CAD exchange rate of 1.00.

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	2039/07/04	2009/07/02	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	125	3.53%	2020/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	2037/09/01	2007/09/06	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	2040/12/21	2010/12/22	-	Sr. Unsecured	-
Total US$ Outstanding	**400**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Holdings Inc.	125	5.56%	2014/09/15	2004/09/15	+23 bps	Sr. Unsecured	88079ZAB9
Total C$ Outstanding	**125**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	2015/09/30	1990/12/03	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	2016/09/30	1991/11/21	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	2029/09/21	1999/09/21	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	2034/05/01	2004/04/29	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	2035/02/26	2005/02/25	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	2036/09/25	2006/09/25	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	2037/10/02	2007/10/02	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	5.80%	2038/05/13	2008/05/13	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	2039/02/24	2009/02/24	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	4.25%	2041/12/09	2011/12/09	+41 bps	Sr. Unsecured	34959ZAA0
Total C$ Outstanding	**1,545**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	02/15/2038	02/07/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	06/12/2040	12/02/2010	+40 bps	Sr. Unsecured	88100BAB5
Total C$ Outstanding	**350**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	200	5.33%	2014/10/31	2004/10/25	+18 bps	Sr. Unsecured	34957EAA9
FortisAlberta Inc.	200	6.22%	2034/10/31	2004/10/25	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	2036/04/21	2006/04/21	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	2038/04/15	2008/04/15	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	2039/02/14	2009/02/13	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	2039/10/30	2009/10/30	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	2041/10/18	2011/10/19	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	150	4.85%	2043/09/11	2013/09/13	+39.5 bps	Sr. Unsecured	34957ZAR5
FortisAlberta Inc.	110	4.99%	2047/01/03	2007/01/03	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	2050/10/27	2010/10/27	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	2052/10/23	2012/10/23	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,460**						

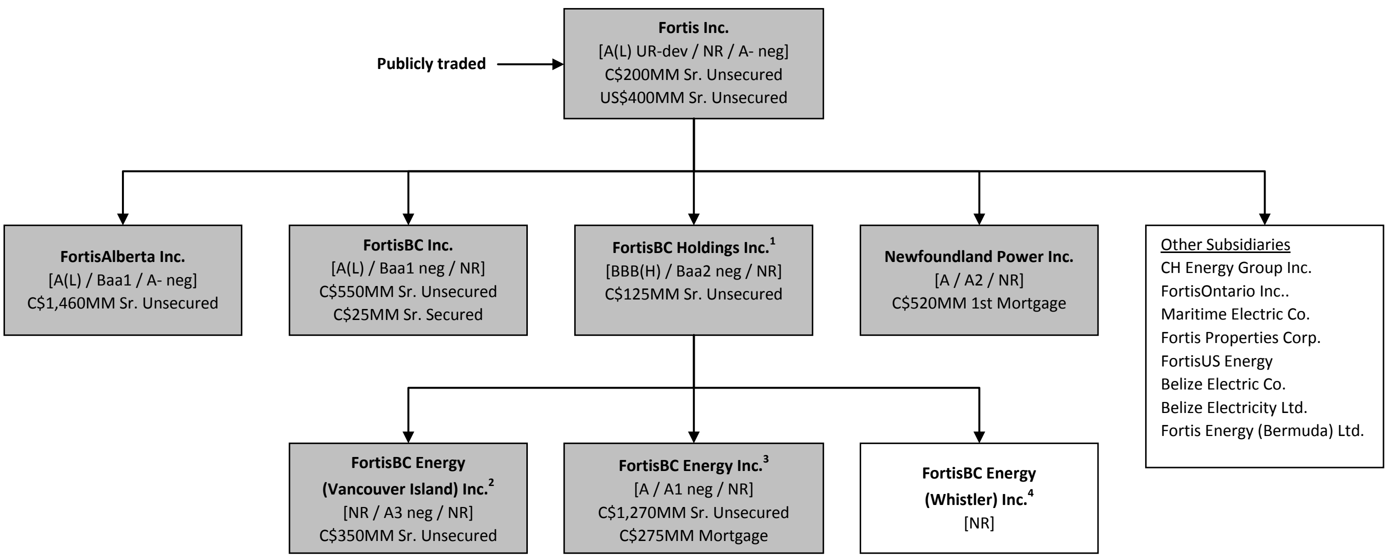
Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	140	5.48%	2014/11/28	2004/11/30	+24 bps	Sr. Unsecured	34957UAA3
FortisBC Inc.	25	8.80%	2023/08/28	1993/08/27	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	2035/11/09	2005/11/10	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	2039/06/02	2009/06/02	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	105	5.90%	2047/07/04	2007/07/04	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	2050/11/24	2010/11/24	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**575**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	29	10.55%	2014/08/01	1989/08/09	+50 bps	First Mortgage	651350BD1
Newfoundland Power Inc.	31	10.90%	2016/05/02	1991/05/02	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	2020/10/01	1992/10/01	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	33	10.125%	2022/06/15	1992/06/15	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	33	8.90%	2026/05/07	1996/05/07	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	43	6.80%	2028/11/20	1998/11/20	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	67	7.52%	2032/11/01	2002/10/31	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	55	5.441%	2035/08/15	2005/08/15	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	65	5.901%	2037/08/17	2007/08/17	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	62	6.606%	2039/05/25	2009/05/25	+50 bps	First Mortgage	6513508Y9
Newfoundland Power Inc.	70	4.805%	2043/11/09	2013/11/08	+42.5 bps	First Mortgage	65135PAC9
Total C$ Outstanding	**520**						

Source: Bloomberg, RBC Capital Markets

Exhibit 6: Simplified organizational structure

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.



1. FortisBC Holdings Inc. formerly known as Terasen Inc.
2. FortisBC Energy (Vancouver Island) Inc. formerly known as Terasen Gas (Vancouver Island) Inc.
3. FortisBC Energy Inc. formerly known as Terasen Gas Inc.
4. FortisBC Energy (Whistler) Inc. formerly known as Terasen Gas (Whistler) Inc.

Source: Bloomberg, company reports, rating agencies, RBC Capital Markets

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Top Pick (TP): Represents the analyst's best ideas in the Outperform category; provides best relative risk-reward ratio and/or is expected to significantly outperform the sector over 12 months.

Outperform (O): Provides superior relative risk-reward ratio and/or is expected to materially outperform the sector average over 12 months.

Sector Perform (SP): Provides an adequate relative risk-reward ratio and/or total return is expected to be in line with the sector average over 12 months.

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As of 31-Dec-2013

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [Top Pick & Outperform]	123	34.17	57	46.34
HOLD [Sector Perform]	185	51.39	112	60.54
SELL [Underperform]	52	14.44	25	48.08

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May 9, 2014

Company Update

Fortis Inc.

Q1/14: Slightly ahead of expectations

Our view: The Fortis group's regulated utility opco bonds all trade within a fairly tight band and are in line with peers such as Hydro One, CU, and AltaLink. We think strong investor demand for low-risk utility paper will keep a tight bid on spreads, as will technical support from the expectation that supply from this sector will be a little lighter this year than in 2013. Fortis holdco bonds have tightened in to about 15bps back of its utility subsidiaries, from a historical discount of closer to +30bps. We believe this discount is fair accounting for the structural subordination at the holdco level and supported by the well diversified and stable source of cash flow generated by its various utility subsidiaries. Furthermore, management has demonstrated a commitment to maintaining "A" level credit ratings.

Key points

Fortis reports Q1/14 (credit neutral): EBITDA of $457MM was slightly ahead of expectations, and up compared to a year ago ($387MM in Q1/13) mainly due to the CH Energy acquisition in Jun/13 (Exhibit 1). Fortis generated a gross FCF shortfall of $10MM after capex of $237MM and dividends of $63MM (Exhibit 2). Consolidated credit metrics were largely in line with the previous quarter, with adjusted debt-to-capital at 58%, EBITDA-to-interest at 3.5x, and FFO-to-adjusted debt at 11%.

UNS Energy acquisition: Progress continues on the pending acquisition of UNS Energy (US$4.3B including assumed debt of US$1.8B), with settlement discussions currently under way. In January, Fortis received the first $599MM installment of $1.8B in convertible unsecured subordinated debt issued to finance the acquisition. In March, Fortis secured $2B of syndicated non-revolving term credit facilities as bridge financing. UNS Energy operates regulated electricity generation and electricity and natural gas delivery in Arizona. We view this transaction favourably given that it will increase geographic and regulatory diversification and will be financed prudently with roughly 42% in equity.

Waneta on track: Since the start of construction in 2010, $603MM has been spent on the $900MM 335 MW Waneta Expansion (Fortis owns 51%), which remains on track for a spring 2015 start-up.

Record capital spending, net new borrowing could exceed $500MM in 2014: Fortis anticipates a five-year (2014–2018) capital spending budget of $6.5B, with the majority at the regulated utilities. The pending UNS Energy acquisition could add $1.5B to capex over 2015–2018. In 2014, a record $1.4B is expected to be spent, up from $1.2B in 2013. On a consolidated basis, we estimate that Fortis will generate a FCF shortfall of approximately $500MM in 2014, which we expect to be funded mainly with debt issued at its utility subsidiaries. In addition, Fortis subsidiaries have $465MM of maturities in 2014 ($200MM at FortisAlberta, $140MM at FortisBC, and $125MM at FortisBC Holdings – see Exhibit 5).

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform

Key benchmark levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$132.3	153	152	4.38%

Source: Bloomberg, RBC Capital Markets

Ratings agencies

	Rating	Outlook
DBRS	A(L)	UR-Dev.
Moody's	NR	NR
S&P	A-	Negative

Source: Bloomberg, rating agencies

Key credit statistics

	LTM 03/31/13	LTM 03/31/14
Debt/Capital (%)	59%	58%
Debt/EBITDA (x)	5.5x	5.7x
FFO/Debt (%)	12%	11%
EBITDA/Interest (x)	3.4x	3.5x
Total Debt Outstanding ($MM)	6,544	7,653

Debt is adjusted for 50% equity treatment of pref. shares.

Source: Company reports, RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 8.

Exhibit 1: Segmented EBITDA

Segmented EBITDA ($MM)	2011	2012	2013	Q1/13	Q2/13	Q3/13	Q4/13	Q1/14
Regulated Gas & Electric								
FortisBC Energy companies	419	470	483	188	91	60	144	191
Central Hudson	-	-	71	-	-	36	35	46
FortisAlberta	264	290	314	78	79	80	77	83
FortisBC	141	145	149	43	32	36	38	46
Newfoundland Power	129	127	130	29	36	32	33	35
Other Canadian	73	78	76	21	19	21	15	21
Total Electric Canadian	607	640	669	171	166	169	163	185
Electric Carribean	73	69	78	17	19	20	22	20
Non-regulated								
Fortis Generation	25	21	24	3	4	10	7	8
Fortis Properties	75	76	78	11	24	25	18	12
Corporate and Other	14	10	13	3	4	4	2	2
Inter-segment eliminations	(22)	(22)	(23)	(6)	(6)	(6)	(5)	(7)
Consolidated EBITDA	**1,191**	**1,264**	**1,393**	**387**	**302**	**318**	**386**	**457**

Source: Company reports, RBC Capital Markets

Recent developments

Amalgamation of FortisBC Energy companies approved: In March, regulatory approval was received for the amalgamation of the FortisBC Energy group of companies, including FortisBC Energy Inc. and FortisBC Energy (Vancouver Island) Inc. The amalgamation is awaiting consent of the Lieutenant Governor in Council and is expected to be come into effect on December 31, 2014. Common rates will be phased in over three years.

USD private placement: In March, Fortis priced a private placement of US$500MM senior unsecured notes, which will be issued in multiple tranches with terms to maturity ranging from 5 years to 30 years and coupon rates ranging from 2.92% to 5.03%. Fortis expects US$213MM of notes will be issued on June 30, 2014 and US$287MM on September 15, 2014. Proceeds will be used primarily to refinance existing debt (including the US$150MM 5.74% notes due 10/30/14 and the US$125MM 5.56% debentures of a subsidiary due 09/15/14) and the repayment of amounts drawn on Fortis's committed credit facility.

Sale of Griffith: In January 2014 CH Energy Group sold its non-regulated subsidiary, Griffith, for US$95MM.

Pending acquisition of UNS Energy: In December 2013, Fortis announced an agreement to acquire UNS Energy Corporation for US$4.3B including the assumption of US$1.8B of debt. UNS Energy is headquartered in Tucson, Arizona, and through three subsidiaries operates regulated electricity generation, and electricity and natural gas delivery to approximately 654,000 customers in Arizona. The transaction is expected to close by YE2014 and add approximately $3B to Fortis's consolidated regulated rate base.

- To finance the acquisition, Fortis issued $1.8B of 4% convertible unsecured subordinated debentures in January 2014, on an installment basis at a price of $1,000 per debenture, of which $333 per debenture was paid on closing of the offering and the remaining $667 is payable upon closing of the acquisition. In March, Fortis secured $2B of syndicated non-revolving term credit facilities as bridge financing for the UNS Energy transaction.
- We view the proposed acquisition favourably, as it will increase size and improve diversification. Post closing, no more than one-third of total assets will be located in any one regulatory jurisdiction. Furthermore, the intended financing of the transaction, with roughly 42% equity, is supportive of the company's credit strength.
- The UNS Energy utilities have attractive regulatory frameworks: (i) TEP, the largest of the three utilities, has an allowed ROE of 10% on a deemed equity of 43.5%; (ii) UNS Electric has an ROE of 9.5% on a deemed equity of 52.6%; (iii) and UNS Gas has an ROE of 9.75%

on a deemed equity of 50.8%. These frameworks compare favourably to the 8.75% ROE in Alberta and BC on deemed equity that is 41% or lower (depending on the utility).

- In response to the announced acquisition, DBRS placed its A(low) rating "under review with developing implications" and S&P revised the outlook on its A- rating to "negative" from "stable". S&P indicated that the outlook would likely be revised to stable when the subordinated debentures are converted to equity.

Regulatory update

British Columbia

Decision on Phase 2 of Generic Cost of Capital (GCOC): In March, the British Columbia Utilities Commission (BCUC) released a decision on Phase 2 of the GCOC Proceeding. In the decision, deemed equity for FortisBC Energy (Vancouver Island) was increased to 41.5% and was reaffirmed at 40% for FortisBC Inc. (effective January 1, 2013). The allowed ROE's were set a 9.25% and 9.15%, respectively. In May 2013, the BCUC released a decision on Phase 1 of its GCOC review, where the BCUC: (i) reduced the common equity ratio for FortisBC Energy Inc., its "benchmark utility", to 38.5% from 40%; (ii) lowered the allowed ROE to 8.75% from 9.50% previously; and (iii) introduced an automatic adjustment to set the ROE annually. In response to the Phase 1 GCOC decision, Moody's placed the ratings of FortisBC Energy and FortisBC on Negative outlook, with a potential ratings downgrade should FFO-to-debt be forecasted to fall below 13% for several years.

Multi-year PBR review under way. In July 2013, FortisBC Energy and FortisBC each filed an application for a multi-year Performance-Based Regulatory (PBR) plan for 2014 through 2018. The review process is under way and a decision is expected in Q3/14.

Alberta

AUC issues Decision on Capital Tracker application; Generic Cost of Capital proceeding continues: All regulated distribution utilities in Alberta, including FortisAlberta, moved to a 5-year PBR framework that commenced January 1, 2013. In March 2013, the Alberta Utilities Commission (AUC) set rates on an interim rate basis (effective January 1, 2013), including an interim approval of 60% of the revenue requirement associated with the 2013 Capital Tracker application. In December, the AUC issued a Capital Tracker Decision, where the AUC provided criteria that must be met in order be included in the Capital Tracker. In addition, the AUC directed FortisAlberta to: (i) re-file its 2013 Capital Tracker application in May 2014 using a prescribed format, with a decision expected by YE2014; and (ii) file a combined 2014 and 2015 Capital Tracker Application in March 2014. A hearing on the 2013 GCOC Proceeding is scheduled to establish: (i) the allowed ROE and capital structure for 2013; (ii) the allowed ROE for 2014; and (iii) an interim allowed ROE for 2015. In this proceeding, the AUC may consider the possible re-establishment of a formula-based approach to setting the allowed ROE on an annual basis.

United States

Central Hudson's rates set through 2015: Central Hudson's allowed ROE is currently set at 10% on a deemed common equity of 48%, which had been in effect since July 1, 2010, under a three-year rate order issued by the New York State Public Service Commission ("PSC"). In June 2013, the PSC extended the original three-year rate for two more years, through June 30, 2015, as a required condition to close the acquisition by Fortis. Effective July 1, 2013, Central Hudson is also subject to a modified earnings sharing mechanism, whereby earnings in excess of the allowed ROE are equally shared by the company and customers up to an achieved ROE that is 50bps above the allowed ROE, and earnings in excess of 50bps above the allowed ROE are shared 10%/90% (company/customers). In mid-2014, Central Hudson will file a general rate application (its first as a Fortis utility) to set rates effective July 1, 2015.

Exhibit 2: Segmented capital spending

	FortisBC Energy	FortisAlberta	FortisBC	Newfound-land Power	Other Regulated Eletric Utilities - Canadian	**Total Regulated Utilities - Canadian**	Central Hudson	Regulated Electric Utilities - Caribbean	**Total Regulated Utilities**	**Non-Regulated - Fortis Generation1**	**Non-Regulated Non-Utility**	**Total**
2013A	215	429	69	92	56	**861**	57	52	**970**	**146**	**59**	**1,175**
2014E	329	413	130	105	56	**1,033**	122	61	**1,216**	**131**	**83**	**1,430**
Y/Y Change	114	(16)	61	13	0	**172**	65	9	**246**	**(15)**	**24**	**255**

1. Approximately $126MM of non-regulated generation spending will be on the contstruction of the Waneta Expansion.

Source: Company reports

Exhibit 3: Historical financials and RBC CM estimates

Fortis Inc. Consolidated ($MM)	**2011**	**Annual 2012**	**2013**	**Q1/13**	**Q2/13**	**Quarterly Q3/13**	**Q4/13**	**Q1/14**	**LTM**	***Forecasts 2014E***	***2015E***
Earnings Summary											
EBITDA	1,191	1,264	1,393	387	302	318	386	457	1,463	*1,604*	*2,191*
Gross Interest	372	385	389	89	92	103	105	123	423	*452*	*608*
Cash Flow Summary											
FFO	**790**	**860**	**930**	**271**	**171**	**216**	**272**	**290**	**949**	***1,189***	***1,648***
Capital Expenditures	(1,171)	(1,146)	(1,175)	(253)	(298)	(272)	(352)	(237)	(1,159)	*(1,430)*	*(1,875)*
Preferred Dividends	(46)	(46)	(56)	(14)	(14)	(16)	(12)	(14)	(56)	*(60)*	*(70)*
Dividends	(160)	(179)	(192)	(43)	(47)	(51)	(51)	(49)	(198)	*(198)*	*(267)*
Gross Free Cash Flow (FCF)	**(587)**	**(511)**	**(493)**	**(39)**	**(188)**	**(123)**	**(143)**	**(10)**	**(464)**	***(499)***	***(564)***
Changes in Regulatory Assets	26	54	14	(6)	-	(34)	54	30	50	*-*	*-*
Changes in Working Capital	99	78	(45)	18	120	(85)	(98)	(55)	(118)	*-*	*-*
Gross FCF after Working Capital	**(462)**	**(379)**	**(524)**	**(27)**	**(68)**	**(242)**	**(187)**	**(35)**	**(532)**	***(499)***	***(564)***
Divestitures/Acquisitions	(25)	(21)	(1,055)	(55)	(1,000)	-	-	-	(1,000)	*(4,300)*	*-*
Other Investing Activities	81	71	66	16	9	30	11	127	177	*-*	*-*
FCF before Financing	**(406)**	**(329)**	**(1,513)**	**(66)**	**(1,059)**	**(212)**	**(176)**	**92**	**(1,355)**	***(4,799)***	***(564)***
Net change in debt	(40)	85	658	48	558	(19)	71	340	950	*2,700*	*300*
Issue of Common Shares[1]	345	24	596	10	579	3	4	11	597	*1,825*	*25*
Issue of Preference Shares	-	194	117	-	-	117	-	-	117	*250*	*250*
Advances from Non-Controlling	81	106	63	22	21	1	19	13	54	*-*	*-*
F/X Gain/Other	-	(13)	(3)	-	-	-	(3)	-	(3)	*-*	*-*
Net Change in Cash	**(20)**	**67**	**(82)**	**14**	**99**	**(110)**	**(85)**	**456**	**360**	***(24)***	***11***
Capital Structure											
Total Debt	6,383	6,471	7,788	6,544	7,719	7,658	7,788	7,653		*10,488*	*10,788*
Non-controlling Interest	208	310	375	333	356	355	375	393		*393*	*393*
Preference Shares	912	1,108	1,229	1,108	1,108	1,229	1,229	1,229		*1,479*	*1,729*
Shareholders' Equity	3,823	3,992	4,772	4,114	4,699	4,688	4,772	4,910		*6,869*	*7,246*
Total Capital	**11,326**	**11,881**	**14,164**	**12,099**	**13,882**	**13,930**	**14,164**	**14,185**		***19,229***	***20,156***
Cash and Equivalents	87	154	72	168	267	155	72	528		*48*	*59*
Credit Ratios[2]											
Total Debt / Capital	56%	54%	55%	54%	56%	55%	55%	54%		*55%*	*54%*
Adjusted Debt / Capital[2]	60%	59%	59%	59%	60%	59%	59%	58%		*58%*	*58%*
Net Debt / Capital	56%	54%	55%	53%	55%	54%	55%	52%		*54%*	*53%*
Net Adjusted Debt / Capital[2]	60%	59%	59%	58%	59%	59%	59%	57%		*58%*	*58%*
(FFO + Interest) / Interest	3.1x	3.2x	3.4x	3.3x	3.3x	3.4x	3.4x	3.2x		*3.6x*	*3.7x*
EBITDA / Interest	3.2x	3.3x	3.6x	3.4x	3.4x	3.5x	3.6x	3.5x		*3.6x*	*3.6x*
Total Debt / EBITDA	5.4x	5.1x	5.6x	5.1x	6.0x	5.8x	5.6x	5.2x		*6.5x*	*4.9x*
Adjusted Debt / EBITDA[2]	5.7x	5.6x	6.0x	5.5x	6.4x	6.2x	6.0x	5.7x		*7.0x*	*5.3x*
FFO / Total Debt	12%	13%	12%	14%	11%	12%	12%	12%		*11%*	*15%*
FFO / Adjusted Debt[2]	12%	12%	11%	12%	11%	11%	11%	11%		*11%*	*14%*
Preferred Shares / Capital	8%	9%	9%	9%	8%	9%	9%	9%		*8%*	*9%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

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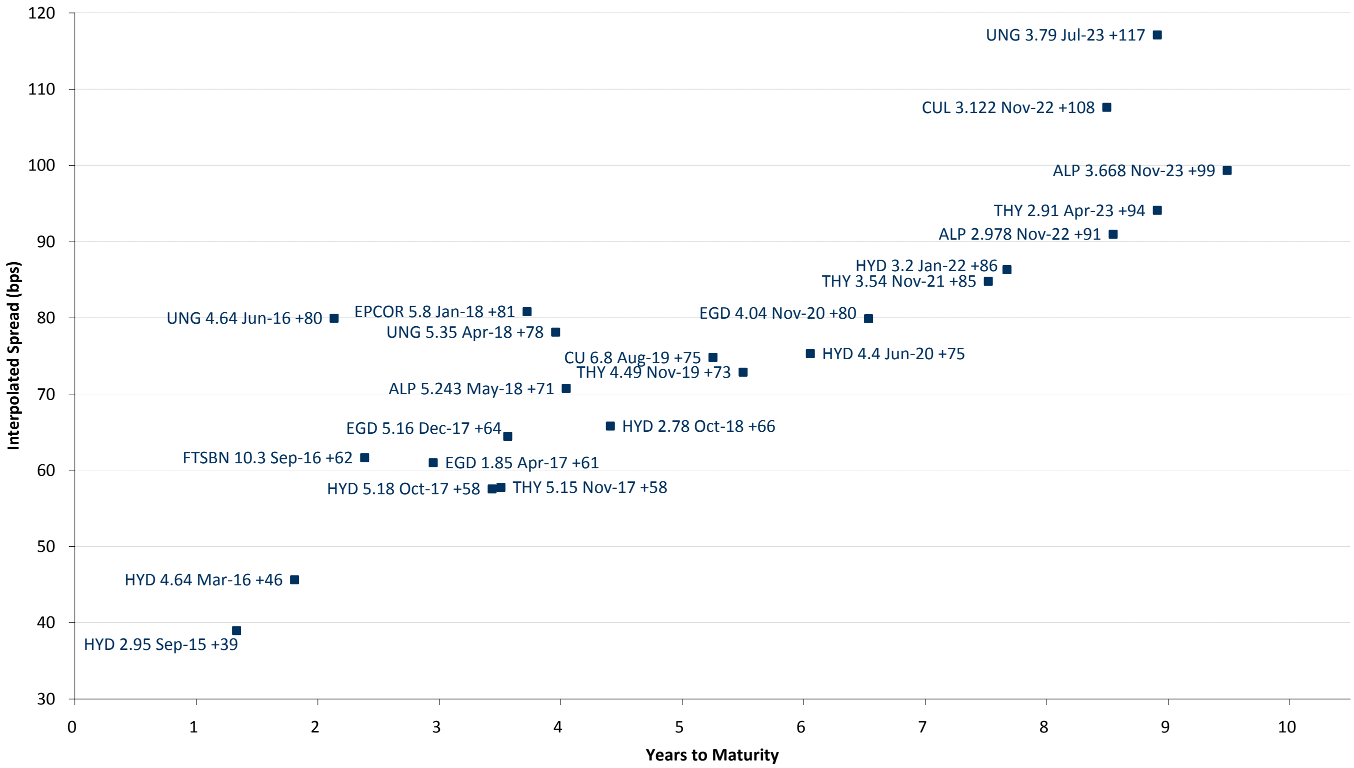
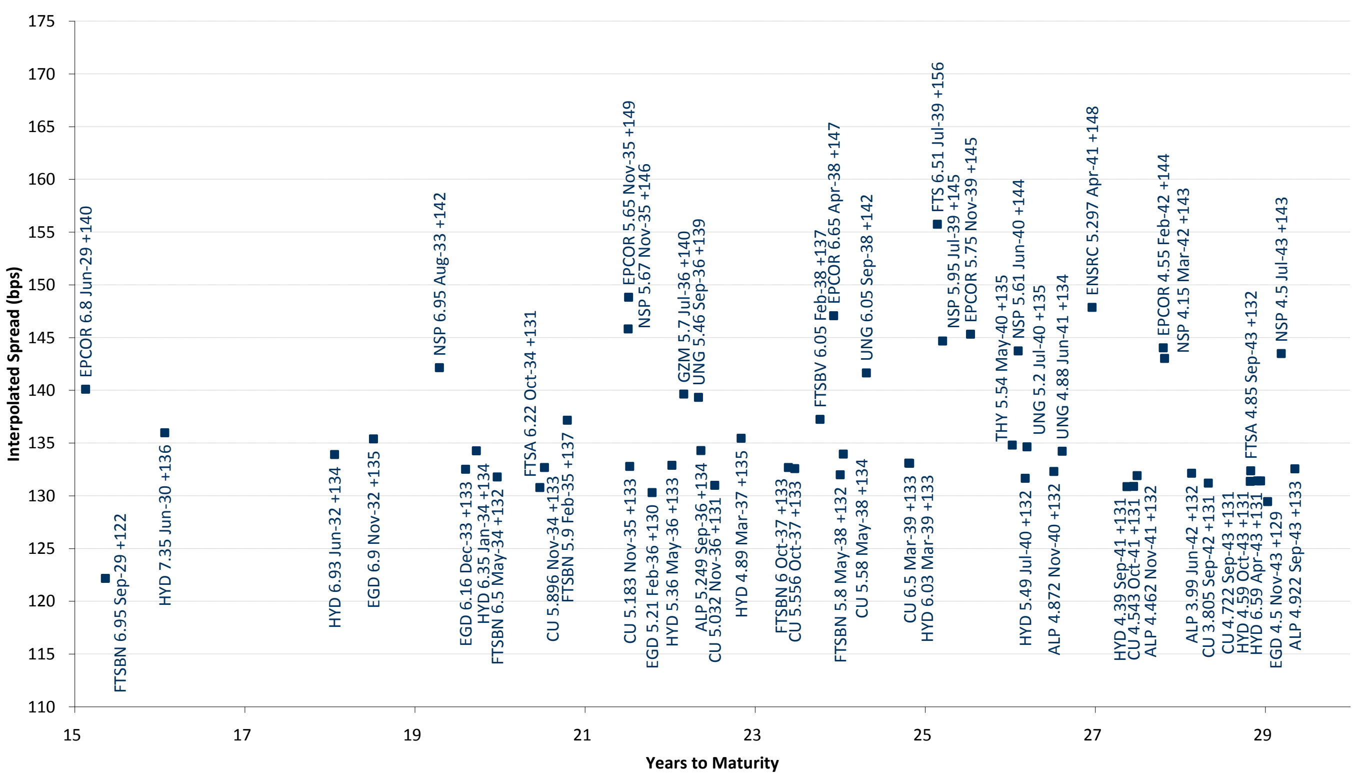
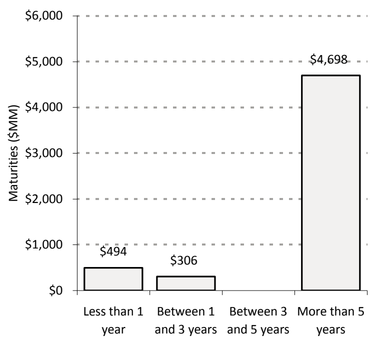
Exhibit 4: Relative value – regulated utilities





Source: Bloomberg, RBC Capital Markets

Exhibit 5: Bonds outstanding and maturity schedule



Note: Assumes USD/CAD exchange rate of 1.00.

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	2039/07/04	2009/07/02	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	150	5.74%	2014/10/30	2004/10/28	-	Sr. Unsecured	-
Fortis Inc.	125	3.53%	2020/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	285	3.84%	2023/10/01	2013/10/02	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	2037/09/01	2007/09/06	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	2040/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	40	5.08%	2043/10/01	2013/10/02	-	Sr. Unsecured	-
Total US$ Outstanding	**875**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Holdings Inc.	125	5.56%	2014/09/15	2004/09/15	+23 bps	Sr. Unsecured	88079ZAB9
Total C$ Outstanding	**125**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	2015/09/30	1990/12/03	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	2016/09/30	1991/11/21	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	2029/09/21	1999/09/21	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	2034/05/01	2004/04/29	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	2035/02/26	2005/02/25	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	2036/09/25	2006/09/25	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	2037/10/02	2007/10/02	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	5.80%	2038/05/13	2008/05/13	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	2039/02/24	2009/02/24	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	4.25%	2041/12/09	2011/12/09	+41 bps	Sr. Unsecured	34959ZAA0
Total C$ Outstanding	**1,545**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	02/15/2038	02/07/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	06/12/2040	12/02/2010	+40 bps	Sr. Unsecured	88100BAB5
Total C$ Outstanding	**350**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	200	5.33%	2014/10/31	2004/10/25	+18 bps	Sr. Unsecured	34957EAA9
FortisAlberta Inc.	200	6.22%	2034/10/31	2004/10/25	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	2036/04/21	2006/04/21	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	2038/04/15	2008/04/15	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	2039/02/14	2009/02/13	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	2039/10/30	2009/10/30	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	2041/10/18	2011/10/19	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	150	4.85%	2043/09/11	2013/09/13	+39.5 bps	Sr. Unsecured	34957ZAR5
FortisAlberta Inc.	110	4.99%	2047/01/03	2007/01/03	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	2050/10/27	2010/10/27	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	2052/10/23	2012/10/23	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,460**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	140	5.48%	2014/11/28	2004/11/30	+24 bps	Sr. Unsecured	34957UAA3
FortisBC Inc.	25	8.80%	2023/08/28	1993/08/27	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	2035/11/09	2005/11/10	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	2039/06/02	2009/06/02	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	105	5.90%	2047/07/04	2007/07/04	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	2050/11/24	2010/11/24	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**575**						

Issuer	Amount (C$ MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	29	10.55%	2014/08/01	1989/08/09	+50 bps	First Mortgage	651350BD1
Newfoundland Power Inc.	31	10.90%	2016/05/02	1991/05/02	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	2020/10/01	1992/10/01	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	32	10.125%	2022/06/15	1992/06/15	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	33	8.90%	2026/05/07	1996/05/07	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	43	6.80%	2028/11/20	1998/11/20	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	67	7.52%	2032/11/01	2002/10/31	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	55	5.441%	2035/08/15	2005/08/15	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	65	5.901%	2037/08/17	2007/08/17	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	62	6.606%	2039/05/25	2009/05/25	+50 bps	First Mortgage	6513508Y9
Newfoundland Power Inc.	70	4.805%	2043/11/09	2013/11/08	+42.5 bps	First Mortgage	65135PAC9
Total C$ Outstanding	**518**						

Source: Bloomberg, RBC Capital Markets

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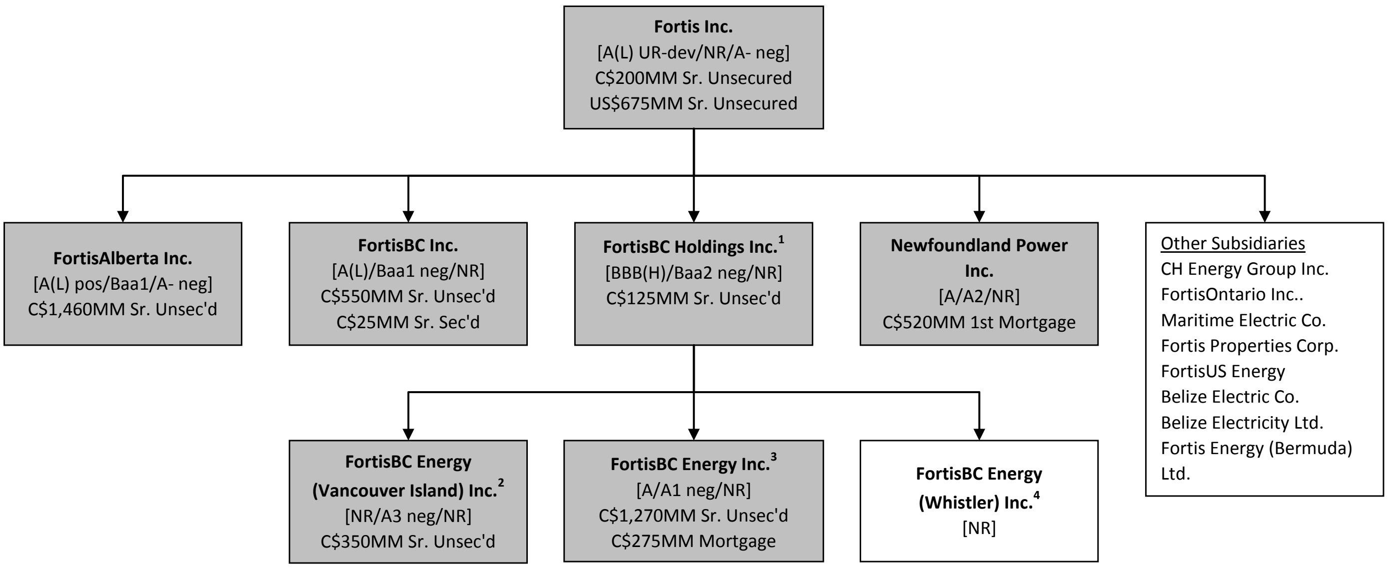
Exhibit 6: Simplified organizational structure

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.



1. FortisBC Holdings Inc. formerly known as Terasen Inc.
2. FortisBC Energy (Vancouver Island) Inc. formerly known as Terasen Gas (Vancouver Island) Inc.
3. FortisBC Energy Inc. formerly known as Terasen Gas Inc.
4. FortisBC Energy (Whistler) Inc. formerly known as Terasen Gas (Whistler) Inc.

Source: Bloomberg, company reports, rating agencies, RBC Capital Markets

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As of 31-Mar-2014

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
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HOLD [Sector Perform]	164	53.25	100	60.98
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August 5, 2014

Company Update

Fortis Inc.

Q2/14: UNS acquisition in view

Our view: The Fortis group's regulated utility opco bonds all trade within a fairly tight band and are in line with peers such as Hydro One, CU, and Enbridge Gas Distribution (Exhibit 4). We think strong investor demand for low-risk utility paper will keep a tight bid on spreads. Fortis holdco bonds have tightened in to about 15 bps back of its utility subsidiaries, from a historical discount of closer to 30 bps. We believe this discount is fair, given the structural subordination at the holdco level, and supported by the well diversified and stable source of cash flow generated by its various utility subsidiaries. Furthermore, management has demonstrated a commitment to maintaining "A" level credit ratings.

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
Newfoundland Power Inc.	
CAD	Sector Perform

Key points

Fortis reports Q2/14 (credit neutral): EBITDA of $346MM was slightly below expectations, primarily due to the greater than forecasted impact of a rate freeze at Central Hudson (Exhibit 1). Fortis generated a gross FCF shortfall of $146MM after capex of $298MM and dividends of $64MM (Exhibit 3). Consolidated adjusted credit metrics were largely unchanged, with debt-to-capital at 58%, debt-to-EBITDA at 5.1x, and FFO-to-debt at 11% (vs. 58%, 5.2x, and 12%, respectively, at the end of Q1/14).

UNS deal expected to close in late August: In July, the Administrative Law Judge assigned by the Arizona Corporation Commission recommended the approval of Fortis's acquisition of UNS Energy (US$4.3B including assumed debt of US$1.8B) as per conditions outlined in the Settlement Agreement. The approval of the deal is tentatively scheduled for the August meetings (August 12–13), and if approved, Fortis expects to close the acquisition by the end of the month. UNS operates regulated electricity generation and electricity and natural gas delivery in Arizona. We view this transaction favourably given that it will increase geographic and regulatory diversification and be financed prudently with roughly 42% in equity.

Waneta on track: Since the start of construction in 2010, $633MM has been spent on the $900MM 335 MW Waneta Expansion (Fortis owns 51%), which remains on track for a spring 2015 start-up.

Record capital spending, net new borrowing could exceed $600MM in 2014: Fortis anticipates a five-year (2014–2018) capital spending budget of $6.5B. The pending UNS Energy acquisition could add $1.5B to capex over 2015–2018. A record $1.4B of capex is expected to be spent in 2014 (vs. $1.2B in 2013 – see Exhibit 2). On a consolidated basis, we estimate that Fortis will generate a FCF shortfall of over $600MM in 2014, which we expect to be funded mainly with debt issued at its utility subsidiaries. In addition, Fortis' regulated opcos have $340MM of maturities in 2014 ($200MM at FortisAlberta and $140MM at FortisBC – see Exhibit 5).

Key benchmark levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$135.6	158	157	4.19%

Source: Bloomberg, RBC Capital Markets

Ratings agencies

	Rating	Outlook
DBRS	A(L)	UR-Dev.
Moody's	NR	NR
S&P	A-	Negative

Source: Bloomberg, rating agencies

Key credit statistics

	LTM 06/30/13	LTM 06/30/14
Debt/Capital (%)	60%	58%
Debt/EBITDA (x)	6.4x	5.5x
FFO/Debt (%)	10%	12%
EBITDA/Interest (x)	3.4x	3.3x
Total Debt Outstanding ($MM)	7,719	7,679

Debt is adjusted for 50% equity treatment of pref. shares.

Source: Company reports, RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 8.

Exhibit 1: Segmented EBITDA

Segmented EBITDA ($MM)	2012	2013	Q2/13	Q3/13	Q4/13	Q1/14	Q2/14
Regulated Gas & Electric							
FortisBC Energy companies	470	483	91	60	144	191	96
Central Hudson	-	71	-	36	35	46	31
FortisAlberta	290	314	79	80	77	83	87
FortisBC	145	149	32	36	38	46	33
Newfoundland Power	127	130	36	32	33	35	36
Other Canadian	78	76	19	21	15	21	18
Total Electric Canadian	640	669	166	169	163	185	174
Electric Carribean	69	78	19	20	22	20	22
Non-regulated							
Fortis Generation	21	24	5	10	6	8	9
Fortis Properties	76	78	23	25	19	12	22
Corporate and Other	10	13	4	4	2	2	(2)
Inter-segment eliminations	(22)	(23)	(6)	(6)	(5)	(7)	(6)
Consolidated EBITDA	**1,264**	**1,393**	**302**	**318**	**386**	**457**	**346**

Source: Company reports, RBC Capital Markets

Recent developments

UNS deal expected to close in late August: In July, the Administrative Law Judge assigned by the Arizona Corporation Commission (ACC) recommended the approval of Fortis's proposed acquisition of UNS Energy Corporation (US$4.3B including assumed debt of US$1.8B) as per conditions outlined in the May 16, 2014 Settlement Agreement. Approval of the deal is tentatively scheduled for the ACC's meetings on August 12–13, and if approved, Fortis expects to close the acquisition by the end of the month.

- UNS Energy is headquartered in Tucson, Arizona, and through three subsidiaries operates regulated electricity generation, and electricity and natural gas delivery to approximately 654,000 customers in Arizona. The transaction is expected to add approximately $3B to Fortis's consolidated regulated rate base.
- To finance the acquisition, Fortis issued $1.8B of 4% convertible unsecured subordinated debentures in January 2014, on an installment basis at a price of $1,000 per debenture, of which $333 per debenture was paid on closing of the offering and the remaining $667 is payable upon closing of the acquisition. In March, Fortis secured $2B of syndicated non-revolving term credit facilities as bridge financing for the UNS Energy transaction.
- We view the proposed acquisition favourably, as it will increase size and improve diversification. Post closing, no more than one-third of total assets will be located in any one regulatory jurisdiction. Furthermore, the intended financing of the transaction, with roughly 42% equity, is supportive of the company's credit strength.
- The UNS Energy utilities have attractive regulatory frameworks: (i) TEP, the largest of the three utilities, has an allowed ROE of 10% on a deemed equity of 43.5% ; (ii) UNS Electric has an ROE of 9.5% on a deemed equity of 52.6% ; (iii) and UNS Gas has an ROE of 9.75% on a deemed equity of 50.8%. These frameworks compare favourably to the 8.75% ROE in Alberta and BC on deemed equity that is 41% or lower (depending on the utility).
- In response to the announced acquisition, DBRS placed its A(low) rating "under review with developing implications" and S&P revised the outlook on its A- rating to "negative" from "stable". S&P indicated that the outlook would likely be revised to stable when the subordinated debentures are converted to equity.

Amalgamation of FortisBC Energy companies approved: In March, regulatory approval was received for the amalgamation of the FortisBC Energy group of companies, including FortisBC Energy Inc. and FortisBC Energy (Vancouver Island) Inc. The amalgamation is awaiting consent of the **Lieutenant** Governor in Council and is expected to be come into effect on December 31, 2014. Common rates will be phased in over three years.

USD private placement: In March, Fortis priced a private placement of US$500MM senior unsecured notes, which will be issued in multiple tranches with terms to maturity ranging from 5 years to 30 years and coupon rates ranging from 2.92% to 5.03%. In June, the company issued US$213MM of senior unsecured with a weighted average term to maturity of ~9 years and a weighted average coupon of 3.51%. Fortis expects the remaining US$287MM to be issued on September 15, 2014. Proceeds will be used primarily to refinance existing debt (including the US$150MM 5.74% notes due 10/30/14 and the US$125MM 5.56% debentures of a subsidiary due 09/15/14) and repay amounts drawn on Fortis's committed credit facility.

Regulatory update

British Columbia

Decision on Phase 2 of Generic Cost of Capital (GCOC): In March, the British Columbia Utilities Commission (BCUC) released a decision on Phase 2 of the GCOC Proceeding. In the decision, deemed equity for FortisBC Energy (Vancouver Island) was increased to 41.5% and was reaffirmed at 40% for FortisBC Inc. (effective January 1, 2013). The allowed ROEs were set at 9.25% and 9.15%, respectively. In May 2013, the BCUC released a decision on Phase 1 of its GCOC review, where the BCUC: (i) reduced the common equity ratio for FortisBC Energy Inc., its "benchmark utility", to 38.5% from 40%; (ii) lowered the allowed ROE to 8.75% from 9.50%; and (iii) introduced an automatic adjustment to set the ROE annually.

Multi-year PBR review under way. In July 2013, FortisBC Energy and FortisBC each filed an application for a multi-year Performance-Based Regulatory (PBR) plan for 2014 through 2018. The review process is under way and a decision is expected in H2/14.

Alberta

Decision on Capital Tracker Application expected in Q1/15: In December 2013, the Alberta Utilities Commission (AUC) issued a Decision, whereby the AUC provided criteria for capital expenditures that could be included in a Capital Tracker Application, and directed FortisAlberta to re-file a combined 2013, 2014, and 2015 Capital Tracker Application in May 2014—a decision on the combined application is expected in Q1/15. In the meantime, the AUC approved the continuing use of interim rates based on 60% recovery of applied-for incremental Capital Trackers for 2013 and 2014.

GCOC decision expected in Q4/14: The AUC's 2013/14 GCOC Proceeding is expected to establish: (i) the allowed ROE and capital structure for 2013; (ii) the allowed ROE for 2014; and (iii) an interim allowed ROE for 2015. In this proceeding, the AUC may consider the possible re-establishment of a formula-based approach to setting the allowed ROE on an annual basis. A decision is expected in Q4/14.

United States

General Rate Application filed by Central Hudson: In July, Central Hudson filed a General Rate Application (GRA), its first as a Fortis utility, to set rates effective July 1, 2015. In its GRA, the company also requested an allowed ROE of 9.0% with a 48% deemed equity (vs. a current allowed ROE of 10.0% with a 48% deemed equity). In June 2013, the New York State Public Service Commission (PSC) established a rate freeze for Central Hudson through June 30, 2015 as a required condition to close Fortis's acquisition of CH Energy. Central Hudson is also subject to a modified earnings sharing mechanism, whereby earnings in excess of the allowed ROE are equally shared by the company and customers up to an achieved ROE that is 50 bps above the allowed ROE, and earnings in excess of 50 bps above the allowed ROE are shared 10%/90% (company/customers).

Exhibit 2: Segmented capital spending

	FortisBC Energy	FortisAlberta	FortisBC	Newfound-land Power	Other Regulated Eletric Utilities - Canadian	**Total Regulated Utilities - Canadian**	Central Hudson	Regulated Electric Utilities - Caribbean	**Total Regulated Utilities**	**Non-Regulated - Fortis Generation1**	**Non-Regulated Non-Utility**	**Total**
2013A	215	429	69	92	56	**861**	57	52	**970**	**146**	**59**	**1,175**
2014E	329	413	130	105	56	**1,033**	122	61	**1,216**	**131**	**83**	**1,430**
Y/Y Change	114	(16)	61	13	0	**172**	65	9	**246**	**(15)**	**24**	**255**

1. Approximately $126MM of non-regulated generation spending will be on the contstruction of the Waneta Expansion.

Source: Company reports

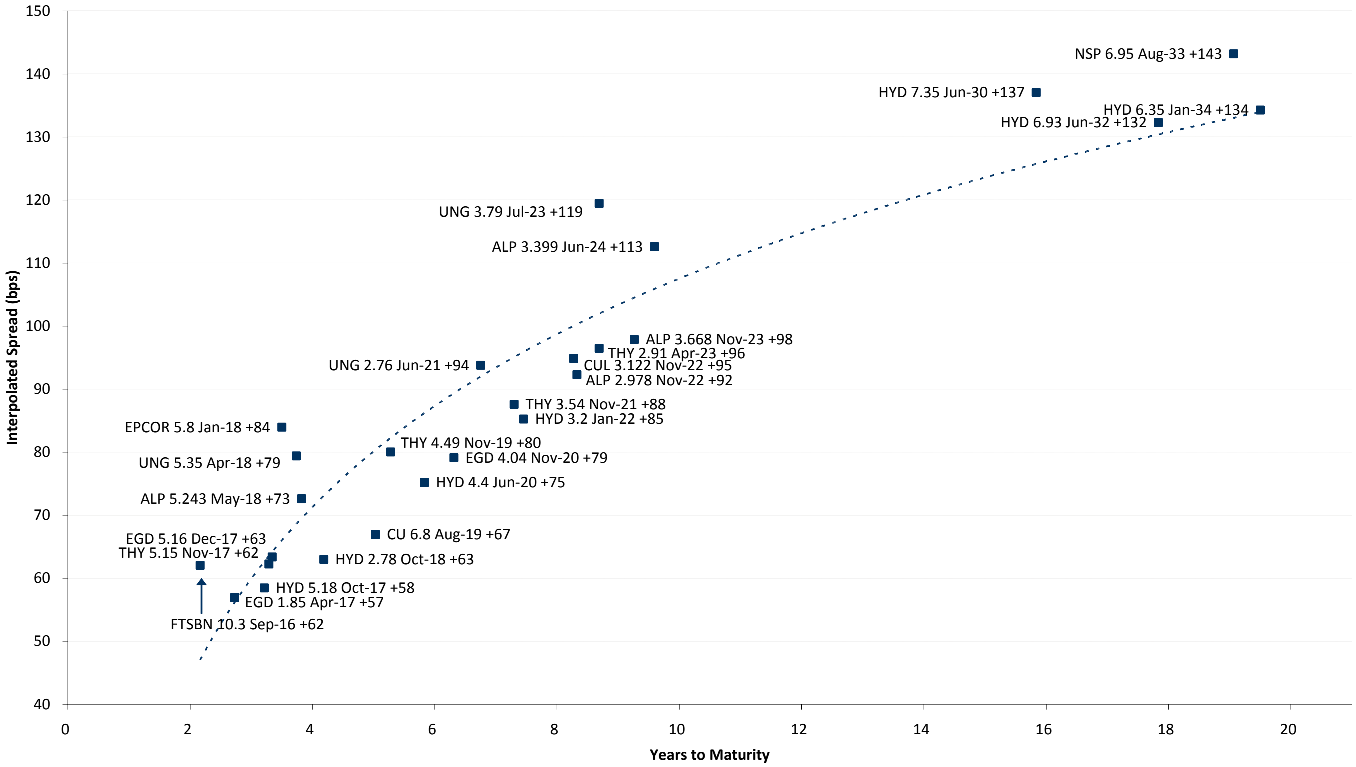
Exhibit 3: Historical financials and RBC CM estimates

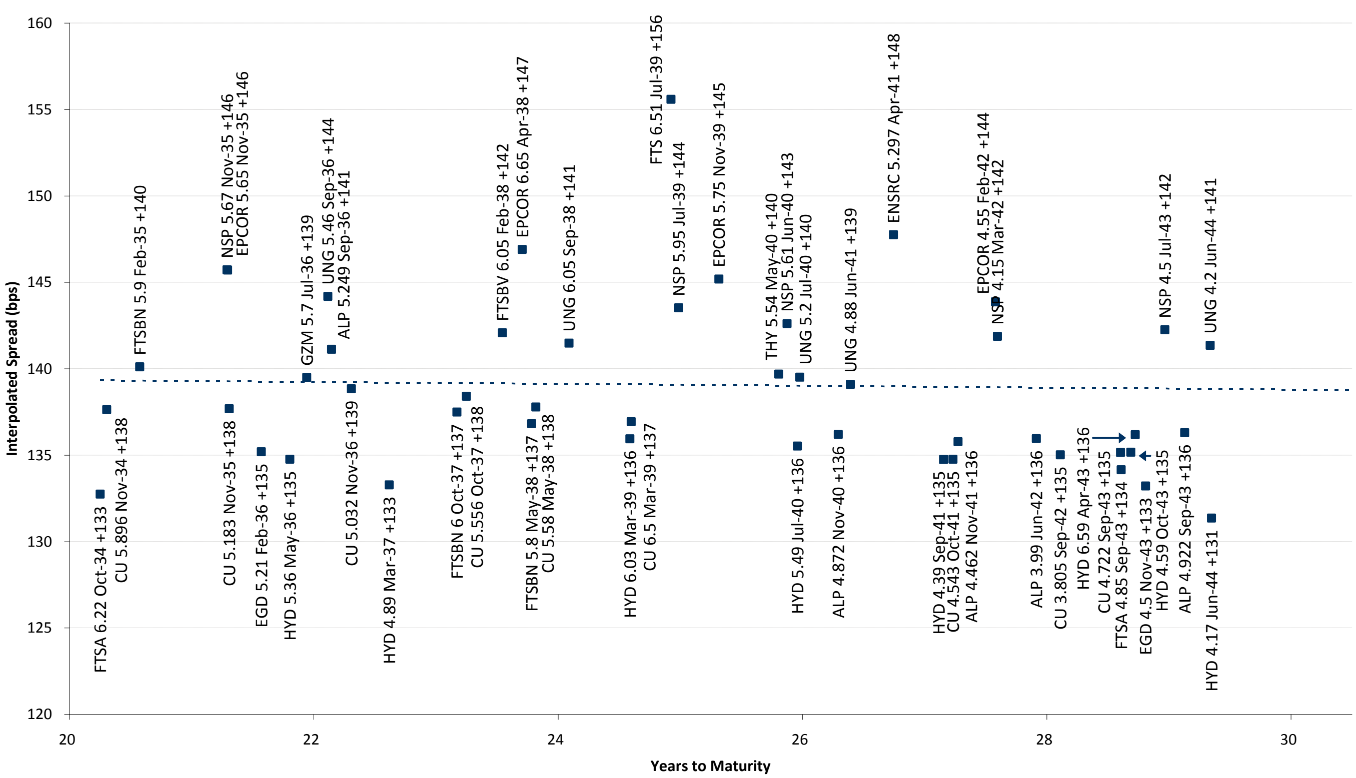
Fortis Inc.	**Annual**		**Quarterly**							***Forecasts***	
Consolidated ($MM)	**2012**	**2013**	**Q2/13**	**Q3/13**	**Q4/13**	**Q1/14**	**Q2/14**	**YTD**	**LTM**	***2014E***	***2015E***
Earnings Summary											
EBITDA	1,264	1,393	302	318	386	457	346	803	1,507	*1,529*	*2,113*
Gross Interest	385	389	92	103	105	123	124	247	455	*452*	*614*
Cash Flow Summary											
FFO	**860**	**930**	**146**	**216**	**297**	**290**	**216**	**506**	**1,019**	***1,051***	***1,504***
Capital Expenditures	(1,146)	(1,175)	(302)	(272)	(348)	(237)	(298)	(535)	(1,155)	*(1,430)*	*(1,875)*
Preferred Dividends	(46)	(56)	(14)	(16)	(12)	(14)	(13)	(27)	(55)	*(60)*	*(70)*
Dividends	(179)	(192)	(47)	(51)	(51)	(49)	(51)	(100)	(202)	*(198)*	*(299)*
Gross Free Cash Flow (FCF)	**(511)**	**(493)**	**(217)**	**(123)**	**(114)**	**(10)**	**(146)**	**(156)**	**(393)**	***(637)***	***(741)***
Changes in Regulatory Assets	54	14	4	(34)	50	30	(37)	(7)	9	-	-
Changes in Working Capital	78	(45)	120	(85)	(98)	(55)	142	87	(96)	-	-
Gross FCF after Working Capital	**(379)**	**(524)**	**(93)**	**(242)**	**(162)**	**(35)**	**(41)**	**(76)**	**(480)**	***(637)***	***(741)***
Divestitures/Acquisitions	(21)	(1,055)	(1,000)	-	-	-	-	-	-	*(2,500)*	-
Other Investing Activities	71	66	34	30	(14)	127	10	137	153	-	-
FCF before Financing	**(329)**	**(1,513)**	**(1,059)**	**(212)**	**(176)**	**92**	**(31)**	**61**	**(327)**	***(3,137)***	***(741)***
Net change in debt	85	658	558	(19)	71	340	103	443	495	*1,000*	*500*
Issue of Common Shares[1]	24	596	579	3	4	11	12	23	30	*1,825*	*25*
Issue of Preference Shares	194	117	-	117	-	-	-	-	117	*250*	*250*
Advances from Non-Controlling	106	63	21	1	19	13	4	17	37	-	-
F/X Gain/Other	(13)	(3)	-	-	(3)	-	(4)	(4)	(7)	-	-
Net Change in Cash	**67**	**(82)**	**99**	**(110)**	**(85)**	**456**	**84**	**540**	**345**	***(62)***	***34***
Capital Structure											
Total Debt	6,471	7,788	7,719	7,658	7,788	7,653	7,679			*10,588*	*11,088*
Non-controlling Interest	310	375	356	355	375	393	395			*395*	*395*
Preference Shares	1,108	1,229	1,108	1,229	1,229	1,229	1,229			*1,479*	*1,729*
Shareholders' Equity	3,992	4,772	4,699	4,688	4,772	4,910	4,894			*6,806*	*7,155*
Total Capital	**11,881**	**14,164**	**13,882**	**13,930**	**14,164**	**14,185**	**14,197**			***19,268***	***20,367***
Cash and Equivalents	154	72	267	155	72	528	612			*10*	*44*
Credit Ratios[2]											
Total Debt / Capital	54%	55%	56%	55%	55%	54%	54%			*55%*	*54%*
Adjusted Debt / Capital[2]	59%	59%	60%	59%	59%	58%	58%			*59%*	*59%*
Net Debt / Capital	54%	55%	55%	54%	55%	52%	52%			*55%*	*54%*
Net Adjusted Debt / Capital[2]	59%	59%	59%	59%	59%	57%	57%			*59%*	*59%*
(FFO + Interest) / Interest	3.2x	3.4x	3.3x	3.3x	3.4x	3.2x	3.2x			*3.3x*	*3.4x*
EBITDA / Interest	3.3x	3.6x	3.4x	3.5x	3.6x	3.5x	3.3x			*3.4x*	*3.4x*
Total Debt / EBITDA	5.1x	5.6x	6.0x	5.8x	5.6x	5.2x	5.1x			*6.9x*	*5.2x*
Adjusted Debt / EBITDA[2]	5.6x	6.0x	6.4x	6.2x	6.0x	5.7x	5.5x			*7.4x*	*5.7x*
FFO / Total Debt	13%	12%	11%	12%	12%	12%	13%			*10%*	*14%*
FFO / Adjusted Debt[2]	12%	11%	10%	11%	11%	11%	12%			*9%*	*13%*
Preferred Shares / Capital	9%	9%	8%	9%	9%	9%	9%			*8%*	*8%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

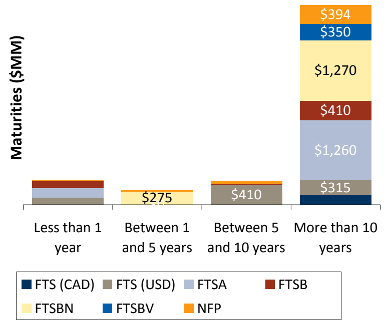
Exhibit 4: Relative value – regulated utilities





Source: Bloomberg, RBC Capital Markets

Exhibit 5: Bonds outstanding and maturity schedule



Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	2039/07/04	2009/07/02	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	150	5.74%	2014/10/30	2004/10/28	-	Sr. Unsecured	-
Fortis Inc.	125	3.53%	2020/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	285	3.84%	2023/10/01	2013/10/02	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	2037/09/01	2007/09/06	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	2040/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	40	5.08%	2043/10/01	2013/10/02	-	Sr. Unsecured	-
Total US$ Outstanding	**875**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Holdings Inc.	125	5.56%	2014/09/15	2004/09/15	+23 bps	Sr. Unsecured	88079ZAB9
Total C$ Outstanding	**125**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	2015/09/30	1990/12/03	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	2016/09/30	1991/11/21	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	2029/09/21	1999/09/21	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	2034/05/01	2004/04/29	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	2035/02/26	2005/02/25	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	2036/09/25	2006/09/25	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	2037/10/02	2007/10/02	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	5.80%	2038/05/13	2008/05/13	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	2039/02/24	2009/02/24	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	4.25%	2041/12/09	2011/12/09	+41 bps	Sr. Unsecured	34959ZAA0
Total C$ Outstanding	**1,545**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	02/15/2038	02/07/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	06/12/2040	12/02/2010	+40 bps	Sr. Unsecured	88100BAB5
Total C$ Outstanding	**350**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	200	5.33%	2014/10/31	2004/10/25	+18 bps	Sr. Unsecured	34957EAA9
FortisAlberta Inc.	200	6.22%	2034/10/31	2004/10/25	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	2036/04/21	2006/04/21	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	2038/04/15	2008/04/15	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	2039/02/14	2009/02/13	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	2039/10/30	2009/10/30	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	2041/10/18	2011/10/19	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	150	4.85%	2043/09/11	2013/09/13	+39.5 bps	Sr. Unsecured	34957ZAR5
FortisAlberta Inc.	110	4.99%	2047/01/03	2007/01/03	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	2050/10/27	2010/10/27	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	2052/10/23	2012/10/23	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,460**						

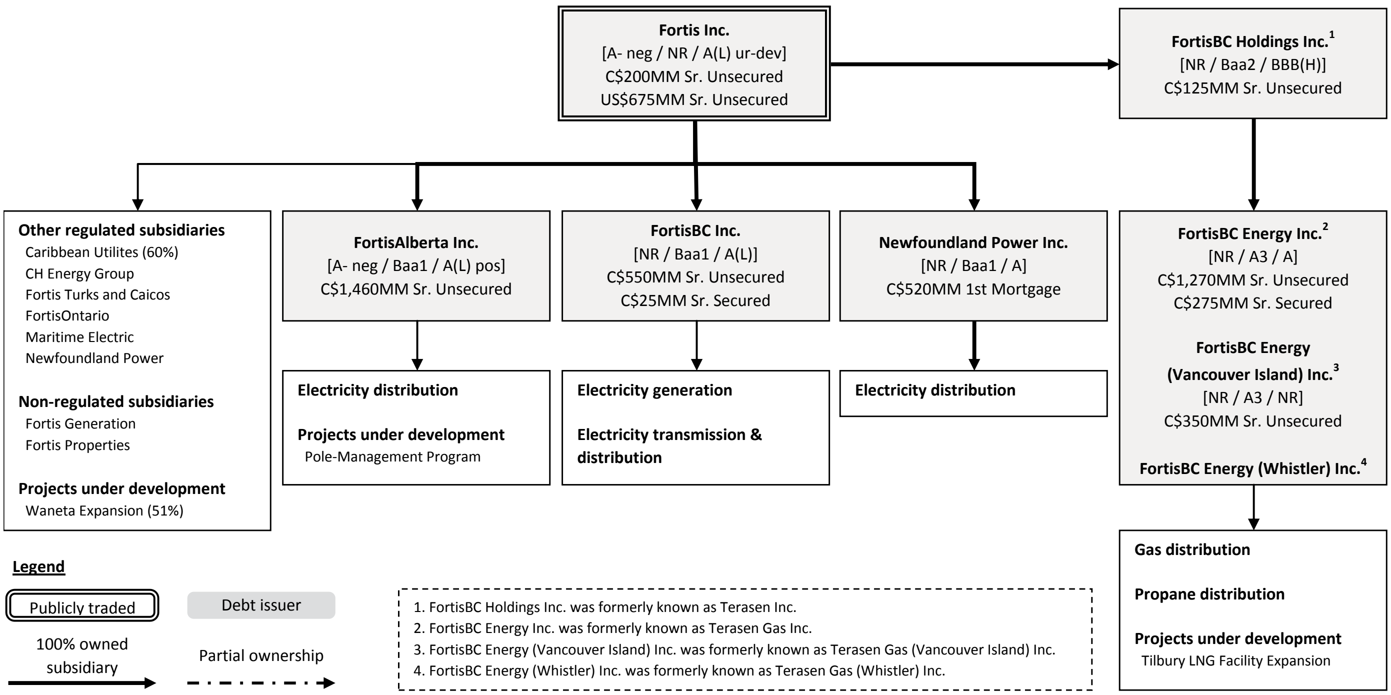
Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	140	5.48%	2014/11/28	2004/11/30	+24 bps	Sr. Unsecured	34957UAA3
FortisBC Inc.	25	8.80%	2023/08/28	1993/08/27	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	2035/11/09	2005/11/10	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	2039/06/02	2009/06/02	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	105	5.90%	2047/07/04	2007/07/04	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	2050/11/24	2010/11/24	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**575**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	29	10.55%	2014/08/01	1989/08/09	+50 bps	First Mortgage	651350BD1
Newfoundland Power Inc.	31	10.90%	2016/05/02	1991/05/02	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	2020/10/01	1992/10/01	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	32	10.125%	2022/06/15	1992/06/15	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	33	8.90%	2026/05/07	1996/05/07	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	43	6.80%	2028/11/20	1998/11/20	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	67	7.52%	2032/11/01	2002/10/31	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	55	5.441%	2035/08/15	2005/08/15	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	65	5.901%	2037/08/17	2007/08/17	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	62	6.606%	2039/05/25	2009/05/25	+50 bps	First Mortgage	6513508Y9
Newfoundland Power Inc.	70	4.805%	2043/11/09	2013/11/08	+42.5 bps	First Mortgage	65135PAC9
Total C$ Outstanding	**518**						

Source: Bloomberg, RBC Capital Markets

Exhibit 6: Simplified organizational structure

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.



Source: Bloomberg, company reports, rating agencies, RBC Capital Markets

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Sector Perform (SP): Provides an adequate relative risk-reward ratio and/or total return is expected to be in line with the sector average over 12 months.

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As of 30-Jun-2014

			Investment Banking Serv./Past 12 Mos.	
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October 2, 2014

Company Note

Fortis Inc.

2014 Annual Investor Day

Event: Fortis held its inaugural investor day in Toronto, where the company presented updates on its diverse business segments and outlined organic growth opportunities through to 2018. Below are key takeaways for fixed income investors.

Key Points

Focus turns to organic growth: Following the acquisitions of US regulated utility companies CH Energy (US$1.5B, closed Jul/13) and UNS Energy (US$4.3B, closed Aug/14), Fortis is approaching $25B in assets, of which 93% are regulated and no more than one-third is concentrated in one jurisdiction (Exhibit 1). The company is now turning its focus towards organic growth opportunities, with a five-year $9.3B capital expenditure program that will drive rate base CAGR of ~7% over the 2014–2018 timeframe (Exhibit 2).

Nearly $1.1B in brownfield LNG opportunities: In addition to Fortis' current capex program (see above), the company also highlighted potential expansions of its regulated LNG facilities in BC, including: (i) the $450MM Tilbury Phase 1B LNG storage and liquefaction expansion, and (ii) the $600MM Woodfibre LNG pipeline expansion. Contingent on various approvals, the two projects could drive additional capex at FortisBC Energy of roughly $360MM in 2015, $650MM in 2016 and $40MM in 2017, and lead to $600–700MM in incremental debt issuance in 2015–2017.

Strategic review of Fortis Properties constructive to holdco credit profile: On September 29, 2014, Fortis announced a strategic review of its non-regulated hotel and commercial real estate business (~3% of the company's asset base, ~$80MM EBITDA in 2013). Strategic options include the sale of all or a portion of the assets, sale of shares of Fortis Properties or an IPO. Fortis plans to reinvest proceeds from any sale/IPO into growth capex for its regulated utilities, which would be constructive to Fortis Inc's credit profile, in our view.

Potential issuance from BC utilities before year-end: Based on our forecasts (Exhibits 3 through 5), we estimate $150–200MM of term debt issuance from both FortisBC Energy and FortisBC before year-end, to cover free cash flow shortfalls after capex and dividends – FortisBC also has a $140MM note maturing on November 28.

Bonds fairly valued across the complex: Fortis' regulated utility opco long bonds all trade within a ~5bp band, in line with peers such as Hydro One, CU and Enbridge Gas (Exhibit 6). We think management's demonstrated commitment to "A" level credit ratings and strict adherence to regulator-approved deemed capital structures provide strong support for spreads.

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
Newfoundland Power Inc.	
CAD	Sector Perform

Key benchmark levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$135.2	163	162	4.21%

Source: Bloomberg, RBC Capital Markets

Ratings agencies

	Rating	Outlook
DBRS	A(L)	UR-Dev.
Moody's	NR	NR
S&P	A-	Negative

Source: Bloomberg, rating agencies

Key credit statistics

	LTM 06/30/13	LTM 06/30/14
Debt/Capital (%)	60%	58%
Debt/EBITDA (x)	6.4x	5.5x
FFO/Debt (%)	10%	12%
EBITDA/Interest (x)	3.4x	3.3x
Total Debt Outstanding ($MM)	7,719	7,679

Debt is adjusted for 50% equity treatment of pref. shares.

Source: Company reports, RBC Capital Markets

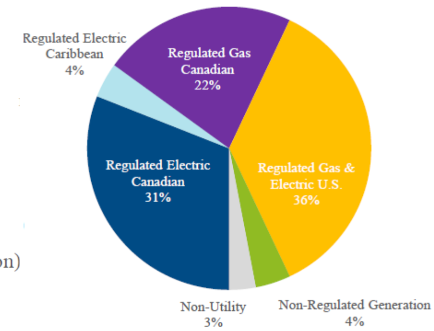
All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 9.

Exhibit 1: Fortis asset snapshot

Total assets approaching $25B (93% regulated, no more than one-third)

Regulated Utilities
- 9 utilities
- $22.6 billion
- 3.1 million customers
  (1.6 million electric, 1.5 million gas)

Non-Regulated
- Hydroelectric Generation
  (including 335-MW Waneta Expansion)
- Non-Utility (hotels & real estate)
- $1.7 billon



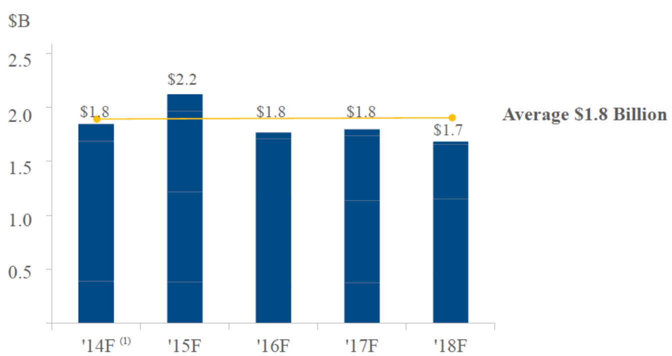
Note: As of June 30, 2014, on a pro forma basis including UNS Energy

Source: Company presentation

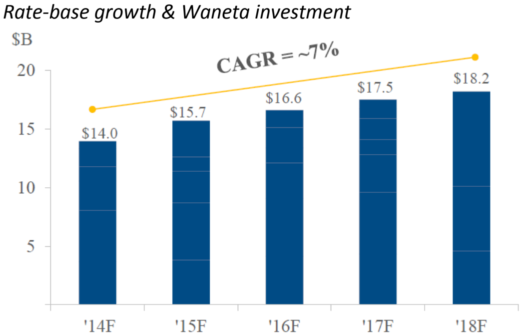
Exhibit 2: Enterprise wide capital expenditures and rate base (2014–2018)

Current forecast

5-year capital expenditures of $9.3B

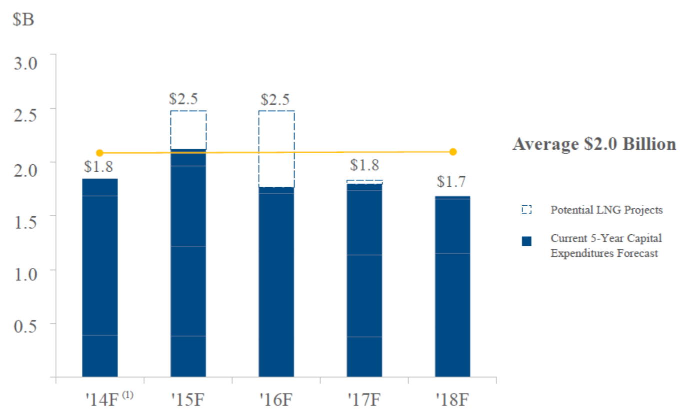


Rate-base growth & Waneta investment

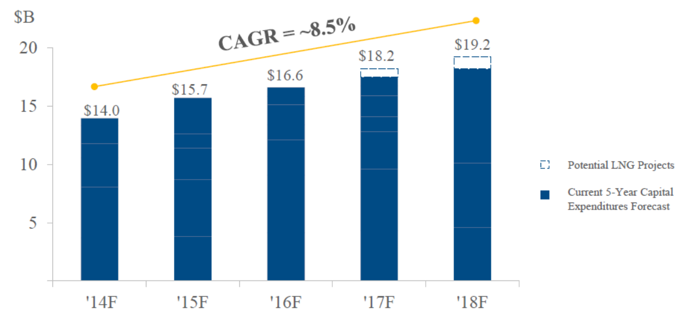


Including potential LNG projects

5-year capital expenditures of $10.3B



Rate-base growth & Waneta investment + potential LNG



(1) Includes forecast capital expenditures for UNS Energy from the date of acquisition, August 15, 2014.

Source: Company presentation

Exhibit 3: FortisAlberta Inc. – historical financials and RBC CM estimates

FortisAlberta Inc.	Annual		Quarterly							*Forecasts*	
($MM)	**2012**	**2013**	**Q2/13**	**Q3/13**	**Q4/13**	**Q1/14**	**Q2/14**	**YTD**	**LTM**	***2014E***	***2015E***
Earnings Summary											
EBITDA	**291**	**314**	**78**	**81**	**77**	**84**	**86**	**170**	**328**	***341***	***370***
Interest	**65**	**73**	**18**	**19**	**19**	**19**	**20**	**39**	**77**	***76***	***82***
Cash Flow Summary											
Funds from operations (FFO)	**221**	**237**	**63**	**63**	**49**	**66**	**70**	**136**	**248**	***265***	***288***
Capital expenditures	(446)	(429)	(133)	(77)	(122)	(79)	(83)	(162)	(361)	*(376)*	*(450)*
Customer contributions, net	42	29	13	11	(3)	12	6	18	26	*35*	*40*
Dividends	(45)	(50)	(13)	(13)	(13)	(14)	(14)	(28)	(53)	*(55)*	*(60)*
Gross free cash flow (FCF)	**(228)**	**(213)**	**(69)**	**(15)**	**(89)**	**(14)**	**(21)**	**(35)**	**(139)**	***(131)***	***(182)***
Regulatory assets / liabilities	65	18	(14)	(24)	36	32	(10)	22	34	-	-
Changes in working capital	116	(119)	8	(27)	(29)	5	(3)	2	(54)	-	-
FCF after working capital	**(47)**	**(314)**	**(74)**	**(66)**	**(82)**	**22**	**(34)**	**(11)**	**(160)**	***(131)***	***(182)***
Acquisitions	-	-	-	-	-	-	-	-	-	-	-
Divestitures	2	1	0	0	0	0	1	1	2	-	-
Other investing activities	0	(0)	0	0	0	(1)	0	(0)	(0)	-	-
FCF before financing	**(45)**	**(312)**	**(73)**	**(66)**	**(82)**	**22**	**(33)**	**(10)**	**(158)**	***(131)***	***(182)***
Short-term borrowings, net	(35)	25	46	(94)	25	(22)	(2)	(25)	(94)	-	-
Long-term debt issuance	125	150	-	150	-	-	-	-	150	*275*	*150*
Long-term debt repayment	-	-	-	-	-	-	-	-	-	*(200)*	-
Common equity issuance, net	-	95	55	-	40	-	35	35	75	*60*	*30*
Other financing activities	(1)	(1)	(0)	(1)	(0)	(0)	(0)	(0)	(1)	-	-
Change in cash	**44**	**(44)**	**27**	**(11)**	**(17)**	**0**	**(0)**	**0**	**(28)**	***4***	***(2)***
Capital Structure											
Debt	1,309	1,484	1,403	1,459	1,484	1,462	1,459			*1,559*	*1,709*
Shareholders' equity	976	1,115	1,057	1,070	1,115	1,127	1,174			*1,219*	*1,296*
Goodwill	(227)	(227)	(227)	(227)	(227)	(227)	(227)			*(227)*	*(227)*
Capital	**2,058**	**2,372**	**2,233**	**2,302**	**2,372**	**2,362**	**2,406**			***2,551***	***2,778***
Liquidity											
Cash and cash equivalents	44	0	28	17	0	0	0			*4*	*2*
Available credit facilities	250	230	156	250	230	250	250			*225*	*225*
Available liquidity	**294**	**230**	**184**	**267**	**230**	**250**	**250**			***229***	***228***
Credit Ratios[1]											
Debt / capital	63%	62%	63%	63%	62%	62%	61%			*61%*	*61%*
Net debt / capital	63%	62%	62%	63%	62%	62%	61%			*61%*	*61%*
Debt / EBITDA	4.5x	4.7x	4.6x	4.7x	4.7x	4.6x	4.5x			*4.6x*	*4.6x*
Net debt / EBITDA	4.3x	4.7x	4.5x	4.7x	4.7x	4.6x	4.5x			*4.6x*	*4.6x*
FFO / debt	17%	16%	16%	16%	16%	16%	17%			*17%*	*17%*
FFO / net debt	17%	16%	17%	16%	16%	16%	17%			*17%*	*17%*
EBITDA / interest	4.5x	4.3x	4.5x	4.4x	4.3x	4.2x	4.2x			*4.5x*	*4.5x*
(FFO + interest) / interest	4.4x	4.2x	4.4x	4.4x	4.2x	4.2x	4.2x			*4.5x*	*4.5x*
Rating Agency Adjusted Credit Ratios[2]											
S&P											
Debt / EBITDA	5.3x	5.5x								*5.3x*	*5.3x*
FFO / debt	14%	13%								*14%*	*14%*
EBITDA / interest	4.2x	4.1x								*4.2x*	*4.2x*
Moody's											
CFO pre-WC / debt	21%	17%								*18%*	*18%*
(CFO pre-WC + interest) / interest	5.2x	4.5x								*4.7x*	*4.7x*
DBRS											
Cash flow / debt	16%	15%								*16%*	*16%*
EBIT / interest	2.3x	2.2x								*2.2x*	*2.2x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, RBC Capital Markets estimates

Exhibit 4: FortisBC Energy Inc. – historical financials and RBC CM estimates

FortisBC Energy Inc.	Annual		Quarterly							Forecasts	
($MM)	2012	2013	Q2/13	Q3/13	Q4/13	Q1/14	Q2/14	YTD	LTM	2014E	2015E
Earnings Summary											
EBITDA	367	380	65	36	118	165	75	240	394	402	430
Interest	116	116	29	29	29	29	29	58	116	121	128
Cash Flow Summary											
Funds from operations (FFO)	237	251	36	20	85	106	42	148	253	263	282
Capital expenditures	(159)	(159)	(41)	(41)	(52)	(36)	(54)	(90)	(183)	(329)	(350)
Dividends	(85)	(131)	(69)	-	(47)	(20)	(37)	(57)	(104)	(100)	(110)
Gross free cash flow (FCF)	(7)	(39)	(74)	(21)	(14)	50	(49)	1	(34)	(166)	(178)
Regulatory assets / liabilities	(17)	(29)	(10)	(36)	27	(9)	(11)	(20)	(29)	(20)	-
Changes in working capital	14	8	67	(25)	(41)	5	44	49	(17)	-	-
FCF after working capital	(10)	(60)	(17)	(82)	(28)	46	(16)	30	(80)	(186)	(178)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	(14)	(12)	(3)	1	(8)	(2)	(4)	(6)	(13)	(10)	-
FCF before financing	(24)	(72)	(20)	(81)	(36)	44	(20)	24	(93)	(196)	(178)
Short-term borrowings, net	(32)	54	-	50	37	(42)	27	(15)	72	-	-
Long-term debt issuance	-	-	-	-	-	-	-	-	-	150	200
Long-term debt repayment	-	-	-	-	-	-	-	-	-	-	(75)
Common equity issuance, net	65	-	-	-	-	-	-	-	-	50	50
Other financing activities	(4)	(4)	(1)	(1)	-	(1)	(2)	(3)	(4)	-	-
Change in cash	5	(22)	(21)	(32)	1	1	5	6	(25)	4	(3)
Capital Structure											
Debt	1,701	1,751	1,665	1,713	1,751	1,708	1,733			1,901	2,026
Shareholders' equity	1,891	1,864	1,881	1,864	1,864	1,913	1,880			1,935	2,002
Goodwill	(769)	(769)	(769)	(769)	(769)	(769)	(769)			(769)	(769)
Capital	2,823	2,846	2,777	2,808	2,846	2,852	2,844			3,067	3,259
Liquidity											
Cash and cash equivalents	22	-	35	3	-	2	7			4	1
Available credit facilities	416	363	450	400	363	403	378			363	363
Available liquidity	438	363	485	403	363	405	385			367	364
Credit Ratios[1]											
Debt / capital	60%	62%	60%	61%	62%	60%	61%			62%	62%
Net debt / capital	60%	62%	59%	61%	62%	60%	61%			62%	62%
Debt / EBITDA	4.6x	4.6x	4.4x	4.6x	4.6x	4.4x	4.4x			4.7x	4.7x
Net debt / EBITDA	4.6x	4.6x	4.3x	4.6x	4.6x	4.4x	4.4x			4.7x	4.7x
FFO / debt	14%	14%	15%	14%	14%	14%	15%			14%	14%
FFO / net debt	14%	14%	15%	14%	14%	14%	15%			14%	14%
EBITDA / interest	3.2x	3.3x	3.2x	3.2x	3.3x	3.3x	3.4x			3.3x	3.4x
(FFO + interest) / interest	3.0x	3.2x	3.1x	3.1x	3.2x	3.1x	3.2x			3.2x	3.2x
Rating Agency Adjusted Credit Ratios[2]											
Moody's											
CFO pre-WC / debt	14%	15%								14%	14%
(CFO pre-WC + interest) / interest	2.4x	2.5x								2.5x	2.6x
DBRS											
Cash flow / debt	14%	14%								14%	14%
EBIT / interest	2.0x	2.0x								2.0x	2.0x

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, RBC Capital Markets estimates

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Exhibit 5: FortisBC Inc. – historical financials and RBC CM estimates

FortisBC Inc.	Annual		Quarterly							Forecasts	
($MM)	**2012**	**2013**	**Q2/13**	**Q3/13**	**Q4/13**	**Q1/14**	**Q2/14**	**YTD**	**LTM**	***2014E***	***2015E***
Earnings Summary											
EBITDA	**144**	**149**	**32**	**36**	**38**	**45**	**33**	**78**	**153**	***158***	***164***
Interest	**39**	**39**	**10**	**10**	**10**	**10**	**10**	**19**	**39**	***40***	***42***
Cash Flow Summary											
Funds from operations (FFO)	**97**	**99**	**20**	**24**	**26**	**33**	**22**	**54**	**104**	***105***	***109***
Capital expenditures	(69)	(70)	(16)	(25)	(12)	(15)	(20)	(35)	(72)	*(130)*	*(125)*
Customer contributions, net	6	3	2	0	0	3	2	4	5	*10*	*10*
Dividends	(24)	(46)	(7)	(27)	(7)	(7)	(7)	(14)	(47)	*(30)*	*(32)*
Gross free cash flow (FCF)	**10**	**(13)**	**(0)**	**(27)**	**8**	**13**	**(4)**	**9**	**(10)**	***(45)***	***(38)***
Regulatory assets / liabilities	(1)	7	2	7	(2)	4	3	7	12	-	-
Changes in working capital	(9)	(8)	(5)	(6)	(11)	4	4	8	(9)	-	-
FCF after working capital	**(0)**	**(14)**	**(3)**	**(27)**	**(5)**	**21**	**3**	**24**	**(7)**	***(45)***	***(38)***
Acquisitions	-	(55)	-	-	(0)	-	-	-	(0)	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	1	(0)	-	(1)	0	0	0	0	(0)	-	-
FCF before financing	**0**	**(70)**	**(3)**	**(27)**	**(5)**	**21**	**4**	**25**	**(8)**	***(45)***	***(38)***
Short-term borrowings, net	18	52	3	10	6	(21)	(3)	(24)	(9)	*(15)*	*25*
Long-term debt issuance	-	-	-	-	-	-	-	-	-	*200*	-
Long-term debt repayment	(15)	-	-	-	-	-	-	-	-	*(140)*	-
Common equity issuance, net	-	17	-	17	-	-	-	-	17	-	*15*
Other financing activities	(1)	(1)	(0)	(0)	(0)	-	(0)	(0)	(1)	-	-
Change in cash	**2**	**(1)**	**(0)**	**(0)**	**0**	**(0)**	**0**	**0**	**0**	***(0)***	***2***
Capital Structure											
Debt	661	712	697	707	712	691	688			*757*	*782*
Shareholders' equity	710	731	722	724	731	741	741			*752*	*788*
Goodwill	(221)	(235)	(235)	(235)	(235)	(235)	(235)			*(235)*	*(235)*
Capital	**1,150**	**1,208**	**1,184**	**1,196**	**1,208**	**1,197**	**1,194**			***1,274***	***1,335***
Liquidity											
Cash and cash equivalents	2	0	0	0	0	0	1			*0*	*2*
Available credit facilities	125	73	88	78	73	94	87			*78*	*53*
Available liquidity	**127**	**73**	**89**	**79**	**73**	**94**	**88**			***78***	***55***
Credit Ratios[1]											
Debt / capital	57%	59%	59%	59%	59%	58%	58%			*59%*	*59%*
Net debt / capital	57%	59%	59%	59%	59%	58%	58%			*59%*	*59%*
Debt / EBITDA	4.6x	4.8x	4.8x	4.9x	4.8x	4.6x	4.5x			*4.8x*	*4.8x*
Net debt / EBITDA	4.6x	4.8x	4.8x	4.8x	4.8x	4.6x	4.5x			*4.8x*	*4.8x*
FFO / debt	15%	14%	14%	14%	14%	15%	15%			*14%*	*14%*
FFO / net debt	15%	14%	14%	14%	14%	15%	15%			*14%*	*14%*
EBITDA / interest	3.7x	3.8x	3.7x	3.7x	3.8x	3.8x	3.9x			*3.9x*	*3.9x*
(FFO + interest) / interest	3.5x	3.5x	3.5x	3.5x	3.5x	3.6x	3.6x			*3.6x*	*3.6x*
Rating Agency Adjusted Credit Ratios[2]											
Moody's											
CFO pre-WC / debt	10%	10%								*10%*	*11%*
(CFO pre-WC + interest) / interest	3.4x	3.6x								*3.7x*	*3.7x*
DBRS											
Cash flow / debt	15%	14%								*14%*	*14%*
EBIT / interest	2.4x	2.5x								*2.6x*	*2.6x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, RBC Capital Markets estimates

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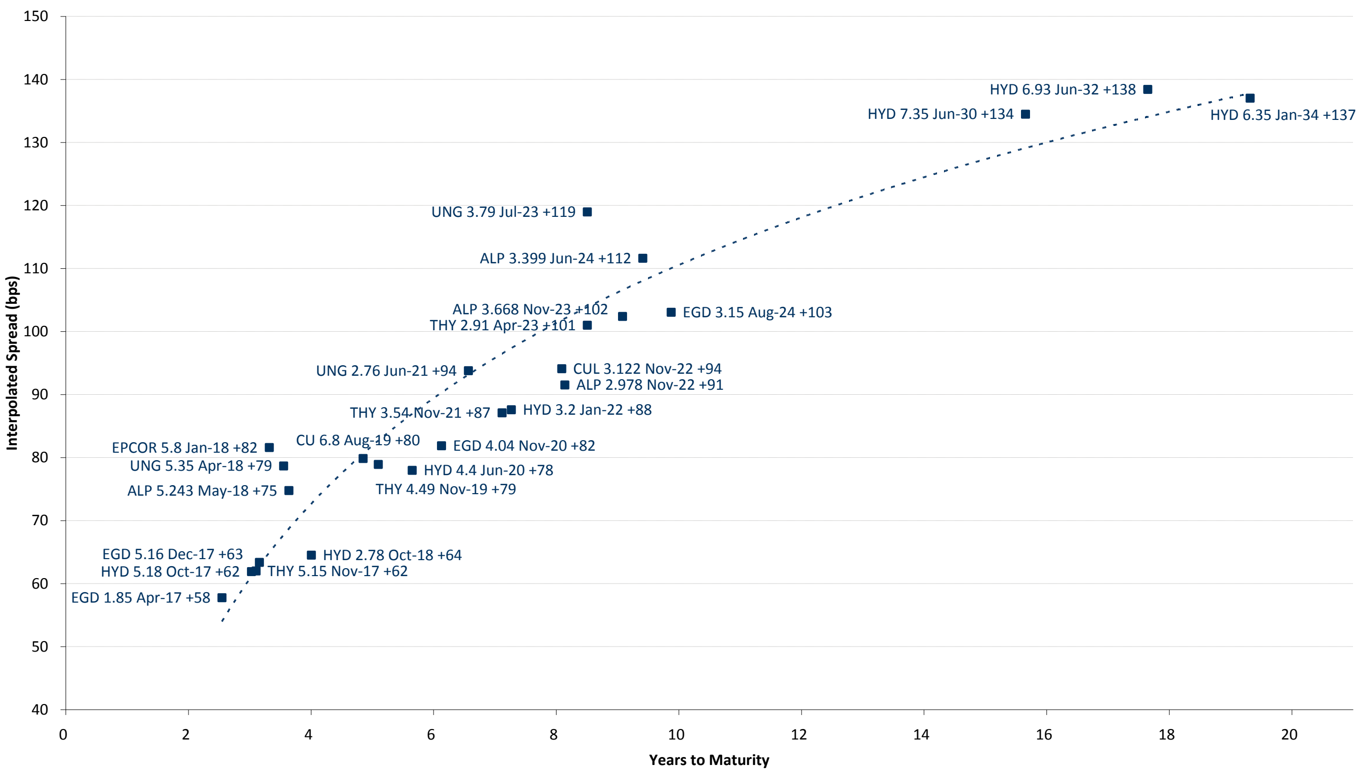
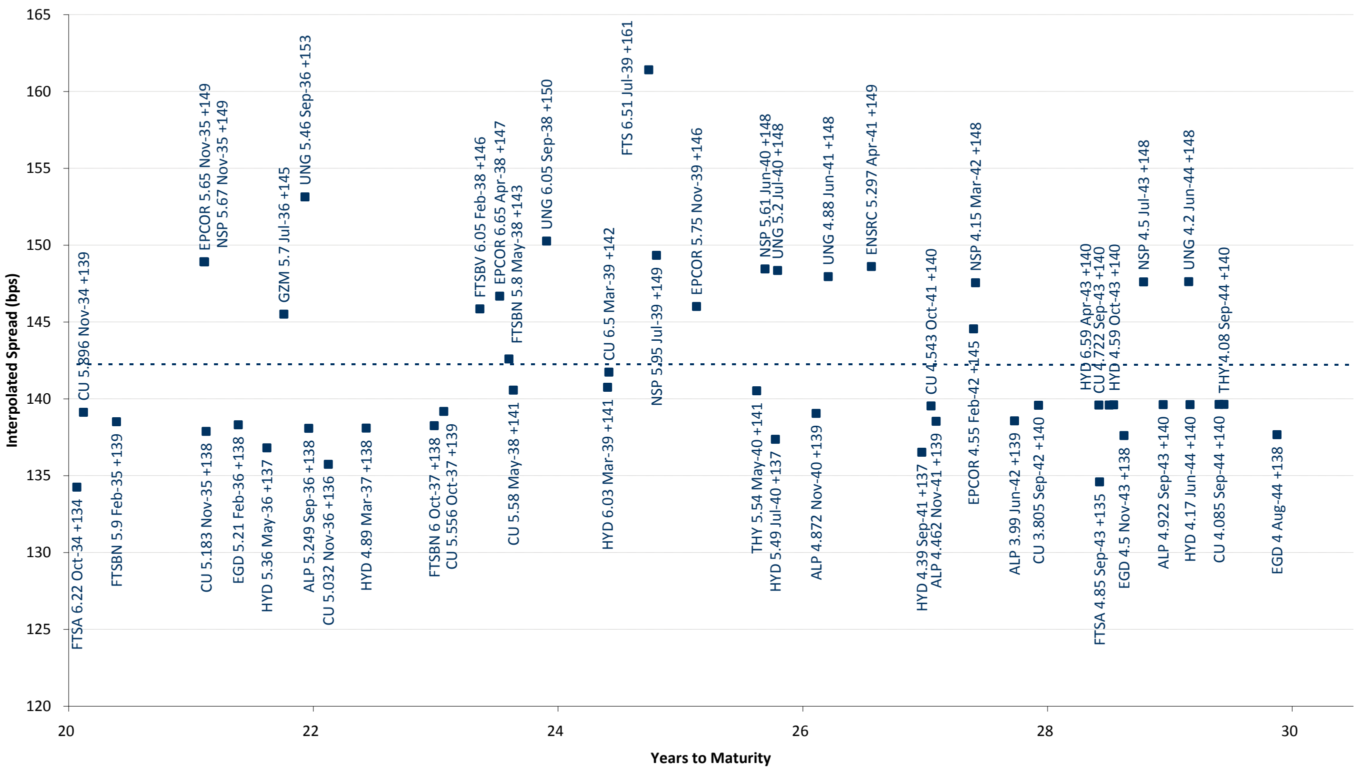
Exhibit 6: Relative value – regulated utilities





Source: Bloomberg, RBC Capital Markets

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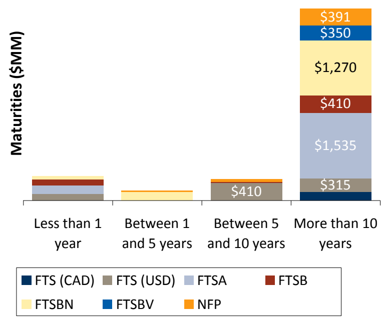
Exhibit 7: Bonds outstanding and maturity schedule



Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	2039/07/04	2009/07/02	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	150	5.74%	2014/10/30	2004/10/28	-	Sr. Unsecured	-
Fortis Inc.	125	3.53%	2020/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	285	3.84%	2023/10/01	2013/10/02	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	2037/09/01	2007/09/06	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	2040/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	40	5.08%	2043/10/01	2013/10/02	-	Sr. Unsecured	-
Total US$ Outstanding	**875**						

Note: On September 15, 2014, Fortis announced the completion of a US$500MM private placement with term to maturity of 5 to 30 years and coupon rates ranging from 2.92% to 5.03%.

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	2015/09/30	1990/12/03	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	2016/09/30	1991/11/21	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	2029/09/21	1999/09/21	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	2034/05/01	2004/04/29	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	2035/02/26	2005/02/25	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	2036/09/25	2006/09/25	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	2037/10/02	2007/10/02	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	5.80%	2038/05/13	2008/05/13	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	2039/02/24	2009/02/24	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	4.25%	2041/12/09	2011/12/09	+41 bps	Sr. Unsecured	34959ZAA0
Total C$ Outstanding	**1,545**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	02/15/2038	02/07/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	06/12/2040	12/02/2010	+40 bps	Sr. Unsecured	88100BAB5
Total C$ Outstanding	**350**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	200	5.33%	2014/10/31	2004/10/25	+18 bps	Sr. Unsecured	34957EAA9
FortisAlberta Inc.	150	3.30%	2024/09/30	2014/09/29	+27.5 bps	Sr. Unsecured	34957ZAS3
FortisAlberta Inc.	200	6.22%	2034/10/31	2004/10/25	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	2036/04/21	2006/04/21	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	2038/04/15	2008/04/15	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	2039/02/14	2009/02/13	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	2039/10/30	2009/10/30	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	2041/10/18	2011/10/19	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	150	4.85%	2043/09/11	2013/09/13	+39.5 bps	Sr. Unsecured	34957ZAR5
FortisAlberta Inc.	125	4.11%	2044/09/29	2014/09/29	+35 bps	Sr. Unsecured	34957ZAT1
FortisAlberta Inc.	110	4.99%	2047/01/03	2007/01/03	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	2050/10/27	2010/10/27	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	2052/10/23	2012/10/23	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,735**						

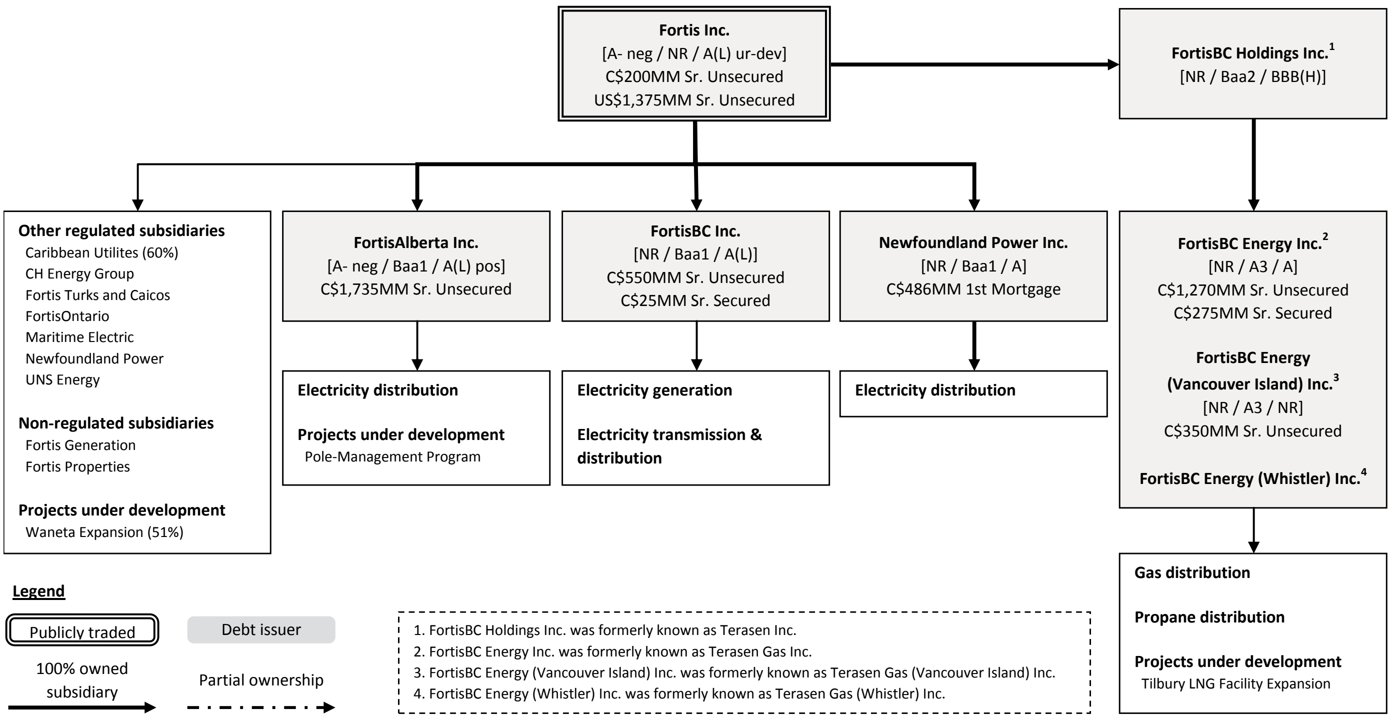
Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	140	5.48%	2014/11/28	2004/11/30	+24 bps	Sr. Unsecured	34957UAA3
FortisBC Inc.	25	8.80%	2023/08/28	1993/08/27	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	2035/11/09	2005/11/10	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	2039/06/02	2009/06/02	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	105	5.90%	2047/07/04	2007/07/04	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	2050/11/24	2010/11/24	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**575**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	31	10.90%	2016/05/02	1991/05/02	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	2020/10/01	1992/10/01	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	32	10.125%	2022/06/15	1992/06/15	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	33	8.90%	2026/05/07	1996/05/07	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	43	6.80%	2028/11/20	1998/11/20	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	66	7.52%	2032/11/01	2002/10/31	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	55	5.441%	2035/08/15	2005/08/15	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	64	5.901%	2037/08/17	2007/08/17	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	61	6.606%	2039/05/25	2009/05/25	+50 bps	First Mortgage	6513508Y9
Newfoundland Power Inc.	70	4.805%	2043/11/09	2013/11/08	+42.5 bps	First Mortgage	65135PAC9
Total C$ Outstanding	**486**						

Source: Bloomberg, RBC Capital Markets

Exhibit 8: Simplified organizational structure

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.



Source: Bloomberg, company reports, rating agencies, RBC Capital Markets

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As of 30-Sep-2014

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November 10, 2014

Company Note

Fortis Inc.

Q3/14: Bringing UNS into the fold

Our View: The Fortis group's regulated utility opco bonds all trade within a fairly tight band and are in line with peers such as Hydro One and CU (both Sector Perform), a fair value in our view. Fortis holdco long bonds trade ~15–20 bps back of its utility subsidiaries. We believe this discount is reasonable, as structural subordination at the holdco level is offset by well-diversified, regulated cash flows and a demonstrated commitment on the part of management to maintaining "A" level credit ratings.

Key Points

Fortis reports Q3/14 (credit neutral): EBITDA of $407MM was in line with expectations after adjusting for costs related to Fortis' acquisition of UNS Energy (see below). Adjusted consolidated credit metrics were impacted by the issuance of $1.8B convertible subordinated debentures used to finance part of the UNS acquisition (see Exhibit 2), and are expected to normalize by YE2015 after the conversion of over 99% of the debentures into Fortis common shares and through a full year of UNS earnings and cash flow.

UNS joins the Fortis family: On August 15, Fortis closed the acquisition of UNS Energy, a vertically integrated utility holding company operating regulated electricity generation and electricity and natural gas delivery in Arizona, for an aggregate price of ~US$4.5B including the assumption of roughly US$2.0B of debt. We view this transaction favourably given it will increase geographic and regulatory diversification and be financed prudently with roughly 42% in equity (including the aforementioned $1.8B in common shares and $600MM in preferred shares issued in September). UNS contributed $93MM to consolidated EBITDA in Q3/14.

Waneta on track, Tilbury construction started: The 335 MW Waneta Expansion (51% owned by Fortis Inc) remains on track for a spring 2015 start-up. In October, construction started on Phase 1A of FortisBC's Tilbury LNG facility expansion. The $400MM project will be included in regulated rate base and is expected to be in service in H2/16.

Strategic review of Fortis Properties ongoing: Fortis commenced a review of its non-regulated hotel and commercial real estate business (~3% of total assets) in October. Strategic options include a full or partial sale, a sale of shares of Fortis Properties or an IPO. The company expects the review process to continue into 2015.

Focus turns to organic growth: Following the acquisitions of CH Energy last year and UNS, Fortis is now turning its focus towards organic growth opportunities. Management laid out a five-year capital spending program of $9.3B that will drive rate base CAGR of ~7% at its inaugural Investor Day. Please see our *note* for full details.

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
Newfoundland Power Inc.	
CAD	Sector Perform
FortisBC Energy (Vancouver Island) Inc.	
CAD	Sector Perform

Key benchmark levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$133.7	173	172	4.28%

Source: Bloomberg, RBC Capital Markets

Ratings agencies

	Rating	Outlook
DBRS	A(L)	UR-Dev.
Moody's	NR	NR
S&P	A-	Stable

Source: Bloomberg, rating agencies

Key credit statistics

	LTM 09/30/13	LTM 09/30/14
Debt/Capital (%)	59%	68%
Debt/EBITDA (x)	6.2x	8.3x
FFO/Debt (%)	10%	8%
EBITDA/Interest (x)	3.5x	3.1x
Total Debt Outstanding ($MM)	7,658	12,257

Debt is adjusted for 50% equity treatment of pref. shares.

Source: Company reports, RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 11.

Exhibit 1: Segmented EBITDA

Segmented EBITDA ($MM)	2012	2013	Q3/13	Q4/13	Q1/14	Q2/14	Q3/14
Regulated							
FortisBC Energy companies	470	483	61	143	191	96	68
UNS Energy							93
Central Hudson		71	36	35	46	31	33
FortisAlberta	290	314	80	77	83	87	88
FortisBC	145	149	36	38	46	33	38
Eastern Canadian	205	206	52	49	56	54	50
Electric Carribean	69	78	20	22	20	22	22
Total regulated	**1,179**	**1,301**	**285**	**364**	**442**	**323**	**392**
Non-regulated							
Fortis Generation	21	24	10	6	8	9	5
Fortis Properties	76	78	25	19	12	22	24
Corporate and Other	10	13	4	2	2	(1)	(7)
Total non-regulated	**107**	**115**	**39**	**27**	**22**	**30**	**22**
Inter-segment eliminations	(22)	(23)	(6)	(5)	(7)	(7)	(7)
Consolidated EBITDA	**1,264**	**1,393**	**318**	**386**	**457**	**346**	**407**

Source: Company reports, RBC Capital Markets

Recent developments

UNS deal closed: On August 15, Fortis closed the acquisition of UNS Energy for an aggregate price of ~US$4.5B including the assumption of roughly ~US$2.0B of debt.

- UNS Energy is headquartered in Tucson, Arizona, and through three subsidiaries operates regulated electricity generation, and electricity and natural gas delivery to approximately 654,000 customers in Arizona. The transaction is expected to add approximately $3B to Fortis' consolidated regulated rate base.
- To finance the acquisition, Fortis issued $1.8B of 4% convertible unsecured subordinated debentures in January 2014, on an installment basis at a price of $1,000 per debenture, of which $333 was paid upon closing of the offering and the remaining $667 upon closing of the acquisition. Substantially all of the debentures were converted into Fortis common shares before or on October 27, 2014. Fortis also issued $600MM in preferred shares in September 2014.
- We view the proposed acquisition favourably, as it will increase size and improve diversification. Post closing, no more than one-third of total assets will be located in any one regulatory jurisdiction. Furthermore, the intended financing of the transaction, with roughly 42% equity, is supportive of the company's credit strength.
- The UNS Energy utilities have attractive regulatory frameworks: (i) TEP, the largest of the three utilities, has an allowed ROE of 10% on a deemed equity of 43.5%, (ii) UNS Electric has an ROE of 9.5% on a deemed equity of 52.6%, (iii) and UNS Gas has an ROE of 9.75% on a deemed equity of 50.8%. These frameworks compare favourably to the 8.75% ROE in Alberta and BC on deemed equity that is 41% or lower (depending on the utility).
- In response to the announced acquisition, DBRS placed it's A(low) rating "under review with developing implications" and S&P revised the outlook on its A- rating to "negative" from "stable". S&P revised its outlook back to "stable" in October after the conversion of the subordinated debentures issued to finance the acquisition into common equity.

USD private placement: In March, Fortis Inc priced a private placement of US$500MM senior unsecured notes with terms to maturity ranging from 5 years to 30 years, a weighted average term to maturity of ~11 years and a weighted average coupon rate of 3.85%. The company issued US$213MM of senior unsecured notes in July and US$287MM in September. Proceeds were used to refinance existing debt (including US$150MM 5.74 Oct-14s and US$125MM 5.56 Sep-14s of a subsidiary) and repay amounts drawn on Fortis' committed credit facility.

FortisAlberta and FortisBC issuance: In September, FortisAlberta issued $150MM 10-year and $125MM 30-year unsecured debentures, with proceeds primarily used to repay a $200MM October maturity. In October, FortisBC issued $200MM 30-year unsecured debentures, with proceeds mainly used to repay a $140MM November maturity.

Regulatory update

British Columbia

Multi-year PBR review completed. In September, the British Columbia Utilities Commission (BCUC) issued decisions on FortisBC Energy's and FortisBC's performance-based rate-setting (PBR) plans for 2014–2018. As part of the PBR decisions, terms were extended to 2019. The approved PBR plans include a 50/50 sharing of variances from formula-driven expenditures over the PBR period. In October, FortisBC Energy filed a compliance filing that updated 2014 revenue requirement and rates based on the PBR decision, resulting in a delivery rate increase of 0.4% over the existing interim increase of 1.4%. FortisBC expects to file its updated 2014 revenue requirement in November 2014.

Consent received for amalgamation of FortisBC Energy companies: In March, regulatory approval was received for the amalgamation of the FortisBC Energy group of companies – including FortisBC Energy Inc. and FortisBC Energy (Vancouver Island) Inc. The amalgamation received consent of the Lieutenant Governor in Council in May and is expected to be come into effect on December 31, 2014. Common rates will be phased in over three years.

Alberta

Annual rates application filed for 2015: In September, FortisAlberta filed its 2015 annual rates application, including an increase of approximately 10% to the distribution component of customer rates. The rates and riders are proposed to be effective on an interim basis for January 1, 2015, with a decision expected in Q4/14.

GCOC decision expected in Q4/14: The AUC's 2013/14 GCOC Proceeding is expected to establish: (i) the allowed ROE and capital structure for 2013, (ii) the allowed ROE for 2014, and (iii) an interim allowed ROE for 2015. In this proceeding, the AUC may consider the possible re-establishment of a formula-based approach to setting the allowed ROE on an annual basis. A decision is expected in Q4/14.

Decision on Capital Tracker Application expected in Q1/15: In December 2013, the Alberta Utilities Commission (AUC) issued a Decision, whereby the AUC provided criteria for capital expenditures that could be included in a Capital Tracker Application, and directed FortisAlberta to re-file a combined 2013, 2014 and 2015 Capital Tracker Application in May 2014 – a decision on the combined application is expected in Q1/15. In the meantime, the AUC approved the continuing use of interim rates based on 60% recovery of applied-for incremental Capital Trackers for 2013 and 2014.

United States

General Rate Application filed by Central Hudson: In July, Central Hudson filed a General Rate Application (GRA), its first as a Fortis utility, to set rates effective July 1, 2015. In its GRA, the company also requested an allowed ROE of 9.0% with a 48% deemed equity (vs. a current allowed ROE of 10.0% with a 48% deemed equity). A decision is expected in H1/15. Recall that in June 2013, the New York State Public Service Commission established a rate freeze for Central Hudson through June 30, 2015 as a required condition to close Fortis' acquisition of CH Energy.

Exhibit 2: Fortis Inc. – consolidated historical financials and RBC CM estimates

Fortis Inc.	Annual		Quarterly							Forecasts		
Consolidated ($MM)	**2012**	**2013**	**Q3/13**	**Q4/13**	**Q1/14**	**Q2/14**	**Q3/14**	**YTD**	**LTM**	***2014E***	***2015E***	***2016E***
Earnings Summary												
EBITDA	1,264	1,393	318	386	457	346	407	1,210	1,596	*1,628*	*2,047*	*2,149*
Gross Interest	385	389	103	105	123	124	159	406	511	*554*	*620*	*661*
Cash Flow Summary												
FFO	**860**	**930**	**232**	**274**	**290**	**216**	**276**	**782**	**1,056**	***1,189***	***1,515***	***1,591***
Capital Expenditures	(1,146)	(1,175)	(266)	(354)	(237)	(298)	(340)	(875)	(1,229)	*(1,800)*	*(2,200)*	*(1,800)*
Preferred Dividends	(46)	(56)	(16)	(12)	(14)	(13)	(15)	(42)	(54)	*(60)*	*(70)*	*(70)*
Dividends	(179)	(192)	(51)	(51)	(49)	(51)	(52)	(152)	(203)	*(204)*	*(312)*	*(334)*
Gross Free Cash Flow (FCF)	**(511)**	**(493)**	**(101)**	**(143)**	**(10)**	**(146)**	**(131)**	**(287)**	**(430)**	***(875)***	***(1,068)***	***(613)***
Changes in Regulatory Assets	54	14	(41)	57	30	(37)	(64)	(71)	(14)	-	-	-
Changes in Working Capital	78	(45)	(85)	(98)	(55)	142	(150)	(63)	(161)	-	-	-
Gross FCF after Working Capital	**(379)**	**(524)**	**(227)**	**(184)**	**(35)**	**(41)**	**(345)**	**(421)**	**(605)**	***(875)***	***(1,068)***	***(613)***
Divestitures/Acquisitions	(21)	(1,055)	-	-	-	-	(2,648)	(2,648)	(2,648)	*(2,650)*	-	-
Other Investing Activities	71	66	13	10	127	10	16	153	163	-	-	-
FCF before Financing	**(329)**	**(1,513)**	**(214)**	**(174)**	**92**	**(31)**	**(2,977)**	**(2,916)**	**(3,090)**	***(3,525)***	***(1,068)***	***(613)***
Net change in debt	85	658	(19)	71	340	103	2,218	2,661	2,732	*1,100*	*700*	*300*
Issue of Common Shares[1]	24	596	3	4	11	12	5	28	32	*1,825*	*25*	*25*
Issue of Preference Shares	194	117	117	-	-	-	587	587	587	*587*	*300*	*300*
Advances from Non-Controlling	106	63	1	19	13	4	5	22	41	-	-	-
F/X Gain/Other	(13)	(3)	-	(3)	-	(4)	8	4	1	-	-	-
Net Change in Cash	**67**	**(82)**	**(112)**	**(83)**	**456**	**84**	**(154)**	**386**	**303**	***(13)***	***(43)***	***12***
Capital Structure												
Total Debt	6,471	7,788	7,658	7,788	7,653	7,679	12,257			*10,688*	*11,388*	*11,688*
Non-controlling Interest	310	375	355	375	393	395	405			*405*	*405*	*405*
Preference Shares	1,108	1,229	1,229	1,229	1,229	1,229	1,820			*1,816*	*2,116*	*2,416*
Shareholders' Equity	3,992	4,772	4,688	4,772	4,910	4,894	4,966			*6,694*	*6,941*	*7,211*
Total Capital	**11,881**	**14,164**	**13,930**	**14,164**	**14,185**	**14,197**	**19,448**			***19,603***	***20,850***	***21,720***
Cash and Equivalents	154	72	155	72	528	612	458			*59*	*17*	*29*
Credit Ratios[2]												
Total Debt / Capital	54%	55%	55%	55%	54%	54%	63%			*55%*	*55%*	*54%*
Adjusted Debt / Capital[2]	59%	59%	59%	59%	58%	58%	68%			*59%*	*60%*	*59%*
Net Debt / Capital	54%	55%	54%	55%	52%	52%	62%			*54%*	*55%*	*54%*
Net Adjusted Debt / Capital[2]	59%	59%	59%	59%	57%	57%	67%			*59%*	*60%*	*59%*
(FFO + Interest) / Interest	3.2x	3.4x	3.4x	3.4x	3.2x	3.2x	3.1x			*3.1x*	*3.4x*	*3.4x*
EBITDA / Interest	3.3x	3.6x	3.5x	3.6x	3.5x	3.3x	3.1x			*2.9x*	*3.3x*	*3.3x*
Total Debt / EBITDA	5.1x	5.6x	5.8x	5.6x	5.2x	5.1x	7.7x			*6.6x*	*5.6x*	*5.4x*
Adjusted Debt / EBITDA[2]	5.6x	6.0x	6.2x	6.0x	5.7x	5.5x	8.3x			*7.1x*	*6.1x*	*6.0x*
FFO / Total Debt	13%	12%	12%	12%	12%	13%	9%			*11%*	*13%*	*14%*
FFO / Adjusted Debt[2]	12%	11%	11%	11%	11%	12%	8%			*10%*	*12%*	*12%*
Preferred Shares / Capital	9%	9%	9%	9%	9%	9%	9%			*9%*	*10%*	*11%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

Exhibit 3: FortisAlberta Inc. – historical financials and RBC CM estimates

FortisAlberta Inc.	Annual		Quarterly							Forecasts		
($MM)	2012	2013	Q3/13	Q4/13	Q1/14	Q2/14	Q3/14	YTD	LTM	2014E	2015E	2016E
Earnings Summary												
EBITDA	**291**	**314**	**81**	**77**	**84**	**86**	**88**	**258**	**335**	**341**	**366**	**391**
Interest	**65**	**73**	**19**	**19**	**19**	**20**	**20**	**59**	**79**	**78**	**81**	**86**
Cash Flow Summary												
Funds from operations (FFO)	**221**	**237**	**63**	**49**	**66**	**70**	**70**	**206**	**255**	**263**	**284**	**305**
Capital expenditures	(446)	(429)	(77)	(122)	(79)	(83)	(83)	(244)	(367)	(373)	(375)	(375)
Customer contributions, net	42	29	11	(3)	12	6	9	27	24	40	40	40
Dividends	(45)	(50)	(13)	(13)	(14)	(14)	(14)	(41)	(54)	(55)	(60)	(65)
Gross free cash flow (FCF)	**(228)**	**(213)**	**(15)**	**(89)**	**(14)**	**(21)**	**(17)**	**(52)**	**(141)**	**(125)**	**(111)**	**(95)**
Regulatory assets / liabilities	65	18	(24)	36	32	(10)	(31)	(9)	27	-	-	-
Changes in working capital	116	(119)	(27)	(29)	5	(3)	5	7	(22)	-	-	-
FCF after working capital	**(47)**	**(314)**	**(66)**	**(82)**	**22**	**(34)**	**(43)**	**(54)**	**(136)**	**(125)**	**(111)**	**(95)**
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Divestitures	2	1	0	0	0	1	0	1	2	1	-	-
Other investing activities	0	(0)	0	0	(1)	0	1	0	1	-	-	-
FCF before financing	**(45)**	**(312)**	**(66)**	**(82)**	**22**	**(33)**	**(42)**	**(53)**	**(134)**	**(124)**	**(111)**	**(95)**
Short-term borrowings, net	(35)	25	(94)	25	(22)	(2)	(0)	(25)	(0)	-	(25)	80
Long-term debt issuance	125	150	150	-	-	-	275	275	275	275	150	-
Long-term debt repayment	-	-	-	-	-	-	-	-	-	(200)	-	-
Common equity issuance, net	-	95	-	40	-	35	-	35	75	50	-	-
Other financing activities	(1)	(1)	(1)	(0)	(0)	(0)	(1)	(1)	(2)	-	-	-
Change in cash	**44**	**(44)**	**(11)**	**(17)**	**0**	**(0)**	**231**	**231**	**214**	**1**	**14**	**(15)**
Capital Structure												
Debt	1,309	1,484	1,459	1,484	1,462	1,459	1,734			1,559	1,684	1,764
Shareholders' equity	976	1,115	1,070	1,115	1,127	1,174	1,187			1,208	1,253	1,300
Goodwill	(227)	(227)	(227)	(227)	(227)	(227)	(227)			(227)	(227)	(227)
Capital	**2,058**	**2,372**	**2,302**	**2,372**	**2,362**	**2,406**	**2,694**			**2,539**	**2,710**	**2,837**
Liquidity												
Cash and cash equivalents	44	0	17	0	0	0	231			1	16	1
Available credit facilities	250	230	250	230	250	250	250			225	250	170
Available liquidity	**294**	**230**	**267**	**230**	**250**	**250**	**481**			**226**	**266**	**171**
Credit Ratios[1]												
Debt / capital	63%	62%	63%	62%	62%	61%	64%			61%	62%	62%
Net debt / capital	63%	62%	63%	62%	62%	61%	61%			61%	62%	62%
Debt / EBITDA	4.5x	4.7x	4.7x	4.7x	4.6x	4.5x	5.2x			4.6x	4.6x	4.5x
Net debt / EBITDA	4.3x	4.7x	4.7x	4.7x	4.6x	4.5x	4.5x			4.6x	4.6x	4.5x
FFO / debt	17%	16%	16%	16%	16%	17%	15%			17%	17%	17%
FFO / net debt	17%	16%	16%	16%	16%	17%	17%			17%	17%	17%
EBITDA / interest	4.5x	4.3x	4.4x	4.3x	4.2x	4.2x	4.3x			4.4x	4.5x	4.5x
(FFO + interest) / interest	4.4x	4.2x	4.4x	4.2x	4.2x	4.2x	4.2x			4.4x	4.5x	4.5x
Rating Agency Adjusted Credit Ratios[2]												
S&P												
Debt / EBITDA	5.3x	5.5x								5.3x	5.3x	5.2x
FFO / debt	14%	13%								14%	14%	15%
EBITDA / interest	4.2x	4.1x								4.1x	4.2x	4.3x
Moody's												
CFO pre-WC / debt	21%	17%								18%	18%	18%
(CFO pre-WC + interest) / interest	5.2x	4.5x								4.6x	4.7x	4.7x
DBRS												
Cash flow / debt	16%	15%								16%	16%	17%
EBIT / interest	2.3x	2.2x								2.2x	2.2x	2.2x

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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Exhibit 4: FortisBC Energy Inc. – historical financials and RBC CM estimates

FortisBC Energy Inc. ($MM)	Annual 2012	2013	Quarterly Q3/13	Q4/13	Q1/14	Q2/14	Q3/14	YTD	LTM	*Forecasts* *2014E*	*2015E*	*2016E*
Earnings Summary												
EBITDA	**367**	**380**	**37**	**117**	**165**	**75**	**39**	**279**	**396**	***402***	***430***	***448***
Interest	**116**	**116**	**29**	**29**	**29**	**29**	**29**	**87**	**116**	***118***	***126***	***128***
Cash Flow Summary												
Funds from operations (FFO)	**237**	**251**	**20**	**85**	**106**	**42**	**29**	**177**	**262**	***265***	***284***	***298***
Capital expenditures	(159)	(159)	(41)	(52)	(36)	(54)	(63)	(153)	(205)	*(324)*	*(400)*	*(200)*
Customer contributions, net					1	-	5	6	6	*20*	*30*	*10*
Dividends	(85)	(131)	-	(47)	(20)	(37)	-	(57)	(104)	*(100)*	*(100)*	*(110)*
Gross free cash flow (FCF)	**(7)**	**(39)**	**(21)**	**(14)**	**51**	**(49)**	**(29)**	**(27)**	**(41)**	***(139)***	***(186)***	***(2)***
Regulatory assets / liabilities	(17)	(29)	(36)	27	(9)	(11)	(41)	(61)	(34)	*(20)*	*(20)*	*(20)*
Changes in working capital	14	8	(25)	(41)	5	44	(26)	23	(18)	*-*	*-*	*-*
FCF after working capital	**(10)**	**(60)**	**(82)**	**(28)**	**47**	**(16)**	**(96)**	**(65)**	**(93)**	***(159)***	***(206)***	***(22)***
Acquisitions	-	-	-	-	-	-	-	-	-	*-*	*-*	*-*
Divestitures	-	-	-	-	-	-	-	-	-	*-*	*-*	*-*
Other investing activities	(14)	(12)	1	(12)	(2)	(4)	(3)	(9)	(21)	*(12)*	*(15)*	*(15)*
FCF before financing	**(24)**	**(72)**	**(81)**	**(40)**	**45**	**(20)**	**(99)**	**(74)**	**(114)**	***(171)***	***(221)***	***(37)***
Short-term borrowings, net	(32)	54	50	37	(42)	27	98	83	120	*(75)*	*-*	*(20)*
Long-term debt issuance	-	-	-	-	-	-	-	-	-	*200*	*250*	*250*
Long-term debt repayment	-	-	-	-	-	-	-	-	-	*-*	*(75)*	*(200)*
Common equity issuance, net	65	-	-	-	-	-	-	-	-	*50*	*50*	*-*
Other financing activities	(4)	(4)	(1)	-	(1)	(2)	(2)	(5)	(5)	*-*	*-*	*-*
Change in cash	**5**	**(22)**	**(32)**	**(3)**	**2**	**5**	**(3)**	**4**	**1**	***4***	***4***	***(7)***
Capital Structure												
Debt	1,701	1,751	1,713	1,751	1,708	1,733	1,829			*1,876*	*2,051*	*2,081*
Shareholders' equity	1,891	1,864	1,864	1,864	1,913	1,880	1,866			*1,932*	*2,008*	*2,026*
Goodwill	(769)	(769)	(769)	(769)	(769)	(769)	(769)			*(769)*	*(769)*	*(769)*
Capital	**2,823**	**2,846**	**2,808**	**2,846**	**2,852**	**2,844**	**2,926**			***3,039***	***3,290***	***3,338***
Liquidity												
Cash and cash equivalents	22	-	3	-	2	7	4			*4*	*8*	*1*
Available credit facilities	416	363	400	363	403	378	280			*438*	*438*	*458*
Available liquidity	**438**	**363**	**403**	**363**	**405**	**385**	**284**			***442***	***446***	***459***
Credit Ratios[1]												
Debt / capital	60%	62%	61%	62%	60%	61%	63%			*62%*	*62%*	*62%*
Net debt / capital	60%	62%	61%	62%	60%	61%	62%			*62%*	*62%*	*62%*
Debt / EBITDA	4.6x	4.6x	4.6x	4.6x	4.4x	4.4x	4.6x			*4.7x*	*4.8x*	*4.6x*
Net debt / EBITDA	4.6x	4.6x	4.6x	4.6x	4.4x	4.4x	4.6x			*4.7x*	*4.8x*	*4.6x*
FFO / debt	14%	14%	14%	14%	14%	15%	14%			*14%*	*14%*	*14%*
FFO / net debt	14%	14%	14%	14%	14%	15%	14%			*14%*	*14%*	*14%*
EBITDA / interest	3.2x	3.3x	3.2x	3.3x	3.3x	3.4x	3.4x			*3.4x*	*3.4x*	*3.5x*
(FFO + interest) / interest	3.0x	3.2x	3.1x	3.2x	3.1x	3.2x	3.3x			*3.3x*	*3.3x*	*3.3x*
Rating Agency Adjusted Credit Ratios[2]												
Moody's												
CFO pre-WC / debt	14%	15%								*15%*	*14%*	*15%*
(CFO pre-WC + interest) / interest	2.4x	2.5x								*2.6x*	*2.6x*	*2.7x*
DBRS												
Cash flow / debt	14%	14%								*14%*	*14%*	*14%*
EBIT / interest	2.0x	2.0x								*2.1x*	*2.1x*	*2.1x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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Exhibit 5: FortisBC Inc. – historical financials and RBC CM estimates

FortisBC Inc.	Annual				Quarterly						Forecasts	
($MM)	2012	2013	Q3/13	Q4/13	Q1/14	Q2/14	Q3/14	YTD	LTM	2014E	2015E	2016E
Earnings Summary												
EBITDA	144	149	36	38	45	33	38	116	154	159	162	163
Interest	39	39	10	10	10	10	10	29	39	40	40	40
Cash Flow Summary												
Funds from operations (FFO)	97	99	24	26	33	22	27	81	106	107	109	111
Capital expenditures	(69)	(70)	(25)	(12)	(15)	(20)	(23)	(58)	(70)	(110)	(100)	(80)
Customer contributions, net	6	3	0	0	3	2	3	7	7	10	10	10
Dividends	(24)	(46)	(27)	(7)	(7)	(7)	(7)	(21)	(28)	(28)	(30)	(32)
Gross free cash flow (FCF)	10	(13)	(27)	8	13	(4)	(1)	9	16	(21)	(11)	9
Regulatory assets / liabilities	(1)	7	7	(2)	4	3	4	12	10	-	-	-
Changes in working capital	(9)	(8)	(6)	(11)	4	4	(6)	2	(8)	-	-	-
FCF after working capital	(0)	(14)	(27)	(5)	21	3	(2)	23	18	(21)	(11)	9
Acquisitions	-	(55)	-	(0)	-	-	-	-	(0)	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	1	(0)	(1)	0	0	0	0	0	0	-	-	-
FCF before financing	0	(70)	(27)	(5)	21	4	(2)	23	18	(21)	(11)	9
Short-term borrowings, net	18	52	10	6	(21)	(3)	2	(22)	(17)	(35)	10	(10)
Long-term debt issuance	-	-	-	-	-	-	-	-	-	200	-	-
Long-term debt repayment	(15)	-	-	-	-	-	-	-	-	(140)	-	-
Common equity issuance, net	-	17	17	-	-	-	-	-	-	-	-	-
Other financing activities	(1)	(1)	(0)	(0)	-	(0)	-	(0)	(0)	-	-	-
Change in cash	2	(1)	(0)	0	(0)	0	0	0	1	4	(1)	(1)
Capital Structure												
Debt	661	712	707	712	691	688	690			737	747	737
Shareholders' equity	710	731	724	731	741	741	744			752	772	791
Goodwill	(221)	(235)	(235)	(235)	(235)	(235)	(235)			(235)	(235)	(235)
Capital	1,150	1,208	1,196	1,208	1,197	1,194	1,199			1,254	1,284	1,293
Liquidity												
Cash and cash equivalents	2	0	0	0	0	1	1			4	3	2
Available credit facilities	125	73	78	73	94	97	120			133	123	133
Available liquidity	127	73	79	73	94	98	121			137	126	135
Credit Ratios[1]												
Debt / capital	57%	59%	59%	59%	58%	58%	58%			59%	58%	57%
Net debt / capital	57%	59%	59%	59%	58%	58%	58%			59%	58%	57%
Debt / EBITDA	4.6x	4.8x	4.9x	4.8x	4.6x	4.5x	4.5x			4.6x	4.6x	4.5x
Net debt / EBITDA	4.6x	4.8x	4.8x	4.8x	4.6x	4.5x	4.5x			4.6x	4.6x	4.5x
FFO / debt	15%	14%	14%	14%	15%	15%	15%			14%	15%	15%
FFO / net debt	15%	14%	14%	14%	15%	15%	15%			15%	15%	15%
EBITDA / interest	3.7x	3.8x	3.7x	3.8x	3.8x	3.9x	3.9x			4.0x	4.0x	4.1x
(FFO + interest) / interest	3.5x	3.5x	3.5x	3.5x	3.6x	3.6x	3.7x			3.7x	3.7x	3.8x
Rating Agency Adjusted Credit Ratios[2]												
Moody's												
CFO pre-WC / debt	10%	10%								11%	11%	11%
(CFO pre-WC + interest) / interest	3.4x	3.6x								3.7x	3.8x	3.8x
DBRS												
Cash flow / debt	15%	14%								14%	15%	15%
EBIT / interest	2.4x	2.5x								2.5x	2.6x	2.6x

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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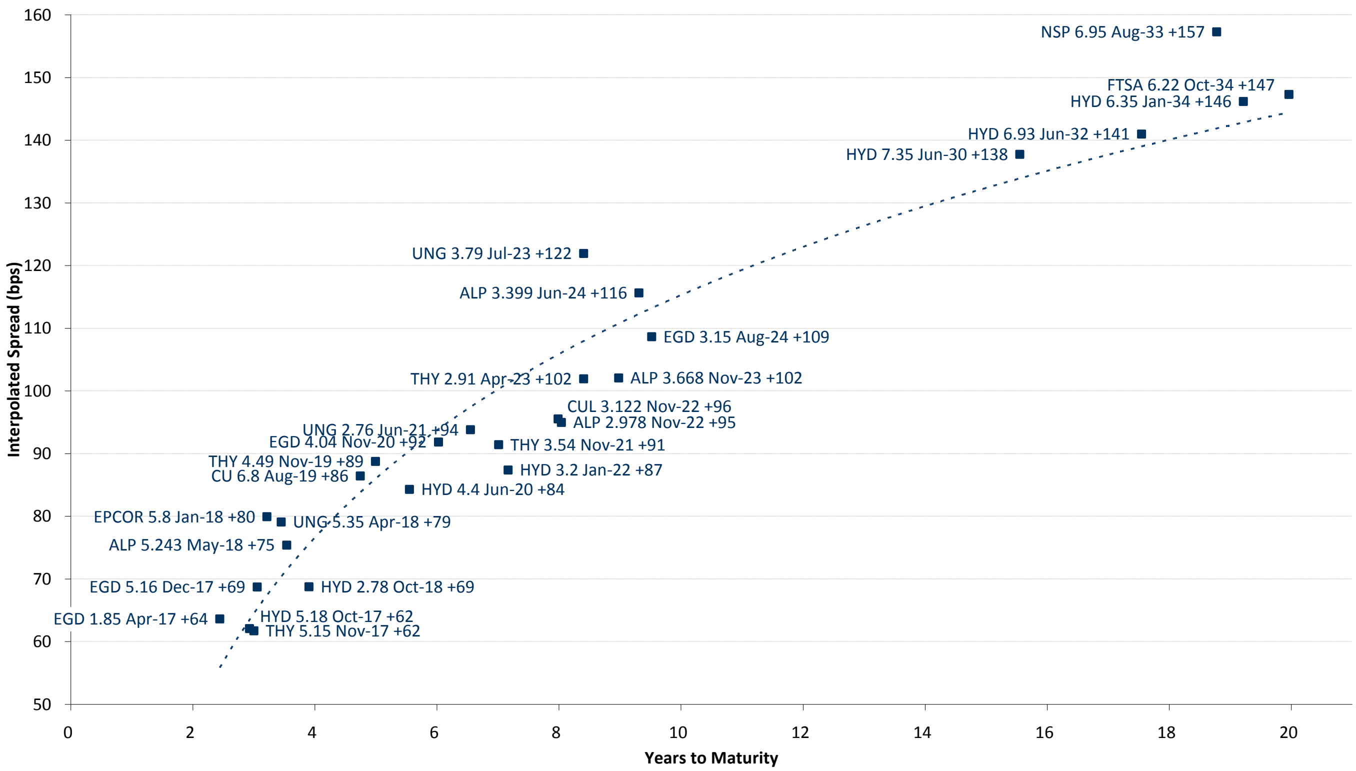
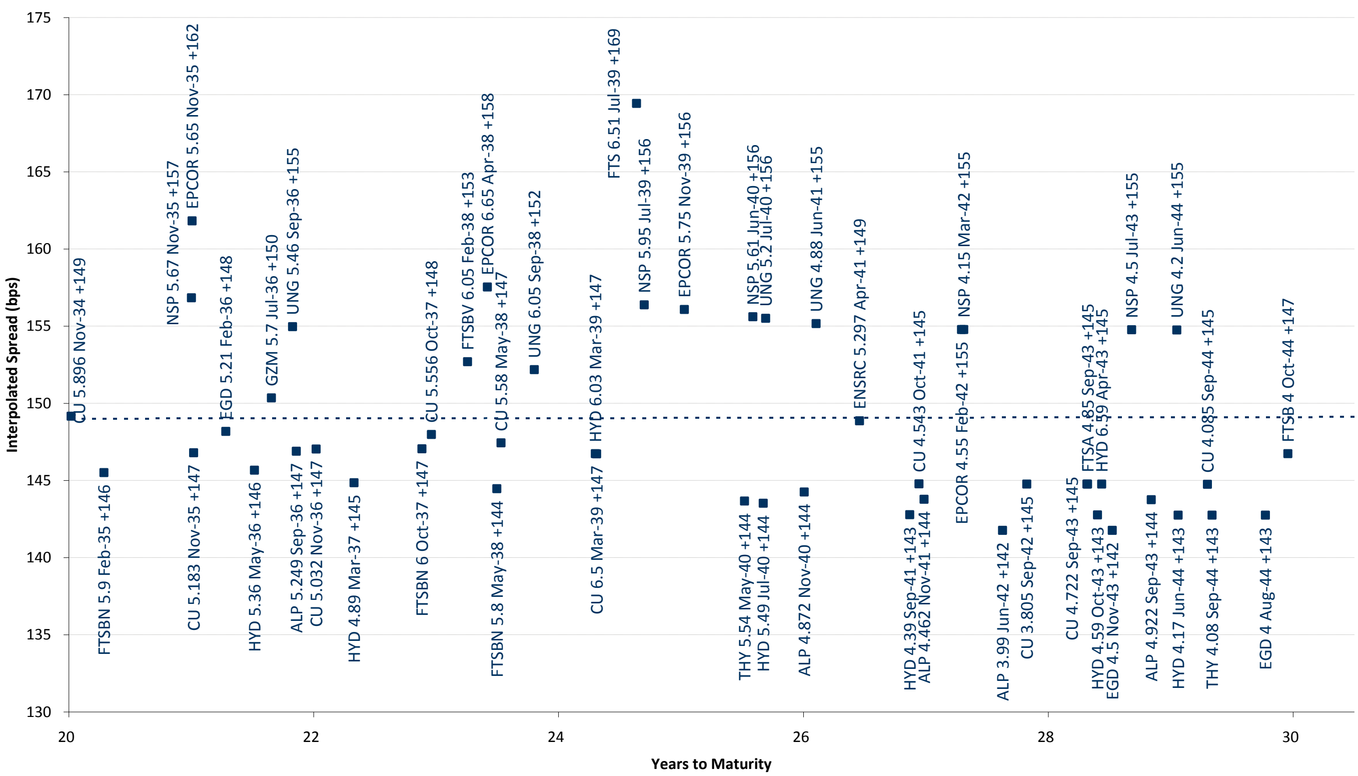
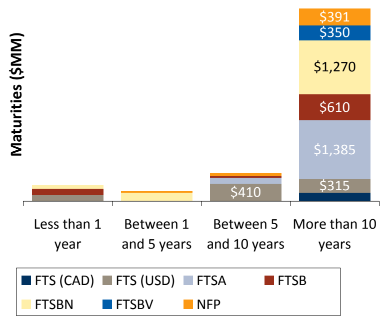
Exhibit 6: Relative value – regulated utilities





Source: Bloomberg, RBC Capital Markets

Exhibit 7: Bonds outstanding and maturity schedule



Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	2039/07/04	2009/07/02	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	150	5.74%	2014/10/30	2004/10/28	-	Sr. Unsecured	-
Fortis Inc.	125	3.53%	2020/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	285	3.84%	2023/10/01	2013/10/02	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	2037/09/01	2007/09/06	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	2040/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	40	5.08%	2043/10/01	2013/10/02	-	Sr. Unsecured	-
Total US$ Outstanding	**875**						

Note: On September 15, 2014, Fortis announced the completion of a US$500MM private placement with term to maturity of 5 to 30 years and coupon rates ranging from 2.92% to 5.03%.

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	150	3.30%	2024/09/30	2014/09/29	+27.5 bps	Sr. Unsecured	34957ZAS3
FortisAlberta Inc.	200	6.22%	2034/10/31	2004/10/25	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	2036/04/21	2006/04/21	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	2038/04/15	2008/04/15	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	2039/02/14	2009/02/13	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	2039/10/30	2009/10/30	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	2041/10/18	2011/10/19	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	150	4.85%	2043/09/11	2013/09/13	+39.5 bps	Sr. Unsecured	34957ZAR5
FortisAlberta Inc.	125	4.11%	2044/09/29	2014/09/29	+35 bps	Sr. Unsecured	34957ZAT1
FortisAlberta Inc.	110	4.99%	2047/01/03	2007/01/03	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	2050/10/27	2010/10/27	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	2052/10/23	2012/10/23	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,535**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	2015/09/30	1990/12/03	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	2016/09/30	1991/11/21	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	2029/09/21	1999/09/21	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	2034/05/01	2004/04/29	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	2035/02/26	2005/02/25	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	2036/09/25	2006/09/25	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	2037/10/02	2007/10/02	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	5.80%	2038/05/13	2008/05/13	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	2039/02/24	2009/02/24	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	4.25%	2041/12/09	2011/12/09	+41 bps	Sr. Unsecured	34959ZAA0
Total C$ Outstanding	**1,545**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	2038/02/15	2008/02/15	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	2040/12/06	2010/12/06	+40 bps	Sr. Unsecured	88100BAB5
Total C$ Outstanding	**350**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	140	5.48%	2014/11/28	2004/11/30	+24 bps	Sr. Unsecured	34957UAA3
FortisBC Inc.	25	8.80%	2023/08/28	1993/08/27	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	2035/11/09	2005/11/10	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	2039/06/02	2009/06/02	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	200	4.00%	2044/10/28	2014/10/28	+36 bps	Sr. Unsecured	34958ZAC7
FortisBC Inc.	105	5.90%	2047/07/04	2007/07/04	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	2050/11/24	2010/11/24	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**775**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	31	10.90%	2016/05/02	1991/05/02	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	2020/10/01	1992/10/01	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	32	10.125%	2022/06/15	1992/06/15	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	33	8.90%	2026/05/07	1996/05/07	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	43	6.80%	2028/11/20	1998/11/20	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	66	7.52%	2032/11/01	2002/10/31	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	55	5.441%	2035/08/15	2005/08/15	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	64	5.901%	2037/08/17	2007/08/17	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	61	6.606%	2039/05/25	2009/05/25	+50 bps	First Mortgage	6513508Y9
Newfoundland Power Inc.	70	4.805%	2043/11/09	2013/11/08	+42.5 bps	First Mortgage	65135PAC9
Total C$ Outstanding	**486**						

Source: Bloomberg, RBC Capital Markets

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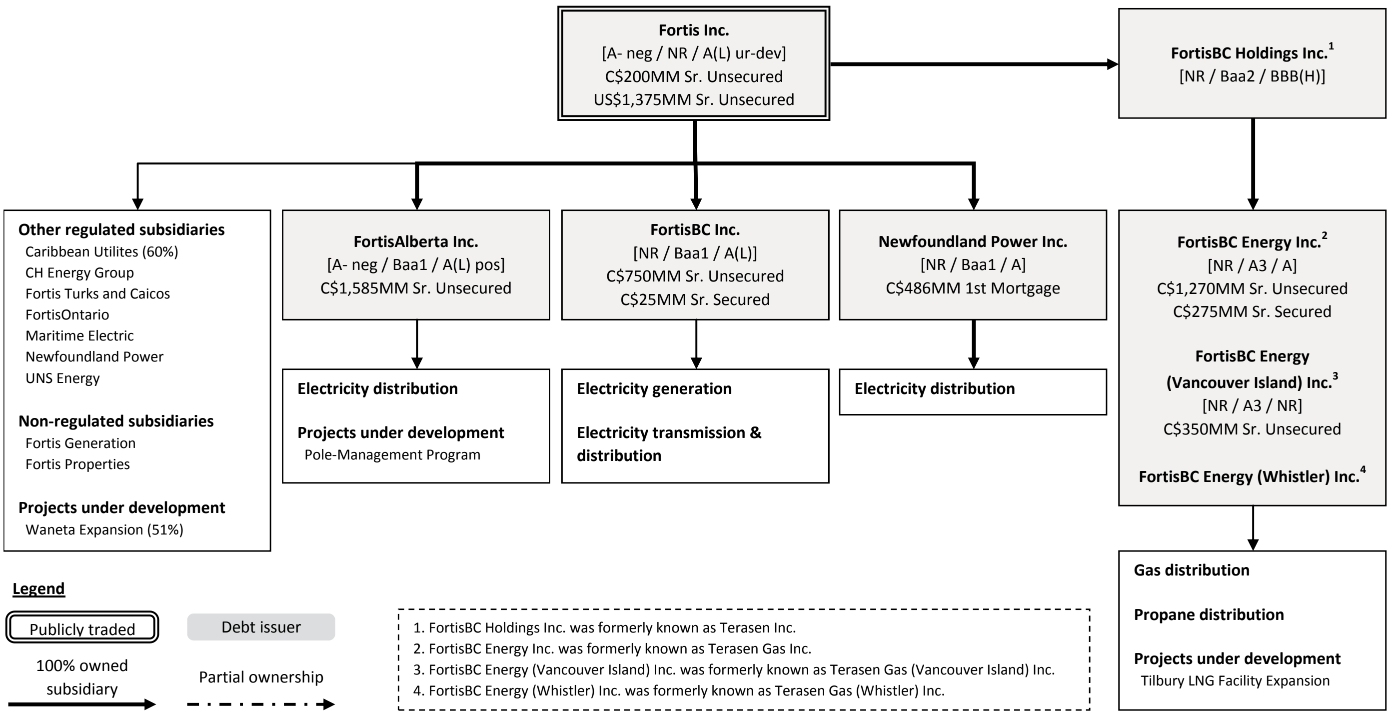
Exhibit 8: Simplified organizational structure

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.



Source: Bloomberg, company reports, rating agencies, RBC Capital Markets

Required disclosures

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HOLD [Sector Perform]	189	53.39	115	60.85
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February 23, 2015

Company Note

Fortis Inc.

Q4/14: Turning to organic growth

Our View: The Fortis group's regulated utility opco bonds all trade within a fairly tight band and are in line with peers such as Hydro One and CU (both Sector Perform), a fair value in our view. Fortis holdco 6.51 39s trade ~40 bps back of its utility subsidiaries. We believe this discount represents an attractive carry opportunity, as structural subordination at the holdco level is offset by well-diversified, regulated cash flows and a demonstrated commitment on the part of management to "A" level credit ratings.

Key Points

Fortis reports Q4/14 (credit neutral): EBITDA of $501MM represented a 30% y/y increase and included a $110MM contribution from UNS Energy (acquired in Aug/14; see Exhibit 1 for segmented EBITDA). Adjusted consolidated credit metrics at YE2014 stood at 60% debt-to-capital, 7.3x debt-to-EBITDA, and 3.1x EBITDA-to-interest (vs. 59%, 6.0x, and 3.6x, respectively, at YE2013) and are expected to normalize over 2015 with a full year of UNS earnings and cash flow.

Waneta nearing completion, Tilbury construction started, Gila River purchase closed: The 335 MW Waneta Expansion (51% owned by Fortis Inc) remains on track for a spring 2015 start-up. In October, construction started on Phase 1A of FortisBC's Tilbury LNG facility expansion. The $400MM project will be included in regulated rate base and is expected to be in service in by YE2016. In December, UNS purchased the 550 MW Gila River Unit 3 combined cycle gas-fired generation station for US$219MM.

Strategic review of Fortis Properties ongoing: Fortis commenced a review of its non-regulated hotel and commercial real estate business (~3% of total assets) in October 2014. Strategic options include a full or partial sale, a sale of shares of Fortis Properties, or an IPO. The company expects to make a decision on the future of this business segment in Q2/15.

Focus on organic growth: Having made the acquisitions of CH Energy in 2013 and UNS last year, Fortis is entering a period of significant organic growth. Management has committed to a five-year capital spending program of ~$9B that will drive rate base CAGR of 6.5% through 2019.

Funding flexibility to meet 2015 cash flow needs: Based on Fortis's target consolidated capex of $2.2B, we estimate a ~$800MM free cash flow shortfall before financing in 2015 (Exhibit 2). The company's sources of funding include: (i) $230MM of cash on hand and $2.2B of undrawn credit facilities at YE2014; (ii) potential proceeds from a sale/IPO of Fortis Properties (see above); (iii) term debt; and (iv) preferred and common equity. At the subsidiary level, we expect 2015 CAD debt issuance of $150MM at FortisAlberta, $250MM at FortisBC Energy ($75MM maturity in Sep/15), and no issuance at FortisBC (Exhibits 3 through 5).

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
Newfoundland Power Inc.	
CAD	Sector Perform

Key benchmark levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$142.5	178	176	3.82%

Source: Bloomberg, RBC Capital Markets

Ratings agencies

	Rating	Outlook
DBRS	A(L)	Stable
Moody's	NR	NR
S&P	A-	Stable

Source: Bloomberg, rating agencies

Key credit statistics

	LTM 12/31/13	LTM 12/31/14
Debt/Capital (%)	59%	60%
Debt/EBITDA (x)	6.0x	7.3x
FFO/Debt (%)	11%	10%
EBITDA/Interest (x)	3.6x	3.1x
Total Debt Outstanding ($MM)	7,788	11,534

Debt is adjusted for 50% equity treatment of pref. shares.

Source: Company reports, RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 11.

Exhibit 1: Segmented EBITDA

Segmented EBITDA ($MM)	2012	2013	2014	Q4/13	Q1/14	Q2/14	Q3/14	Q4/14
Regulated								
FortisBC Energy companies	470	483	502	143	191	96	68	147
UNS Energy			203				93	110
Central Hudson		71	139	35	46	31	33	29
FortisAlberta	290	314	342	77	83	87	88	84
FortisBC	145	149	157	38	46	33	38	40
Eastern Canadian	205	206	212	49	56	54	50	52
Electric Carribean	69	78	87	22	20	22	22	23
Total regulated	**1,179**	**1,301**	**1,642**	**364**	**442**	**323**	**392**	**485**
Non-regulated								
Fortis Generation	21	24	27	6	8	9	5	5
Fortis Properties	76	78	77	19	12	22	24	19
Corporate and Other	10	13	(7)	2	2	(1)	(7)	(1)
Total non-regulated	**107**	**115**	**97**	**27**	**22**	**30**	**22**	**23**
Inter-segment eliminations	(22)	(23)	(28)	(5)	(7)	(7)	(7)	(7)
Consolidated EBITDA	**1,264**	**1,393**	**1,711**	**386**	**457**	**346**	**407**	**501**

Source: Company reports, RBC Capital Markets

Regulatory update

Exhibit 9 summarizes the nature of regulation and material regulatory decisions and applications affecting Fortis's regulated utility subsidiaries.

Alberta

Annual rates approved for 2015: In December 2014, the Alberta Utility Commission (AUC) approved FortisAlberta's 2015 Annual Rates Application on an interim basis effective January 1, 2015. The rates and riders include an increase of approximately 10% to the distribution component of customer rates and will be finalized once a final decision regarding FortisAlberta's Capital Tracker Application is received (see below).

Decision on Capital Tracker Application expected in Q1/15: In May 2014, FortisAlberta filed a combined 2013, 2014, and 2015 Capital Tracker Application; a hearing was held in October 2014 and a decision on the combined application is expected in Q1/15. FortisAlberta recognized capital tracker revenue based on 60% recovery of applied-for incremental Capital Trackers for 2013 and 2014. In December 2014, an interim decision was received, granting FortisAlberta 90% of applied-for capital tracker amounts for 2015.

GCOC decision expected in Q1/15: The AUC's 2013/14 GCOC Proceeding is expected to establish: (i) the allowed ROE and capital structure for 2013; (ii) the allowed ROE for 2014; and (iii) an interim allowed ROE for 2015. In this proceeding, the AUC may consider the possible re-establishment of a formula-based approach to setting the allowed ROE on an annual basis. A decision is expected in Q1/15.

British Columbia

Multi-year PBR review completed: In Sep/14, the British Columbia Utilities Commission (BCUC) issued decisions on FortisBC Energy's and FortisBC's performance-based rate-setting (PBR) plans for 2014–2018. As part of the PBR decisions, terms were extended to 2019 and include a 50/50 sharing of variances from formula-driven expenditures over the PBR period. In January and February 2015, FortisBC Energy and FortisBC, respectively, filed for approval of 2015 rates under the PBR decision, with final rate decisions expected in Q2/15.

Amalgamation of FortisBC Energy companies completed: In Mar/14, regulatory approval was received for the amalgamation of the FortisBC Energy group of companies, including FortisBC Energy Inc, FortisBC Energy (Vancouver Island) Inc, and FortisBC Energy (Whistler) Inc. The amalgamation received consent of the Lieutenant Governor in Council in May and was effected on December 31, 2014. Common rates will be phased in over three years.

Exhibit 2: Fortis Inc. – consolidated historical financials and RBC CM estimates

Fortis Inc.		Annual				Quarterly			Forecasts	
Consolidated ($MM)	2012	2013	2014	Q4/13	Q1/14	Q2/14	Q3/14	Q4/14	2015E	2016E
Earnings Summary										
EBITDA	1,264	1,393	1,711	386	457	346	407	501	*2,049*	*2,151*
Gross Interest	385	389	547	105	123	124	159	141	*634*	*656*
Cash Flow Summary										
FFO	**860**	**930**	**1,186**	**274**	**290**	**216**	**276**	**404**	***1,512***	***1,588***
Capital Expenditures	(1,146)	(1,175)	(1,725)	(354)	(237)	(298)	(340)	(850)	*(2,152)*	*(1,800)*
Preferred Dividends	(46)	(56)	(62)	(12)	(14)	(13)	(15)	(20)	*(80)*	*(80)*
Dividends	(179)	(192)	(204)	(51)	(49)	(51)	(52)	(52)	*(297)*	*(328)*
Gross Free Cash Flow (FCF)	**(511)**	**(493)**	**(805)**	**(143)**	**(10)**	**(146)**	**(131)**	**(518)**	***(1,017)***	***(621)***
Changes in Regulatory Assets	54	14	(80)	57	30	(37)	(64)	(9)	-	-
Changes in Working Capital	78	(45)	(124)	(98)	(55)	142	(150)	(61)	-	-
Gross FCF after Working Capital	**(379)**	**(524)**	**(1,009)**	**(184)**	**(35)**	**(41)**	**(345)**	**(588)**	***(1,017)***	***(621)***
Divestitures/Acquisitions	(21)	(1,055)	(2,648)	-	-	-	(2,648)	-	-	-
Other Investing Activities	71	66	174	10	127	10	16	21	*200*	*180*
FCF before Financing	**(329)**	**(1,513)**	**(3,483)**	**(174)**	**92**	**(31)**	**(2,977)**	**(567)**	***(817)***	***(441)***
Net change in debt	85	658	2,952	71	340	103	2,218	291	*400*	*400*
Issue of Common Shares[1]	24	596	51	4	11	12	5	23	*25*	*25*
Issue of Preference Shares	194	117	586	-	-	-	587	(1)	*250*	-
Advances from Non-Controlling	106	63	38	19	13	4	5	16	-	-
F/X Gain/Other	(13)	(3)	14	(3)	-	(4)	8	10	-	-
Net Change in Cash	**67**	**(82)**	**158**	**(83)**	**456**	**84**	**(154)**	**(228)**	***(142)***	***(16)***
Capital Structure										
Total Debt	6,471	7,788	11,534	7,788	7,653	7,679	12,257	11,534	*11,934*	*12,334*
Non-controlling Interest	310	375	421	375	393	395	405	421	*421*	*421*
Preference Shares	1,108	1,229	1,820	1,229	1,229	1,229	1,820	1,820	*2,070*	*2,070*
Shareholders' Equity	3,992	4,772	6,871	4,772	4,910	4,894	4,966	6,871	*7,106*	*7,372*
Total Capital	**11,881**	**14,164**	**20,646**	**14,164**	**14,185**	**14,197**	**19,448**	**20,646**	***21,531***	***22,197***
Cash and Equivalents	154	72	230	72	528	612	458	230	*88*	*72*
Credit Ratios[2]										
Total Debt / Capital	54%	55%	56%	55%	54%	54%	63%	56%	*55%*	*56%*
Adjusted Debt / Capital[2]	59%	59%	60%	59%	58%	58%	68%	60%	*60%*	*60%*
Net Debt / Capital	54%	55%	55%	55%	52%	52%	62%	55%	*55%*	*55%*
Net Adjusted Debt / Capital[2]	59%	59%	60%	59%	57%	57%	67%	60%	*60%*	*60%*
(FFO + Interest) / Interest	3.2x	3.4x	3.2x	3.4x	3.2x	3.2x	3.1x	3.2x	*3.4x*	*3.4x*
EBITDA / Interest	3.3x	3.6x	3.1x	3.6x	3.5x	3.3x	3.1x	3.1x	*3.2x*	*3.3x*
Total Debt / EBITDA	5.1x	5.6x	6.7x	5.6x	5.2x	5.1x	7.7x	6.7x	*5.8x*	*5.7x*
Adjusted Debt / EBITDA[2]	5.6x	6.0x	7.3x	6.0x	5.7x	5.5x	8.3x	7.3x	*6.3x*	*6.2x*
FFO / Total Debt	13%	12%	10%	12%	12%	13%	9%	10%	*13%*	*13%*
FFO / Adjusted Debt[2]	12%	11%	10%	11%	11%	12%	8%	10%	*12%*	*12%*
Preferred Shares / Capital	9%	9%	9%	9%	9%	9%	9%	9%	*10%*	*9%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

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Exhibit 3: FortisAlberta Inc. – historical financials and RBC CM estimates

FortisAlberta Inc. ($MM)	2012	Annual 2013	2014	Q4/13	Q1/14	Quarterly Q2/14	Q3/14	Q4/14	*Forecasts* *2015E*	*2016E*
Earnings Summary										
EBITDA	**291**	**314**	**342**	**77**	**84**	**86**	**88**	**84**	***370***	***397***
Interest	**65**	**73**	**79**	**19**	**19**	**20**	**20**	**20**	***83***	***88***
Cash Flow Summary										
Funds from operations (FFO)	**221**	**237**	**270**	**49**	**66**	**70**	**70**	**63**	***286***	***309***
Capital expenditures	(446)	(429)	(348)	(122)	(79)	(83)	(83)	(104)	*(427)*	*(375)*
Customer contributions, net	42	29	41	(3)	12	6	9	14	*40*	*40*
Dividends	(45)	(50)	(55)	(13)	(14)	(14)	(14)	(14)	*(60)*	*(65)*
Gross free cash flow (FCF)	**(228)**	**(213)**	**(92)**	**(89)**	**(14)**	**(21)**	**(17)**	**(41)**	***(160)***	***(91)***
Regulatory assets / liabilities	65	18	(30)	36	32	(10)	(31)	(21)	-	-
Changes in working capital	116	(118)	8	(29)	5	(3)	5	1	-	-
FCF after working capital	**(47)**	**(314)**	**(114)**	**(82)**	**22**	**(34)**	**(43)**	**(60)**	***(160)***	***(91)***
Acquisitions	-	-	-	-	-	-	-	-	-	-
Divestitures	2	1	2	0	0	1	0	1	-	-
Other investing activities	0	(0)	1	0	(1)	0	1	0	-	-
FCF before financing	**(45)**	**(312)**	**(112)**	**(82)**	**22**	**(33)**	**(42)**	**(59)**	***(160)***	***(91)***
Short-term borrowings, net	(35)	25	(2)	25	(22)	(2)	(0)	23	-	*91*
Long-term debt issuance	125	150	275	-	-	-	275	-	*150*	-
Long-term debt repayment	-	-	(200)	-	-	-	-	(200)	-	-
Common equity issuance, net	-	95	40	40	-	35	-	5	*10*	-
Other financing activities	(1)	(1)	(2)	(0)	(0)	(0)	(1)	(0)	-	-
Change in cash	**44**	**(44)**	**-**	**(17)**	**0**	**(0)**	**231**	**(231)**	***(0)***	***0***
Capital Structure										
Debt	1,309	1,484	1,557	1,484	1,462	1,459	1,734	1,557	*1,707*	*1,798*
Shareholders' equity	976	1,115	1,203	1,115	1,127	1,174	1,187	1,203	*1,262*	*1,316*
Goodwill	(227)	(227)	(227)	(227)	(227)	(227)	(227)	(227)	*(227)*	*(227)*
Capital	**2,058**	**2,372**	**2,533**	**2,372**	**2,362**	**2,406**	**2,694**	**2,533**	***2,743***	***2,887***
Liquidity										
Cash and cash equivalents	44	0	0	0	0	0	231	-	*(0)*	*(0)*
Available credit facilities	250	230	227	230	250	250	250	227	*227*	*136*
Available liquidity	**294**	**230**	**227**	**230**	**250**	**250**	**481**	**227**	***226***	***136***
Credit Ratios[1]										
Debt / capital	63%	62%	61%	62%	62%	61%	64%	61%	*62%*	*62%*
Net debt / capital	63%	62%	61%	62%	62%	61%	61%	61%	*62%*	*62%*
Debt / EBITDA	4.5x	4.7x	4.6x	4.7x	4.6x	4.5x	5.2x	4.6x	*4.6x*	*4.5x*
Net debt / EBITDA	4.3x	4.7x	4.6x	4.7x	4.6x	4.5x	4.5x	4.6x	*4.6x*	*4.5x*
FFO / debt	17%	16%	17%	16%	16%	17%	15%	17%	*17%*	*17%*
FFO / net debt	17%	16%	17%	16%	16%	17%	17%	17%	*17%*	*17%*
EBITDA / interest	4.5x	4.3x	4.3x	4.3x	4.2x	4.2x	4.3x	4.3x	*4.4x*	*4.5x*
(FFO + interest) / interest	4.4x	4.2x	4.4x	4.2x	4.2x	4.2x	4.2x	4.4x	*4.4x*	*4.5x*
Rating Agency Adjusted Credit Ratios[2]										
S&P										
Debt / EBITDA	5.3x	5.5x	5.2x						*5.1x*	*5.0x*
FFO / debt	14%	13%	15%						*15%*	*15%*
EBITDA / interest	4.2x	4.1x	4.2x						*4.3x*	*4.4x*
Moody's										
CFO pre-WC / debt	21%	17%	18%						*17%*	*18%*
(CFO pre-WC + interest) / interest	5.2x	4.5x	4.6x						*4.6x*	*4.7x*
DBRS										
Cash flow / debt	16%	15%	17%						*16%*	*17%*
EBIT / interest	2.3x	2.2x	2.2x						*2.2x*	*2.3x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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Exhibit 4: FortisBC Energy Inc. – historical financials and RBC CM estimates

FortisBC Energy Inc. ($MM)	Annual 2012	2013	2014	Forecasts 2015E	2016E
Earnings Summary					
EBITDA	**367**	**484**	**505**	***530***	***547***
Interest	**116**	**138**	**136**	***141***	***141***
Cash Flow Summary					
Funds from operations (FFO)	**237**	**320**	**331**	***352***	***367***
Capital expenditures	(159)	(201)	(317)	*(400)*	*(360)*
Customer contributions, net		14	6	*20*	*15*
Dividends	(85)	(150)	(95)	*(95)*	*(95)*
Gross free cash flow (FCF)	**(7)**	**(17)**	**(75)**	***(123)***	***(73)***
Regulatory assets / liabilities	(17)	(31)	(54)	*(30)*	*(30)*
Changes in working capital	14	4	(26)	-	-
FCF after working capital	**(10)**	**(44)**	**(155)**	***(153)***	***(103)***
Acquisitions	-	-	-	-	-
Divestitures	-	-	-	-	-
Other investing activities	(14)	(7)	(10)	*(10)*	*(10)*
FCF before financing	**(24)**	**(51)**	**(165)**	***(163)***	***(113)***
Short-term borrowings, net	(32)	58	174	*(70)*	*20*
Long-term debt issuance	-	-	-	*250*	*250*
Long-term debt repayment	-	-	-	*(75)*	*(200)*
Common equity issuance, net	65	-	-	*50*	*50*
Other financing activities	(4)	(29)	(7)	-	-
Change in cash	**5**	**(22)**	**2**	***(8)***	***7***
Capital Structure					
Debt	1,701	2,171	2,338	*2,443*	*2,513*
Shareholders' equity	1,891	2,367	2,413	*2,509*	*2,605*
Goodwill	(769)	(913)	(913)	*(913)*	*(913)*
Capital	**2,823**	**3,625**	**3,838**	***4,039***	***4,205***
Liquidity					
Cash and cash equivalents	22	8	10	*2*	*9*
Available credit facilities	416	523	349	*419*	*399*
Available liquidity	**438**	**531**	**359**	***421***	***408***
Credit Ratios[1]					
Debt / capital	60%	60%	61%	*60%*	*60%*
Net debt / capital	60%	60%	61%	*60%*	*60%*
Debt / EBITDA	4.6x	4.5x	4.6x	*4.6x*	*4.6x*
Net debt / EBITDA	4.6x	4.5x	4.6x	*4.6x*	*4.6x*
FFO / debt	14%	15%	14%	*14%*	*15%*
FFO / net debt	14%	15%	14%	*14%*	*15%*
EBITDA / interest	3.2x	3.5x	3.7x	*3.8x*	*3.9x*
(FFO + interest) / interest	3.0x	3.3x	3.4x	*3.5x*	*3.6x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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Exhibit 5: FortisBC Inc. – historical financials and RBC CM estimates

FortisBC Inc.		Annual				Quarterly			*Forecasts*	
($MM)	2012	2013	2014	Q4/13	Q1/14	Q2/14	Q3/14	Q4/14	*2015E*	*2016E*
Earnings Summary										
EBITDA	**144**	**149**	**156**	**38**	**45**	**33**	**38**	**40**	***159***	***161***
Interest	**39**	**39**	**40**	**10**	**10**	**10**	**10**	**11**	***40***	***41***
Cash Flow Summary										
Funds from operations (FFO)	**97**	**99**	**108**	**26**	**33**	**22**	**27**	**27**	***107***	***108***
Capital expenditures	(69)	(70)	(93)	(12)	(15)	(20)	(23)	(34)	*(100)*	*(80)*
Customer contributions, net	6	3	9	0	3	2	3	2	*10*	*8*
Dividends	(24)	(46)	(28)	(7)	(7)	(7)	(7)	(7)	*(30)*	*(32)*
Gross free cash flow (FCF)	**10**	**(13)**	**(4)**	**8**	**13**	**(4)**	**(1)**	**(13)**	***(13)***	***4***
Regulatory assets / liabilities	(1)	7	15	(2)	4	3	4	3	-	-
Changes in working capital	(9)	(8)	(13)	(11)	4	4	(6)	(16)	*(10)*	*(10)*
FCF after working capital	**(0)**	**(14)**	**(3)**	**(5)**	**21**	**3**	**(2)**	**(25)**	***(23)***	***(6)***
Acquisitions	-	(55)	-	(0)	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-
Other investing activities	1	(0)	0	0	0	0	0	0	-	-
FCF before financing	**0**	**(70)**	**(2)**	**(5)**	**21**	**4**	**(2)**	**(25)**	***(23)***	***(6)***
Short-term borrowings, net	18	52	(55)	6	(21)	(3)	2	(33)	*22*	*5*
Long-term debt issuance	-	-	200	-	-	-	-	200	-	-
Long-term debt repayment	(15)	-	(140)	-	-	-	-	(140)	-	-
Common equity issuance, net	-	17	-	-	-	-	-	-	-	-
Other financing activities	(1)	(1)	(2)	(0)	-	(0)	-	(2)	-	-
Change in cash	**2**	**(1)**	**1**	**0**	**(0)**	**0**	**0**	**0**	***(1)***	***(1)***
Capital Structure										
Debt	661	712	717	712	691	688	690	717	*739*	*744*
Shareholders' equity	710	731	748	731	741	741	744	748	*765*	*782*
Goodwill	(221)	(235)	(235)	(235)	(235)	(235)	(235)	(235)	*(235)*	*(235)*
Capital	**1,150**	**1,208**	**1,230**	**1,208**	**1,197**	**1,194**	**1,199**	**1,230**	***1,269***	***1,291***
Liquidity										
Cash and cash equivalents	2	0	1	0	0	1	1	1	*0*	*(0)*
Available credit facilities	125	73	128	73	94	97	120	128	*106*	*101*
Available liquidity	**127**	**73**	**129**	**73**	**94**	**98**	**121**	**129**	***106***	***101***
Credit Ratios[1]										
Debt / capital	57%	59%	58%	59%	58%	58%	58%	58%	*58%*	*58%*
Net debt / capital	57%	59%	58%	59%	58%	58%	58%	58%	*58%*	*58%*
Debt / EBITDA	4.6x	4.8x	4.6x	4.8x	4.6x	4.5x	4.5x	4.6x	*4.6x*	*4.6x*
Net debt / EBITDA	4.6x	4.8x	4.6x	4.8x	4.6x	4.5x	4.5x	4.6x	*4.6x*	*4.6x*
FFO / debt	15%	14%	15%	14%	15%	15%	15%	15%	*14%*	*15%*
FFO / net debt	15%	14%	15%	14%	15%	15%	15%	15%	*14%*	*15%*
EBITDA / interest	3.7x	3.8x	3.9x	3.8x	3.9x	3.9x	4.0x	3.9x	*4.0x*	*4.0x*
(FFO + interest) / interest	3.5x	3.5x	3.7x	3.5x	3.6x	3.7x	3.7x	3.7x	*3.7x*	*3.7x*
Rating Agency Adjusted Credit Ratios[2]										
Moody's										
CFO pre-WC / debt	10%	10%	11%						*11%*	*11%*
(CFO pre-WC + interest) / interest	3.4x	3.6x	3.7x						*3.7x*	*3.7x*
DBRS										
Cash flow / debt	15%	14%	15%						*14%*	*14%*
EBIT / interest	2.4x	2.5x	2.5x						*2.5x*	*2.5x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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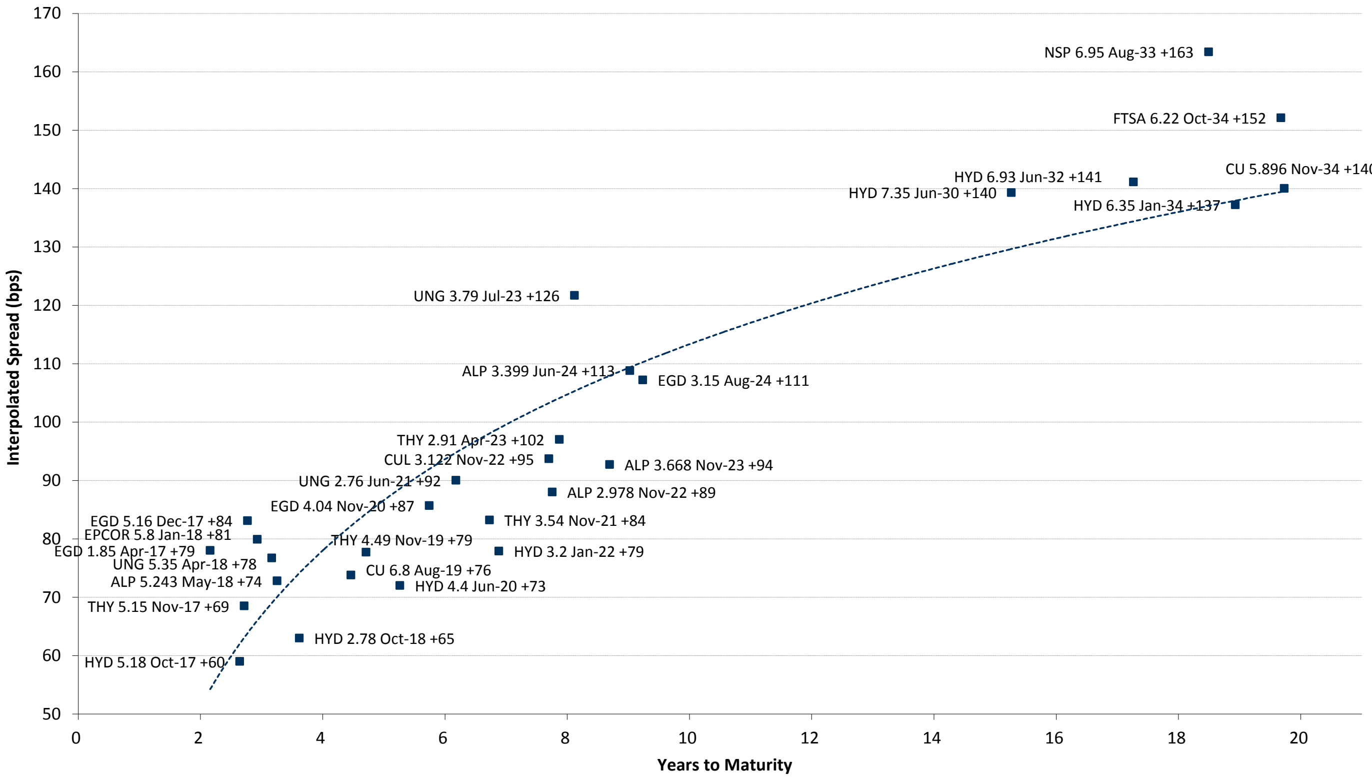
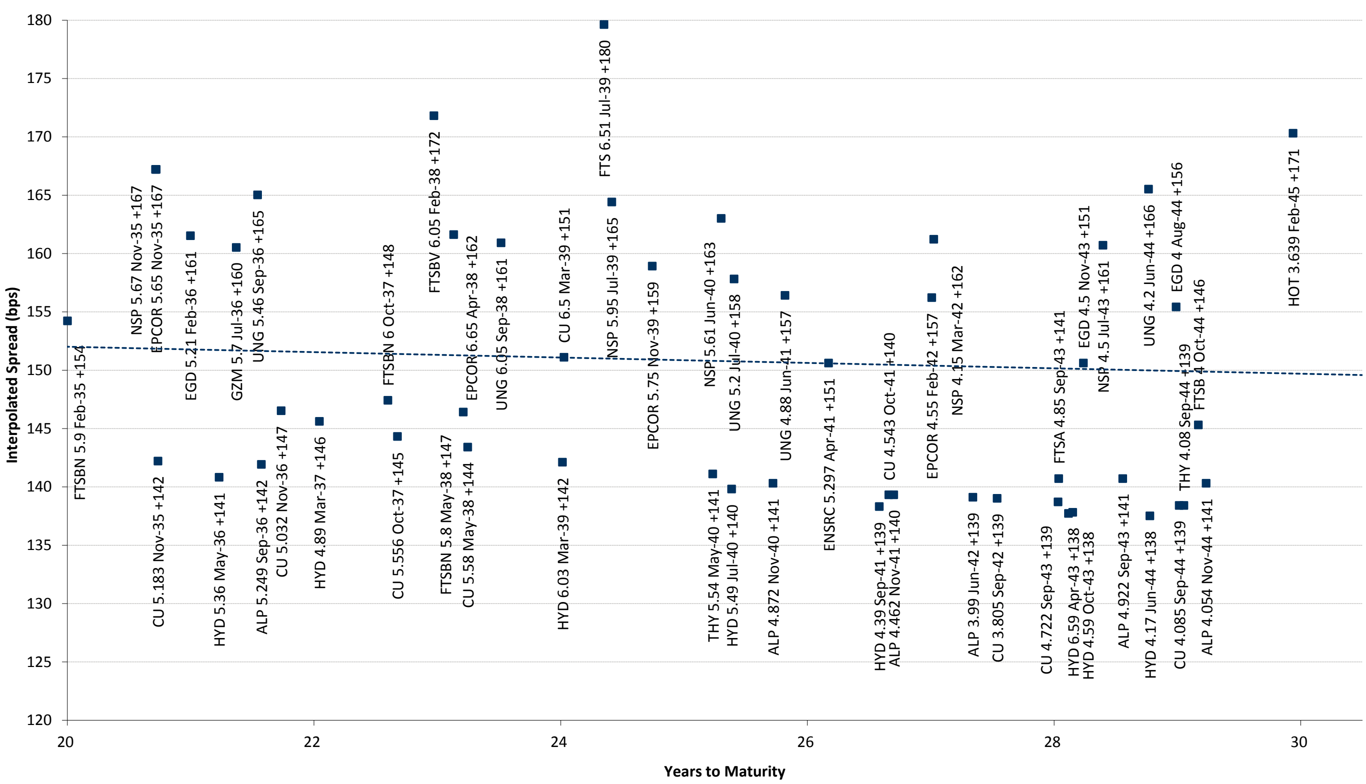
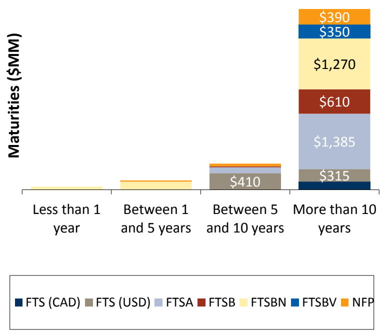
Exhibit 6: Relative value – regulated utilities





Source: Bloomberg, RBC Capital Markets

Exhibit 7: Bonds outstanding and maturity schedule



Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	04/07/2039	02/07/2009	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	125	3.53%	2020/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	285	3.84%	2023/10/01	2013/10/02	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	01/09/2037	06/09/2007	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	2040/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	40	5.08%	2043/10/01	2013/10/02	-	Sr. Unsecured	-
Total US$ Outstanding	**1,225**						

Note: On September 15, 2014, Fortis announced the completion of a US$500MM private placement with term to maturity of 5 to 30 years and coupon rates ranging from 2.92% to 5.03%.

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	150	3.30%	30/09/2024	29/09/2014	+27.5 bps	Sr. Unsecured	34957ZAS3
FortisAlberta Inc.	200	6.22%	31/10/2034	25/10/2004	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	21/04/2036	21/04/2006	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	15/04/2038	15/04/2008	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	14/02/2039	13/02/2009	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	30/10/2039	30/10/2009	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	18/10/2041	19/10/2011	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	150	4.85%	11/09/2043	13/09/2013	+39.5 bps	Sr. Unsecured	34957ZAR5
FortisAlberta Inc.	125	4.11%	29/09/2044	29/09/2014	+35 bps	Sr. Unsecured	34957ZAT1
FortisAlberta Inc.	110	4.99%	03/01/2047	03/01/2007	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	27/10/2050	27/10/2010	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	23/10/2052	23/10/2012	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,535**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	30/09/2015	03/12/1990	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	30/09/2016	21/11/1991	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	21/09/2029	21/09/1999	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	01/05/2034	29/04/2004	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	26/02/2035	25/02/2005	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	25/09/2036	25/09/2006	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	02/10/2037	02/10/2007	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	5.80%	13/05/2038	13/05/2008	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	24/02/2039	24/02/2009	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	4.25%	09/12/2041	09/12/2011	+41 bps	Sr. Unsecured	34959ZAA0
Total C$ Outstanding	**1,545**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy (Van. Isld.) Inc.	250	6.05%	15/02/2038	15/02/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy (Van. Isld.) Inc.	100	5.20%	06/12/2040	06/12/2010	+40 bps	Sr. Unsecured	88100BAB5
Total C$ Outstanding	**350**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	25	8.80%	28/08/2023	27/08/1993	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	09/11/2035	10/11/2005	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	02/06/2039	02/06/2009	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	200	4.00%	28/10/2044	28/10/2014	+36 bps	Sr. Unsecured	34958ZAC7
FortisBC Inc.	105	5.90%	04/07/2047	04/07/2007	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	24/11/2050	24/11/2010	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**635**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	31	10.90%	02/05/2016	02/05/1991	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	01/10/2020	01/10/1992	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	31	10.125%	15/06/2022	15/06/1992	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	33	8.90%	07/05/2026	07/05/1996	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	42	6.80%	20/11/2028	20/11/1998	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	66	7.52%	01/11/2032	31/10/2002	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	54	5.441%	15/08/2035	15/08/2005	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	64	5.901%	17/08/2037	17/08/2007	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	61	6.606%	25/05/2039	25/05/2009	+50 bps	First Mortgage	6513508Y9
Newfoundland Power Inc.	69	4.805%	09/11/2043	08/11/2013	+42.5 bps	First Mortgage	65135PAC9
Total C$ Outstanding	**484**						

Source: Bloomberg, RBC Capital Markets

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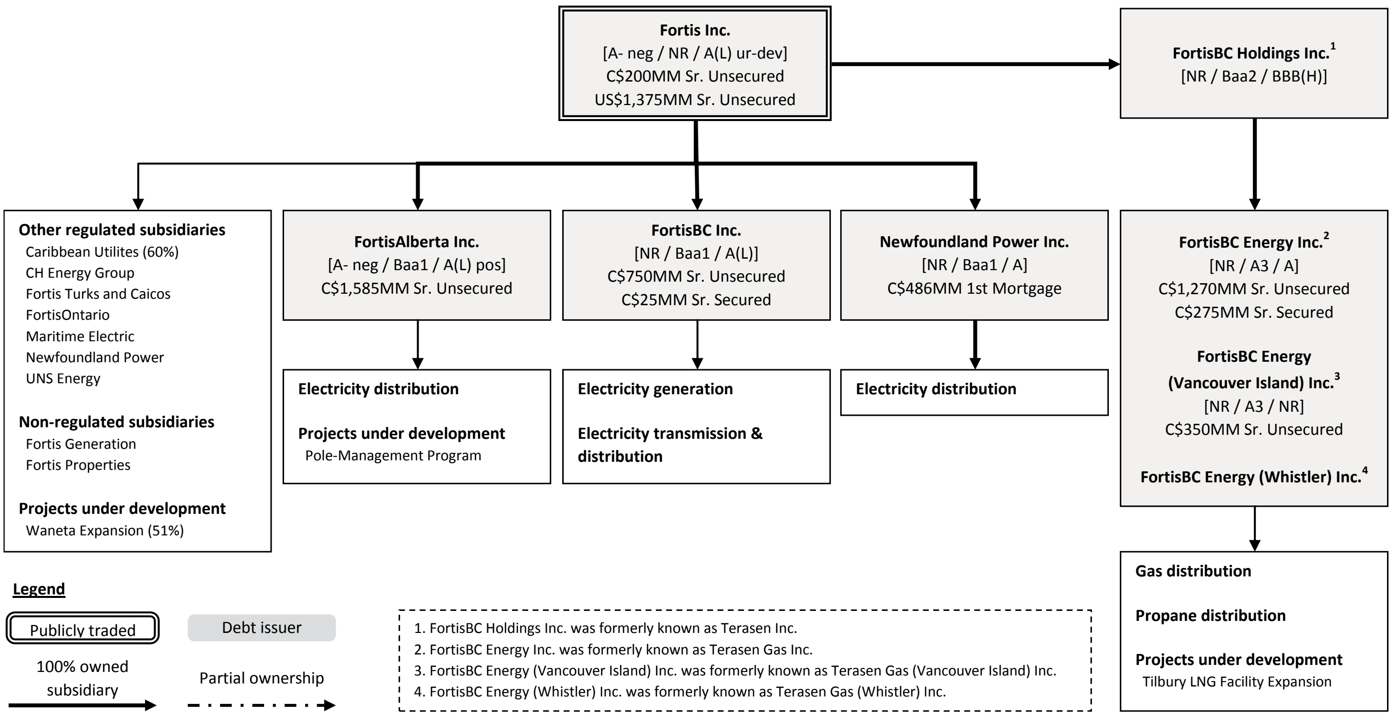
Exhibit 8: Simplified organizational structure

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.



Source: Bloomberg, company reports, rating agencies, RBC Capital Markets

Exhibit 9: Regulation summary

NATURE OF REGULATION

Regulated Utility	Regulatory Authority	Allowed Common Equity (%)	Allowed Returns (%) 2013	2014	2015	Significant Features Future or Historical Test Year Used to Set Customer Rates
				ROE		
TEP	ACC	43.5	10.13[1]	10.00[1]	10.00[1]	COS/ROE
UNS Electric	ACC	52.6	9.75[1]	9.50[1]	9.50[1]	ROEs established by the ACC
UNS Gas	ACC	50.8	9.75[1]	9.75[1]	9.75[1]	Historical Test Year
Central Hudson	New York State Public Service Commission ("PSC")	48	10.00	10.00	9.50[2]	COS/ROE Earnings sharing mechanism effective July 1, 2013 ROE established by the PSC Future Test Year
FEI	British Columbia Utilities Commission ("BCUC")	38.5	8.75	8.75	8.75	COS/ROE FEI - PBR mechanism for 2014 through 2019
FEVI	BCUC	41.5[3]	9.25	9.25	n/a[3]	ROEs established by the BCUC
FEWI	BCUC	41.5[3]	9.50	9.50	n/a[3]	2013 test year with 2014 through 2019 rates set using PBR mechanism
FortisBC Electric	BCUC	40	9.15	9.15	9.15	COS/ROE PBR mechanism for 2014 through 2019 ROE established by the BCUC 2013 test year with 2014 through 2019 rates set using PBR mechanism
FortisAlberta	Alberta Utilities Commission ("AUC")	41[4]	8.75[4]	8.75[4]	8.75[4]	COS/ROE PBR mechanism for 2013 through 2017 with capital tracker account and other supportive features ROE established by the AUC 2012 test year with 2013 through 2017 rates set using PBR mechanism
Newfoundland Power	Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB")	45	8.80 +/- 50 bps	8.80 +/- 50 bps	8.80 +/- 50 bps	COS/ROE ROE established by the PUB Future Test Year
Maritime Electric	Island Regulatory and Appeals Commission	40	9.75	9.75	9.75	COS/ROE ROE established by the Government of PEI under the *PEI Energy Accord* Future Test Year
FortisOntario	Ontario Energy Board	40	8.93 - 9.85	8.93 - 9.85	8.93 - 9.30	COS/ROE [5] Future test year and incentive rate-setting mechanism
				ROA		
Caribbean Utilities	Electricity Regulatory Authority	N/A	6.50 - 8.50	7.00 - 9.00	7.00 - 9.00	COS/ROA Rate-cap adjustment mechanism based on published consumer price indices Historical Test Year
Fortis Turks and Caicos	Government of the Turks and Caicos Islands	N/A	15.00 - 17.50 [6]	15.00 - 17.50 [6]	15.00 - 17.50 [6]	COS/ROA Historical Test Year

(1) Additionally, allowed ROEs are adjusted for the fair value of rate base as required under the laws of the State of Arizona.

(2) Allowed ROE of 10.0% with a 48% common equity component of capital structure effective July 1, 2015 as filed by Central Hudson in its February 2015 Joint Settlement Proposal and is subject to regulatory approval.

(3) Effective December 31, 2014, FEVI and FEWI were amalgamated with FEI and, as a result, the allowed ROE and common equity component of capital structure for the amalgamated entity in 2015 will be set the same as FEI.

(4) Common equity component of capital structure and allowed ROE for 2013, 2014 and 2015 are interim and are subject to change based on the outcome of a cost of capital proceeding.

(5) Cornwall Electric is subject to a rate-setting mechanism under a Franchise Agreement with the City of Cornwall, based on a price cap with commodity cost flow through.

(6) Achieved ROAs at the utilities are significantly lower than those allowed under licences as a result of the inability, due to economic and political factors, to increase base customer electricity rates.

Source: Company report

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May 6, 2015

Company Note

Fortis Inc.

Q1/15: Solid quarter, Waneta completed

Our View: The Fortis group's regulated utility opco bonds all trade within a fairly tight band and are in line with peers such as Hydro One and CU (both Sector Perform), a fair value in our view (Exhibit 7). Fortis holdco 6.51 39s trade ~40 bps back of its utility subsidiaries. We see this discount as an attractive carry opportunity – structural subordination at the holdco level is offset by well-diversified, regulated cash flows and a demonstrated commitment on the part of management to "A" level credit ratings.

Key Points

Fortis reports Q1/15 (credit neutral): EBITDA of $609MM represented a 33% y/y increase and included a $112MM contribution from UNS Energy (acquired in Aug/14, see Exhibit 1 for segmented EBITDA). Adjusted consolidated credit metrics at the end of Q1/15 stood at 60% debt-to-capital, 7.0x debt-to-EBITDA and 3.3x EBITDA-to-interest (vs. 58%, 5.7x and 3.5x, respectively a year ago) and are expected to normalize over 2015 with a full year of UNS earnings and cash flow.

Waneta completed, Tilbury construction ongoing: The 335 MW Waneta Expansion (51% owned by Fortis Inc) was completed on April 1, 2015. The facility will operate under a 40-year power purchase agreement with BC Hydro. Construction is ongoing on Phase 1A of FortisBC's Tilbury LNG facility expansion. The $440MM project will be included in regulated rate base and remains on target to be in service by YE2016.

Decision on strategic review of Fortis Properties expected in Q2/15: Fortis expects to make an announcement on the future of its non-regulated hotel and commercial real estate business (~3% of total assets) in the coming months. Strategic options include a full or partial sale, a sale of shares of Fortis Properties or an IPO.

Funding flexibility to meet 2015 cash flow needs: Based on Fortis' target consolidated capex of $2.2B, we estimate a ~$800MM free cash flow shortfall before financing in 2015 (Exhibit 3). The company's sources of funding include: (i) $299MM of cash on hand and $2.1B of undrawn credit facilities at the end of Q1/15, (ii) potential proceeds from a sale/IPO of Fortis Properties (see above), (iii) term debt, and (iv) preferred and common equity. At the subsidiary level, we expect remaining CAD debt issuance through YE2015 of $125MM at FortisAlberta and no issuance at FortisBC Energy and FortisBC (Exhibits 4 through 6).

Dropping coverage of FortisBC Energy (Vancouver Island) Inc ("FEVI"): We are dropping coverage of FEVI following the amalgamation of FEVI with FortisBC Energy Inc. on December 31, 2014, as approved by the British Columbia Utilities Commission in February 2014. FortisBC Energy Inc. is the company resulting from the amalgamation.

Recommendations

Fortis Inc.	
CAD	Sector Perform
FortisAlberta Inc.	
CAD	Sector Perform
FortisBC Energy Inc.	
CAD	Sector Perform
FortisBC Inc.	
CAD	Sector Perform
Newfoundland Power Inc.	
CAD	Sector Perform

Key benchmark levels

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$136.7	187	185	4.10%

Source: Bloomberg, RBC Capital Markets

Ratings agencies

	Rating	Outlook
DBRS	A(L)	Stable
Moody's	NR	NR
S&P	A-	Stable

Source: Bloomberg, rating agencies

Key credit statistics

	LTM 03/31/14	LTM 03/31/15
Debt/Capital (%)	58%	60%
Debt/EBITDA (x)	5.7x	7.0x
FFO/Debt (%)	11.5%	10.1%
EBITDA/Interest (x)	3.5x	3.3x
Total Debt Outstanding ($MM)	7,653	12,181

Debt is adjusted for 50% equity treatment of pref. shares.

Source: Company reports, RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 10.

Exhibit 1: Segmented EBITDA

Segmented EBITDA ($MM)	2013	2014	Q1/14	Q2/14	Q3/14	Q4/14	Q1/15
Regulated							
FortisBC Energy companies	483	502	191	96	68	147	201
UNS Energy		203			93	110	112
Central Hudson	71	139	46	31	33	29	58
FortisAlberta	314	342	83	87	88	84	100
FortisBC	149	157	46	33	38	40	49
Eastern Canadian	206	212	56	54	50	52	59
Electric Carribean	78	87	20	22	22	23	21
Total regulated	**1,301**	**1,642**	**442**	**323**	**392**	**485**	**600**
Non-regulated							
Fortis Generation	24	27	8	9	5	5	4
Fortis Properties	78	77	12	22	24	19	9
Corporate and Other	13	(7)	2	(1)	(7)	(1)	2
Total non-regulated	**115**	**97**	**22**	**30**	**22**	**23**	**15**
Inter-segment eliminations	(23)	(28)	(7)	(7)	(7)	(7)	(6)
Consolidated EBITDA	**1,393**	**1,711**	**457**	**346**	**407**	**501**	**609**

Source: Company reports, RBC Capital Markets

Regulatory update

Exhibit 2 summarizes the significant regulatory proceedings in which Fortis' regulated utility subsidiaries are involved.

Alberta

Recent regulatory developments in Alberta have raised a "credit red flag": (i) The Alberta Utilities Commission's (AUC) ***2013 Generic Cost of Capital (GCOC)*** decision, released March 23rd, ushered in a lower ROE of 8.3% (from 8.75%) and reduced deemed equity thickness by 1%. (ii) The risk of stranded asset non-recovery will be tested, as the Alberta-based utilities present arguments to the Alberta Court of Appeal, on June 8th, challenging the AUC's ***Utility Asset Disposition*** decision. While difficult for us to envision, an unfavourable decision would be a negative credit development in our view, and would likely be taken to the Supreme Court of Canada. For our full credit view on recent Alberta regulatory developments, please see our April 24th Canadian Credit Insights titled "***Utilities: Ontario vs. Alberta, Where are the real credit risks***".

Positive Capital Tracker decision: In March 2015, the AUC issued a decision on FortisAlberta's combined 2013, 2014 and 2015 Capital Tracker Application – the company's capital programs were substantially approved as filed and approximately $10MM of revenue was recognized in Q1/15. FortisAlberta completed its Capital Tracker Compliance Filing in April 2015, requesting that the adjustments to capital tracker revenue be considered in the 2016 Annual Rates Application to be filed in September 2015 and reflected in customer rates effective January 1, 2016. A decision on the Capital Tracker Compliance Filing is expected in H2/15. The company will file an application with the AUC later this month seeking capital tracker revenue for 2016-2017, as well as a true-up to the actual 2014 capital expenditures.

2016 GCOC proceeding initiated in April 2015: A pre-proceeding conference will be held in May 2015, after which the AUC will determine the issues that will be in-scope.

British Columbia

Multi-year PBR review completed: In Sep/14, the British Columbia Utilities Commission (BCUC) issued decisions on FortisBC Energy's and FortisBC's performance-based rate-setting (PBR) plans for 2014–2018. As part of the PBR decisions, terms were extended to 2019 and include a 50/50 sharing of variances from formula-driven expenditures over the PBR period.

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In January and February 2015, FortisBC Energy and FortisBC, respectively, filed for approval of 2015 rates under the PBR decision, with final rate decisions expected in Q2/15.

Exhibit 2: Significant regulatory proceedings

Regulated Utility	Application/Proceeding	Filing Date	Expected Decision
Central Hudson	GRA	July 2014	Second quarter of 2015
	Reforming the Energy Vision	Not applicable	To be determined
FEI	2015 Annual Rates Application	January 2015	Second quarter of 2015
FortisBC Electric	2015 Annual Rates Application	February 2015	Second quarter of 2015
FortisAlberta	Capital Tracker Compliance Filing	April 2015	Second half of 2015
	2016/2017 Capital Tracker Application	May 2015	First quarter of 2016

Source: Company report

Exhibit 3: Fortis Inc. – consolidated historical financials and RBC Capital Markets estimates

Fortis Inc. Consolidated ($MM)	Annual 2013	2014	Quarterly Q1/14	Q2/14	Q3/14	Q4/14	Q1/15	LTM	Forecasts 2015E	2016E
Earnings Summary										
EBITDA	1,393	1,711	457	346	407	501	609	1,863	*2,049*	*2,151*
Gross Interest	389	547	123	124	159	141	134	558	*634*	*656*
Cash Flow Summary										
FFO	**930**	**1,186**	**290**	**216**	**276**	**404**	**421**	**1,317**	***1,512***	***1,588***
Capital Expenditures	(1,175)	(1,725)	(237)	(298)	(340)	(850)	(554)	(2,042)	*(2,200)*	*(1,800)*
Preferred Dividends	(56)	(62)	(14)	(13)	(15)	(20)	(20)	(68)	*(80)*	*(80)*
Dividends	(192)	(204)	(49)	(51)	(52)	(52)	(64)	(219)	*(253)*	*(284)*
Gross Free Cash Flow (FCF)	**(493)**	**(805)**	**(10)**	**(146)**	**(131)**	**(518)**	**(217)**	**(1,012)**	***(1,021)***	***(576)***
Changes in Regulatory Assets	14	(80)	30	(37)	(64)	(9)	(48)	(158)	-	-
Changes in Working Capital	(45)	(124)	(55)	142	(150)	(61)	77	8	-	-
Gross FCF after Working Capital	**(524)**	**(1,009)**	**(35)**	**(41)**	**(345)**	**(588)**	**(188)**	**(1,162)**	***(1,021)***	***(576)***
Divestitures/Acquisitions	(1,055)	(2,648)	-	-	(2,648)	-	-	(2,648)	*50*	-
Other Investing Activities	66	174	127	10	16	21	1	48	*200*	*180*
FCF before Financing	**(1,513)**	**(3,483)**	**92**	**(31)**	**(2,977)**	**(567)**	**(187)**	**(3,762)**	***(771)***	***(396)***
Net change in debt	658	2,952	340	103	2,218	291	218	2,830	*400*	*400*
Issue of Common Shares[1]	596	51	11	12	5	23	17	57	*25*	*25*
Issue of Preference Shares	117	586	-	-	587	(1)	-	586	*250*	-
Advances from Non-Controlling	63	38	13	4	5	16	5	30	-	-
F/X Gain/Other	(3)	14	-	(4)	8	10	16	30	-	-
Net Change in Cash	**(82)**	**158**	**456**	**84**	**(154)**	**(228)**	**69**	**(229)**	***(96)***	***29***
Capital Structure										
Total Debt	7,788	11,534	7,653	7,679	12,257	11,534	12,181		*11,934*	*12,334*
Non-controlling Interest	375	421	393	395	405	421	434		*421*	*421*
Preference Shares	1,229	1,820	1,229	1,229	1,820	1,820	1,820		*2,070*	*2,070*
Shareholders' Equity	4,772	6,871	4,910	4,894	4,966	6,871	7,323		*7,151*	*7,463*
Total Capital	**14,164**	**20,646**	**14,185**	**14,197**	**19,448**	**20,646**	**21,758**		***21,576***	***22,288***
Cash and Equivalents	72	230	528	612	458	230	299		*134*	*163*
Credit Ratios[2]										
Total Debt / Capital	55%	56%	54%	54%	63%	56%	56%		*55%*	*55%*
Adjusted Debt / Capital[2]	59%	60%	58%	58%	68%	60%	60%		*60%*	*60%*
Net Debt / Capital	55%	55%	52%	52%	62%	55%	55%		*55%*	*55%*
Net Adjusted Debt / Capital[2]	59%	60%	57%	57%	67%	60%	60%		*60%*	*60%*
(FFO + Interest) / Interest	3.4x	3.2x	3.2x	3.2x	3.1x	3.2x	3.4x		*3.4x*	*3.4x*
EBITDA / Interest	3.6x	3.1x	3.5x	3.3x	3.1x	3.1x	3.3x		*3.2x*	*3.3x*
Total Debt / EBITDA	5.6x	6.7x	5.2x	5.1x	7.7x	6.7x	6.5x		*5.8x*	*5.7x*
Adjusted Debt / EBITDA[2]	6.0x	7.3x	5.7x	5.5x	8.3x	7.3x	7.0x		*6.3x*	*6.2x*
FFO / Total Debt	11.9%	10.3%	12.4%	13.2%	8.6%	10.3%	10.8%		*12.7%*	*12.9%*
FFO / Adjusted Debt[2]	11.1%	9.5%	11.5%	12.2%	8.0%	9.5%	10.1%		*11.7%*	*11.9%*
Preferred Shares / Capital	9%	9%	9%	9%	9%	9%	8%		*10%*	*9%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

Exhibit 4: FortisAlberta Inc. – historical financials and RBC Capital Markets estimates

FortisAlberta Inc.	Annual		Quarterly						*Forecasts*	
($MM)	**2013**	**2014**	**Q1/14**	**Q2/14**	**Q3/14**	**Q4/14**	**Q1/15**	**LTM**	***2015E***	***2016E***
Earnings Summary										
EBITDA	**314**	**342**	**84**	**86**	**88**	**84**	**100**	**359**	***367***	***393***
Interest	**73**	**79**	**19**	**20**	**20**	**20**	**19**	**79**	***83***	***87***
Cash Flow Summary										
Funds from operations (FFO)	**237**	**270**	**66**	**70**	**70**	**63**	**84**	**288**	***285***	***306***
Capital expenditures	(429)	(348)	(79)	(83)	(83)	(104)	(106)	(375)	*(393)*	*(375)*
Customer contributions, net	29	41	12	6	9	14	10	39	*40*	*40*
Dividends	(50)	(55)	(14)	(14)	(14)	(14)	(15)	(56)	*(60)*	*(65)*
Gross free cash flow (FCF)	**(213)**	**(92)**	**(15)**	**(21)**	**(17)**	**(41)**	**(27)**	**(105)**	***(129)***	***(94)***
Regulatory assets / liabilities	18	(30)	32	(10)	(31)	(21)	(7)	(68)	-	-
Changes in working capital	(118)	8	5	(3)	5	1	(23)	(20)	-	-
FCF after working capital	**(314)**	**(114)**	**22**	**(34)**	**(43)**	**(60)**	**(57)**	**(193)**	***(129)***	***(94)***
Acquisitions	-	-	-	-	-	-	-	-	-	-
Divestitures	1	2	0	1	0	1	0	2	-	-
Other investing activities	(0)	1	(1)	0	1	0	(1)	1	-	-
FCF before financing	**(312)**	**(112)**	**22**	**(33)**	**(42)**	**(59)**	**(57)**	**(191)**	***(129)***	***(94)***
Short-term borrowings, net	25	(2)	(22)	(2)	(0)	23	57	78	*4*	*93*
Long-term debt issuance	150	275	-	-	275	-	-	275	*125*	-
Long-term debt repayment	-	(200)	-	-	-	(200)	-	(200)	-	-
Common equity issuance, net	95	40	-	35	-	5	-	40	-	-
Other financing activities	(1)	(2)	(0)	(0)	(1)	(0)	-	(2)	-	-
Change in cash	**(44)**	**-**	**0**	**(0)**	**231**	**(231)**	**(0)**	**(0)**	***0***	***(1)***
Capital Structure										
Debt	1,484	1,557	1,462	1,459	1,734	1,557	1,614		*1,686*	*1,779*
Shareholders' equity	1,115	1,203	1,127	1,174	1,187	1,203	1,229		*1,252*	*1,304*
Goodwill	(227)	(227)	(227)	(227)	(227)	(227)	(227)		*(227)*	*(227)*
Capital	**2,372**	**2,533**	**2,362**	**2,406**	**2,694**	**2,533**	**2,617**		***2,711***	***2,857***
Liquidity										
Cash and cash equivalents	0	0	0	0	231	-	(0)		*0*	*(0)*
Available credit facilities	230	227	250	250	250	227	181		*234*	*141*
Available liquidity	**230**	**227**	**250**	**250**	**481**	**227**	**181**		***234***	***140***
Credit Ratios[1]										
Debt / capital	62%	61%	62%	61%	64%	61%	62%		*62%*	*62%*
Net debt / capital	62%	61%	62%	61%	61%	61%	62%		*62%*	*62%*
Debt / EBITDA	4.7x	4.6x	4.6x	4.5x	5.2x	4.6x	4.5x		*4.6x*	*4.5x*
Net debt / EBITDA	4.7x	4.6x	4.6x	4.5x	4.5x	4.6x	4.5x		*4.6x*	*4.5x*
FFO / debt	16%	17%	16%	17%	15%	17%	18%		*17%*	*17%*
FFO / net debt	16%	17%	16%	17%	17%	17%	18%		*17%*	*17%*
EBITDA / interest	4.3x	4.3x	4.2x	4.2x	4.3x	4.3x	4.5x		*4.4x*	*4.5x*
(FFO + interest) / interest	4.2x	4.4x	4.2x	4.2x	4.2x	4.4x	4.6x		*4.4x*	*4.5x*
Rating Agency Adjusted Credit Ratios[2]										
S&P										
Debt / EBITDA	5.5x	5.4x							*5.1x*	*5.0x*
FFO / debt	13%	14%							*15%*	*15%*
EBITDA / interest	4.1x	4.1x							*4.2x*	*4.3x*
Moody's										
CFO pre-WC / debt	15%	17%							*16%*	*17%*
(CFO pre-WC + interest) / interest	4.2x	4.4x							*4.4x*	*4.5x*
DBRS										
Cash flow / debt	16%	18%							*17%*	*17%*
EBIT / interest	2.2x	2.2x							*2.2x*	*2.3x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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Exhibit 5: FortisBC Energy Inc. – historical financials and RBC Capital Markets estimates

FortisBC Energy Inc. ($MM)	Annual 2013	2014	Quarterly Q1/14	Q1/15	*Forecasts* *2015E*	*2016E*
Earnings Summary						
EBITDA	**484**	**505**	**191**	**202**	***532***	***553***
Interest	**138**	**136**	**35**	**34**	***142***	***144***
Cash Flow Summary						
Funds from operations (FFO)	**320**	**331**	**124**	**135**	***353***	***369***
Capital expenditures	(201)	(317)	(45)	(113)	*(420)*	*(380)*
Customer contributions, net	14	6	1	1	*20*	*15*
Dividends	(150)	(95)	(20)	(60)	*(95)*	*(95)*
Gross free cash flow (FCF)	**(17)**	**(75)**	**60**	**(37)**	***(142)***	***(91)***
Regulatory assets / liabilities	(31)	(54)	3	(39)	*(30)*	*(30)*
Changes in working capital	4	(26)	1	96	-	-
FCF after working capital	**(44)**	**(155)**	**64**	**20**	***(172)***	***(121)***
Acquisitions	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-
Other investing activities	(7)	(10)	(2)	(3)	*(10)*	*(10)*
FCF before financing	**(51)**	**(165)**	**62**	**17**	***(182)***	***(131)***
Short-term borrowings, net	58	174	(82)	(3)	*50*	*30*
Long-term debt issuance	-	-	-	-	*150*	*300*
Long-term debt repayment	-	-	-	-	*(75)*	*(200)*
Common equity issuance, net	-	-	-	-	*50*	-
Other financing activities	(29)	(7)	18	(22)	-	-
Change in cash	**(22)**	**2**	**(2)**	**(8)**	***(7)***	***(1)***
Capital Structure						
Debt	2,171	2,338	n/a	2,313	*2,463*	*2,593*
Shareholders' equity	2,367	2,413	n/a	2,440	*2,510*	*2,559*
Goodwill	(913)	(913)	n/a	(913)	*(913)*	*(913)*
Capital	**3,625**	**3,838**	n/a	**3,840**	***4,060***	***4,239***
Liquidity						
Cash and cash equivalents	8	10	5	2	*3*	*2*
Available credit facilities	523	349	n/a	352	*299*	*269*
Available liquidity	**531**	**359**	**n/a**	**354**	***302***	***271***
Credit Ratios[1]						
Debt / capital	60%	61%	n/a	60%	*61%*	*61%*
Net debt / capital	60%	61%	n/a	60%	*61%*	*61%*
Debt / EBITDA	4.5x	4.6x	n/a	n/a	*4.6x*	*4.7x*
Net debt / EBITDA	4.5x	4.6x	n/a	n/a	*4.6x*	*4.7x*
FFO / debt	15%	14%	n/a	n/a	*14%*	*14%*
FFO / net debt	15%	14%	n/a	n/a	*14%*	*14%*
EBITDA / interest	3.5x	3.7x	n/a	n/a	*3.8x*	*3.8x*
(FFO + interest) / interest	3.3x	3.4x	n/a	n/a	*3.5x*	*3.6x*

1. Goodwill is excluded from capital.

Source: Company reports, rating agencies, RBC Capital Markets estimates

Exhibit 6: FortisBC Inc. – historical financials and RBC Capital Markets estimates

FortisBC Inc.	Annual		Quarterly						Forecasts	
($MM)	2013	2014	Q1/14	Q2/14	Q3/14	Q4/14	Q1/15	LTM	*2015E*	*2016E*
Earnings Summary										
EBITDA	**149**	**156**	**45**	**33**	**38**	**40**	**48**	**159**	***159***	***161***
Interest	**39**	**40**	**10**	**10**	**10**	**11**	**10**	**40**	***40***	***41***
Net income	50	45	17	7	10	11	22	50	*48*	*48*
Cash Flow Summary										
Funds from operations (FFO)	**99**	**108**	**33**	**22**	**27**	**27**	**36**	**111**	***107***	***108***
Capital expenditures	(70)	(93)	(15)	(20)	(23)	(34)	(32)	(110)	*(100)*	*(80)*
Customer contributions, net	3	9	3	2	3	2	2	8	*10*	*8*
Dividends	(46)	(28)	(7)	(7)	(7)	(7)	(5)	(26)	*(30)*	*(35)*
Gross free cash flow (FCF)	**(13)**	**(4)**	**13**	**(4)**	**(1)**	**(13)**	**1**	**(16)**	***(13)***	***1***
Regulatory assets / liabilities	7	15	4	3	4	3	(2)	9	-	-
Changes in working capital	(8)	(13)	4	4	(6)	(16)	9	(8)	-	-
FCF after working capital	**(14)**	**(3)**	**21**	**3**	**(2)**	**(25)**	**9**	**(15)**	***(13)***	***1***
Acquisitions	(55)	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-
Other investing activities	(0)	0	0	0	0	0	0	0	-	-
FCF before financing	**(70)**	**(2)**	**21**	**4**	**(2)**	**(25)**	**9**	**(14)**	***(13)***	***1***
Short-term borrowings, net	52	(55)	(21)	(3)	2	(33)	(9)	(43)	*12*	*(2)*
Long-term debt issuance	-	200	-	-	-	200	-	200	-	-
Long-term debt repayment	-	(140)	-	-	-	(140)	-	(140)	-	-
Common equity issuance, net	17	-	-	-	-	-	-	-	-	-
Other financing activities	(1)	(2)	-	(0)	-	(2)	-	(2)	-	-
Change in cash	**(1)**	**1**	**(0)**	**0**	**0**	**0**	**0**	**1**	***(1)***	***(1)***
Capital Structure										
Debt	712	717	691	688	690	717	708		*729*	*727*
Shareholders' equity	731	748	741	741	744	748	765		*765*	*779*
Goodwill	(235)	(235)	(235)	(235)	(235)	(235)	(235)		*(235)*	*(235)*
Capital	**1,208**	**1,230**	**1,197**	**1,194**	**1,199**	**1,230**	**1,239**		***1,259***	***1,271***
Liquidity										
Cash and cash equivalents	0	1	0	1	1	1	1		*0*	*(0)*
Available credit facilities	73	128	94	97	120	128	137		*116*	*118*
Available liquidity	**73**	**129**	**94**	**98**	**121**	**129**	**138**		***116***	***118***
Credit Ratios[1]										
Debt / capital	59%	58%	58%	58%	58%	58%	57%		*58%*	*57%*
Net debt / capital	59%	58%	58%	58%	58%	58%	57%		*58%*	*57%*
Debt / EBITDA	4.8x	4.6x	4.6x	4.5x	4.5x	4.6x	4.5x		*4.6x*	*4.5x*
Net debt / EBITDA	4.8x	4.6x	4.6x	4.5x	4.5x	4.6x	4.4x		*4.6x*	*4.5x*
FFO / debt	14%	15%	15%	15%	15%	15%	16%		*15%*	*15%*
FFO / net debt	14%	15%	15%	15%	15%	15%	16%		*15%*	*15%*
EBITDA / interest	3.8x	3.9x	3.9x	3.9x	4.0x	3.9x	4.0x		*3.9x*	*4.0x*
(FFO + interest) / interest	3.5x	3.7x	3.6x	3.7x	3.7x	3.7x	3.8x		*3.6x*	*3.7x*
Rating Agency Adjusted Credit Ratios[2]										
Moody's										
CFO pre-WC / debt	9%	10%							*10%*	*10%*
(CFO pre-WC + interest) / interest	3.4x	3.4x							*3.4x*	*3.4x*
DBRS										
Cash flow / debt	14%	15%							*14%*	*15%*
EBIT / interest	2.5x	2.5x							*2.5x*	*2.5x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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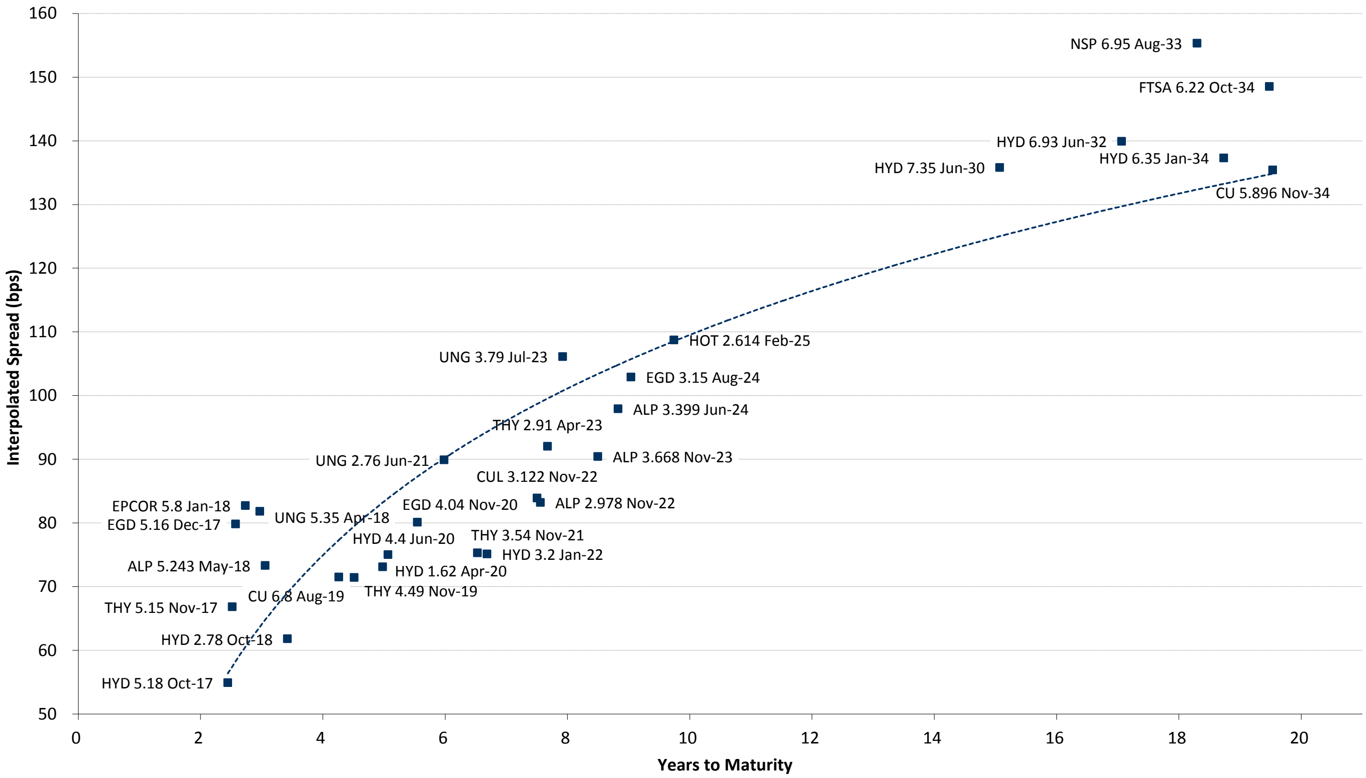
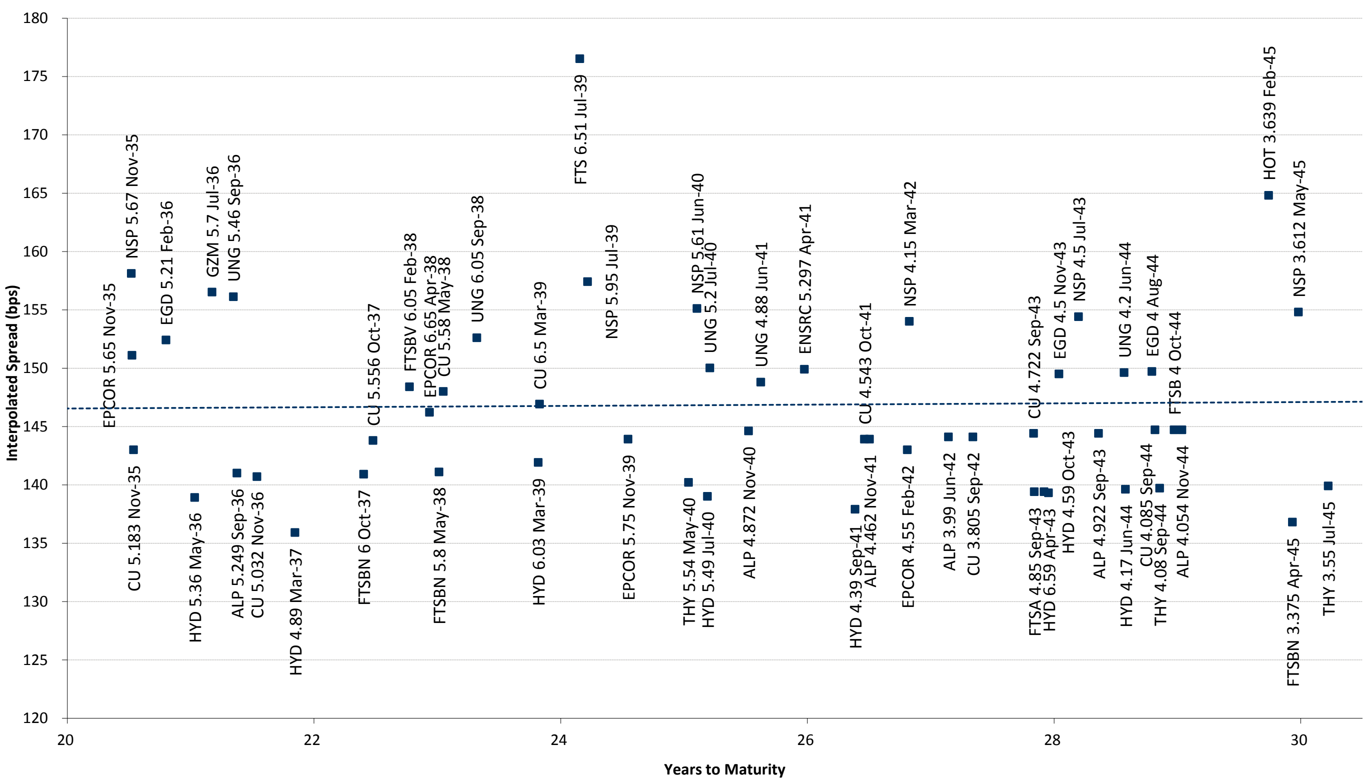
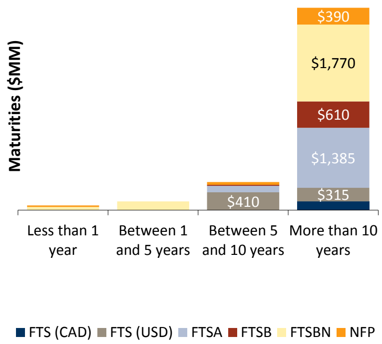
Exhibit 7: Relative value – regulated utilities





Source: Bloomberg, RBC Capital Markets

Exhibit 8: Bonds outstanding and maturity schedule



Fortis Inc.

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	7/4/2039	7/2/2009	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	125	3.53%	2020/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	285	3.84%	2023/10/01	2013/10/02	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	9/1/2037	9/6/2007	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	2040/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	40	5.08%	2043/10/01	2013/10/02	-	Sr. Unsecured	-
Total US$ Outstanding	**1,225**						

Note: On September 15, 2014, Fortis announced the completion of a US$500MM private placement with term to maturity of 5 to 30 years and coupon rates ranging from 2.92% to 5.03%.

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	150	3.30%	9/30/2024	9/29/2014	+27.5 bps	Sr. Unsecured	34957ZAS3
FortisAlberta Inc.	200	6.22%	10/31/2034	10/25/2004	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	4/21/2036	4/21/2006	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	4/15/2038	4/15/2008	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	2/14/2039	2/13/2009	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	10/30/2039	10/30/2009	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	10/18/2041	10/19/2011	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	150	4.85%	9/11/2043	9/13/2013	+39.5 bps	Sr. Unsecured	34957ZAR5
FortisAlberta Inc.	125	4.11%	9/29/2044	9/29/2014	+35 bps	Sr. Unsecured	34957ZAT1
FortisAlberta Inc.	110	4.99%	1/3/2047	1/3/2007	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	10/27/2050	10/27/2010	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	10/23/2052	10/23/2012	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,535**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	9/30/2015	12/3/1990	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	9/30/2016	11/21/1991	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	9/21/2029	9/21/1999	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	5/1/2034	4/29/2004	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	2/26/2035	2/25/2005	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	9/25/2036	9/25/2006	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	10/2/2037	10/2/2007	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	6.05%	2/15/2038	2/15/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy Inc.	250	5.80%	5/13/2038	5/13/2008	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	2/24/2039	2/24/2009	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	5.20%	12/6/2040	12/6/2010	+40 bps	Sr. Unsecured	88100BAB5
FortisBC Energy Inc.	100	4.25%	12/9/2041	12/9/2011	+41 bps	Sr. Unsecured	34959ZAA0
FortisBC Energy Inc.	150	3.375%	4/13/2045	4/13/2015	+34 bps	Sr. Unsecured	34959ZAB8
Total C$ Outstanding	**2,045**						

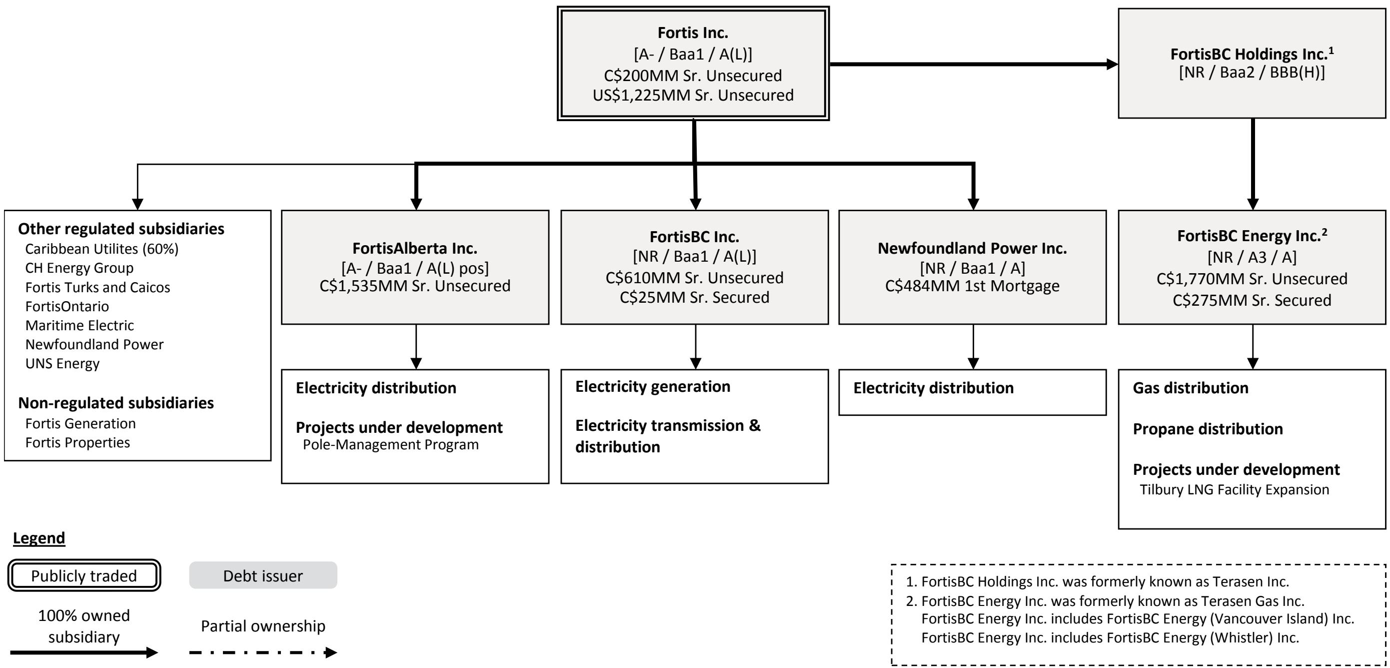
Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	25	8.80%	8/28/2023	8/27/1993	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	11/9/2035	11/10/2005	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	6/2/2039	6/2/2009	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	200	4.00%	10/28/2044	10/28/2014	+36 bps	Sr. Unsecured	34958ZAC7
FortisBC Inc.	105	5.90%	7/4/2047	7/4/2007	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	11/24/2050	11/24/2010	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**635**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	31	10.90%	5/2/2016	5/2/1991	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	10/1/2020	10/1/1992	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	31	10.125%	6/15/2022	6/15/1992	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	33	8.90%	5/7/2026	5/7/1996	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	42	6.80%	11/20/2028	11/20/1998	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	66	7.52%	11/1/2032	10/31/2002	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	54	5.441%	8/15/2035	8/15/2005	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	64	5.901%	8/17/2037	8/17/2007	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	61	6.606%	5/25/2039	5/25/2009	+50 bps	First Mortgage	6513508Y9
Newfoundland Power Inc.	69	4.805%	11/9/2043	11/8/2013	+42.5 bps	First Mortgage	65135PAC9
Total C$ Outstanding	**484**						

Source: Bloomberg, RBC Capital Markets

Exhibit 9: Simplified organizational structure

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.



Source: Bloomberg, company reports, rating agencies, RBC Capital Markets

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August 4, 2015

Company Update

Fortis Inc.

Q2/15: Fortis Properties sale in sync with strategy

Our View: The Fortis group's regulated utility opco bonds all trade within a fairly tight band and are in line with peers, a fair value in our view (Exhibit 7). Fortis holdco 6.51 39s trade ~30bps back of its utility subsidiaries and represent an attractive carry opportunity—structural subordination at the holdco level is offset by well-diversified, regulated cash flows and a demonstrated commitment by management to "A" level credit ratings.

Key Points

Fortis Q2/15 (credit neutral): EBITDA of $549MM represented a 59% y/y increase and included a $161MM contribution from UNS Energy (acquired in Aug/14; see Exhibit 1 for segmented EBITDA). Adjusted consolidated credit metrics at the end of Q1/15 stood at 60% debt-to-capital, 6.3x debt-to-EBITDA, and 11.4% FFO-to-debt (vs. 58%, 5.5x, and 12.2% a year ago, respectively) and are expected to normalize over 2015 with a full year of UNS earnings and cash flow.

Strategic review of Fortis Properties concludes with sale of assets: In June 2015, Fortis completed the sale of the commercial real estate assets of its subsidiary Fortis Properties for gross proceeds of $430MM. In July, the company announced the sale of the hotel assets of Fortis Properties for $365MM, with an expected closing in fall 2015. The divestiture of Fortis Properties, along with that of non-regulated generation assets in New York and Ontario, is in sync with management's strategy to focus on its core regulated utility and long-term contracted energy infrastructure business.

Waneta completed, Tilbury construction ongoing: The 335MW Waneta Expansion (51% owned by Fortis Inc) was completed on April 1, 2015. The facility will operate under a 40-year power purchase agreement with BC Hydro. Construction is ongoing on Phase 1A of FortisBC's Tilbury LNG facility expansion. The $440MM project will be included in regulated rate base and remains on target to be in service by YE2016.

Funding flexibility to meet 2015 cash flow needs: Proceeds from the sale of non-core assets (see above) should in our estimation go a long way toward covering a ~$1.0B gross free cash flow shortfall, based on Fortis's target consolidated capex of $2.2B (Exhibit 3). Additional sources of funding at Fortis include: (i) nearly $2.0B of undrawn credit facilities at the end of Q2/15; (ii) term debt; and (iii) preferred and common equity. At the subsidiary level, we expect remaining CAD debt issuance through YE2015 of $125–225MM at FortisAlberta, up to $150MM at FortisBC Energy, and no issuance at FortisBC (Exhibits 4 through 6).

Recommendations

Fortis Inc. (FTS)	
CAD	Sector Perform
FortisAlberta Inc. (FTSA)	
CAD	Sector Perform
FortisBC Energy Inc. (FTSBN)	
CAD	Sector Perform
FortisBC Inc. (FTSB)	
CAD	Sector Perform
Newfoundland Power Inc. (NFP)	
CAD	Sector Perform

Key benchmark levels (Fortis Inc.)

Coupon	Maturity	Size (MM)	Price	T-Sprd (bps)	G-Sprd (bps)	Yield
6.51%	4-Jul-39	$200	$135.8	206	205	4.14%

Source: Bloomberg, RBC Capital Markets

Ratings agencies (Fortis Inc.)

	Rating	Outlook
DBRS	A(L)	Stable
Moody's	NR	NR
S&P	A-	Stable

Source: Bloomberg, rating agencies

Key credit statistics (Fortis Inc.)

	LTM 06/30/14	LTM 06/30/15
Debt/Capital (%)	58%	60%
Debt/EBITDA (x)	5.5x	6.3x
FFO/Debt (%)	12.2%	11.4%
EBITDA/Interest (x)	3.3x	3.6x
Total Debt Outstanding ($MM)	7,679	12,184

Debt is adjusted for 50% equity treatment of pref. shares.

Source: Company reports, RBC Capital Markets

All values in CAD dollars unless otherwise noted.
Priced as of prior trading day's market close, ET (unless otherwise noted).
For Required Conflicts Disclosures, see page 10.

Exhibit 1: Segmented EBITDA

Segmented EBITDA ($MM)	2013	2014	Q2/14	Q3/14	Q4/14	Q1/15	Q2/15
Regulated							
FortisBC Energy	483	502	96	68	147	201	89
UNS Energy		203		93	110	112	161
Central Hudson	71	139	31	33	29	58	39
FortisAlberta	314	342	87	88	84	100	93
FortisBC	149	157	33	38	40	49	37
Eastern Canadian	206	212	54	50	52	59	55
Electric Carribean	78	87	22	22	23	21	27
Total regulated	**1,301**	**1,642**	**323**	**392**	**485**	**600**	**501**
Non-regulated							
Fortis Generation	24	27	9	5	5	4	35
Non-Utility	78	77	22	24	19	9	24
Corporate and Other	13	(7)	(1)	(7)	(1)	2	(5)
Total non-regulated	**115**	**97**	**30**	**22**	**23**	**15**	**54**
Inter-segment eliminations	(23)	(28)	(7)	(7)	(7)	(6)	(6)
Consolidated EBITDA	**1,393**	**1,711**	**346**	**407**	**501**	**609**	**549**

Source: Company reports, RBC Capital Markets

Regulatory update

Exhibit 2 summarizes the significant regulatory proceedings in which Fortis's regulated utility subsidiaries are involved.

Alberta

Recent regulatory developments in Alberta have raised a "credit red flag": For a recap of our thoughts on the Alberta Utilities Commission's (AUC) 2013 Generic Cost of Capital decision and the Utility Asset Disposition decision, please refer to our **Canadian Credit Insights published on June 16**.

Capital Tracker filings: In March 2015, the AUC issued a decision on FortisAlberta's combined 2013, 2014, and 2015 Capital Tracker Application. The company completed its Capital Tracker Compliance Filing in April 2015, requesting that the adjustments to capital tracker revenue be considered in the 2016 Annual Rates Application to be filed in September 2015 and reflected in customer rates effective January 1, 2016. A decision on the Capital Tracker Compliance Filing is expected in H2/15. In May 2015, FortisAlberta filed an application with the AUC seeking capital tracker revenue for 2016–2017, as well as a true-up to the actual 2014 capital expenditures. A hearing related to this proceeding is scheduled for October 2015, with a decision from the AUC expected in Q1/16.

2016–2017 GCOC proceeding initiated in April 2015: A pre-hearing conference will be held in Q3/15, after which the AUC will determine the issues that will be in-scope.

British Columbia

2015 rates approved: In May 2015 and June 2015, the British Columbia Utilities Commission issued its decisions on 2015 rates for FortisBC Energy and FortisBC in compliance with the performance-based rate-setting framework decision issued in September 2014. Approved 2015 midyear rate bases were approximately $3,661MM at FortisBC Energy and $1,249MM at FortisBC.

Exhibit 2: Significant regulatory proceedings

Regulated Utility	Application/Proceeding	Filing Date	Expected Decision
TEP	GRA	Fourth quarter of 2015	To be determined
Central Hudson	Reforming the Energy Vision	Not applicable	To be determined
FEI	2016 Cost of Capital Application	Fourth quarter of 2015	To be determined
FortisAlberta	Capital Tracker Compliance Filing	April 2015	Second half of 2015
	2016/2017 Capital Tracker Application	May 2015	First quarter of 2016
Newfoundland Power	GRA	Fourth quarter of 2015	To be determined

Note: FEI = FortisBC Energy

Source: Company report

Exhibit 3: Fortis Inc. – consolidated historical financials and RBC CM estimates

Fortis Inc.	Annual		Quarterly							*Forecasts*	
Consolidated ($MM)	**2013**	**2014**	**Q2/14**	**Q3/14**	**Q4/14**	**Q1/15**	**Q2/15**	**YTD**	**LTM**	***2015E***	***2016E***
Earnings Summary											
EBITDA	1,393	1,711	346	407	501	609	549	1,158	2,066	*2,049*	*2,151*
Gross Interest	389	547	124	159	141	134	141	275	575	*577*	*589*
Cash Flow Summary											
FFO	**930**	**1,186**	**216**	**276**	**404**	**421**	**394**	**815**	**1,495**	***1,512***	***1,588***
Capital Expenditures	(1,175)	(1,725)	(298)	(340)	(850)	(554)	(617)	(1,171)	(2,361)	*(2,200)*	*(1,800)*
Preferred Dividends	(56)	(62)	(13)	(15)	(20)	(20)	(19)	(39)	(74)	*(80)*	*(80)*
Dividends	(192)	(204)	(51)	(52)	(52)	(64)	(57)	(121)	(225)	*(242)*	*(263)*
Gross Free Cash Flow (FCF)	**(493)**	**(805)**	**(146)**	**(131)**	**(518)**	**(217)**	**(299)**	**(516)**	**(1,165)**	***(1,010)***	***(555)***
Changes in Regulatory Assets	14	(80)	(37)	(64)	(9)	(48)	(28)	(76)	(149)	-	-
Changes in Working Capital	(45)	(124)	142	(150)	(61)	77	102	179	(32)	-	-
Gross FCF after Working Capital	**(524)**	**(1,009)**	**(41)**	**(345)**	**(588)**	**(188)**	**(225)**	**(413)**	**(1,346)**	***(1,010)***	***(555)***
Divestitures/Acquisitions	(1,035)	(2,539)	1	(2,648)	2	1	510	511	(2,135)	*900*	-
Other Investing Activities	46	65	9	16	19	-	(28)	(28)	7	-	-
FCF before Financing	**(1,513)**	**(3,483)**	**(31)**	**(2,977)**	**(567)**	**(187)**	**257**	**70**	**(3,474)**	***(110)***	***(555)***
Net change in debt	658	2,952	103	2,218	291	218	225	443	2,952	-	*500*
Issue of Common Shares[1]	596	51	12	5	23	17	3	20	48	*50*	*50*
Issue of Preference Shares	117	586	-	587	(1)	-	-	-	586	-	-
Advances from Non-Controlling	63	38	4	5	16	5	14	19	40	-	-
F/X Gain/Other	(3)	14	(4)	8	10	16	(1)	15	33	-	-
Net Change in Cash	**(82)**	**158**	**84**	**(154)**	**(228)**	**69**	**498**	**567**	**185**	***(60)***	***(5)***
Capital Structure											
Total Debt	7,788	11,534	7,679	12,257	11,534	12,181	12,184			*11,534*	*12,034*
Non-controlling Interest	375	421	395	405	421	434	460			*421*	*421*
Preference Shares	1,229	1,820	1,229	1,820	1,820	1,820	1,820			*1,820*	*1,820*
Shareholders' Equity	4,772	6,871	4,894	4,966	6,871	7,323	7,467			*7,410*	*7,857*
Total Capital	**14,164**	**20,646**	**14,197**	**19,448**	**20,646**	**21,758**	**21,931**			***21,185***	***22,132***
Cash and Equivalents	72	230	612	458	230	299	797			*170*	*165*
Credit Ratios[2]											
Total Debt / Capital	55%	56%	54%	63%	56%	56%	56%			*54%*	*54%*
Adjusted Debt / Capital[2]	59%	60%	58%	68%	60%	60%	60%			*59%*	*58%*
Net Debt / Capital	55%	55%	52%	62%	55%	55%	54%			*54%*	*54%*
Net Adjusted Debt / Capital[2]	59%	60%	57%	67%	60%	60%	58%			*58%*	*58%*
(FFO + Interest) / Interest	3.4x	3.2x	3.2x	3.1x	3.2x	3.4x	3.6x			*3.6x*	*3.7x*
EBITDA / Interest	3.6x	3.1x	3.3x	3.1x	3.1x	3.3x	3.6x			*3.6x*	*3.7x*
Total Debt / EBITDA	5.6x	6.7x	5.1x	7.7x	6.7x	6.5x	5.9x			*5.6x*	*5.6x*
Adjusted Debt / EBITDA[2]	6.0x	7.3x	5.5x	8.3x	7.3x	7.0x	6.3x			*6.1x*	*6.0x*
FFO / Total Debt	11.9%	10.3%	13.2%	8.6%	10.3%	10.8%	12.3%			*13.1%*	*13.2%*
FFO / Adjusted Debt[2]	11.1%	9.5%	12.2%	8.0%	9.5%	10.1%	11.4%			*12.2%*	*12.3%*
Preferred Shares / Capital	9%	9%	9%	9%	9%	8%	8%			*9%*	*8%*

1. Issue of common shares includes the company's DRIP.
2. Adjusted leverage ratios incorporate a 50%/50% debt/equity treatment for preferred equity.

Source: Company reports, RBC Capital Markets estimates

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Exhibit 4: FortisAlberta Inc. – historical financials and RBC CM estimates

FortisAlberta Inc.	Annual		Quarterly							*Forecasts*	
($MM)	2013	2014	Q2/14	Q3/14	Q4/14	Q1/15	Q2/15	YTD	LTM	*2015E*	*2016E*
Earnings Summary											
EBITDA	**314**	**342**	**86**	**88**	**84**	**100**	**92**	**193**	**365**	***384***	***393***
Interest	**73**	**79**	**20**	**20**	**20**	**19**	**20**	**39**	**79**	***82***	***87***
Cash Flow Summary											
Funds from operations (FFO)	**237**	**270**	**70**	**70**	**63**	**84**	**76**	**160**	**293**	***303***	***306***
Capital expenditures	(429)	(348)	(83)	(83)	(104)	(106)	(102)	(207)	(394)	*(410)*	*(375)*
Customer contributions, net	29	41	6	9	14	10	6	16	39	*40*	*40*
Dividends	(50)	(55)	(14)	(14)	(14)	(15)	(15)	(30)	(58)	*(60)*	*(65)*
Gross free cash flow (FCF)	**(213)**	**(92)**	**(21)**	**(17)**	**(40)**	**(27)**	**(35)**	**(61)**	**(118)**	***(127)***	***(94)***
Regulatory assets / liabilities	18	(30)	(10)	(31)	(21)	(7)	(11)	(18)	(70)	-	-
Changes in working capital	(118)	8	(3)	5	1	(23)	(5)	(28)	(22)	-	-
FCF after working capital	**(314)**	**(114)**	**(34)**	**(43)**	**(60)**	**(57)**	**(51)**	**(108)**	**(211)**	***(127)***	***(94)***
Acquisitions	-	-	-	-	-	-	-	-	-	-	-
Divestitures	1	2	1	0	1	0	0	1	2	-	-
Other investing activities	(0)	1	0	1	0	(1)	0	(0)	1	-	-
FCF before financing	**(312)**	**(112)**	**(33)**	**(42)**	**(59)**	**(57)**	**(50)**	**(107)**	**(209)**	***(127)***	***(94)***
Short-term borrowings, net	25	(2)	(2)	(0)	23	57	40	97	120	*(12)*	*(2)*
Long-term debt issuance	150	275	-	275	-	-	-	-	275	*225*	-
Long-term debt repayment	-	(200)	-	-	(200)	-	-	-	(200)	-	-
Common equity issuance, net	95	40	35	-	5	-	10	10	15	*10*	-
Other financing activities	(1)	(2)	(0)	(1)	(0)	-	-	-	(2)	-	-
Change in cash	**(44)**	**-**	**(0)**	**231**	**(231)**	**(0)**	**(0)**	**(0)**	**(0)**	***96***	***(96)***
Capital Structure											
Debt	1,484	1,557	1,459	1,734	1,557	1,614	1,655			*1,770*	*1,768*
Shareholders' equity	1,115	1,203	1,174	1,187	1,203	1,229	1,255			*1,280*	*1,332*
Goodwill	(227)	(227)	(227)	(227)	(227)	(227)	(227)			*(227)*	*(227)*
Capital	**2,372**	**2,533**	**2,406**	**2,694**	**2,533**	**2,617**	**2,683**			***2,823***	***2,874***
Liquidity											
Cash and cash equivalents	0	0	0	231	-	(0)	(0)			*96*	*(0)*
Available credit facilities	230	227	250	250	227	181	145			*254*	*256*
Available liquidity	**230**	**227**	**250**	**481**	**227**	**181**	**145**			***350***	***256***
Credit Ratios[1]											
Debt / capital	62%	61%	61%	64%	61%	62%	62%			*63%*	*61%*
Net debt / capital	62%	61%	61%	61%	61%	62%	62%			*61%*	*61%*
Debt / EBITDA	4.7x	4.6x	4.5x	5.2x	4.6x	4.5x	4.5x			*4.6x*	*4.5x*
Net debt / EBITDA	4.7x	4.6x	4.5x	4.5x	4.6x	4.5x	4.5x			*4.4x*	*4.5x*
FFO / debt	16.0%	17.3%	17.0%	14.7%	17.3%	17.8%	17.7%			*17.1%*	*17.3%*
FFO / net debt	16.0%	17.3%	17.0%	17.0%	17.3%	17.8%	17.7%			*18.1%*	*17.3%*
EBITDA / interest	4.3x	4.3x	4.2x	4.3x	4.3x	4.5x	4.6x			*4.7x*	*4.5x*
(FFO + interest) / interest	4.2x	4.4x	4.2x	4.2x	4.4x	4.6x	4.7x			*4.7x*	*4.5x*
Rating Agency Adjusted Credit Ratios[2]											
S&P											
Debt / EBITDA	5.5x	5.4x								*5.2x*	*5.0x*
FFO / debt	13.2%	14.4%								*15.0%*	*15.1%*
EBITDA / interest	4.1x	4.1x								*4.5x*	*4.3x*
Moody's											
CFO pre-WC / debt	15.4%	16.9%								*16.7%*	*16.9%*
(CFO pre-WC + interest) / interest	4.2x	4.4x								*4.7x*	*4.5x*
DBRS											
Cash flow / debt	16.1%	17.5%								*17.3%*	*17.5%*
EBIT / interest	2.2x	2.2x								*2.5x*	*2.3x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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Exhibit 5: FortisBC Energy Inc. – historical financials and RBC CM estimates

FortisBC Energy Inc. ($MM)	Annual 2013	2014	Quarterly Q1/14	Q2/14	Q1/15	Q2/15	YTD	Forecasts 2015E	2016E
Earnings Summary									
EBITDA	**484**	**505**	**191**	**94**	**202**	**88**	**290**	***531***	***550***
Interest	**138**	**136**	**35**	**33**	**34**	**35**	**69**	***140***	***141***
Cash Flow Summary									
Funds from operations (FFO)	**320**	**331**	**124**	**58**	**135**	**52**	**187**	***354***	***370***
Capital expenditures	(201)	(317)	(45)	(71)	(113)	(112)	(225)	*(440)*	*(360)*
Customer contributions, net	14	6	1	1	1	-	1	*5*	*5*
Dividends	(150)	(95)	(20)	(58)	(60)	(37)	(97)	*(95)*	*(95)*
Gross free cash flow (FCF)	**(17)**	**(75)**	**60**	**(70)**	**(37)**	**(97)**	**(134)**	***(176)***	***(80)***
Regulatory assets / liabilities	(31)	(54)	3	(19)	(39)	(20)	(59)	*(30)*	*(30)*
Changes in working capital	4	(26)	1	58	96	98	194	*50*	*-*
FCF after working capital	**(44)**	**(155)**	**64**	**(31)**	**20**	**(19)**	**1**	***(156)***	***(110)***
Acquisitions	-	-	-	-	-	-	-	*-*	*-*
Divestitures	-	-	-	-	-	-	-	*-*	*-*
Other investing activities	(7)	(10)	(2)	(4)	(3)	(3)	(6)	*(10)*	*(10)*
FCF before financing	**(51)**	**(165)**	**62**	**(35)**	**17**	**(22)**	**(5)**	***(166)***	***(120)***
Short-term borrowings, net	58	174	(82)	27	(3)	(199)	(202)	*(154)*	*20*
Long-term debt issuance	-	-	-	-	-	150	150	*300*	*300*
Long-term debt repayment	-	-	-	-	-	-	-	*(75)*	*(200)*
Common equity issuance, net	-	-	-	-	-	85	85	*85*	*-*
Other financing activities	(29)	(7)	18	18	(22)	(13)	(35)	*-*	*-*
Change in cash	**(22)**	**2**	**(2)**	**10**	**(8)**	**1**	**(7)**	***(10)***	***0***
Capital Structure									
Debt	2,171	2,338	n/a	-	2,313	2,257		*2,409*	*2,529*
Shareholders' equity	2,367	2,413	n/a	-	2,440	2,494		*2,543*	*2,589*
Goodwill	(913)	(913)	n/a	-	(913)	(903)		*(903)*	*(903)*
Capital	**3,625**	**3,838**	n/a	**-**	**3,840**	**3,848**		***4,049***	***4,215***
Liquidity									
Cash and cash equivalents	8	10	5	15	2	3		*(0)*	*(0)*
Available credit facilities	523	349	n/a	-	352	547		*499*	*479*
Available liquidity	**531**	**359**	**n/a**	**15**	**354**	**550**		***499***	***479***
Credit Ratios[1]									
Debt / capital	60%	61%	n/a	n/a	60%	59%		*59%*	*60%*
Net debt / capital	60%	61%	n/a	n/a	60%	59%		*59%*	*60%*
Debt / EBITDA	4.5x	4.6x	n/a	n/a	n/a	n/a		*4.5x*	*4.6x*
Net debt / EBITDA	4.5x	4.6x	n/a	n/a	n/a	n/a		*4.5x*	*4.6x*
FFO / debt	14.7%	14.2%	n/a	n/a	n/a	n/a		*14.7%*	*14.6%*
FFO / net debt	14.8%	14.2%	n/a	n/a	n/a	n/a		*14.7%*	*14.6%*
EBITDA / interest	3.5x	3.7x	n/a	n/a	n/a	n/a		*3.8x*	*3.9x*
(FFO + interest) / interest	3.3x	3.4x	n/a	n/a	n/a	n/a		*3.5x*	*3.6x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, RBC Capital Markets estimates

Exhibit 6: FortisBC Inc. – historical financials and RBC CM estimates

FortisBC Inc.	Annual		Quarterly							Forecasts	
($MM)	2013	2014	Q2/14	Q3/14	Q4/14	Q1/15	Q2/15	YTD	LTM	*2015E*	*2016E*
Earnings Summary											
EBITDA	**149**	**156**	**33**	**38**	**40**	**48**	**37**	**86**	**163**	***166***	***166***
Interest	**39**	**40**	**10**	**10**	**11**	**10**	**10**	**19**	**40**	***40***	***40***
Cash Flow Summary											
Funds from operations (FFO)	**99**	**108**	**22**	**27**	**27**	**36**	**26**	**62**	**115**	***114***	***113***
Capital expenditures	(70)	(93)	(20)	(23)	(34)	(32)	(28)	(60)	(117)	*(100)*	*(90)*
Customer contributions, net	3	9	2	3	2	2	2	4	9	*8*	*8*
Dividends	(46)	(28)	(7)	(7)	(7)	(5)	(5)	(9)	(23)	*(25)*	*(30)*
Gross free cash flow (FCF)	**(13)**	**(4)**	**(4)**	**(1)**	**(13)**	**1**	**(4)**	**(3)**	**(17)**	***(3)***	***1***
Regulatory assets / liabilities	7	15	3	4	3	(2)	0	(1)	6	*-*	*-*
Changes in working capital	(8)	(13)	4	(6)	(16)	9	(2)	7	(14)	*-*	*-*
FCF after working capital	**(14)**	**(3)**	**3**	**(2)**	**(25)**	**9**	**(6)**	**3**	**(25)**	***(3)***	***1***
Acquisitions	(55)	-	-	-	-	-	-	-	-	*-*	*-*
Divestitures	-	-	-	-	-	-	-	-	-	*-*	*-*
Other investing activities	(0)	0	0	0	0	0	0	0	0	*-*	*-*
FCF before financing	**(70)**	**(2)**	**4**	**(2)**	**(25)**	**9**	**(6)**	**3**	**(24)**	***(3)***	***1***
Short-term borrowings, net	52	(55)	(3)	2	(33)	(9)	6	(3)	(34)	*24*	*(1)*
Long-term debt issuance	-	200	-	-	200	-	-	-	200	*-*	*-*
Long-term debt repayment	-	(140)	-	-	(140)	-	-	-	(140)	*(25)*	*-*
Common equity issuance, net	17	-	-	-	-	-	-	-	-	*-*	*-*
Other financing activities	(1)	(2)	(0)	-	(2)	-	0	0	(1)	*-*	*-*
Change in cash	**(1)**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**1**	***(4)***	***0***
Capital Structure											
Debt	712	717	688	690	717	708	714			*716*	*715*
Shareholders' equity	731	748	741	744	748	765	772			*776*	*798*
Goodwill	(235)	(235)	(235)	(235)	(235)	(235)	(235)			*(235)*	*(235)*
Capital	**1,208**	**1,230**	**1,194**	**1,199**	**1,230**	**1,239**	**1,252**			***1,257***	***1,278***
Liquidity											
Cash and cash equivalents	0	1	1	1	1	1	1			*(2)*	*(2)*
Available credit facilities	73	128	97	120	128	137	131			*104*	*105*
Available liquidity	**73**	**129**	**98**	**121**	**129**	**138**	**132**			***102***	***103***
Credit Ratios[1]											
Debt / capital	59%	58%	58%	58%	58%	57%	57%			*57%*	*56%*
Net debt / capital	59%	58%	58%	58%	58%	57%	57%			*57%*	*56%*
Debt / EBITDA	4.8x	4.6x	4.5x	4.5x	4.6x	4.5x	4.4x			*4.3x*	*4.3x*
Net debt / EBITDA	4.8x	4.6x	4.5x	4.5x	4.6x	4.4x	4.4x			*4.3x*	*4.3x*
FFO / debt	13.9%	15.0%	15.1%	15.4%	15.0%	15.7%	16.1%			*16.0%*	*15.9%*
FFO / net debt	13.9%	15.0%	15.1%	15.4%	15.0%	15.7%	16.1%			*15.9%*	*15.8%*
EBITDA / interest	3.8x	3.9x	3.9x	4.0x	3.9x	4.0x	4.1x			*4.1x*	*4.1x*
(FFO + interest) / interest	3.5x	3.7x	3.7x	3.7x	3.7x	3.8x	3.9x			*3.9x*	*3.8x*
Rating Agency Adjusted Credit Ratios[2]											
Moody's											
CFO pre-WC / debt	9.4%	9.8%								*10.5%*	*10.4%*
(CFO pre-WC + interest) / interest	3.4x	3.4x								*3.6x*	*3.5x*
DBRS											
Cash flow / debt	13.8%	14.5%								*15.7%*	*15.6%*
EBIT / interest	2.5x	2.5x								*2.6x*	*2.6x*

1. Goodwill is excluded from capital.
2. Forecasted rating agency ratios are based on our understanding of standard adjustments.

Source: Company reports, rating agencies, RBC Capital Markets estimates

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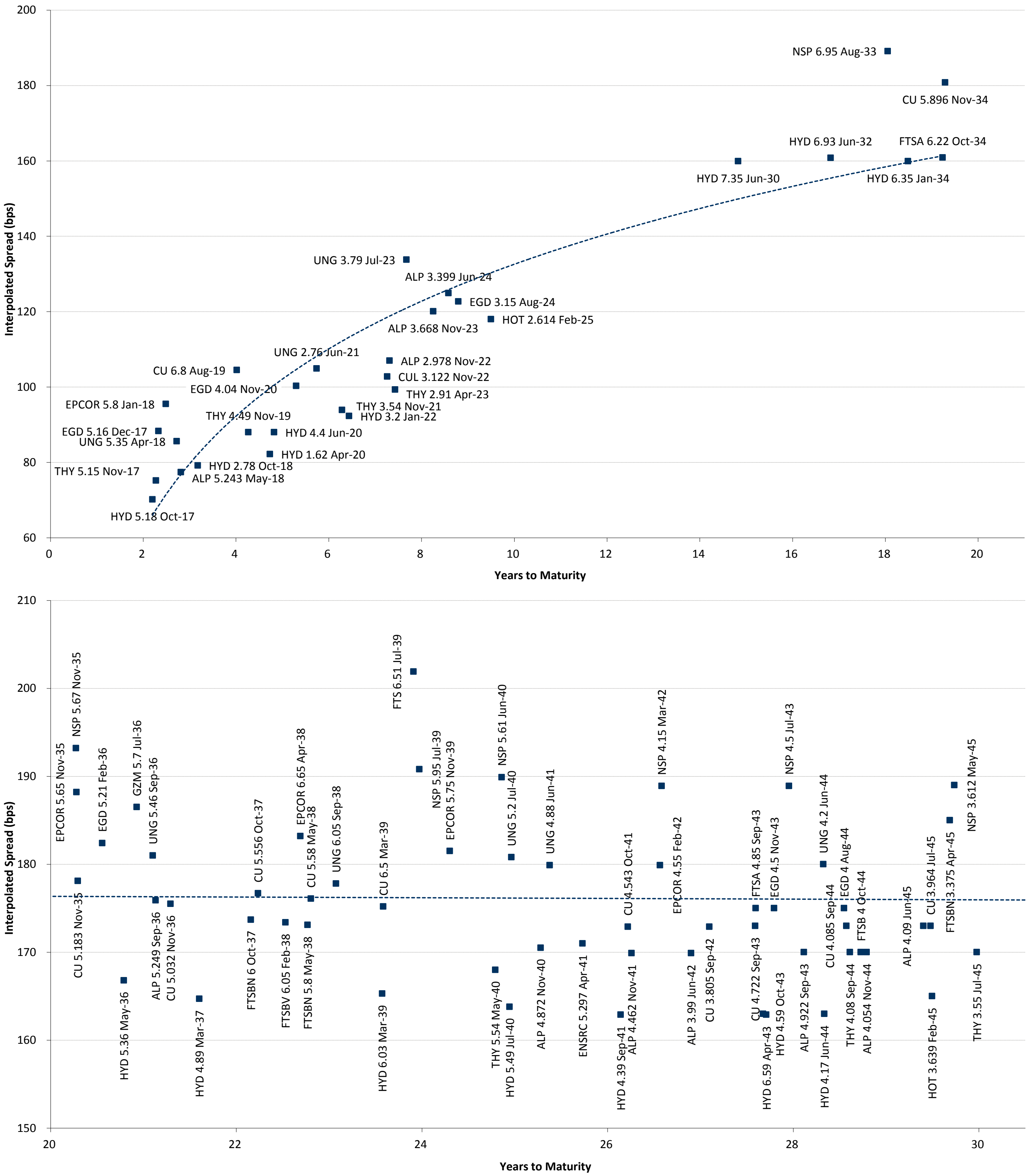
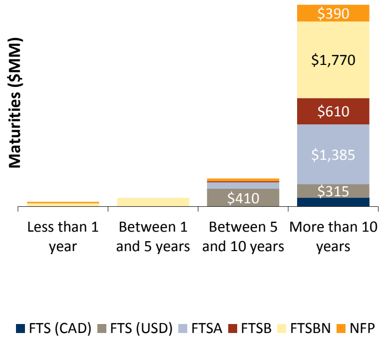
Exhibit 7: Relative value – regulated utilities



Source: Bloomberg, RBC Capital Markets

Exhibit 8: Bonds outstanding and maturity schedule



Fortis Inc.

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	200	6.51%	7/4/2039	7/2/2009	+65 bps	Sr. Unsecured	349553AD9
Total C$ Outstanding	**200**						

Issuer	Amount (US$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Fortis Inc.	125	3.53%	2020/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	285	3.84%	2023/10/01	2013/10/02	-	Sr. Unsecured	-
Fortis Inc.	200	6.60%	9/1/2037	9/6/2007	-	Sr. Unsecured	EI3427909
Fortis Inc.	75	5.26%	2040/12/21	2010/12/22	-	Sr. Unsecured	-
Fortis Inc.	40	5.08%	2043/10/01	2013/10/02	-	Sr. Unsecured	-
Total US$ Outstanding	**1,225**						

Note: On September 15, 2014, Fortis announced the completion of a US$500MM private placement with term to maturity of 5 to 30 years and coupon rates ranging from 2.92% to 5.03%.

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisAlberta Inc.	150	3.30%	9/30/2024	9/29/2014	+27.5 bps	Sr. Unsecured	34957ZAS3
FortisAlberta Inc.	200	6.22%	10/31/2034	10/25/2004	+28 bps	Sr. Unsecured	34957EAB7
FortisAlberta Inc.	100	5.40%	4/21/2036	4/21/2006	+25 bps	Sr. Unsecured	34957EAC5
FortisAlberta Inc.	100	5.85%	4/15/2038	4/15/2008	+45 bps	Sr. Unsecured	34957ZAB0
FortisAlberta Inc.	100	7.06%	2/14/2039	2/13/2009	+80 bps	Sr. Unsecured	34957ZAL8
FortisAlberta Inc.	125	5.37%	10/30/2039	10/30/2009	+34.5 bps	Sr. Unsecured	34957ZAM6
FortisAlberta Inc.	125	4.54%	10/18/2041	10/19/2011	+39.5 bps	Sr. Unsecured	34957ZAP9
FortisAlberta Inc.	150	4.85%	9/11/2043	9/13/2013	+39.5 bps	Sr. Unsecured	34957ZAR5
FortisAlberta Inc.	125	4.11%	9/29/2044	9/29/2014	+35 bps	Sr. Unsecured	34957ZAT1
FortisAlberta Inc.	110	4.99%	1/3/2047	1/3/2007	+24 bps	Sr. Unsecured	34957ZAA2
FortisAlberta Inc.	125	4.80%	10/27/2050	10/27/2010	+33.5 bps	Sr. Unsecured	34957ZAN4
FortisAlberta Inc.	125	3.98%	10/23/2052	10/23/2012	+37 bps	Sr. Unsecured	34957ZAQ7
Total C$ Outstanding	**1,535**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Energy Inc.	75	11.80%	9/30/2015	12/3/1990	Putable	Mortgage	05534RAA2
FortisBC Energy Inc.	200	10.30%	9/30/2016	11/21/1991	+35 bps	Mortgage	05534RAB0
FortisBC Energy Inc.	150	6.95%	9/21/2029	9/21/1999	+28 bps	Sr. Unsecured	05534ZAF3
FortisBC Energy Inc.	150	6.50%	5/1/2034	4/29/2004	+31 bps	Sr. Unsecured	88078ZAB0
FortisBC Energy Inc.	150	5.90%	2/26/2035	2/25/2005	+29 bps	Sr. Unsecured	88078ZAC8
FortisBC Energy Inc.	120	5.55%	9/25/2036	9/25/2006	+34 bps	Sr. Unsecured	88078ZAE4
FortisBC Energy Inc.	250	6.00%	10/2/2037	10/2/2007	+37 bps	Sr. Unsecured	88078ZAF1
FortisBC Energy Inc.	250	6.05%	2/15/2038	2/15/2008	+46 bps	Sr. Unsecured	88100BAA7
FortisBC Energy Inc.	250	5.80%	5/13/2038	5/13/2008	+40 bps	Sr. Unsecured	88078ZAG9
FortisBC Energy Inc.	100	6.55%	2/24/2039	2/24/2009	+71 bps	Sr. Unsecured	88078ZAH7
FortisBC Energy Inc.	100	5.20%	12/6/2040	12/6/2010	+40 bps	Sr. Unsecured	88100BAB5
FortisBC Energy Inc.	100	4.25%	12/9/2041	12/9/2011	+41 bps	Sr. Unsecured	34959ZAA0
FortisBC Energy Inc.	150	3.375%	4/13/2045	4/13/2015	+34 bps	Sr. Unsecured	34959ZAB8
Total C$ Outstanding	**2,045**						

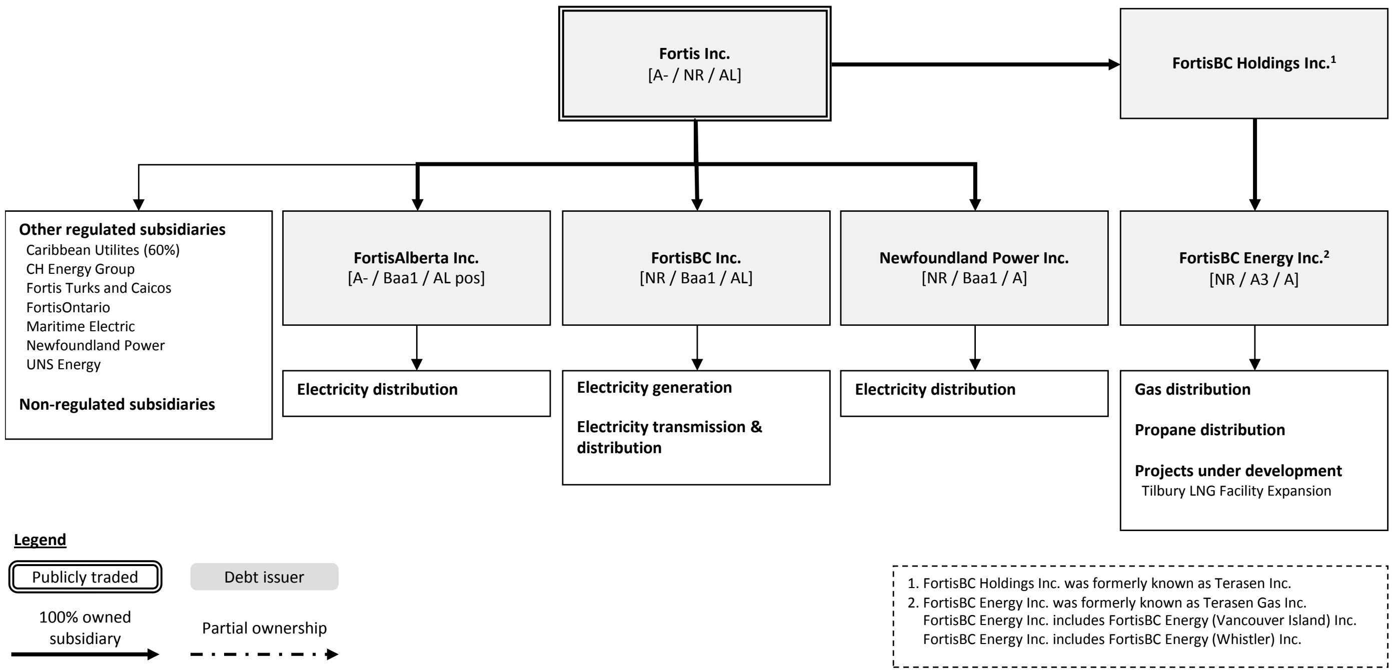
Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
FortisBC Inc.	25	8.80%	8/28/2023	8/27/1993	+40 bps	Sr. Secured	95358DAA7
FortisBC Inc.	100	5.60%	11/9/2035	11/10/2005	+30 bps	Sr. Unsecured	34957UAB1
FortisBC Inc.	105	6.10%	6/2/2039	6/2/2009	+49 bps	Sr. Unsecured	34958ZAA1
FortisBC Inc.	200	4.00%	10/28/2044	10/28/2014	+36 bps	Sr. Unsecured	34958ZAC7
FortisBC Inc.	105	5.90%	7/4/2047	7/4/2007	+31 bps	Sr. Unsecured	34957UAC9
FortisBC Inc.	100	5.00%	11/24/2050	11/24/2010	+33.5 bps	Sr. Unsecured	34958ZAB9
Total C$ Outstanding	**635**						

Issuer	Amount (C$MM)	Coupon	Maturity Date	Issue Date	Call	Collateral Type	CUSIP
Newfoundland Power Inc.	31	10.90%	5/2/2016	5/2/1991	+50 bps	First Mortgage	651350BE9
Newfoundland Power Inc.	32	9.00%	10/1/2020	10/1/1992	+30 bps	First Mortgage	651350BG4
Newfoundland Power Inc.	31	10.125%	6/15/2022	6/15/1992	+37.5 bps	First Mortgage	651350BF6
Newfoundland Power Inc.	33	8.90%	5/7/2026	5/7/1996	+20 bps	First Mortgage	651350BH2
Newfoundland Power Inc.	42	6.80%	11/20/2028	11/20/1998	-	First Mortgage	651350BJ8
Newfoundland Power Inc.	66	7.52%	11/1/2032	10/31/2002	+46 bps	First Mortgage	651350BK5
Newfoundland Power Inc.	54	5.441%	8/15/2035	8/15/2005	+26 bps	First Mortgage	65135PAA3
Newfoundland Power Inc.	64	5.901%	8/17/2037	8/17/2007	+35 bps	First Mortgage	65135PAB1
Newfoundland Power Inc.	61	6.606%	5/25/2039	5/25/2009	+50 bps	First Mortgage	6513508Y9
Newfoundland Power Inc.	69	4.805%	11/9/2043	11/8/2013	+42.5 bps	First Mortgage	65135PAC9
Total C$ Outstanding	**484**						

Source: Bloomberg, RBC Capital Markets

Exhibit 9: Simplified organizational structure

Diversified group of regulated utility operating companies provide stability: Fortis receives regular dividends from its utility subsidiaries and cash flow from non-regulated businesses, providing a diversified source of cash flow to service Holdco debt. In turn, Fortis injects equity into its operating utility subsidiaries to fund rate base growth and maintain utility capital structures. This strategy provides a high degree of transparency that is welcomed by utility regulators.



Source: Bloomberg, company reports, rating agencies, RBC Capital Markets

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