4. **All Prospectuses of Debt Offerings of the utility and/or its corporate parent within the last five years, if applicable:**

- See enclosed for the prospectuses of FEI and its ultimate parent, Fortis Inc.
- There were no debt offerings by FEI's direct parent, FortisBC Holdings Inc.

- Monthly (month end) spread data (market yield minus the yield on Government of Canada bond with similar time to maturity remaining) from 2009 to present date for a representative long term bond issued by the utility.

- See attached Historical Spread Data by RBC and BMO
    - The time to maturity of both the utility bond and government bond:
        - See attached Historical Spread Data by RBC and BMO
    - The trading liquidity of both bonds,
        - See attached Average Trading Volumes analysis by RBC and BMO
    - The ratings on the bond for each quarter
        - See section 2 of FEI's Company Specific Documents
    - For the latest placement of bond, the spread over the corresponding Government bond yields, the current spread and the maturity date.
        - See attached Historical Spread Data by RBC and BMO

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Base Shelf Prospectus

This short form prospectus has been filed under legislation in each of the provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of the issuer at Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia V6E 4M3 (telephone (604) 443-6526), and are also available electronically at www.sedar.com.*

New Issue **April 1, 2015**

SHORT FORM BASE SHELF PROSPECTUS

FortisBC Energy Inc.
$1,000,000,000
Medium Term Note Debentures
(unsecured)

FortisBC Energy Inc. ("FEI" or the "Corporation") may offer to the public in each of the provinces of Canada from time to time Medium Term Note Debentures (the "MTN Debentures") due not less than one year from the date of issue at prices and on terms determined at the time of issue, in an aggregate principal amount not to exceed $1,000,000,000 (or the equivalent thereof in foreign currencies based on the applicable exchange rate at the time of offering), during the twenty-five month period that this short form prospectus, including any amendments hereto, remains valid.

The MTN Debentures will be direct, senior, unsecured and unsubordinated obligations of the Corporation ranking equally, except as to sinking fund provisions, with all other present and future unsecured and unsubordinated obligations of the Corporation. The specific terms of any offering of MTN Debentures, including the aggregate principal amount of MTN Debentures offered, the currency, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), issue and delivery date, interest payment date(s), maturity date, any redemption and sinking fund provisions, the price to the public, the names of any Dealers (as defined below), any Dealers' commission and the actual proceeds to the Corporation will be set forth in a pricing supplement or other prospectus supplement which will accompany this short form prospectus and any amendments hereto. The Corporation reserves the right to set forth in a pricing supplement or other prospectus supplement specific terms of MTN Debentures which are not within the options and parameters set forth in this short form prospectus.

Rates on Application

The MTN Debentures may be offered severally by any one or more of BMO Nesbitt Burns Inc., Casgrain & Company Limited, CIBC World Markets Inc., HSBC Securities (Canada) Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to the dealer agreement dated April 1, 2015 (the "Dealer Agreement") referred to under "Plan of Distribution" or other investment dealers selected from time to time by the Corporation (collectively, the "Dealers" and each a "Dealer"). The MTN Debentures may be sold from time to time by the Dealers acting as agents of the Corporation. The MTN Debentures may also be purchased from time to time by any of the Dealers, as underwriter or dealer purchasing as principal, at such prices as may be agreed upon between the Corporation and such Dealer, for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. The Dealers may, on behalf of the Corporation, solicit offers to purchase the MTN Debentures at such prices as may be established from time to time by consultation between the Corporation and the Dealers and with such commissions as set forth in the Dealer Agreement or as are agreed to between the Corporation and the Dealers. Each Dealer's compensation will be increased or decreased by the amount by which the aggregate price paid for MTN Debentures by purchasers exceeds or is less than the gross proceeds paid by the Dealer, when purchasing as principal, to the Corporation. The MTN Debentures may also be offered directly to the public by the Corporation pursuant to applicable statutory or discretionary exemptions at prices and upon terms negotiated between the purchaser and the Corporation, in which case no commission will be paid to the Dealers.

In connection with any offering of MTN Debentures, the Dealers may, subject to applicable laws, over-allot or effect transactions which stabilize or maintain the market price of the MTN Debentures offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See "Risk Factors".

Each of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. is an affiliate of a Canadian chartered bank which has extended credit facilities to the Corporation upon which the Corporation may draw from time to time. Consequently, FEI may be considered to be a "connected issuer" of each of these Dealers for the purposes of Canadian securities legislation. All or a portion of the net proceeds of the sale of particular series or issue of MTN Debentures in which such Dealers are acting as principals or agents may be used to repay indebtedness under such credit facilities. See "Relationship Between FEI and Certain Dealers" and "Use of Proceeds".

The offering is subject to approval of certain legal matters on behalf of the Corporation by Farris, Vaughan, Wills & Murphy LLP and on behalf of the Dealers by Cassels Brock & Blackwell LLP.

FEI's head office is located at Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia V6E 4M3 and its registered office is located at 2500 – 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3.

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FORWARD-LOOKING INFORMATION

Certain statements contained in this short form prospectus, including the documents incorporated by reference herein, 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. Specific forward-looking information contained in or incorporated by reference in this short form prospectus includes, but is not limited to, statements regarding the Corporation's estimated costs for the Tilbury Liquefied Natural Gas 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 expectations to finance those capital expenditures through credit facilities, equity injections and debenture issuances; the Corporation's expectations for employee future benefit costs; 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 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 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 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; risks relating to prior ranking indebtedness; credit rating risk; market value fluctuation; lack of public market for MTN Debentures; and other risks described in this short form prospectus, including the documents incorporated by reference herein. For additional information with respect to these risk factors, reference should be made to "Risk Factors".

All forward-looking information in this short form prospectus, including the documents incorporated by reference herein, is qualified in its entirety by this cautionary statement and, except as may be 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of FEI listed below and filed with the securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this short form prospectus:

(a) audited consolidated financial statements of the Corporation as at and for the years ended December 31, 2014 and 2013, together with the notes thereto and the auditors' reports thereon;

(b) management's discussion and analysis of financial condition and results of operations of the Corporation for the year ended December 31, 2014; and

(c) annual information form of the Corporation dated March 13, 2015.

Any document of the type referred to in the preceding paragraph, any interim financial statements and accompanying management's discussion and analysis, any material change reports (excluding confidential material change reports), any exhibits to unaudited interim or audited annual financial statements which contain updated earnings coverage information, any business acquisition reports and any other documents required to be incorporated by reference into this short form prospectus under the applicable securities laws of the provinces of Canada and subsequently filed by the Corporation with a securities commission or similar regulatory authority in Canada after the date of this short form prospectus and before the termination of any offering hereunder are deemed to be incorporated by reference into this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein, or in any other subsequently filed document that is also incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

Upon a new annual information form and the related annual financial statements being filed by the Corporation with and, where required, accepted by the applicable securities regulatory authorities during the term of this prospectus, the previous annual information form, the previous annual financial statements and accompanying management's discussion and analysis, all interim financial statements and accompanying management's discussion and analysis and material change reports filed by the Corporation prior to the commencement of the financial year of the Corporation in which the new annual information form is filed shall be deemed no longer to be incorporated by reference into this short form prospectus for purposes of future offers and sales of MTN Debentures hereunder. Upon interim financial statements and the

accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this short form prospectus, all interim financial statements and accompanying management's discussion and analysis filed prior to the new interim financial statements shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of MTN Debentures hereunder.

Updated earnings coverage ratios will be filed quarterly with the applicable securities regulatory authorities in Canada, either as prospectus supplements or as exhibits to the Corporation's unaudited interim or audited annual financial statements, and will be deemed to be incorporated by reference into this short form prospectus for the purposes of future offers and sales of MTN Debentures hereunder.

In addition, certain marketing materials (as that term is defined in applicable securities laws) may be used in connection with a distribution of MTN Debentures under this short form prospectus and the applicable pricing supplement or other prospectus supplement(s). Any template version of marketing materials (as those terms are defined in applicable securities laws) pertaining to a distribution of MTN Debentures, and filed by the Corporation after the date of the pricing supplement or other prospectus supplement in respect of such distribution of MTN Debentures and before termination of the distribution of such MTN Debentures, will be deemed to be incorporated by reference into that pricing supplement or other prospectus supplement for the purposes of the distribution of such MTN Debentures.

This short form prospectus has been filed under securities laws that permit the specific variable terms for an issue of MTN Debentures to be determined after the prospectus is final and that permit the omission from this short form prospectus of that information. A pricing supplement or other prospectus supplement containing the specific variable terms for an offering of MTN Debentures will be delivered to purchasers of such MTN Debentures together with this short form prospectus and will be deemed to be incorporated by reference into this short form prospectus as of the date of such pricing supplement or other prospectus supplement only for the purposes of the offering of MTN Debentures to which that pricing supplement or other prospectus supplement pertains.

THE CORPORATION

The Corporation is the largest distributor of natural gas in British Columbia 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 British Columbia. 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 is an indirect, wholly-owned subsidiary of Fortis Inc., a diversified, international distribution utility holding company having investments in distribution, transmission and generation utilities, as well as commercial real estate and hotel operations.

DETAILS OF THE OFFERING

The following is a summary of the material terms and conditions of the MTN Debentures and of the Principal Indenture and MTN Supplemental Indenture (as defined below). This summary does not purport to be complete and prospective investors are urged to read the Principal Indenture and MTN Supplemental Indenture in their entirety for the complete terms and conditions of the MTN Debentures. The Principal Indenture and MTN Supplemental Indenture are also available at www.sedar.com. Certain capitalized terms used in the following summary are defined in "Definitions" below.

General

The MTN Debentures will be issued under a trust indenture dated as of November 1, 1977 made between the Corporation (as successor to Inland Natural Gas Co. Ltd.) and CIBC Mellon Trust Company (formerly called The R-M Trust Company, as successor to National Trust Company, Limited), as trustee (the "Trustee"), as supplemented and amended by a first supplemental indenture dated as of November 17, 1981, a second supplemental indenture dated as of July 11, 1984, a third supplemental indenture dated as of December 17, 1986, a fourth supplemental indenture dated as of June 1, 1989, a fifth supplemental indenture dated as of July 1, 1989, a sixth supplemental indenture dated as of June 14, 1990, a seventh supplemental indenture dated as of October 26, 1990, an eighth supplemental indenture dated as of August 1, 1992, a ninth supplemental indenture dated as of July 28, 1993, a tenth supplemental indenture dated as of November 15, 1993 (the "MTN Supplemental Indenture"), an eleventh supplemental indenture dated as of January 1, 2007, a twelfth supplemental indenture dated as of May 2, 2011, a thirteenth supplemental indenture dated August 30, 2011, a fourteenth supplemental indenture dated as of December 31, 2014 and a fifteenth supplemental indenture dated as of December 31, 2014 (the trust indenture, as so supplemented and amended from time to time, being herein called the "Indenture"). The Indenture will be available for review during normal business hours during the period of distribution of the MTN Debentures at the head office of the Corporation at Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia.

The aggregate principal amount of debentures authorized under the Indenture (the "Debentures") is unlimited. Debentures may be issued thereunder in one or more series. The MTN Debentures are a series of Debentures authorized by the MTN Supplemental Indenture in an unlimited amount, and may be issued on such terms and at such times as may be determined by the Corporation, subject to the Corporation meeting certain tests with respect to the issue thereof, as set forth in the Indenture.

The MTN Debentures will rank in equal priority with all other unsecured and unsubordinated indebtedness of the Corporation. As at December 31, 2014, there were no Debentures outstanding under the Indenture, other than MTN Debentures and two series of debentures in an aggregate principal amount of $350 million continued as separate series of debentures under the Indenture following the amalgamation of the Corporation with FortisBC Energy (Vancouver Island) Inc. The MTN Debentures will rank junior to any outstanding First Mortgage Bonds issued under a trust deed and secured by substantially all of the Corporation's assets and the Purchase Money Mortgages which are secured under a trust deed over the assets of the Corporation acquired as part of its acquisition of the coastal gas distribution assets of British Columbia Hydro and Power Authority (the "Coastal Division") in 1988. Currently there are no First Mortgage Bonds outstanding. There are $274.9 million principal amount of Purchase Money Mortgages presently held by the public and $150 million presently held by a subsidiary of the Corporation pending securitization. The Purchase Money Mortgages were issued to finance the Corporation's acquisition of the Coastal Division.

Payments of interest on each interest-bearing MTN Debenture will be made by electronic funds transfer, if agreed to by the purchasers, or by cheque dated the interest payment date and mailed to the address of the holder appearing on the registers maintained by the Trustee at the close of business on the seventh business day (a business day for this purpose being a business day in the city of Vancouver) prior to the due date for the payment of interest. Payment of principal at maturity will be made at the principal corporate trust office of the Trustee in the city of Toronto against surrender of the MTN Debenture. If the due date for payment of any amount of principal or interest on any MTN Debenture is not, at the place of payment, a business day (being a day other than Saturday, Sunday, or a day on which financial institutions at the place of payment are authorized or obligated by law or regulation to close) such payment will be made on the next business day and the holder of such MTN Debenture shall not be entitled to any further interest or other payment in respect of such delay.

The payment of principal and interest on a MTN Debenture in accordance with the indenture shall absolutely satisfy and discharge the liability of the Corporation with respect to such payment under the MTN Debenture, unless in the case of payment by cheque it is not paid upon presentation.

Events of Default

Except as otherwise noted below, the Indenture provides that the following constitute events of default (each an "Event of Default") thereunder:

(a) default in payment of principal of any Debenture when due;

(b) default in payment of any interest due on any Debenture and such default has continued for 30 days;

(c) an order is made or an effective resolution passed for the winding-up or liquidation of the Corporation (other than pursuant to and in compliance with provisions in the Indenture relating to successor companies);

(d) the Corporation or any Designated Subsidiary (as defined below) makes a general assignment for the benefit of its creditors, is declared bankrupt, a sequestrator or a receiver or any other officer with similar powers is appointed of, or an encumbrancer takes possession of, the property of the Corporation or of the property of a Designated Subsidiary, or any substantial part thereof;

(e) any process of execution is enforced or levied upon any property of the Corporation or a Designated Subsidiary and remains unsatisfied for a period of 30 days, as to moveable or personal property, or 45 days, as to immovable or real property, provided that such process is not in good faith disputed by the Corporation or such Designated Subsidiary or the Corporation or such Designated Subsidiary has given adequate security;

(f) default under the mortgage with respect to the First Mortgage Bonds which causes the principal amount of the First Mortgage Bonds to be declared immediately due and payable, provided that if the default is cured and such declaration is rescinded the Event of Default will also be cured; and

(g) the Corporation neglects to carry out or observe any covenant or condition contained in the Indenture and, after notice has been given by the Trustee to the Corporation, the Corporation fails to make good such default within 60 days or such shorter period as would at any time, if continued, render any property of the Corporation or any of its subsidiaries liable to forfeiture, unless the Trustee has agreed to a longer period, and in such an event, within the period agreed to by the Trustee.

Acceleration on and Waiver of Default

If an Event of Default has occurred under the Indenture, the Trustee may in its discretion and will upon the requisition in writing of the holders of at least 25% of the principal amount of the Debentures issued and outstanding under the Indenture, subject to any waiver of default under the Indenture, by notice in writing to the Corporation declare the principal and interest on all Debentures then outstanding under the Indenture and other money payable thereunder to be due and payable.

If an Event of Default has occurred under the Indenture (otherwise than by default in payment of principal moneys at maturity) the holders of the Debentures have the power by extraordinary resolution to instruct the Trustee to waive the default (provided that if the Event of Default relates to a covenant applicable to a particular series of Debentures only, then the holders of outstanding Debentures of that series only have the power by extraordinary resolution to instruct the Trustee to waive the default). In addition, the Trustee, so long as it has not become bound to institute any proceedings under the Indenture, has power to waive the default if, in the Trustee's opinion, the same shall have been cured or adequate satisfaction made therefor.

In the Indenture, "extraordinary resolution" is a resolution passed at a meeting of debentureholders by the favourable votes of the holders of not less than 66⅔% of the principal amount of Debentures represented at the meeting.

Right of Trustee to Enforce Payment

If the Corporation fails to pay to the Trustee, on demand, and when due, the principal and interest on all Debentures then outstanding under the Indenture, the Trustee may, in its discretion, and shall upon the request in writing of the holders of not less than 25% of the principal amount of the Debentures issued and outstanding under the Indenture, and upon being indemnified to its reasonable satisfaction against all costs, expenses and liabilities to be incurred, proceed in its name as Trustee to obtain or enforce payment of the principal and interest on all outstanding Debentures together with other amounts due under the Indenture by any remedy or proceeding authorized by the Indenture.

Holders of Debentures issued under the Indenture may not institute any action or proceeding or exercise any other remedy authorized by the Indenture, including an action to enforce the Indenture or the Debentures, except as provided in the Indenture.

Covenants

The Indenture contains, among others, covenants substantially to the following effect:

(a) The Corporation will not mortgage, pledge, charge or otherwise encumber any of its assets to secure any obligations unless at the same time it shall, in the opinion of counsel, secure or cause to be secured equally and rateably with such obligations all the Debentures then outstanding under the Indenture by the same instrument or by other instrument in form and substance satisfactory to such counsel; provided that this covenant shall not apply to (a) First Mortgage Bonds, (b) Purchase Money Mortgages, (c) permitted encumbrances as defined in the Indenture, or (d) security given (other than on fixed assets) in the ordinary course of business and for the purpose of carrying on the same, to any bank or banks or others to secure any indebtedness other than Funded Obligations.

(b) The Corporation will not permit any Designated Subsidiary to create, incur or guarantee any indebtedness, except indebtedness to or of the Corporation or to a trustee in support of a guarantee of indebtedness of the Corporation, provided that this shall not apply to (a) Purchase Money Mortgages, or (b) indebtedness incurred in the ordinary course of business and for the purpose of carrying on the same, to any bank or banks or others, repayable on demand or maturing, including any right of extension or renewal, within 18 months of the date when such indebtedness is incurred, provided such indebtedness is not secured on fixed assets.

(c) The Corporation or a Designated Subsidiary will not dispose of any indebtedness of a Designated Subsidiary unless all the shares and indebtedness of such Designated Subsidiary are sold to a party dealing with the seller at arm’s length, resulting in neither the Corporation nor any other Designated Subsidiary owning any of such Designated Subsidiary.

(d) The Corporation will not permit any Designated Subsidiary to issue any shares if, as a result of such issue, such Designated Subsidiary ceases to qualify as such.

(e) The Corporation will not create or issue any Additional Obligations unless Consolidated Available Net Earnings for any period of 12 consecutive calendar months of the 23 calendar months next preceding the date of issue of such Additional Obligations, which period shall have been selected by the Corporation, shall have been at least two times the annual interest requirements of all Funded Obligations to be outstanding after the issue of such Additional Obligations and after any retirements of Funded Obligations to be made out of the proceeds thereof or retirement thereof has been otherwise provided for and in respect of which proof has been afforded to the Trustee satisfactory to it that adequate provision has been made assuring that such Funded Obligations will be retired within 45 days after the issue of such Additional Obligations; provided the provisions of this covenant shall not apply to the creation and issue of Additional Obligations for the purpose of refunding the whole of any series of Debentures previously issued under the Indenture provided that (except in the case of refunding all of the MTN Debentures) the aggregate principal amount of the Additional Obligations does not exceed the aggregate principal amount of the Debentures to be refunded.

(f) The Corporation will, directly or through Designated Subsidiaries, from time to time obtain and at all times maintain facilities for supplies of gas adequate to enable the carrying on of its business.

Modification

The rights of the holders of the MTN Debentures under the Indenture may be modified. For that purpose, among others, the Indenture will contain provisions making binding upon all holders of Debentures outstanding under the Indenture and indentures supplemental thereto, resolutions passed at meetings of debentureholders by the favourable votes of the holders of not less than 66⅔% of the principal amount of Debentures voted on the resolution or instruments in writing signed by the holders of not less than 66⅔% of the principal amount of all the outstanding Debentures. In certain cases, modification will require separate assent by the holders of the required percentages of debentures of each series outstanding under the Indenture or any series of MTN Debentures outstanding under the Indenture as determined by the Trustee.

Definitions

The Indenture contains definitions substantially to the following effect:

"*Additional Obligations*" means bonds, debentures, notes or other debt instruments issued by the Corporation, the due date of payment of which, including any right of extension or renewal, is 18 months or more after the date of issue but does not include First Mortgage Bonds and Purchase Money Mortgages.

"*Consolidated Available Net Earnings*" for any specified period of 12 months means the net earnings of the Corporation and its Designated Subsidiaries on a consolidated basis for such period (excluding gains or losses on the disposal of investments or fixed assets in each case in excess of $50,000 in the aggregate and other non-recurring items in excess of $50,000 in the aggregate) before deductions for income taxes, interest on Funded Obligations and on any other indebtedness that since the end of the specified period has been or is about to be refunded by the issue of Funded Obligations and amortization of debt premium, discount and expense, all as determined in accordance with generally accepted accounting principles and reported on by the Corporation's auditors without, in their opinion, material adverse qualification. In determining Consolidated Available Net Earnings for any period there shall be taken into account the earnings or losses, as the case may be, for the whole of such period of any company or corporation which, prior to or concurrently with the proposed action in respect of which such determination is being made, becomes a Designated Subsidiary. In addition, if the Corporation or any Designated Subsidiary shall, prior to or concurrently with the proposed action in respect of which such determination is being made, have acquired any business by way of acquisition of assets, the earnings or losses, as the case may be, of such business to the extent that such earnings or losses related to the assets acquired, shall be taken into account for the whole of such period.

"*Designated Subsidiary*" means any Subsidiary of the Corporation, provided that the Corporation shall have, by resolution of its directors, designated such Subsidiary as a Designated Subsidiary; provided that any Designated Subsidiary shall cease to be a Designated Subsidiary upon sale of all its shares or other ownership interests and indebtedness owned by the Corporation and any other Designated Subsidiary, resulting in neither the Corporation nor any other Designated Subsidiary owning any thereof.

"*First Mortgage Bonds*" means all first mortgage bonds or other first mortgage obligations of the Corporation, whether heretofore or hereafter issued, secured by a first fixed and specific charge on substantially all the fixed assets of the Corporation (whether or not also secured by a floating charge or by other security).

"*Funded Obligations*" means any indebtedness, whether secured or unsecured, incurred by any one or more of the Corporation and the Designated Subsidiaries by way of creation, guarantee, assumption or otherwise which is not repayable on demand and the due date of payment of which, including any right of extension or renewal, is 18 months or more after the date on which it was incurred, but does not include (i) indebtedness secured by Purchase Money Mortgages and (ii) any liability in respect of any guarantee by any one or more of the Corporation and the Designated Subsidiaries of the indebtedness of the Corporation and/or any Designated Subsidiaries secured by Purchase Money Mortgages.

"*Purchase Money Mortgages*" means any mortgages, liens or other encumbrances upon property acquired by one or more of the Corporation and the Designated Subsidiaries which were, at the time of such acquisition or concurrently therewith, assumed, created or given to secure all or part of the cost of such property and extensions and renewals thereof upon the same property if the principal amount of the indebtedness secured thereby is not increased.

"*Subsidiary*" means:

(a) any corporation of which securities, having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether at the time shares of any other class or classes of such corporation might have voting power by reason of the happening of any contingency, unless the contingency has occurred and then only for as long as it continues), are at the time directly, indirectly or beneficially owned or controlled by the Corporation or one or more of its Subsidiaries, or the Corporation and one or more of its Subsidiaries;

(b) any partnership of which the Corporation, or one or more of its Subsidiaries, or the Corporation and one or more of its Subsidiaries (i) directly, indirectly or beneficially owns or controls more than 50% of the income, capital, beneficial or ownership interests (however designated) thereof; or

(c) any other person in respect of which the Corporation (i) owns, directly or indirectly, securities or other ownership interests in such other person having ordinary voting power to elect a majority of the directors or persons performing similar functions for such other person, or (ii) directly or indirectly, through the operation of any agreement or otherwise, has the ability to elect or cause the election of a majority of the directors or other persons performing similar functions for such other person or otherwise exercises control over the management and policies of such other person.

RATINGS

The Corporation's senior unsecured indebtedness currently has a rating of A, stable trend, by DBRS Limited ("DBRS"), and A3, stable outlook, by Moody's Investors Service ("Moody's").

Ratings are not recommendations to purchase, hold or sell securities, 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. The Corporation paid each of DBRS and Moody's a maintenance fee to provide ratings during 2014 and 2013, but did not pay for or receive any other services from those agencies during those years.

DBRS's long-term debt ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities. The assignment of a "(high)" or "(low)" modifier within each rating category indicates relative standing within such category. The lack of one of these designations indicates a rating that is essentially in the middle of the category. DBRS states that its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. DBRS ratings do not take factors such as pricing or market risk into consideration and are expected to be used by purchasers as one part of their investment decision making process. Every DBRS rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, 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.

Moody's long-term debt ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities. In addition, Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa to Caa to indicate relative standing within such classification. The modifier 1 indicates that the security ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the security ranks in the lower end of its generic rating category. Moody's long-term debt ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default. According to Moody's, 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.

EARNINGS COVERAGE RATIOS

The following earnings coverage ratio has been calculated for the twelve month period ended December 31, 2014. The following ratio does not give effect to the issue of any MTN Debentures pursuant to this short form prospectus since the aggregate principal amount of MTN Debentures that will be issued hereunder and the terms of the issue are not currently known.

	Twelve Months Ended December 31, 2014
	(dollars in millions)
Earnings coverage[1]	
Earnings before interest and income tax	$317
Interest requirements	$140
Interest coverage	2.26 times

[1] Earnings coverage ratio excludes the impact of current year's tax loss utilization plan.

Subsequent to the date of this short form prospectus, updated earnings coverage ratios will be filed quarterly by the Corporation with applicable securities regulatory authorities, either as prospectus supplements or exhibits to the unaudited interim or audited annual financial statements of the Corporation, and will be deemed to be incorporated by reference into this short form prospectus for the purpose of future offerings of MTN Debentures.

USE OF PROCEEDS

The MTN Debentures will be issued from time to time at the discretion of the Corporation in an aggregate principal amount not to exceed $1,000,000,000 during the 25 month period that this short form prospectus, including any amendments hereto, remains valid. The net proceeds to be received by the Corporation from the sale of MTN Debentures under this short form prospectus will be the issue price thereof less any commissions payable to the Dealers and expenses paid in connection therewith. The net proceeds cannot be estimated at the date hereof since the amount thereof will depend on the terms and conditions of the MTN Debentures and the extent to which MTN Debentures are issued under this short form prospectus. Unless otherwise specified in a prospectus supplement or pricing supplement, the net proceeds will be used for general corporate purposes, including repayment of existing indebtedness and financing the Corporation's capital expenditure program and working capital requirements.

Proceeds from the sale of MTN Debentures may be used to reduce indebtedness which the Corporation may have with one or more Canadian chartered banks which are related to a Dealer. See "Relationship Between FEI and Certain Dealers".

PLAN OF DISTRIBUTION

The MTN Debentures may be offered severally by any one or more of the Dealers pursuant to the Dealer Agreement. The MTN Debentures may be sold from time to time by the Dealers acting as agents of the Corporation. The MTN Debentures may also be purchased from time to time by any of the Dealers, as underwriter or dealer purchasing as principal, at such prices as may be agreed upon between the Corporation and such Dealer, for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. The Dealers may, on behalf of the Corporation, solicit offers to purchase the MTN

Debentures at such prices as may be established from time to time by consultation between the Corporation and the Dealers and with such commissions as set forth in the Dealer Agreement or as are agreed to between the Corporation and the Dealers. Each Dealer's compensation will be increased or decreased by the amount by which the aggregate price paid for MTN Debentures by purchasers exceeds or is less than the gross proceeds paid by the Dealer, when purchasing as principal, to the Corporation. The MTN Debentures may also be offered directly to the public by the Corporation pursuant to applicable statutory or discretionary exemptions at prices and upon terms negotiated between the purchaser and the Corporation, in which case no commission will be paid to the Dealers. The terms and conditions of any sale or sales of MTN Debentures will be determined at the time of such sale or sales and disclosed in the applicable pricing supplement.

The MTN Debentures have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act") or any state securities laws and may not be offered or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Dealers have agreed that they will not offer or sell the MTN Debentures so as to require registration thereof or filing of a prospectus in any jurisdiction other than the provinces of Canada, including the United States. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the MTN Debentures in the United States. In addition, until 40 days after the commencement of the offering of any MTN Debentures, an offer or sale of any such MTN Debentures within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in accordance with an applicable exemption from the registration requirements of the 1933 Act.

In connection with any offering of MTN Debentures, the Dealers may, subject to applicable laws, over-allot or effect transactions which stabilize or maintain the market price of the MTN Debentures offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Dealers may from time to time purchase and sell MTN Debentures in the secondary market but are not obligated to do so. No assurance can be given that there will be a secondary market for the MTN Debentures. See "Risk Factors". The offering price and other selling terms for such sales in the secondary market may, from time to time, be varied by such Dealers.

The Corporation has agreed to indemnify the Dealers and their directors, officers, employees, shareholders and agents against liabilities arising out of, among other things, any misrepresentation in this short form prospectus and the documents incorporated by reference herein, other than, among other things, liabilities arising out of any misrepresentations made by the Dealers or relating solely to the Dealers where the Dealers had an opportunity of reviewing the same.

The Corporation and, if applicable, the Dealers, reserve the right to reject any offer to purchase MTN Debentures in whole or in part. The Corporation also reserves the right to withdraw, cancel or modify an offering of MTN Debentures under this short form prospectus without notice.

ELIGIBILITY FOR INVESTMENT

In the opinion of Farris, Vaughan, Wills & Murphy LLP, counsel to the Corporation, and Cassels Brock & Blackwell LLP, counsel to the Dealers, based on the provisions of the *Income Tax Act* (Canada) and the regulations thereunder (collectively, the "Tax Act") in effect on the date hereof, the MTN Debentures would, if issued on the date hereof, be qualified investments under the Act for trusts governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered education savings plans, registered disability savings plans, deferred profit sharing plans (other than a trust governed by a deferred profit sharing plan for which any employer is the Corporation or an employer that does not deal at arm's length with the Corporation within the meaning of the Act) and tax-free savings accounts ("TFSAs"). Notwithstanding the foregoing, if the MTN Debentures are "prohibited investments" for the purposes of a RRSP, RRIF or TFSA, a holder will be subject to a penalty tax as set out in the Tax Act. Holders are advised to consult their own tax advisors in this regard.

RISK FACTORS

An investment in the MTN Debentures involves certain risks. Before investing, prospective purchasers of MTN Debentures should carefully consider, in light of their own financial circumstances, the factors set out below, the risks described under "Business Risk Management" in the Corporation's annual management discussion and analysis that is incorporated by reference herein, any other risks identified in an applicable pricing supplement or other prospectus supplement, as well as the other information contained or incorporated by reference in this short form prospectus.

Credit Risk and Prior Ranking Indebtedness

The likelihood that purchasers of the MTN Debentures will receive payments owing to them under the terms of the MTN Debentures will depend on the financial health of the Corporation and its creditworthiness. In addition, the MTN Debentures are unsecured obligations of the Corporation. Therefore, if the Corporation becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Corporation's assets will be available to pay its obligations with respect to the MTN Debentures only after it has paid all of its secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the MTN Debentures then outstanding.

Credit Ratings

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The credit ratings accorded to the MTN Debentures are not a recommendation to purchase, hold or sell the MTN Debentures, because ratings do not comment as to market price or suitability for a particular investor. There is no assurance that these ratings will remain in effect for any given period of time or that these ratings will not be revised or withdrawn entirely in the future by the relevant rating agency. Real or anticipated changes in credit ratings for the MTN Debentures may affect the market value of the MTN Debentures. In addition, real or anticipated changes in credit ratings can affect the cost of or terms on which FEI can issue MTN Debentures or incur other debt.

Market Value Fluctuation

Prevailing interest rates may affect the market value of any fixed interest rate MTN Debentures. Assuming all other factors remain unchanged, the market value of any fixed interest rate MTN Debentures will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

Lack of Public Markets for the MTN Debentures

Each offering of MTN Debentures will be a new issue of debt securities for which there is no existing trading market. The Corporation does not intend to list the MTN Debentures on any securities exchange or to arrange for any quotation system to quote them, and consequently the Corporation will not be subject to regulation by any securities exchange or quotation system. There can be no assurance as to the liquidity of any trading market for the MTN Debentures or that a trading market for any of the MTN Debentures will develop. Even if a trading market in the MTN Debentures develops, the MTN Debentures could trade at prices that may be higher or lower than their initial offering prices and there may be limited transparency of trading prices. The market price for the MTN Debentures may be affected by prevailing interest rates, FEI's results of operations and financial position, the ratings assigned to the MTN Debentures or other indebtedness of FEI, changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of the Corporation.

RELATIONSHIP BETWEEN FEI AND CERTAIN DEALERS

Each of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. is an affiliate of a Canadian chartered bank (the "Bank Affiliates") which has extended credit facilities (the "Credit Facilities") to the Corporation upon which the

Corporation may draw from time to time. Consequently, the Corporation may be considered a “connected issuer” of each of these Dealers within the meaning of applicable Canadian securities legislation. The Corporation is currently in compliance with the terms of the agreements governing the Credit Facilities and none of the Bank Affiliates has waived a breach by the Corporation of these agreements since their execution. The financial position of the Corporation has not changed substantially and adversely since the indebtedness under the Credit Facilities was incurred. The Credit Facilities are unsecured.

All or a portion of the net proceeds received pursuant to this offering may be used to reduce the Corporation’s indebtedness to its lenders, including the Bank Affiliates. See “Use of Proceeds”. The decision to offer the MTN Debentures offered hereunder and the determination of the terms of any distribution of MTN Debentures will be made through negotiations between the Corporation and the Dealers. The Bank Affiliates will not have any involvement in such decision or determination, but will be advised of each such issuance and the terms thereof. Each Dealer will receive its share of the Dealers’ fee payable by the Corporation to the Dealers in respect of any issue of MTN Debentures in accordance with that Dealer’s participation in such issue.

LEGAL MATTERS

Certain legal matters relating to the offering will be passed upon on behalf of the Corporation by Farris, Vaughan, Wills & Murphy LLP and on behalf of the Dealers by Cassels Brock & Blackwell LLP. At the date hereof, partners and associates of each of Farris, Vaughan, Wills & Murphy LLP and Cassels Brock & Blackwell LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any affiliate of the Corporation.

AUDITORS AND TRUSTEE

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, 700 West Georgia Street, P.O. Box 10101, Vancouver, British Columbia, V7Y 1C7. Ernst & Young LLP is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

BNY Trust Company of Canada, as agent for CIBC Mellon Trust Company, acts as the registrar, transfer agent and trustee under the Indenture. Transfers of the MTN Debentures may be effected at BNY Trust Company of Canada’s offices in the cities of Vancouver, Toronto or Montreal.

PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal adviser.

ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

Mr. David G. Hutchens, one of the Corporation’s directors, resides outside of Canada and has appointed FortisBC Energy Inc., Suite 1000, 1111 West Georgia Street, Vancouver, British Columbia V6E 4M3 as agent for service of process. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person that resides outside of Canada, even if such person has appointed an agent for service of process.

CERTIFICATE OF FORTISBC ENERGY INC.

Dated: April 1, 2015

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all of the provinces of Canada.

(signed) Michael A. Mulcahy President and Chief Executive Officer	(signed) Michele I. Leeners Vice President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(signed) Harold G. Calla Director	(signed) John C. Walker Director

CERTIFICATE OF THE DEALERS

Dated: April 1, 2015

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all of the provinces of Canada.

BMO Nesbitt Burns Inc.	Casgrain & Company Limited
(Signed) By: Grant Williams	(Signed) By: Stephen McHarg
CIBC World Markets Inc.	HSBC Securities (Canada) Inc.
(Signed) By: Susan Rimmer	(Signed) By: Robert A. Buttke
National Bank Financial Inc.	RBC Dominion Securities Inc.
(Signed) By: Tushar Kittur	(Signed) By: Robert M. Brown
Scotia Capital Inc.	TD Securities Inc.
(Signed) By: M. W. Neal	(Signed) By: Patrick Scace

This pricing supplement, together with the prospectus to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference into the prospectus, as amended or supplemented, constitutes a public offering of these securities only in the jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Pricing Supplement No. 1 dated December 06, 2011
(To a Prospectus dated May 14, 2010)

FortisBC Energy Inc.
Medium Term Note Debentures, Series 25
(Unsecured)

Amount and Currency of Issue:	C$100,000,000
Issue and Delivery Date:	December 09, 2011
Issue Price:	C$99.212 per $100 principal amount
Commission:	0.50%
Net Proceeds to the Company:	C$98.712
Maturity Date:	December 09, 2041
Type of Note:	Global Debenture
Interest Rate:	4.25% per annum, payable semi-annually in arrears
Interest Payment Date(s):	June 09 and December 09
Initial Interest Payment Date:	June 09, 2012
Initial Interest Payment Amount:	$2.125 per $100 principal amount
Redemption Provisions:	The Medium Term Note Debentures, Series 25 issued hereunder will be redeemable, at the Company's option, in whole at any time or in part from time to time on not more than 60 and not less than 30 days' prior notice, at the higher of the Canada Yield Price (as defined below) and par, together with accrued and unpaid interest to the date fixed for redemption.
CUSIP Number:	CA34959ZAA09
Depository:	CDS Clearing and Depository Services Inc.
Trustee/Registrar/Paying Agent:	CIBC Mellon Trust Company
Selling Agent(s):	CIBC World Markets Inc. BMO Nesbitt Burns Inc. National Bank Financial Inc. RBC Dominion Securities Inc. Scotia Capital Inc. TD Securities Inc.

Documents Incorporated by Reference

The following documents (which are not specifically listed in the Prospectus or any amendment or supplement delivered herewith) which have been filed by the Company with the various securities commissions in each of the provinces of Canada are specifically incorporated by reference in and form an integral part of the Prospectus as amended or supplemented:

(a) the audited consolidated financial statements of the Company for the year ended December 31, 2010 which include comparative financial statements for the corresponding period in 2009, together with the auditors' report thereon and the management's discussion and analysis filed in connection with such audited consolidated financial statements; and

(b) the interim unaudited consolidated financial statements of the Company for the nine months ended September 30, 2011 which include comparative financial statements for the corresponding period in 2010, together with the management's discussion and analysis filed in connection with such interim unaudited consolidated financial statements; and

(c) the annual information form of the Company dated March 31, 2011.

Definitions

"Canada Yield Price" shall mean a price calculated to provide a yield over the remaining term to maturity of the Medium Term Note Debentures, Series 25 issued hereunder, compounded semi-annually and calculated in accordance with generally accepted financial practice, equal to the Government of Canada Yield plus 0.41 % on the business day preceding the date of the resolution authorizing the redemption.

"Government of Canada Yield" on any date shall mean the yield to maturity on such date, compounded semi-annually and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada Bond would carry if issued in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity equal to the remaining term to maturity of the Medium Term Note Debentures, Series 25 issued hereunder. The Government of Canada Yield, in the case of a redemption of the Medium Term Note Debentures, Series 25 issued hereunder, will be the average of the yields provided by two Canadian investment dealers selected by the Company and approved by the Trustee.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This pricing supplement, together with the short from base shelf prospectus of FortisBC Energy Inc. (the "Corporation") dated April 1, 2015, as amended or supplemented, and each document incorporated by reference into such short form base shelf prospectus, (collectively, the "Prospectus") constitutes a public offering of these securities pursuant to the Prospectus only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, subject to certain exceptions, will not be offered or sold within the United States or to or for the account or benefit of U.S. Persons.

Pricing Supplement No. 1 dated April 8, 2015
(To a Short Form Base Shelf Prospectus dated April 1, 2015)

FORTIS BC™

FORTISBC ENERGY INC.
MEDIUM TERM NOTE DEBENTURES, SERIES 26
(UNSECURED)

Amount and Currency of Issue:	C$150,000,000
Issue and Delivery Date:	April 13, 2015
Issue Price:	$100 per $100 principal amount
Commission:	0.50%
Net Proceeds to the Corporation:	C$149,250,000
Maturity Date:	April 13, 2045
Type of Security:	Global Debenture
Interest Rate:	3.375% per annum, payable semi-annually in arrears
Offering Yield:	3.375%
Interest Payment Date(s):	April 13 and October 13
Initial Interest Payment Date:	October 13, 2015
Initial Interest Payment Amount:	$1.6875 per $100 principal amount
Redemption Provisions:	The Medium Term Note Debentures, Series 26 issued hereunder will be redeemable, at the Corporation's option, in whole at any time or in part from time to time on not more than 60 and not less than 30 days' prior notice: (A) prior to October 13, 2044, at the higher of the Canada Yield Price (as defined below) and par, and (B) on or after October 13, 2044 at par together, in each case, with accrued and unpaid interest to the date fixed for redemption.
Credit Ratings:	The Corporation's senior unsecured indebtedness currently has a rating of A3, stable outlook, by Moody's Investors Service, Inc. and A, stable trend, by DBRS Limited.
CUSIP Number:	34959ZAB8
ISIN Number:	CA 34959ZAB81
Depository:	CDS Clearing and Depository Services Inc.
Trustee/Registrar/Paying Agent:	CIBC Mellon Trust Company

Selling Agents: Scotia Capital Inc.
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
HSBC Securities (Canada) Inc.
National Bank Financial Inc.
RBC Dominion Securities Inc.
TD Securities Inc.
Casgrain & Company Limited

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (some of which may not be specifically listed in the Prospectus or any amendment or supplement delivered herewith) which have been filed by the Corporation with the various securities commissions or similar authorities in each of the provinces of Canada are specifically incorporated by reference into the Prospectus, as amended or supplemented, and provide disclosure pertaining to the Medium Term Note Debentures, Series 26:

(a) the annual information form of the Corporation dated March 13, 2015;

(b) audited consolidated financial statements of the Corporation as at and for the years ended December 31, 2014 and 2013, together with the notes thereto and the auditors' reports thereon; and

(c) management's discussion and analysis of financial condition and results of operations of the Corporation for the year ended December 31, 2014.

(d) the template indicative term sheet (the "Term Sheet") prepared for potential investors in connection with the offering of Medium Term Note Debentures, Series 26 (the "Offering"); and

(e) the Revised Term Sheet (as defined below).

The Term Sheet is not a part of this Pricing Supplement to the extent that the contents of the Term Sheet have been modified or superseded by a statement contained in this Pricing Supplement.

The Term Sheet did not include a number of terms of the Offering. The terms of this Offering have been confirmed to reflect an aggregate principal amount of $150,000,000, an interest rate of 3.375% per annum, an initial coupon of $1.6875 per $100 principal amount, a yield to maturity of 3.375%, an issue price of $100 per $100 principal amount, and the definition of "Canada Yield Price", all as reflected in this Pricing Supplement. Pursuant to subsection 9A.3(7) of National Instrument 44-102 *Shelf Distributions*, the Corporation has prepared a revised Term Sheet (the "Revised Term Sheet") to reflect the modifications discussed above, a blackline of which has been prepared. A copy of the Revised Term Sheet and associated blackline can be viewed under the Corporation's profile on www.sedar.com.

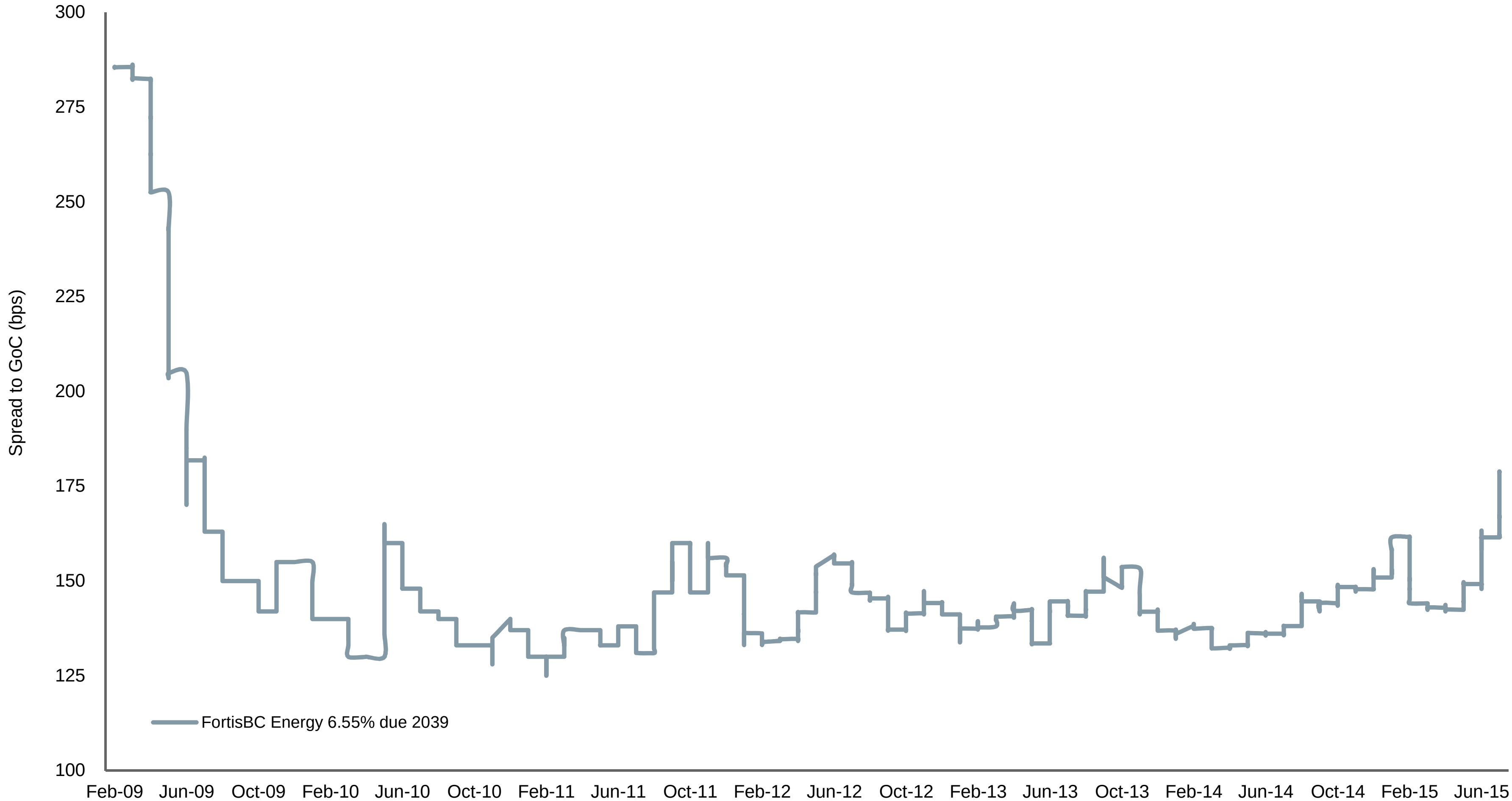
USE OF PROCEEDS

The net proceeds will be used for general corporate purposes, including repayment of existing indebtedness and financing the Corporation's capital expenditure program and working capital requirements.

DEFINITIONS

"*Canada Yield Price*" means the price in respect of the principal amount of the Medium Term Note Debentures, Series 26 to be redeemed, calculated as of the business day immediately prior to the business day on which the Corporation gives a notice of redemption in respect of such Medium Term Note Debentures, Series 26, equal to the net present value of all scheduled payments of interest and principal on the Medium Term Note Debentures, Series 26 to be redeemed from the redemption date to October 13, 2044 using as a discount rate the sum of the Canada Yield on such business day plus 0.34%.

"*Canada Yield*" means, on any date, the yield to maturity on such date as determined by the arithmetic average (rounded to four decimal places) of the yields quoted at 10:00 a.m. (Vancouver time) by two major Canadian investment dealers selected by the Corporation, assuming semi-annual compounding and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity approximately equal to the remaining term to October 13, 2044 of the Medium Term Note Debentures, Series 26.



Spread to GoC (bps)
300
275
250
225
200
175
150
125
100
FortisBC Energy 6.55% due 2039
Feb-09
Jun-09
Oct-09
Feb-10
Jun-10
Oct-10
Feb-11
Jun-11
Oct-11
Feb-12
Jun-12
Oct-12
Feb-13
Jun-13
Oct-13
Feb-14
Jun-14
Oct-14
Feb-15
Jun-15

Source: RBC Capital Markets

Date	FortisBC Energy 6.55% due 2039	CAN 5% 06/01/37	Spread (bps)
2-Feb-09	-	3.689	
3-Feb-09	-	3.762	
4-Feb-09	-	3.797	
5-Feb-09	-	3.727	
6-Feb-09	-	3.769	
9-Feb-09	-	3.806	
10-Feb-09	-	3.726	
11-Feb-09	-	3.686	
12-Feb-09	-	3.649	
13-Feb-09	-	3.676	
16-Feb-09	-	3.676	
17-Feb-09	-	3.554	
18-Feb-09	-	3.583	
19-Feb-09	6.483	3.629	285
20-Feb-09	6.450	3.594	286
23-Feb-09	6.429	3.573	286
24-Feb-09	6.457	3.603	285
25-Feb-09	6.545	3.690	286
26-Feb-09	6.563	3.708	286
27-Feb-09	6.558	3.703	286
2-Mar-09	6.467	3.611	286
3-Mar-09	6.488	3.630	286
4-Mar-09	6.523	3.665	286
5-Mar-09	6.418	3.560	286
6-Mar-09	6.469	3.611	286
9-Mar-09	6.493	3.635	286
10-Mar-09	6.562	3.704	286
11-Mar-09	6.523	3.665	286
12-Mar-09	6.498	3.638	286
13-Mar-09	6.459	3.598	286
16-Mar-09	6.473	3.611	286
17-Mar-09	6.506	3.645	286
18-Mar-09	6.396	3.542	285
19-Mar-09	6.412	3.562	285
20-Mar-09	6.443	3.610	283
23-Mar-09	6.440	3.611	283
24-Mar-09	6.513	3.689	282
25-Mar-09	6.562	3.739	282
26-Mar-09	6.469	3.647	282
27-Mar-09	6.483	3.659	282
30-Mar-09	6.416	3.593	282
31-Mar-09	6.386	3.560	283
1-Apr-09	6.373	3.549	282
2-Apr-09	6.437	3.612	283
3-Apr-09	6.487	3.664	282
6-Apr-09	6.531	3.712	282
7-Apr-09	6.487	3.666	282
8-Apr-09	6.446	3.626	282
9-Apr-09	6.371	3.651	272
10-Apr-09	6.371	3.651	272
13-Apr-09	6.370	3.650	272
14-Apr-09	6.356	3.636	272
15-Apr-09	6.390	3.670	272
16-Apr-09	6.420	3.700	272
17-Apr-09	6.476	3.752	272
20-Apr-09	6.279	3.655	262
21-Apr-09	6.321	3.697	262
22-Apr-09	6.347	3.723	262
23-Apr-09	6.382	3.755	263
24-Apr-09	6.387	3.760	263
27-Apr-09	6.384	3.757	263
28-Apr-09	6.425	3.798	263
29-Apr-09	6.358	3.831	253
30-Apr-09	6.364	3.839	253
1-May-09	6.361	3.836	253
4-May-09	6.278	3.854	242
5-May-09	6.266	3.841	243
6-May-09	6.292	3.867	243
7-May-09	6.365	3.940	243
8-May-09	6.359	3.932	243
11-May-09	6.315	3.887	243
12-May-09	6.336	3.908	243
13-May-09	6.295	3.866	243
14-May-09	6.286	3.857	243
15-May-09	6.289	3.858	243

18-May-09	6.289	3.858	243
19-May-09	6.334	3.901	243
20-May-09	6.330	3.897	243
21-May-09	6.418	3.984	243
22-May-09	6.402	3.968	243
25-May-09	6.413	3.979	243
26-May-09	6.521	4.087	243
27-May-09	6.227	4.192	204
28-May-09	6.106	4.068	204
29-May-09	6.041	3.993	205
1-Jun-09	6.091	4.043	205
2-Jun-09	5.909	4.010	190
3-Jun-09	5.860	3.962	190
4-Jun-09	5.892	3.994	190
5-Jun-09	5.880	3.981	190
8-Jun-09	5.856	4.005	185
9-Jun-09	5.879	4.029	185
10-Jun-09	5.958	4.107	185
11-Jun-09	5.700	3.999	170
12-Jun-09	5.644	3.943	170
15-Jun-09	5.640	3.938	170
16-Jun-09	5.598	3.896	170
17-Jun-09	5.606	3.902	170
18-Jun-09	5.676	3.972	170
19-Jun-09	5.672	3.967	171
22-Jun-09	5.607	3.903	170
23-Jun-09	5.582	3.877	171
24-Jun-09	5.616	3.911	171
25-Jun-09	5.617	3.908	171
26-Jun-09	5.611	3.895	172
29-Jun-09	5.707	3.891	182
30-Jun-09	5.679	3.861	182
1-Jul-09	5.679	3.861	182
2-Jul-09	5.666	3.848	182
3-Jul-09	5.666	3.848	182
6-Jul-09	5.688	3.871	182
7-Jul-09	5.667	3.850	182
8-Jul-09	5.648	3.835	181
9-Jul-09	5.692	3.871	182
10-Jul-09	5.688	3.863	183
13-Jul-09	5.730	3.907	182
14-Jul-09	5.811	3.991	182
15-Jul-09	5.649	4.019	163
16-Jul-09	5.585	3.955	163
17-Jul-09	5.644	4.014	163
20-Jul-09	5.595	3.965	163
21-Jul-09	5.614	3.984	163
22-Jul-09	5.643	4.013	163
23-Jul-09	5.678	4.048	163
24-Jul-09	5.687	4.057	163
27-Jul-09	5.702	4.072	163
28-Jul-09	5.684	4.054	163
29-Jul-09	5.678	4.048	163
30-Jul-09	5.678	4.048	163
31-Jul-09	5.580	3.950	163
3-Aug-09	5.580	3.950	163
4-Aug-09	5.651	4.021	163
5-Aug-09	5.691	4.061	163
6-Aug-09	5.652	4.022	163
7-Aug-09	5.703	4.073	163
10-Aug-09	5.664	4.034	163
11-Aug-09	5.610	3.980	163
12-Aug-09	5.626	3.996	163
13-Aug-09	5.606	3.976	163
14-Aug-09	5.578	3.948	163
17-Aug-09	5.519	3.889	163
18-Aug-09	5.535	3.905	163
19-Aug-09	5.527	3.897	163
20-Aug-09	5.521	3.891	163
21-Aug-09	5.585	3.955	163
24-Aug-09	5.540	3.910	163
25-Aug-09	5.532	3.902	163
26-Aug-09	5.448	3.898	155
27-Aug-09	5.394	3.894	150
28-Aug-09	5.407	3.907	150
31-Aug-09	5.387	3.887	150
1-Sep-09	5.375	3.875	150
2-Sep-09	5.355	3.855	150

3-Sep-09	5.372	3.872	150
4-Sep-09	5.394	3.894	150
7-Sep-09	5.394	3.894	150
8-Sep-09	5.436	3.936	150
9-Sep-09	5.441	3.941	150
10-Sep-09	5.367	3.867	150
11-Sep-09	5.365	3.865	150
14-Sep-09	5.401	3.901	150
15-Sep-09	5.393	3.893	150
16-Sep-09	5.384	3.884	150
17-Sep-09	5.370	3.870	150
18-Sep-09	5.410	3.910	150
21-Sep-09	5.433	3.933	150
22-Sep-09	5.435	3.935	150
23-Sep-09	5.427	3.927	150
24-Sep-09	5.403	3.903	150
25-Sep-09	5.380	3.880	150
28-Sep-09	5.361	3.861	150
29-Sep-09	5.360	3.860	150
30-Sep-09	5.341	3.841	150
1-Oct-09	5.312	3.812	150
2-Oct-09	5.323	3.823	150
5-Oct-09	5.308	3.808	150
6-Oct-09	5.340	3.840	150
7-Oct-09	5.342	3.842	150
8-Oct-09	5.389	3.889	150
9-Oct-09	5.461	3.961	150
12-Oct-09	5.461	3.961	150
13-Oct-09	5.420	3.950	147
14-Oct-09	5.431	3.981	145
15-Oct-09	5.454	4.004	145
16-Oct-09	5.397	3.947	145
19-Oct-09	5.416	3.966	145
20-Oct-09	5.376	3.926	145
21-Oct-09	5.389	3.939	145
22-Oct-09	5.372	3.952	142
23-Oct-09	5.402	3.982	142
26-Oct-09	5.438	4.018	142
27-Oct-09	5.402	3.982	142
28-Oct-09	5.380	3.960	142
29-Oct-09	5.399	3.979	142
30-Oct-09	5.345	3.925	142
2-Nov-09	5.361	3.941	142
3-Nov-09	5.360	3.940	142
4-Nov-09	5.413	3.993	142
5-Nov-09	5.460	4.040	142
6-Nov-09	5.454	4.034	142
9-Nov-09	5.442	4.022	142
10-Nov-09	5.434	4.014	142
11-Nov-09	5.433	4.014	142
12-Nov-09	5.455	4.035	142
13-Nov-09	5.412	3.992	142
16-Nov-09	5.347	3.927	142
17-Nov-09	5.331	3.911	142
18-Nov-09	5.377	3.957	142
19-Nov-09	5.372	3.922	145
20-Nov-09	5.382	3.932	145
23-Nov-09	5.430	3.930	150
24-Nov-09	5.406	3.856	155
25-Nov-09	5.398	3.848	155
26-Nov-09	5.369	3.819	155
27-Nov-09	5.387	3.837	155
30-Nov-09	5.393	3.843	155
1-Dec-09	5.420	3.870	155
2-Dec-09	5.430	3.880	155
3-Dec-09	5.417	3.867	155
4-Dec-09	5.462	3.912	155
7-Dec-09	5.442	3.892	155
8-Dec-09	5.476	3.926	155
9-Dec-09	5.516	3.966	155
10-Dec-09	5.546	3.996	155
11-Dec-09	5.546	3.996	155
14-Dec-09	5.562	4.012	155
15-Dec-09	5.556	4.006	155
16-Dec-09	5.540	3.990	155
17-Dec-09	5.521	3.971	155
18-Dec-09	5.559	4.009	155
21-Dec-09	5.633	4.083	155

22-Dec-09	5.671	4.121	155
23-Dec-09	5.619	4.069	155
24-Dec-09	5.638	4.088	155
25-Dec-09	5.638	4.088	155
28-Dec-09	5.638	4.088	155
29-Dec-09	5.641	4.091	155
30-Dec-09	5.624	4.074	155
31-Dec-09	5.632	4.082	155
1-Jan-10	5.632	4.082	155
4-Jan-10	5.602	4.102	150
5-Jan-10	5.579	4.079	150
6-Jan-10	5.543	4.143	140
7-Jan-10	5.549	4.149	140
8-Jan-10	5.518	4.118	140
11-Jan-10	5.536	4.136	140
12-Jan-10	5.490	4.090	140
13-Jan-10	5.543	4.143	140
14-Jan-10	5.490	4.090	140
15-Jan-10	5.454	4.054	140
18-Jan-10	5.438	4.038	140
19-Jan-10	5.440	4.040	140
20-Jan-10	5.413	4.013	140
21-Jan-10	5.396	3.996	140
22-Jan-10	5.395	3.995	140
25-Jan-10	5.403	4.003	140
26-Jan-10	5.372	3.972	140
27-Jan-10	5.367	3.967	140
28-Jan-10	5.337	3.937	140
29-Jan-10	5.345	3.945	140
1-Feb-10	5.379	3.979	140
2-Feb-10	5.395	3.995	140
3-Feb-10	5.445	4.045	140
4-Feb-10	5.396	3.996	140
5-Feb-10	5.398	3.998	140
8-Feb-10	5.390	3.990	140
9-Feb-10	5.412	4.012	140
10-Feb-10	5.441	4.041	140
11-Feb-10	5.455	4.055	140
12-Feb-10	5.466	4.066	140
15-Feb-10	5.466	4.066	140
16-Feb-10	5.462	4.062	140
17-Feb-10	5.479	4.079	140
18-Feb-10	5.473	4.073	140
19-Feb-10	5.474	4.074	140
22-Feb-10	5.491	4.091	140
23-Feb-10	5.433	4.033	140
24-Feb-10	5.455	4.055	140
25-Feb-10	5.427	4.027	140
26-Feb-10	5.422	4.022	140
1-Mar-10	5.422	4.022	140
2-Mar-10	5.400	4.000	140
3-Mar-10	5.407	4.007	140
4-Mar-10	5.412	4.012	140
5-Mar-10	5.466	4.066	140
8-Mar-10	5.500	4.100	140
9-Mar-10	5.515	4.115	140
10-Mar-10	5.522	4.122	140
11-Mar-10	5.431	4.081	135
12-Mar-10	5.441	4.091	135
15-Mar-10	5.412	4.062	135
16-Mar-10	5.369	4.019	135
17-Mar-10	5.395	4.045	135
18-Mar-10	5.368	4.018	135
19-Mar-10	5.398	4.048	135
22-Mar-10	5.382	4.032	135
23-Mar-10	5.385	4.035	135
24-Mar-10	5.443	4.093	135
25-Mar-10	5.414	4.084	133
26-Mar-10	5.417	4.087	133
29-Mar-10	5.436	4.106	133
30-Mar-10	5.427	4.097	133
31-Mar-10	5.368	4.068	130
1-Apr-10	5.349	4.049	130
2-Apr-10	5.349	4.049	130
5-Apr-10	5.420	4.120	130
6-Apr-10	5.415	4.115	130
7-Apr-10	5.365	4.065	130
8-Apr-10	5.411	4.111	130

9-Apr-10	5.361	4.061	130
12-Apr-10	5.364	4.064	130
13-Apr-10	5.383	4.083	130
14-Apr-10	5.413	4.113	130
15-Apr-10	5.408	4.108	130
16-Apr-10	5.388	4.088	130
19-Apr-10	5.363	4.063	130
20-Apr-10	5.374	4.074	130
21-Apr-10	5.366	4.066	130
22-Apr-10	5.393	4.093	130
23-Apr-10	5.371	4.071	130
26-Apr-10	5.361	4.061	130
27-Apr-10	5.319	4.019	130
28-Apr-10	5.348	4.048	130
29-Apr-10	5.347	4.047	130
30-Apr-10	5.307	4.007	130
3-May-10	5.297	3.997	130
4-May-10	5.319	3.949	137
5-May-10	5.384	3.934	145
6-May-10	5.378	3.878	150
7-May-10	5.388	3.888	150
10-May-10	5.434	3.934	150
11-May-10	5.431	3.931	150
12-May-10	5.441	3.941	150
13-May-10	5.359	3.859	150
14-May-10	5.316	3.816	150
17-May-10	5.388	3.888	150
18-May-10	5.365	3.815	155
19-May-10	5.364	3.814	155
20-May-10	5.388	3.738	165
21-May-10	5.419	3.769	165
24-May-10	5.419	3.769	165
25-May-10	5.346	3.696	165
26-May-10	5.284	3.684	160
27-May-10	5.358	3.758	160
28-May-10	5.309	3.709	160
31-May-10	5.330	3.730	160
1-Jun-10	5.294	3.694	160
2-Jun-10	5.379	3.779	160
3-Jun-10	5.384	3.784	160
4-Jun-10	5.315	3.715	160
7-Jun-10	5.303	3.703	160
8-Jun-10	5.336	3.736	160
9-Jun-10	5.363	3.763	160
10-Jun-10	5.433	3.833	160
11-Jun-10	5.407	3.807	160
14-Jun-10	5.437	3.837	160
15-Jun-10	5.430	3.830	160
16-Jun-10	5.386	3.786	160
17-Jun-10	5.346	3.746	160
18-Jun-10	5.359	3.759	160
21-Jun-10	5.243	3.763	148
22-Jun-10	5.187	3.707	148
23-Jun-10	5.179	3.699	148
24-Jun-10	5.185	3.705	148
25-Jun-10	5.161	3.681	148
28-Jun-10	5.164	3.682	148
29-Jun-10	5.125	3.645	148
30-Jun-10	5.126	3.646	148
1-Jul-10	5.130	3.650	148
2-Jul-10	5.130	3.650	148
5-Jul-10	5.115	3.635	148
6-Jul-10	5.120	3.640	148
7-Jul-10	5.181	3.701	148
8-Jul-10	5.207	3.727	148
9-Jul-10	5.231	3.751	148
12-Jul-10	5.227	3.747	148
13-Jul-10	5.261	3.781	148
14-Jul-10	5.266	3.786	148
15-Jul-10	5.256	3.776	148
16-Jul-10	5.204	3.724	148
19-Jul-10	5.219	3.739	148
20-Jul-10	5.245	3.765	148
21-Jul-10	5.210	3.730	148
22-Jul-10	5.221	3.771	145
23-Jul-10	5.228	3.778	145
26-Jul-10	5.228	3.778	145
27-Jul-10	5.220	3.800	142

28-Jul-10	5.190	3.770	142
29-Jul-10	5.174	3.754	142
30-Jul-10	5.109	3.689	142
2-Aug-10	5.109	3.689	142
3-Aug-10	5.114	3.694	142
4-Aug-10	5.139	3.719	142
5-Aug-10	5.086	3.666	142
6-Aug-10	5.050	3.650	140
9-Aug-10	5.054	3.654	140
10-Aug-10	5.030	3.630	140
11-Aug-10	5.007	3.607	140
12-Aug-10	5.037	3.637	140
13-Aug-10	5.003	3.603	140
16-Aug-10	4.949	3.549	140
17-Aug-10	4.970	3.570	140
18-Aug-10	4.946	3.546	140
19-Aug-10	4.922	3.522	140
20-Aug-10	4.928	3.528	140
23-Aug-10	4.931	3.531	140
24-Aug-10	4.900	3.500	140
25-Aug-10	4.876	3.476	140
26-Aug-10	4.829	3.429	140
27-Aug-10	4.893	3.493	140
30-Aug-10	4.829	3.429	140
31-Aug-10	4.837	3.437	140
1-Sep-10	4.898	3.498	140
2-Sep-10	4.920	3.520	140
3-Sep-10	4.970	3.570	140
6-Sep-10	4.970	3.570	140
7-Sep-10	4.863	3.463	140
8-Sep-10	4.932	3.532	140
9-Sep-10	4.949	3.549	140
10-Sep-10	4.952	3.552	140
13-Sep-10	4.936	3.536	140
14-Sep-10	4.928	3.528	140
15-Sep-10	4.939	3.539	140
16-Sep-10	4.946	3.546	140
17-Sep-10	4.904	3.504	140
20-Sep-10	4.905	3.505	140
21-Sep-10	4.878	3.478	140
22-Sep-10	4.835	3.435	140
23-Sep-10	4.817	3.417	140
24-Sep-10	4.829	3.429	140
27-Sep-10	4.758	3.388	137
28-Sep-10	4.663	3.333	133
29-Sep-10	4.665	3.335	133
30-Sep-10	4.686	3.356	133
1-Oct-10	4.725	3.395	133
4-Oct-10	4.698	3.368	133
5-Oct-10	4.717	3.387	133
6-Oct-10	4.707	3.377	133
7-Oct-10	4.748	3.418	133
8-Oct-10	4.729	3.399	133
11-Oct-10	4.729	3.399	133
12-Oct-10	4.768	3.438	133
13-Oct-10	4.768	3.438	133
14-Oct-10	4.787	3.457	133
15-Oct-10	4.824	3.494	133
18-Oct-10	4.813	3.483	133
19-Oct-10	4.776	3.446	133
20-Oct-10	4.798	3.468	133
21-Oct-10	4.779	3.449	133
22-Oct-10	4.767	3.437	133
25-Oct-10	4.760	3.430	133
26-Oct-10	4.794	3.464	133
27-Oct-10	4.836	3.506	133
28-Oct-10	4.813	3.483	133
29-Oct-10	4.772	3.442	133
1-Nov-10	4.806	3.476	133
2-Nov-10	4.813	3.483	133
3-Nov-10	4.825	3.495	133
4-Nov-10	4.778	3.478	130
5-Nov-10	4.788	3.488	130
8-Nov-10	4.810	3.510	130
9-Nov-10	4.875	3.575	130
10-Nov-10	4.894	3.594	130
11-Nov-10	4.894	3.594	130
12-Nov-10	4.931	3.631	130

15-Nov-10	5.034	3.734	130
16-Nov-10	4.979	3.679	130
17-Nov-10	4.969	3.669	130
18-Nov-10	4.942	3.662	128
19-Nov-10	4.949	3.669	128
22-Nov-10	4.913	3.633	128
23-Nov-10	5.000	3.650	135
24-Nov-10	5.049	3.699	135
25-Nov-10	5.031	3.681	135
26-Nov-10	4.970	3.620	135
29-Nov-10	4.925	3.575	135
30-Nov-10	4.885	3.535	135
1-Dec-10	5.037	3.637	140
2-Dec-10	5.056	3.656	140
3-Dec-10	5.088	3.688	140
6-Dec-10	5.051	3.651	140
7-Dec-10	5.136	3.736	140
8-Dec-10	5.143	3.743	140
9-Dec-10	5.145	3.745	140
10-Dec-10	5.172	3.772	140
13-Dec-10	5.119	3.719	140
14-Dec-10	5.222	3.822	140
15-Dec-10	5.202	3.802	140
16-Dec-10	5.102	3.732	137
17-Dec-10	5.031	3.661	137
20-Dec-10	5.015	3.645	137
21-Dec-10	4.983	3.613	137
22-Dec-10	4.993	3.623	137
23-Dec-10	4.996	3.626	137
24-Dec-10	4.991	3.621	137
27-Dec-10	4.991	3.621	137
28-Dec-10	4.991	3.621	137
29-Dec-10	4.972	3.602	137
30-Dec-10	4.973	3.603	137
31-Dec-10	4.951	3.581	137
3-Jan-11	4.951	3.581	137
4-Jan-11	5.005	3.635	137
5-Jan-11	5.088	3.718	137
6-Jan-11	5.069	3.699	137
7-Jan-11	4.968	3.668	130
10-Jan-11	4.955	3.655	130
11-Jan-11	4.996	3.696	130
12-Jan-11	5.036	3.736	130
13-Jan-11	5.033	3.733	130
14-Jan-11	5.053	3.753	130
17-Jan-11	5.045	3.745	130
18-Jan-11	5.067	3.767	130
19-Jan-11	5.046	3.746	130
20-Jan-11	5.103	3.803	130
21-Jan-11	5.103	3.803	130
24-Jan-11	5.111	3.811	130
25-Jan-11	5.083	3.783	130
26-Jan-11	5.109	3.809	130
27-Jan-11	5.075	3.775	130
28-Jan-11	5.061	3.761	130
31-Jan-11	5.083	3.783	130
1-Feb-11	5.124	3.824	130
2-Feb-11	5.146	3.846	130
3-Feb-11	5.104	3.854	125
4-Feb-11	5.128	3.878	125
7-Feb-11	5.112	3.862	125
8-Feb-11	5.151	3.901	125
9-Feb-11	5.112	3.862	125
10-Feb-11	5.138	3.888	125
11-Feb-11	5.131	3.881	125
14-Feb-11	5.144	3.894	125
15-Feb-11	5.143	3.893	125
16-Feb-11	5.158	3.908	125
17-Feb-11	5.158	3.908	125
18-Feb-11	5.153	3.903	125
21-Feb-11	5.153	3.903	125
22-Feb-11	5.089	3.839	125
23-Feb-11	5.102	3.802	130
24-Feb-11	5.077	3.777	130
25-Feb-11	5.053	3.753	130
28-Feb-11	5.050	3.750	130
1-Mar-11	5.053	3.753	130
2-Mar-11	5.097	3.797	130

3-Mar-11	5.151	3.851	130
4-Mar-11	5.115	3.815	130
7-Mar-11	5.141	3.841	130
8-Mar-11	5.239	3.889	135
9-Mar-11	5.189	3.839	135
10-Mar-11	5.138	3.788	135
11-Mar-11	5.148	3.798	135
14-Mar-11	5.129	3.779	135
15-Mar-11	5.113	3.763	135
16-Mar-11	5.072	3.722	135
17-Mar-11	5.111	3.761	135
18-Mar-11	5.106	3.756	135
21-Mar-11	5.111	3.781	133
22-Mar-11	5.073	3.743	133
23-Mar-11	5.078	3.748	133
24-Mar-11	5.073	3.743	133
25-Mar-11	5.080	3.750	133
28-Mar-11	5.079	3.749	133
29-Mar-11	5.115	3.785	133
30-Mar-11	5.094	3.764	133
31-Mar-11	5.170	3.800	137
1-Apr-11	5.189	3.819	137
4-Apr-11	5.180	3.810	137
5-Apr-11	5.188	3.818	137
6-Apr-11	5.239	3.869	137
7-Apr-11	5.260	3.890	137
8-Apr-11	5.263	3.893	137
11-Apr-11	5.285	3.915	137
12-Apr-11	5.235	3.865	137
13-Apr-11	5.203	3.833	137
14-Apr-11	5.195	3.825	137
15-Apr-11	5.140	3.770	137
18-Apr-11	5.099	3.729	137
19-Apr-11	5.122	3.752	137
20-Apr-11	5.179	3.809	137
21-Apr-11	5.150	3.780	137
22-Apr-11	5.150	3.780	137
25-Apr-11	5.122	3.752	137
26-Apr-11	5.093	3.723	137
27-Apr-11	5.153	3.783	137
28-Apr-11	5.122	3.752	137
29-Apr-11	5.103	3.733	137
2-May-11	5.102	3.732	137
3-May-11	5.051	3.681	137
4-May-11	5.013	3.643	137
5-May-11	4.980	3.610	137
6-May-11	5.000	3.630	137
9-May-11	5.003	3.633	137
10-May-11	5.055	3.685	137
11-May-11	4.995	3.665	133
12-May-11	5.002	3.672	133
13-May-11	4.963	3.633	133
16-May-11	4.955	3.625	133
17-May-11	4.933	3.603	133
18-May-11	4.983	3.653	133
19-May-11	4.973	3.643	133
20-May-11	4.935	3.605	133
23-May-11	4.935	3.605	133
24-May-11	4.898	3.568	133
25-May-11	4.877	3.547	133
26-May-11	4.850	3.520	133
27-May-11	4.866	3.534	133
30-May-11	4.858	3.528	133
31-May-11	4.855	3.525	133
1-Jun-11	4.816	3.486	133
2-Jun-11	4.858	3.528	133
3-Jun-11	4.837	3.507	133
6-Jun-11	4.862	3.532	133
7-Jun-11	4.882	3.552	133
8-Jun-11	4.875	3.525	135
9-Jun-11	4.900	3.550	135
10-Jun-11	4.862	3.512	135
13-Jun-11	4.841	3.491	135
14-Jun-11	4.890	3.540	135
15-Jun-11	4.802	3.452	135
16-Jun-11	4.772	3.422	135
17-Jun-11	4.775	3.425	135
20-Jun-11	4.795	3.445	135

21-Jun-11	4.804	3.454	135
22-Jun-11	4.796	3.446	135
23-Jun-11	4.750	3.400	135
24-Jun-11	4.770	3.390	138
27-Jun-11	4.823	3.443	138
28-Jun-11	4.877	3.497	138
29-Jun-11	4.945	3.565	138
30-Jun-11	4.957	3.577	138
1-Jul-11	4.957	3.577	138
4-Jul-11	4.939	3.559	138
5-Jul-11	4.928	3.548	138
6-Jul-11	4.914	3.534	138
7-Jul-11	4.905	3.525	138
8-Jul-11	4.828	3.448	138
11-Jul-11	4.773	3.393	138
12-Jul-11	4.764	3.384	138
13-Jul-11	4.727	3.406	132
14-Jul-11	4.751	3.430	132
15-Jul-11	4.701	3.380	132
18-Jul-11	4.708	3.387	132
19-Jul-11	4.685	3.375	131
20-Jul-11	4.728	3.418	131
21-Jul-11	4.776	3.466	131
22-Jul-11	4.726	3.416	131
25-Jul-11	4.734	3.424	131
26-Jul-11	4.705	3.395	131
27-Jul-11	4.686	3.376	131
28-Jul-11	4.678	3.368	131
29-Jul-11	4.619	3.309	131
1-Aug-11	4.619	3.309	131
2-Aug-11	4.507	3.187	132
3-Aug-11	4.528	3.208	132
4-Aug-11	4.429	3.109	132
5-Aug-11	4.589	3.239	135
8-Aug-11	4.591	3.141	145
9-Aug-11	4.554	3.104	145
10-Aug-11	4.458	3.008	145
11-Aug-11	4.553	3.103	145
12-Aug-11	4.571	3.121	145
15-Aug-11	4.612	3.162	145
16-Aug-11	4.587	3.137	145
17-Aug-11	4.526	3.076	145
18-Aug-11	4.433	2.983	145
19-Aug-11	4.434	2.984	145
22-Aug-11	4.426	2.976	145
23-Aug-11	4.511	3.041	147
24-Aug-11	4.581	3.111	147
25-Aug-11	4.542	3.072	147
26-Aug-11	4.514	3.044	147
29-Aug-11	4.563	3.093	147
30-Aug-11	4.518	3.048	147
31-Aug-11	4.608	3.138	147
1-Sep-11	4.537	3.067	147
2-Sep-11	4.463	2.993	147
5-Sep-11	4.463	2.993	147
6-Sep-11	4.498	2.948	155
7-Sep-11	4.485	2.985	150
8-Sep-11	4.427	2.927	150
9-Sep-11	4.350	2.850	150
12-Sep-11	4.402	2.852	155
13-Sep-11	4.435	2.885	155
14-Sep-11	4.441	2.891	155
15-Sep-11	4.510	2.960	155
16-Sep-11	4.524	2.974	155
19-Sep-11	4.469	2.919	155
20-Sep-11	4.457	2.907	155
21-Sep-11	4.361	2.811	155
22-Sep-11	4.330	2.730	160
23-Sep-11	4.348	2.748	160
26-Sep-11	4.416	2.816	160
27-Sep-11	4.467	2.867	160
28-Sep-11	4.472	2.872	160
29-Sep-11	4.482	2.882	160
30-Sep-11	4.411	2.811	160
3-Oct-11	4.327	2.727	160
4-Oct-11	4.346	2.746	160
5-Oct-11	4.371	2.771	160
6-Oct-11	4.437	2.837	160

7-Oct-11	4.457	2.857	160
10-Oct-11	4.457	2.861	160
11-Oct-11	4.504	2.904	160
12-Oct-11	4.577	2.977	160
13-Oct-11	4.471	2.921	155
14-Oct-11	4.550	3.000	155
17-Oct-11	4.461	2.911	155
18-Oct-11	4.489	2.939	155
19-Oct-11	4.513	2.963	155
20-Oct-11	4.511	2.961	155
21-Oct-11	4.561	3.011	155
24-Oct-11	4.567	3.017	155
25-Oct-11	4.495	2.945	155
26-Oct-11	4.601	3.051	155
27-Oct-11	4.628	3.158	147
28-Oct-11	4.552	3.082	147
31-Oct-11	4.418	2.948	147
1-Nov-11	4.286	2.816	147
2-Nov-11	4.309	2.839	147
3-Nov-11	4.352	2.882	147
4-Nov-11	4.319	2.849	147
7-Nov-11	4.306	2.836	147
8-Nov-11	4.305	2.835	147
9-Nov-11	4.249	2.749	150
10-Nov-11	4.281	2.781	150
11-Nov-11	4.281	2.781	150
14-Nov-11	4.310	2.770	154
15-Nov-11	4.318	2.778	154
16-Nov-11	4.297	2.747	155
17-Nov-11	4.291	2.741	155
18-Nov-11	4.323	2.773	155
21-Nov-11	4.297	2.747	155
22-Nov-11	4.261	2.711	155
23-Nov-11	4.262	2.662	160
24-Nov-11	4.230	2.663	157
25-Nov-11	4.262	2.697	157
28-Nov-11	4.272	2.708	156
29-Nov-11	4.269	2.707	156
30-Nov-11	4.291	2.731	156
1-Dec-11	4.295	2.734	156
2-Dec-11	4.256	2.716	154
5-Dec-11	4.235	2.695	154
6-Dec-11	4.263	2.724	154
7-Dec-11	4.205	2.665	154
8-Dec-11	4.162	2.621	154
9-Dec-11	4.236	2.696	154
12-Dec-11	4.198	2.658	154
13-Dec-11	4.147	2.608	154
14-Dec-11	4.116	2.578	154
15-Dec-11	4.104	2.565	154
16-Dec-11	4.031	2.490	154
19-Dec-11	3.993	2.452	154
20-Dec-11	4.043	2.501	154
21-Dec-11	4.075	2.528	155
22-Dec-11	4.079	2.532	155
23-Dec-11	4.133	2.586	155
26-Dec-11	4.133	2.586	155
27-Dec-11	4.133	2.586	155
28-Dec-11	4.054	2.537	152
29-Dec-11	4.045	2.530	152
30-Dec-11	4.042	2.527	152
2-Jan-12	4.042	2.527	152
3-Jan-12	4.102	2.587	152
4-Jan-12	4.102	2.609	149
5-Jan-12	4.066	2.585	148
6-Jan-12	4.023	2.561	146
9-Jan-12	3.972	2.560	141
10-Jan-12	3.992	2.580	141
11-Jan-12	3.957	2.543	141
12-Jan-12	4.000	2.587	141
13-Jan-12	3.955	2.542	141
16-Jan-12	3.961	2.548	141
17-Jan-12	3.900	2.537	136
18-Jan-12	3.929	2.567	136
19-Jan-12	3.971	2.610	136
20-Jan-12	3.996	2.665	133
23-Jan-12	4.032	2.701	133
24-Jan-12	4.037	2.706	133

25-Jan-12	4.016	2.683	133
26-Jan-12	3.995	2.662	133
27-Jan-12	3.972	2.638	133
30-Jan-12	3.948	2.585	136
31-Jan-12	3.904	2.541	136
1-Feb-12	3.914	2.552	136
2-Feb-12	3.953	2.591	136
3-Feb-12	3.978	2.646	133
6-Feb-12	3.945	2.612	133
7-Feb-12	3.990	2.657	133
8-Feb-12	4.012	2.679	133
9-Feb-12	4.021	2.688	133
10-Feb-12	3.987	2.654	133
13-Feb-12	4.009	2.677	133
14-Feb-12	3.971	2.638	133
15-Feb-12	3.967	2.634	133
16-Feb-12	3.986	2.653	133
17-Feb-12	4.010	2.678	133
20-Feb-12	4.010	2.678	133
21-Feb-12	4.038	2.706	133
22-Feb-12	4.010	2.677	133
23-Feb-12	4.013	2.679	133
24-Feb-12	4.006	2.671	134
27-Feb-12	3.996	2.660	134
28-Feb-12	3.967	2.628	134
29-Feb-12	3.966	2.627	134
1-Mar-12	3.986	2.644	134
2-Mar-12	3.949	2.607	134
5-Mar-12	3.955	2.613	134
6-Mar-12	3.922	2.580	134
7-Mar-12	3.944	2.602	134
8-Mar-12	3.963	2.621	134
9-Mar-12	3.965	2.622	134
12-Mar-12	3.951	2.608	134
13-Mar-12	4.009	2.666	134
14-Mar-12	4.073	2.729	134
15-Mar-12	4.106	2.761	135
16-Mar-12	4.138	2.793	135
19-Mar-12	4.188	2.843	135
20-Mar-12	4.177	2.833	134
21-Mar-12	4.138	2.794	134
22-Mar-12	4.099	2.755	134
23-Mar-12	4.086	2.741	135
26-Mar-12	4.088	2.743	135
27-Mar-12	4.041	2.696	135
28-Mar-12	4.037	2.690	135
29-Mar-12	4.005	2.657	135
30-Mar-12	4.026	2.679	135
2-Apr-12	4.035	2.688	135
3-Apr-12	4.107	2.762	135
4-Apr-12	4.053	2.707	135
5-Apr-12	4.048	2.703	135
6-Apr-12	4.048	2.703	134
9-Apr-12	3.996	2.651	135
10-Apr-12	3.925	2.582	134
11-Apr-12	3.956	2.614	134
12-Apr-12	3.969	2.627	134
13-Apr-12	3.921	2.579	134
16-Apr-12	3.972	2.600	137
17-Apr-12	4.009	2.639	137
18-Apr-12	3.987	2.617	137
19-Apr-12	3.990	2.620	137
20-Apr-12	4.006	2.641	136
23-Apr-12	4.042	2.624	142
24-Apr-12	4.075	2.657	142
25-Apr-12	4.097	2.679	142
26-Apr-12	4.062	2.645	142
27-Apr-12	4.078	2.664	141
30-Apr-12	4.056	2.639	142
1-May-12	4.061	2.644	142
2-May-12	4.041	2.624	142
3-May-12	4.040	2.622	142
4-May-12	3.991	2.571	142
7-May-12	3.988	2.568	142
8-May-12	4.002	2.531	147
9-May-12	4.008	2.537	147
10-May-12	3.998	2.527	147
11-May-12	3.965	2.494	147

14-May-12	3.945	2.474	147
15-May-12	3.956	2.485	147
16-May-12	3.951	2.481	147
17-May-12	3.966	2.446	152
18-May-12	3.975	2.455	152
21-May-12	3.975	2.455	152
22-May-12	3.998	2.479	152
23-May-12	3.952	2.434	152
24-May-12	3.946	2.430	152
25-May-12	3.896	2.379	152
28-May-12	3.924	2.407	152
29-May-12	3.938	2.420	152
30-May-12	3.903	2.365	154
31-May-12	3.861	2.323	154
1-Jun-12	3.816	2.248	157
4-Jun-12	3.829	2.261	157
5-Jun-12	3.886	2.318	157
6-Jun-12	3.949	2.382	157
7-Jun-12	3.971	2.404	157
8-Jun-12	3.967	2.397	157
11-Jun-12	3.933	2.366	157
12-Jun-12	3.973	2.406	157
13-Jun-12	3.945	2.378	157
14-Jun-12	3.978	2.413	157
15-Jun-12	3.933	2.368	157
18-Jun-12	3.940	2.375	157
19-Jun-12	3.964	2.398	157
20-Jun-12	3.964	2.398	157
21-Jun-12	3.918	2.352	157
22-Jun-12	3.958	2.394	156
25-Jun-12	3.899	2.333	157
26-Jun-12	3.927	2.361	157
27-Jun-12	3.904	2.358	155
28-Jun-12	3.869	2.323	155
29-Jun-12	3.913	2.367	155
2-Jul-12	3.913	2.367	155
3-Jul-12	3.908	2.362	155
4-Jul-12	3.882	2.336	155
5-Jul-12	3.889	2.341	155
6-Jul-12	3.876	2.328	155
9-Jul-12	3.853	2.303	155
10-Jul-12	3.816	2.296	152
11-Jul-12	3.801	2.311	149
12-Jul-12	3.767	2.277	149
13-Jul-12	3.772	2.282	149
16-Jul-12	3.764	2.272	149
17-Jul-12	3.784	2.292	149
18-Jul-12	3.766	2.274	149
19-Jul-12	3.797	2.307	149
20-Jul-12	3.756	2.266	149
23-Jul-12	3.727	2.237	149
24-Jul-12	3.718	2.228	149
25-Jul-12	3.747	2.258	149
26-Jul-12	3.792	2.303	149
27-Jul-12	3.851	2.364	149
30-Jul-12	3.817	2.330	149
31-Jul-12	3.769	2.299	147
1-Aug-12	3.797	2.328	147
2-Aug-12	3.750	2.281	147
3-Aug-12	3.810	2.341	147
6-Aug-12	3.810	2.341	147
7-Aug-12	3.870	2.403	147
8-Aug-12	3.853	2.386	147
9-Aug-12	3.839	2.370	147
10-Aug-12	3.820	2.351	147
13-Aug-12	3.815	2.366	145
14-Aug-12	3.861	2.411	145
15-Aug-12	3.951	2.503	145
16-Aug-12	3.970	2.521	145
17-Aug-12	3.963	2.514	145
20-Aug-12	3.963	2.514	145
21-Aug-12	3.959	2.508	145
22-Aug-12	3.886	2.433	145
23-Aug-12	3.882	2.429	145
24-Aug-12	3.888	2.434	145
27-Aug-12	3.868	2.414	145
28-Aug-12	3.847	2.393	145
29-Aug-12	3.851	2.397	145

30-Aug-12	3.821	2.367	145
31-Aug-12	3.819	2.365	145
3-Sep-12	3.819	2.365	145
4-Sep-12	3.794	2.338	146
5-Sep-12	3.807	2.351	146
6-Sep-12	3.879	2.423	146
7-Sep-12	3.909	2.453	146
10-Sep-12	3.903	2.446	146
11-Sep-12	3.923	2.465	146
12-Sep-12	3.973	2.515	146
13-Sep-12	3.933	2.494	144
14-Sep-12	3.999	2.561	144
17-Sep-12	3.968	2.540	143
18-Sep-12	3.946	2.518	143
19-Sep-12	3.908	2.480	143
20-Sep-12	3.876	2.448	143
21-Sep-12	3.869	2.441	143
24-Sep-12	3.811	2.413	140
25-Sep-12	3.771	2.402	137
26-Sep-12	3.722	2.352	137
27-Sep-12	3.737	2.366	137
28-Sep-12	3.709	2.337	137
1-Oct-12	3.709	2.337	137
2-Oct-12	3.709	2.336	137
3-Oct-12	3.709	2.339	137
4-Oct-12	3.756	2.385	137
5-Oct-12	3.793	2.422	137
8-Oct-12	3.793	2.422	137
9-Oct-12	3.796	2.425	137
10-Oct-12	3.786	2.415	137
11-Oct-12	3.790	2.421	137
12-Oct-12	3.782	2.413	137
15-Oct-12	3.797	2.428	137
16-Oct-12	3.830	2.461	137
17-Oct-12	3.897	2.529	137
18-Oct-12	3.928	2.511	142
19-Oct-12	3.873	2.456	142
22-Oct-12	3.889	2.472	142
23-Oct-12	3.859	2.443	142
24-Oct-12	3.867	2.451	142
25-Oct-12	3.901	2.486	142
26-Oct-12	3.854	2.439	142
29-Oct-12	3.826	2.411	142
30-Oct-12	3.838	2.423	142
31-Oct-12	3.822	2.408	141
1-Nov-12	3.824	2.409	142
2-Nov-12	3.804	2.389	142
5-Nov-12	3.793	2.378	142
6-Nov-12	3.823	2.411	141
7-Nov-12	3.783	2.371	141
8-Nov-12	3.783	2.341	144
9-Nov-12	3.775	2.332	144
12-Nov-12	3.775	2.332	144
13-Nov-12	3.757	2.314	144
14-Nov-12	3.799	2.326	147
15-Nov-12	3.809	2.336	147
16-Nov-12	3.793	2.320	147
19-Nov-12	3.826	2.353	147
20-Nov-12	3.844	2.371	147
21-Nov-12	3.850	2.377	147
22-Nov-12	3.858	2.385	147
23-Nov-12	3.864	2.391	147
26-Nov-12	3.840	2.367	147
27-Nov-12	3.810	2.338	147
28-Nov-12	3.774	2.332	144
29-Nov-12	3.768	2.326	144
30-Nov-12	3.765	2.323	144
3-Dec-12	3.773	2.331	144
4-Dec-12	3.772	2.330	144
5-Dec-12	3.764	2.322	144
6-Dec-12	3.772	2.330	144
7-Dec-12	3.783	2.341	144
10-Dec-12	3.777	2.335	144
11-Dec-12	3.803	2.361	144
12-Dec-12	3.840	2.398	144
13-Dec-12	3.868	2.425	144
14-Dec-12	3.853	2.409	144
17-Dec-12	3.875	2.432	144

18-Dec-12	3.888	2.444	144
19-Dec-12	3.858	2.445	141
20-Dec-12	3.849	2.436	141
21-Dec-12	3.812	2.399	141
24-Dec-12	3.817	2.405	141
25-Dec-12	3.817	2.405	141
26-Dec-12	3.817	2.405	141
27-Dec-12	3.795	2.383	141
28-Dec-12	3.778	2.366	141
31-Dec-12	3.806	2.394	141
1-Jan-13	3.806	2.394	141
2-Jan-13	3.863	2.451	141
3-Jan-13	3.922	2.510	141
4-Jan-13	3.904	2.512	139
7-Jan-13	3.920	2.529	139
8-Jan-13	3.894	2.503	139
9-Jan-13	3.863	2.502	136
10-Jan-13	3.887	2.547	134
11-Jan-13	3.876	2.537	134
14-Jan-13	3.878	2.539	134
15-Jan-13	3.851	2.513	134
16-Jan-13	3.860	2.491	137
17-Jan-13	3.910	2.541	137
18-Jan-13	3.896	2.527	137
21-Jan-13	3.907	2.538	137
22-Jan-13	3.897	2.527	137
23-Jan-13	3.873	2.500	137
24-Jan-13	3.886	2.511	138
25-Jan-13	3.934	2.559	138
28-Jan-13	3.940	2.565	138
29-Jan-13	3.970	2.595	138
30-Jan-13	3.975	2.600	138
31-Jan-13	3.972	2.597	138
1-Feb-13	4.029	2.655	137
4-Feb-13	3.990	2.616	137
5-Feb-13	4.020	2.646	137
6-Feb-13	4.016	2.622	139
7-Feb-13	4.021	2.628	139
8-Feb-13	3.993	2.600	139
11-Feb-13	4.005	2.612	139
12-Feb-13	4.031	2.638	139
13-Feb-13	4.063	2.670	139
14-Feb-13	4.014	2.641	137
15-Feb-13	4.028	2.655	137
18-Feb-13	4.028	2.655	137
19-Feb-13	4.042	2.669	137
20-Feb-13	4.034	2.661	137
21-Feb-13	4.006	2.633	137
22-Feb-13	3.986	2.613	137
25-Feb-13	3.927	2.555	137
26-Feb-13	3.928	2.556	137
27-Feb-13	3.932	2.558	137
28-Feb-13	3.921	2.544	138
1-Mar-13	3.894	2.514	138
4-Mar-13	3.924	2.524	140
5-Mar-13	3.930	2.530	140
6-Mar-13	3.970	2.570	140
7-Mar-13	4.000	2.600	140
8-Mar-13	4.042	2.642	140
11-Mar-13	4.051	2.651	140
12-Mar-13	4.029	2.630	140
13-Mar-13	4.026	2.630	140
14-Mar-13	4.048	2.651	140
15-Mar-13	4.016	2.619	140
18-Mar-13	3.981	2.581	140
19-Mar-13	3.942	2.542	140
20-Mar-13	3.984	2.581	140
21-Mar-13	3.945	2.541	140
22-Mar-13	3.952	2.548	140
25-Mar-13	3.954	2.549	141
26-Mar-13	3.958	2.552	141
27-Mar-13	3.910	2.504	141
28-Mar-13	3.922	2.516	141
29-Mar-13	3.922	2.516	141
1-Apr-13	3.913	2.506	141
2-Apr-13	3.922	2.516	141
3-Apr-13	3.874	2.468	141
4-Apr-13	3.847	2.442	141

5-Apr-13	3.781	2.378	140
8-Apr-13	3.791	2.386	141
9-Apr-13	3.814	2.410	140
10-Apr-13	3.861	2.455	141
11-Apr-13	3.850	2.443	141
12-Apr-13	3.808	2.400	141
15-Apr-13	3.808	2.370	144
16-Apr-13	3.831	2.394	144
17-Apr-13	3.809	2.372	144
18-Apr-13	3.802	2.364	144
19-Apr-13	3.806	2.367	144
22-Apr-13	3.816	2.377	144
23-Apr-13	3.827	2.388	144
24-Apr-13	3.830	2.391	144
25-Apr-13	3.856	2.417	144
26-Apr-13	3.826	2.385	144
29-Apr-13	3.817	2.376	144
30-Apr-13	3.800	2.378	142
1-May-13	3.781	2.357	142
2-May-13	3.780	2.354	143
3-May-13	3.869	2.443	143
6-May-13	3.900	2.474	143
7-May-13	3.911	2.486	143
8-May-13	3.897	2.472	143
9-May-13	3.881	2.457	142
10-May-13	3.945	2.521	142
13-May-13	3.935	2.541	139
14-May-13	3.961	2.566	140
15-May-13	3.934	2.540	139
16-May-13	3.896	2.501	140
17-May-13	3.869	2.534	134
20-May-13	3.869	2.534	134
21-May-13	3.867	2.530	134
22-May-13	3.912	2.576	134
23-May-13	3.913	2.577	134
24-May-13	3.905	2.570	134
27-May-13	3.929	2.594	134
28-May-13	4.006	2.672	133
29-May-13	3.985	2.652	133
30-May-13	3.981	2.646	134
31-May-13	3.973	2.638	134
3-Jun-13	3.945	2.610	134
4-Jun-13	3.979	2.643	134
5-Jun-13	3.960	2.623	134
6-Jun-13	3.962	2.623	134
7-Jun-13	4.058	2.718	134
10-Jun-13	4.096	2.753	134
11-Jun-13	4.104	2.721	138
12-Jun-13	4.130	2.747	138
13-Jun-13	4.073	2.690	138
14-Jun-13	4.060	2.677	138
17-Jun-13	4.087	2.703	138
18-Jun-13	4.086	2.702	138
19-Jun-13	4.150	2.747	140
20-Jun-13	4.227	2.804	142
21-Jun-13	4.323	2.904	142
24-Jun-13	4.348	2.931	142
25-Jun-13	4.432	2.988	144
26-Jun-13	4.406	2.961	145
27-Jun-13	4.342	2.897	145
28-Jun-13	4.350	2.904	145
1-Jul-13	4.350	2.904	145
2-Jul-13	4.304	2.857	145
3-Jul-13	4.313	2.866	145
4-Jul-13	4.313	2.866	145
5-Jul-13	4.424	2.978	145
8-Jul-13	4.370	2.924	145
9-Jul-13	4.360	2.932	143
10-Jul-13	4.362	2.934	143
11-Jul-13	4.359	2.927	143
12-Jul-13	4.359	2.924	144
15-Jul-13	4.352	2.915	144
16-Jul-13	4.322	2.914	141
17-Jul-13	4.306	2.897	141
18-Jul-13	4.320	2.911	141
19-Jul-13	4.288	2.879	141
22-Jul-13	4.279	2.870	141
23-Jul-13	4.324	2.916	141

24-Jul-13	4.386	2.978	141
25-Jul-13	4.367	2.958	141
26-Jul-13	4.356	2.946	141
29-Jul-13	4.402	2.992	141
30-Jul-13	4.430	3.019	141
31-Jul-13	4.370	2.961	141
1-Aug-13	4.444	3.036	141
2-Aug-13	4.397	2.989	141
5-Aug-13	4.397	2.989	141
6-Aug-13	4.429	3.022	141
7-Aug-13	4.412	3.005	141
8-Aug-13	4.403	2.996	141
9-Aug-13	4.386	2.980	141
12-Aug-13	4.424	3.018	141
13-Aug-13	4.514	3.088	143
14-Aug-13	4.524	3.099	143
15-Aug-13	4.565	3.141	142
16-Aug-13	4.600	3.177	142
19-Aug-13	4.627	3.204	142
20-Aug-13	4.575	3.152	142
21-Aug-13	4.637	3.214	142
22-Aug-13	4.626	3.203	142
23-Aug-13	4.578	3.155	142
26-Aug-13	4.540	3.117	142
27-Aug-13	4.510	3.037	147
28-Aug-13	4.555	3.083	147
29-Aug-13	4.537	3.065	147
30-Aug-13	4.540	3.068	147
2-Sep-13	4.540	3.068	147
3-Sep-13	4.622	3.150	147
4-Sep-13	4.713	3.181	153
5-Sep-13	4.788	3.256	153
6-Sep-13	4.770	3.237	153
9-Sep-13	4.771	3.218	155
10-Sep-13	4.832	3.279	155
11-Sep-13	4.813	3.258	156
12-Sep-13	4.812	3.255	156
13-Sep-13	4.796	3.239	156
16-Sep-13	4.827	3.267	156
17-Sep-13	4.806	3.246	156
18-Sep-13	4.741	3.181	156
19-Sep-13	4.778	3.218	156
20-Sep-13	4.756	3.195	156
23-Sep-13	4.696	3.155	154
24-Sep-13	4.623	3.112	151
25-Sep-13	4.604	3.093	151
26-Sep-13	4.611	3.101	151
27-Sep-13	4.584	3.074	151
30-Sep-13	4.571	3.061	151
1-Oct-13	4.563	3.081	148
2-Oct-13	4.559	3.076	148
3-Oct-13	4.561	3.074	149
4-Oct-13	4.588	3.103	149
7-Oct-13	4.581	3.095	149
8-Oct-13	4.581	3.095	149
9-Oct-13	4.598	3.112	149
10-Oct-13	4.621	3.134	149
11-Oct-13	4.645	3.128	152
14-Oct-13	4.645	3.128	152
15-Oct-13	4.682	3.165	152
16-Oct-13	4.655	3.138	152
17-Oct-13	4.618	3.100	152
18-Oct-13	4.601	3.082	152
21-Oct-13	4.620	3.100	152
22-Oct-13	4.569	3.049	152
23-Oct-13	4.535	3.011	152
24-Oct-13	4.530	3.005	153
25-Oct-13	4.528	3.001	153
28-Oct-13	4.530	3.002	153
29-Oct-13	4.508	2.976	153
30-Oct-13	4.519	2.984	154
31-Oct-13	4.513	2.976	154
1-Nov-13	4.571	3.038	153
4-Nov-13	4.517	3.033	148
5-Nov-13	4.535	3.071	146
6-Nov-13	4.510	3.075	144
7-Nov-13	4.487	3.054	143
8-Nov-13	4.563	3.131	143

11-Nov-13	4.563	3.131	143
12-Nov-13	4.598	3.166	143
13-Nov-13	4.541	3.109	143
14-Nov-13	4.513	3.082	143
15-Nov-13	4.519	3.088	143
18-Nov-13	4.482	3.051	143
19-Nov-13	4.510	3.079	143
20-Nov-13	4.586	3.174	141
21-Nov-13	4.577	3.163	141
22-Nov-13	4.527	3.112	142
25-Nov-13	4.503	3.088	142
26-Nov-13	4.489	3.074	142
27-Nov-13	4.523	3.105	142
28-Nov-13	4.518	3.099	142
29-Nov-13	4.524	3.105	142
2-Dec-13	4.563	3.144	142
3-Dec-13	4.560	3.139	142
4-Dec-13	4.641	3.217	142
5-Dec-13	4.665	3.240	143
6-Dec-13	4.662	3.238	142
9-Dec-13	4.635	3.211	142
10-Dec-13	4.564	3.142	142
11-Dec-13	4.592	3.172	142
12-Dec-13	4.599	3.182	142
13-Dec-13	4.595	3.178	142
16-Dec-13	4.594	3.181	141
17-Dec-13	4.569	3.156	141
18-Dec-13	4.597	3.185	141
19-Dec-13	4.559	3.188	137
20-Dec-13	4.521	3.151	137
23-Dec-13	4.515	3.145	137
24-Dec-13	4.541	3.171	137
25-Dec-13	4.541	3.171	137
26-Dec-13	4.541	3.171	137
27-Dec-13	4.592	3.223	137
30-Dec-13	4.554	3.185	137
31-Dec-13	4.582	3.213	137
1-Jan-14	4.582	3.213	137
2-Jan-14	4.545	3.184	136
3-Jan-14	4.547	3.186	136
6-Jan-14	4.523	3.162	136
7-Jan-14	4.498	3.135	136
8-Jan-14	4.543	3.179	136
9-Jan-14	4.526	3.158	137
10-Jan-14	4.442	3.070	137
13-Jan-14	4.426	3.054	137
14-Jan-14	4.458	3.086	137
15-Jan-14	4.458	3.086	137
16-Jan-14	4.379	3.031	135
17-Jan-14	4.363	3.012	135
20-Jan-14	4.357	3.006	135
21-Jan-14	4.359	3.008	135
22-Jan-14	4.352	3.001	135
23-Jan-14	4.286	2.931	136
24-Jan-14	4.270	2.917	135
27-Jan-14	4.296	2.944	135
28-Jan-14	4.287	2.934	135
29-Jan-14	4.244	2.889	136
30-Jan-14	4.248	2.890	136
31-Jan-14	4.224	2.864	136
3-Feb-14	4.208	2.826	138
4-Feb-14	4.259	2.876	138
5-Feb-14	4.313	2.928	139
6-Feb-14	4.346	2.960	139
7-Feb-14	4.329	2.943	139
10-Feb-14	4.325	2.939	139
11-Feb-14	4.375	2.988	139
12-Feb-14	4.388	3.005	138
13-Feb-14	4.370	2.988	138
14-Feb-14	4.367	2.985	138
17-Feb-14	4.367	2.985	138
18-Feb-14	4.358	2.977	138
19-Feb-14	4.369	2.988	138
20-Feb-14	4.367	2.986	138
21-Feb-14	4.339	2.959	138
24-Feb-14	4.339	2.962	138
25-Feb-14	4.312	2.934	138
26-Feb-14	4.283	2.907	138

27-Feb-14	4.257	2.882	138
28-Feb-14	4.260	2.886	137
3-Mar-14	4.246	2.870	138
4-Mar-14	4.306	2.934	137
5-Mar-14	4.307	2.934	137
6-Mar-14	4.325	2.971	135
7-Mar-14	4.342	2.988	135
10-Mar-14	4.328	2.974	135
11-Mar-14	4.319	2.966	135
12-Mar-14	4.291	2.938	135
13-Mar-14	4.232	2.880	135
14-Mar-14	4.229	2.880	135
17-Mar-14	4.251	2.904	135
18-Mar-14	4.241	2.898	134
19-Mar-14	4.276	2.939	134
20-Mar-14	4.293	2.957	134
21-Mar-14	4.255	2.923	133
24-Mar-14	4.241	2.912	133
25-Mar-14	4.280	2.954	133
26-Mar-14	4.262	2.936	133
27-Mar-14	4.235	2.909	133
28-Mar-14	4.244	2.921	132
31-Mar-14	4.266	2.944	132
1-Apr-14	4.309	2.985	132
2-Apr-14	4.343	3.021	132
3-Apr-14	4.337	3.016	132
4-Apr-14	4.299	2.976	132
7-Apr-14	4.276	2.952	132
8-Apr-14	4.269	2.943	133
9-Apr-14	4.288	2.959	133
10-Apr-14	4.271	2.945	133
11-Apr-14	4.241	2.914	133
14-Apr-14	4.239	2.917	132
15-Apr-14	4.218	2.895	132
16-Apr-14	4.206	2.881	133
17-Apr-14	4.245	2.920	133
18-Apr-14	4.245	2.920	133
21-Apr-14	4.248	2.924	132
22-Apr-14	4.239	2.915	132
23-Apr-14	4.235	2.910	133
24-Apr-14	4.233	2.906	133
25-Apr-14	4.227	2.898	133
28-Apr-14	4.273	2.947	133
29-Apr-14	4.266	2.938	133
30-Apr-14	4.227	2.897	133
1-May-14	4.204	2.873	133
2-May-14	4.180	2.848	133
5-May-14	4.202	2.870	133
6-May-14	4.193	2.864	133
7-May-14	4.204	2.875	133
8-May-14	4.199	2.870	133
9-May-14	4.195	2.865	133
12-May-14	4.227	2.897	133
13-May-14	4.191	2.859	133
14-May-14	4.135	2.804	133
15-May-14	4.093	2.765	133
16-May-14	4.098	2.770	133
19-May-14	4.098	2.770	133
20-May-14	4.123	2.792	133
21-May-14	4.147	2.814	133
22-May-14	4.170	2.840	133
23-May-14	4.141	2.809	133
26-May-14	4.153	2.821	133
27-May-14	4.137	2.804	133
28-May-14	4.065	2.731	133
29-May-14	4.123	2.760	136
30-May-14	4.109	2.746	136
2-Jun-14	4.132	2.771	136
3-Jun-14	4.182	2.823	136
4-Jun-14	4.193	2.837	136
5-Jun-14	4.184	2.825	136
6-Jun-14	4.175	2.817	136
9-Jun-14	4.171	2.813	136
10-Jun-14	4.195	2.837	136
11-Jun-14	4.197	2.839	136
12-Jun-14	4.169	2.810	136
13-Jun-14	4.163	2.804	136
16-Jun-14	4.144	2.786	136

17-Jun-14	4.168	2.809	136
18-Jun-14	4.130	2.769	136
19-Jun-14	4.153	2.788	137
20-Jun-14	4.164	2.803	136
23-Jun-14	4.194	2.834	136
24-Jun-14	4.154	2.794	136
25-Jun-14	4.151	2.790	136
26-Jun-14	4.128	2.766	136
27-Jun-14	4.131	2.769	136
30-Jun-14	4.113	2.752	136
1-Jul-14	4.113	2.752	136
2-Jul-14	4.175	2.815	136
3-Jul-14	4.174	2.816	136
4-Jul-14	4.180	2.822	136
7-Jul-14	4.162	2.804	136
8-Jul-14	4.121	2.762	136
9-Jul-14	4.120	2.760	136
10-Jul-14	4.121	2.760	136
11-Jul-14	4.099	2.738	136
14-Jul-14	4.101	2.740	136
15-Jul-14	4.098	2.737	136
16-Jul-14	4.080	2.719	136
17-Jul-14	4.021	2.660	136
18-Jul-14	4.044	2.686	136
21-Jul-14	4.000	2.642	136
22-Jul-14	3.994	2.637	136
23-Jul-14	4.026	2.649	138
24-Jul-14	4.056	2.677	138
25-Jul-14	4.019	2.640	138
28-Jul-14	4.022	2.642	138
29-Jul-14	3.992	2.611	138
30-Jul-14	4.058	2.676	138
31-Jul-14	4.045	2.664	138
1-Aug-14	4.009	2.628	138
4-Aug-14	4.009	2.628	138
5-Aug-14	4.005	2.623	138
6-Aug-14	4.000	2.618	138
7-Aug-14	3.971	2.589	138
8-Aug-14	3.979	2.596	138
11-Aug-14	3.988	2.603	139
12-Aug-14	4.070	2.635	144
13-Aug-14	4.061	2.603	146
14-Aug-14	4.042	2.584	146
15-Aug-14	4.005	2.547	146
18-Aug-14	4.042	2.584	146
19-Aug-14	4.049	2.590	146
20-Aug-14	4.074	2.614	146
21-Aug-14	4.059	2.600	146
22-Aug-14	4.050	2.589	146
25-Aug-14	4.017	2.555	146
26-Aug-14	4.024	2.558	147
27-Aug-14	3.971	2.527	144
28-Aug-14	3.958	2.513	145
29-Aug-14	3.959	2.513	145
1-Sep-14	3.959	2.513	145
2-Sep-14	4.041	2.598	144
3-Sep-14	4.032	2.588	144
4-Sep-14	4.067	2.624	144
5-Sep-14	4.072	2.628	144
8-Sep-14	4.082	2.641	144
9-Sep-14	4.103	2.662	144
10-Sep-14	4.107	2.685	142
11-Sep-14	4.099	2.677	142
12-Sep-14	4.140	2.719	142
15-Sep-14	4.140	2.716	142
16-Sep-14	4.148	2.725	142
17-Sep-14	4.167	2.742	143
18-Sep-14	4.169	2.746	142
19-Sep-14	4.135	2.712	142
22-Sep-14	4.137	2.711	143
23-Sep-14	4.095	2.670	143
24-Sep-14	4.116	2.693	142
25-Sep-14	4.057	2.635	142
26-Sep-14	4.064	2.643	142
29-Sep-14	4.027	2.607	142
30-Sep-14	4.070	2.629	144
1-Oct-14	3.997	2.556	144
2-Oct-14	4.021	2.582	144

3-Oct-14	4.011	2.573	144
6-Oct-14	3.999	2.562	144
7-Oct-14	3.951	2.513	144
8-Oct-14	3.955	2.516	144
9-Oct-14	3.961	2.526	144
10-Oct-14	3.952	2.517	144
13-Oct-14	3.952	2.517	144
14-Oct-14	3.890	2.454	144
15-Oct-14	3.915	2.431	148
16-Oct-14	3.946	2.464	148
17-Oct-14	3.970	2.485	149
20-Oct-14	3.974	2.484	149
21-Oct-14	3.990	2.501	149
22-Oct-14	3.980	2.491	149
23-Oct-14	4.014	2.528	149
24-Oct-14	4.015	2.529	149
27-Oct-14	4.012	2.526	149
28-Oct-14	4.031	2.546	149
29-Oct-14	4.038	2.554	148
30-Oct-14	4.038	2.553	149
31-Oct-14	4.039	2.555	148
3-Nov-14	4.037	2.553	148
4-Nov-14	4.023	2.539	148
5-Nov-14	4.049	2.566	148
6-Nov-14	4.089	2.606	148
7-Nov-14	4.041	2.556	149
10-Nov-14	4.064	2.579	149
11-Nov-14	4.064	2.579	149
12-Nov-14	4.075	2.593	148
13-Nov-14	4.056	2.574	148
14-Nov-14	4.040	2.561	148
17-Nov-14	4.035	2.556	148
18-Nov-14	4.009	2.529	148
19-Nov-14	4.056	2.575	148
20-Nov-14	4.024	2.546	148
21-Nov-14	4.003	2.531	147
24-Nov-14	3.978	2.505	147
25-Nov-14	3.940	2.467	147
26-Nov-14	3.934	2.461	147
27-Nov-14	3.909	2.434	148
28-Nov-14	3.861	2.383	148
1-Dec-14	3.904	2.426	148
2-Dec-14	3.962	2.483	148
3-Dec-14	3.937	2.458	148
4-Dec-14	3.906	2.428	148
5-Dec-14	3.930	2.451	148
8-Dec-14	3.874	2.394	148
9-Dec-14	3.860	2.380	148
10-Dec-14	3.828	2.347	148
11-Dec-14	3.862	2.331	153
12-Dec-14	3.801	2.270	153
15-Dec-14	3.824	2.293	153
16-Dec-14	3.795	2.265	153
17-Dec-14	3.835	2.310	153
18-Dec-14	3.892	2.364	153
19-Dec-14	3.815	2.306	151
22-Dec-14	3.807	2.297	151
23-Dec-14	3.906	2.398	151
24-Dec-14	3.919	2.411	151
25-Dec-14	3.919	2.411	151
26-Dec-14	3.919	2.411	151
29-Dec-14	3.862	2.353	151
30-Dec-14	3.838	2.329	151
31-Dec-14	3.817	2.308	151
1-Jan-15	3.817	2.308	151
2-Jan-15	3.781	2.272	151
5-Jan-15	3.729	2.217	151
6-Jan-15	3.682	2.168	151
7-Jan-15	3.698	2.183	152
8-Jan-15	3.753	2.234	152
9-Jan-15	3.704	2.185	152
12-Jan-15	3.654	2.135	152
13-Jan-15	3.647	2.128	152
14-Jan-15	3.620	2.101	152
15-Jan-15	3.526	2.006	152
16-Jan-15	3.588	2.067	152
19-Jan-15	3.566	2.045	152
20-Jan-15	3.537	2.019	152

21-Jan-15	3.535	2.004	153
22-Jan-15	3.531	2.014	152
23-Jan-15	3.482	1.959	152
26-Jan-15	3.489	1.969	152
27-Jan-15	3.456	1.934	152
28-Jan-15	3.448	1.864	158
29-Jan-15	3.459	1.878	158
30-Jan-15	3.387	1.772	162
2-Feb-15	3.382	1.766	162
3-Feb-15	3.453	1.836	162
4-Feb-15	3.349	1.801	155
5-Feb-15	3.438	1.891	155
6-Feb-15	3.480	1.963	152
9-Feb-15	3.480	1.963	152
10-Feb-15	3.467	1.964	150
11-Feb-15	3.492	1.991	150
12-Feb-15	3.468	1.961	151
13-Feb-15	3.499	1.993	151
16-Feb-15	3.499	1.993	151
17-Feb-15	3.558	2.052	151
18-Feb-15	3.543	2.036	151
19-Feb-15	3.505	2.027	148
20-Feb-15	3.461	1.981	148
23-Feb-15	3.412	1.933	148
24-Feb-15	3.345	1.887	146
25-Feb-15	3.331	1.875	146
26-Feb-15	3.344	1.894	145
27-Feb-15	3.299	1.858	144
2-Mar-15	3.359	1.918	144
3-Mar-15	3.413	1.973	144
4-Mar-15	3.481	2.041	144
5-Mar-15	3.507	2.067	144
6-Mar-15	3.609	2.171	144
9-Mar-15	3.583	2.147	144
10-Mar-15	3.548	2.112	144
11-Mar-15	3.516	2.080	144
12-Mar-15	3.512	2.078	143
13-Mar-15	3.493	2.060	143
16-Mar-15	3.450	2.018	143
17-Mar-15	3.425	1.996	143
18-Mar-15	3.352	1.922	143
19-Mar-15	3.330	1.900	143
20-Mar-15	3.319	1.889	143
23-Mar-15	3.331	1.901	143
24-Mar-15	3.321	1.891	143
25-Mar-15	3.366	1.936	143
26-Mar-15	3.420	1.996	142
27-Mar-15	3.376	1.950	143
30-Mar-15	3.371	1.943	143
31-Mar-15	3.362	1.932	143
1-Apr-15	3.327	1.897	143
2-Apr-15	3.338	1.907	143
3-Apr-15	3.338	1.907	143
6-Apr-15	3.375	1.944	143
7-Apr-15	3.368	1.937	143
8-Apr-15	3.370	1.935	144
9-Apr-15	3.414	1.977	144
10-Apr-15	3.420	1.986	143
13-Apr-15	3.401	1.967	143
14-Apr-15	3.365	1.931	143
15-Apr-15	3.367	1.938	143
16-Apr-15	3.406	1.979	143
17-Apr-15	3.404	1.979	143
20-Apr-15	3.417	1.994	142
21-Apr-15	3.419	1.999	142
22-Apr-15	3.473	2.050	142
23-Apr-15	3.461	2.038	142
24-Apr-15	3.432	2.009	142
27-Apr-15	3.453	2.030	142
28-Apr-15	3.543	2.118	143
29-Apr-15	3.569	2.144	143
30-Apr-15	3.559	2.134	143
1-May-15	3.621	2.197	142
4-May-15	3.674	2.250	142
5-May-15	3.703	2.279	142
6-May-15	3.787	2.361	143
7-May-15	3.733	2.287	145
8-May-15	3.698	2.251	145

11-May-15	3.807	2.361	145
12-May-15	3.795	2.351	144
13-May-15	3.839	2.393	145
14-May-15	3.817	2.370	145
15-May-15	3.735	2.288	145
18-May-15	3.735	2.288	145
19-May-15	3.885	2.388	150
20-May-15	3.856	2.359	150
21-May-15	3.800	2.304	150
22-May-15	3.806	2.310	150
25-May-15	3.808	2.312	150
26-May-15	3.738	2.243	150
27-May-15	3.701	2.206	150
28-May-15	3.707	2.213	149
29-May-15	3.665	2.173	149
1-Jun-15	3.683	2.191	149
2-Jun-15	3.750	2.260	149
3-Jun-15	3.819	2.328	149
4-Jun-15	3.785	2.296	149
5-Jun-15	3.845	2.360	149
8-Jun-15	3.842	2.359	148
9-Jun-15	3.894	2.415	148
10-Jun-15	3.932	2.453	148
11-Jun-15	3.856	2.377	148
12-Jun-15	3.850	2.371	148
15-Jun-15	3.862	2.333	153
16-Jun-15	3.836	2.307	153
17-Jun-15	3.862	2.333	153
18-Jun-15	3.894	2.365	153
19-Jun-15	3.834	2.303	153
22-Jun-15	3.902	2.371	153
23-Jun-15	3.979	2.398	158
24-Jun-15	3.936	2.353	158
25-Jun-15	4.012	2.379	163
26-Jun-15	4.012	2.430	158
29-Jun-15	3.937	2.325	161
30-Jun-15	3.890	2.275	162
1-Jul-15	3.890	2.275	162
2-Jul-15	3.957	2.338	162
3-Jul-15	3.926	2.307	162
6-Jul-15	3.859	2.237	162
7-Jul-15	3.805	2.184	162
8-Jul-15	3.748	2.128	162
9-Jul-15	3.827	2.207	162
10-Jul-15	3.921	2.300	162
13-Jul-15	3.935	2.314	162
14-Jul-15	3.902	2.281	162
15-Jul-15	3.862	2.238	162
16-Jul-15	3.903	2.231	167
17-Jul-15	3.876	2.205	167
20-Jul-15	3.891	2.224	167
21-Jul-15	4.000	2.212	179
22-Jul-15	3.972	2.185	179
23-Jul-15	3.921	2.132	179
24-Jul-15	3.907	2.119	179

RBC's average monthly volumes since 2009:

FEI – MTN Series 24, 6.55%, Due February 24, 2039	$1.4 million/month
GoC - 5% 1 June, 2037	$1.6 billion/month

Ratings:
FEI – MTN Series 24, 6.55%, Due February 24, 2039

- Originally rated DBRS A, Moody's A3
- Ratings unchanged

Source: RBC Capital Markets

BMO Bond Average Monthly Volume (C$ Millions)[1]

CUSIP	Decription	Monthly Average
88078ZAH7	FTSCN 6.55 02/24/2039	$0.258

1. Data from February 2009 - June 2015

Historical Spread Data - Actual Bonds - BMO

Date	FortisBC Energy Inc. 6.55 Feb/2039 Spread to Benchmark (bps)	Government of Canada Benchmark Bond
27-Jul-15	+168	CAN 3.50% 12/01/2045
2-Jul-15	+153	CAN 3.50% 12/01/2045
1-Jun-15	+144	CAN 3.50% 12/01/2045
1-May-15	+138	CAN 3.50% 12/01/2045
1-Apr-15	+137	CAN 3.50% 12/01/2045
2-Mar-15	+137	CAN 3.50% 12/01/2045
2-Feb-15	+152	CAN 3.50% 12/01/2045
2-Jan-15	+146	CAN 3.50% 12/01/2045
1-Dec-14	+142	CAN 3.50% 12/01/2045
3-Nov-14	+142	CAN 3.50% 12/01/2045
1-Oct-14	+140	CAN 3.50% 12/01/2045
2-Sep-14	+140	CAN 3.50% 12/01/2045
1-Aug-14	+137	CAN 3.50% 12/01/2045
2-Jul-14	+135	CAN 3.50% 12/01/2045
2-Jun-14	+136	CAN 3.50% 12/01/2045
1-May-14	+135	CAN 3.50% 12/01/2045
1-Apr-14	+131	CAN 3.50% 12/01/2045
3-Mar-14	+128	CAN 3.50% 12/01/2045
3-Feb-14	+134	CAN 4.00% 06/01/2041
2-Jan-14	+137	CAN 4.00% 06/01/2041
2-Dec-13	+139	CAN 4.00% 06/01/2041
1-Nov-13	+143	CAN 4.00% 06/01/2041
1-Oct-13	+151	CAN 4.00% 06/01/2041
3-Sep-13	+149	CAN 4.00% 06/01/2041
1-Aug-13	+139	CAN 4.00% 06/01/2041
2-Jul-13	+143	CAN 4.00% 06/01/2041
3-Jun-13	+133	CAN 4.00% 06/01/2041
1-May-13	+142	CAN 4.00% 06/01/2041
1-Apr-13	+140	CAN 4.00% 06/01/2041
1-Mar-13	+141	CAN 4.00% 06/01/2041
1-Feb-13	+141	CAN 4.00% 06/01/2041
2-Jan-13	+139	CAN 4.00% 06/01/2041

3-Dec-12	+147	CAN 4.00% 06/01/2041
1-Nov-12	+145	CAN 4.00% 06/01/2041
1-Oct-12	+140	CAN 4.00% 06/01/2041
4-Sep-12	+148	CAN 4.00% 06/01/2041
1-Aug-12	+151	CAN 4.00% 06/01/2041
3-Jul-12	+154	CAN 4.00% 06/01/2041
1-Jun-12	+157	CAN 4.00% 06/01/2041
1-May-12	+151	CAN 4.00% 06/01/2041
2-Apr-12	+133	CAN 4.00% 06/01/2041
1-Mar-12	+135	CAN 4.00% 06/01/2041
1-Feb-12	+135	CAN 4.00% 06/01/2041
3-Jan-12	+149	CAN 4.00% 06/01/2041
3-Dec-12	+147	CAN 4.00% 06/01/2041
1-Nov-12	+145	CAN 4.00% 06/01/2041
1-Oct-12	+140	CAN 4.00% 06/01/2041
4-Sep-12	+148	CAN 4.00% 06/01/2041
1-Aug-12	+151	CAN 4.00% 06/01/2041
3-Jul-12	+154	CAN 4.00% 06/01/2041
1-Jun-12	+157	CAN 4.00% 06/01/2041
1-May-12	+151	CAN 4.00% 06/01/2041
2-Apr-12	+133	CAN 4.00% 06/01/2041
1-Mar-12	+135	CAN 4.00% 06/01/2041
1-Feb-12	+135	CAN 4.00% 06/01/2041
3-Jan-12	+149	CAN 4.00% 06/01/2041
1-Dec-11	+157	CAN 4.00% 06/01/2041
1-Nov-11	+149	CAN 4.00% 06/01/2041
3-Oct-11	+159	CAN 4.00% 06/01/2041
1-Sep-11	+150	CAN 4.00% 06/01/2041
2-Aug-11	+133	CAN 4.00% 06/01/2041
4-Jul-11	+136	CAN 4.00% 06/01/2041
1-Jun-11	+137	CAN 4.00% 06/01/2041
2-May-11	+134	CAN 4.00% 06/01/2041
1-Apr-11	+138	CAN 4.00% 06/01/2041
1-Mar-11	+136	CAN 4.00% 06/01/2041
1-Feb-11	+130	CAN 4.00% 06/01/2041
4-Jan-11	+130	CAN 4.00% 06/01/2041
1-Dec-10	+136	CAN 4.00% 06/01/2041

1-Nov-10	+135	CAN 4.00% 06/01/2041
1-Oct-10	+138	CAN 4.00% 06/01/2041
1-Sep-10	+151	CAN 4.00% 06/01/2041
3-Aug-10	+139	CAN 5.00% 06/01/2037
2-Jul-10	+151	CAN 5.00% 06/01/2037
1-Jun-10	+163	CAN 5.00% 06/01/2037
3-May-10	+129	CAN 5.00% 06/01/2037
1-Apr-10	+125	CAN 5.00% 06/01/2037
1-Mar-10	+133	CAN 5.00% 06/01/2037
1-Feb-10	+135	CAN 5.00% 06/01/2037
4-Jan-10	+144	CAN 5.00% 06/01/2037
1-Dec-09	+155	CAN 5.00% 06/01/2037
2-Nov-09	+137	CAN 5.00% 06/01/2037
1-Oct-09	+152	CAN 5.00% 06/01/2037
1-Sep-09	+149	CAN 5.00% 06/01/2037
4-Aug-09	+122	CAN 5.00% 06/01/2037
2-Jul-09	+183	CAN 5.00% 06/01/2037
1-Jun-09	+192	CAN 5.00% 06/01/2037
1-May-09	+297	CAN 5.00% 06/01/2037
1-Apr-09	+298	CAN 5.00% 06/01/2037
2-Mar-09	+301	CAN 5.00% 06/01/2037
23-Feb-09	+301	CAN 5.00% 06/01/2037

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each province of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the 1933 Act) unless the securities are registered under the 1933 Act or an exemption from the registration requirements of the 1933 Act and applicable U.S. state securities laws is available. See "Plan of Distribution".*

Secondary Offering **December 13, 2013**

PRELIMINARY SHORT FORM PROSPECTUS

FORTIS INC.

$1,594,000,000
4.00% Convertible Unsecured Subordinated Debentures represented by Instalment Receipts

The 4.00% convertible unsecured subordinated debentures (the "Debentures") of Fortis Inc. ("Fortis" or the "Corporation") offered hereby (the "Offering") will be sold by FortisUS Holdings Nova Scotia Limited (the "Selling Debentureholder"), a direct wholly owned subsidiary of Fortis, on an instalment basis at a price of $1,000 per Debenture. See "Details of the Offering — The Selling Debentureholder". Prior to full payment, beneficial ownership of the Debentures will be represented by instalment receipts (the "Instalment Receipts"). The first instalment of $333 is payable on the closing of this Offering. The final instalment of $667 is payable following notification to holders (the "Final Instalment Notice") that: (i) the Corporation has received all regulatory and governmental approvals required to finalize the acquisition (the "Acquisition") by an indirect wholly owned subsidiary of the Corporation of all of the issued and outstanding shares of UNS Energy Corporation ("UNS Energy"), an Arizona regulated utilities holding company whose common stock is listed on the New York Stock Exchange ("NYSE"); and (ii) the Corporation and UNS Energy have fulfilled or waived all other outstanding conditions precedent to closing the Acquisition, other than those which by their nature cannot be satisfied until the closing of the Acquisition (collectively, the "Approval Conditions"), as itemized in the agreement and plan of merger dated December 11, 2013 among Fortis, certain subsidiaries of Fortis and UNS Energy (the "Acquisition Agreement"). See "The Acquisition" and "The Acquisition Agreement". The Final Instalment Notice will set a date for payment of the final instalment (the "Final Instalment Date"), which shall not be less than 15 days nor more than 90 days following the date of such notice. **If a holder of an Instalment Receipt does not pay the final instalment on or before the Final Instalment Date, the Debentures represented by such Instalment Receipt may, at the option of the Selling Debentureholder, upon compliance with applicable law and the terms of the Instalment Receipt Agreement (as defined under "Details of the Offering — Instalment Receipts"), be forfeited to the Selling Debentureholder in full satisfaction of the holder's obligations or such Debentures may be sold and the holder will remain liable for any deficiency in the proceeds of such sale.** See "Details of the Offering".

The Corporation and the Selling Debentureholder have entered into subscription agreements dated December 11, 2013 pursuant to which certain institutional investors (each a "Private Placement Subscriber") will purchase on an instalment and private placement basis, in the aggregate, $206,000,000 principal amount of Debentures represented by Instalment Receipts (the "Private Placement Debentures") at a price of $1,000 per $1,000 principal amount of Private Placement Debentures for aggregate gross proceeds to the Selling Debentureholder of $206,000,000 (the "Concurrent Private Placement"). The closing of the Concurrent Private Placement is scheduled to occur on the Closing Date and is subject to the concurrent closing of the Offering. See "Financing the Acquisition — Concurrent Private Placement".

The holders of Debentures will be entitled to interest at an annual rate of 4.00% per $1,000 principal amount of Debentures, payable on the first business day of March, June, September and December of each year. The first interest payment will be made on March 3, 2014 in the amount of $5.5890 per $1,000 principal amount of Debentures and will include interest payable from and including the closing date of the Offering, which is expected to take place on or about January 9, 2014 (the "Closing Date"). Subsequently, quarterly interest payments will be made in the amount of $10.00 per $1,000 principal amount of Debentures. **On the day following the Final Instalment Date, the interest rate payable on the Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Debentures.** Based on a first instalment of $333 per $1,000 principal amount of Debentures, the effective annual yield to and including the Final Instalment Date is 12.00%, and the effective annual yield thereafter is 0%.

If the Final Instalment Date occurs on a day that is prior to the first anniversary of the Closing Date, holders of Debentures who have paid the final instalment on or before the Final Instalment Date will be entitled to receive, on the business day following the Final Instalment Date, in addition to the payment of accrued and unpaid interest to and including the Final Instalment Date, an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the Closing Date had the Debentures remained outstanding and continued to accrue interest until such date (the "Make-Whole Payment"). No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the Closing Date.

Conversion Privilege

At the option of the holder and provided that payment of the final instalment has been made, each Debenture will be convertible into common shares of Fortis ("Common Shares") on or at any time after the Final Instalment Date, but prior to the earlier of the date that the Corporation redeems the Debentures or the Maturity Date (as defined below). The conversion price will be $30.72 per Common Share (the "Conversion Price"), being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Debentures, subject to adjustment in certain events. **A holder of Debentures who does not exercise its conversion privilege concurrently with the payment of the final instalment in order to convert its Debentures to Common Shares on the Final Instalment Date will hold a Debenture that pays 0% interest and may be redeemed by the Corporation in whole or in part on any trading day following the Final Instalment Date at a price equal to its principal amount plus any unpaid interest which accrued prior to the Final Instalment Date.** See "Details of the Offering".

The Debentures may not be redeemed by the Corporation except that the Debentures will be redeemed by the Corporation at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the Approval Conditions will not be satisfied; (ii) termination of the Acquisition Agreement; and (iii) July 2, 2015 if the Final Instalment Notice has not been given on or before June 30, 2015. Upon any such redemption, the Corporation will pay for each Debenture: (i) $333 plus accrued and unpaid interest to the holder of the Instalment Receipt; and (ii) $667 to the Selling Debentureholder on behalf of the holder of the Instalment Receipt in satisfaction of the final instalment. Under the terms of the Instalment Receipt Agreement, Fortis has agreed that until such time as the Debentures have been redeemed in accordance with the foregoing or the Final Instalment Date has occurred, the Corporation will at all times maintain availability under its revolving credit facility of not less than $600,000,000 to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption. See "Details of the Offering — Debentures — Redemption".

After the Final Instalment Date, any Debentures not converted to Common Shares may be redeemed at the option of the Corporation at a price equal to their principal amount plus any unpaid interest which accrued prior to the Final Instalment Date. See "Details of the Offering — Debentures — Redemption".

On January 9, 2024 (the "Maturity Date"), the Corporation will repay the principal amount of any Debentures not converted and remaining outstanding, in cash. The Corporation may, at its option and without prior notice, satisfy the obligation to pay the principal amount of such Debentures on maturity by delivery of that number of freely tradable Common Shares obtained by dividing the principal amount of the Debentures by 95% of the weighted average trading price of the Common Shares on the Toronto Stock Exchange (the "TSX") for the 20 consecutive trading days ending five trading days preceding the Maturity Date.

Price: $1,000 per Debenture to yield 4.00% per annum

(each Debenture is convertible into Common Shares at a Conversion Price of $30.72)

	Price to the Public	Underwriters' Fee (1)	Net Proceeds to Selling Debentureholder (2)
Per Debenture			
First Instalment	$333.00	$20.00	$313.00
Final Instalment	$667.00	$20.00	$647.00
Total Per Debenture	$1,000.00	$40.00	$960.00
Total (3)	$1,594,000,000	$63,760,000	$1,530,240,000

(1) The Underwriters' fee is equal to 4.00% of the gross proceeds of the Offering, one-half of which is payable on the Closing Date and the remaining one-half of which is payable on the Final Instalment Date.

(2) Net proceeds to the Selling Debentureholder are calculated before deducting the expenses of the Offering, estimated at $2,000,000, which, together with the Underwriters' fee, will be paid out of the general funds of Fortis. See "Plan of Distribution".

(3) The Selling Debentureholder has granted to the Underwriters an option (the "Over-Allotment Option") to purchase additional Debentures represented by Instalment Receipts equal to up to 15% of the aggregate principal amount of Debentures represented by Instalment Receipts sold on the Closing Date, at a price of $1,000 per Debenture payable on an instalment basis and on the same terms and conditions of the Offering to cover over-allotments, if any. The Over-Allotment Option is exercisable in whole or in part at the Underwriters' sole discretion and without obligation, on or prior to the 30th day following the closing of the Offering. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to Selling Debentureholder" will be $1,833,100,000, $73,324,000 and $1,759,776,000, respectively. This short form prospectus qualifies the grant of the Over-Allotment Option and the sale of Debentures represented by Instalment Receipts pursuant to this short form prospectus on the exercise of such option. A purchaser who acquires Debentures represented by Instalment Receipts forming part of the Underwriters' over-allocation position acquires those securities under this short form prospectus, regardless of whether the position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. Unless otherwise indicated, the disclosure in this short form prospectus assumes that the Over-Allotment Option has not been exercised. See "Plan of Distribution".

Underwriters' Position	Maximum size or number of securities held	Exercise Period	Exercise Price
Over-Allotment Option	Option to sell up to $239,100,000 aggregate principal amount of Debentures (on an instalment basis)	At any time within 30 days following the closing of the Offering	$1,000 per Debenture payable on an instalment basis of which $333 is payable on the closing of the Over-Allotment Option and $667 is payable by or before the Final Instalment Date

There is currently no market through which the Debentures represented by Instalment Receipts may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See "Risk Factors".

This short form prospectus qualifies for distribution the Debentures represented by the Instalment Receipts. Fortis has applied to list the Instalment Receipts (representing the Debentures and the Private Placement Debentures) and the Common Shares issuable on the conversion of the Debentures and the Private Placement Debentures on the TSX. Listing will be subject to the Corporation fulfilling all of the requirements of the TSX. **The Corporation has no current intention to list the Debentures or the Private Placement Debentures for trading on any exchange as it currently anticipates all Debentures and Private Placement Debentures will be converted to Common Shares on the Final Instalment Date.** The Corporation's outstanding Common Shares are listed on the TSX under the symbol "FTS". On December 11, 2013, the last trading day prior to the announcement of the Acquisition, the Offering and the Concurrent Private Placement, the closing price of the Common Shares on the TSX was $31.19.

The Debentures will be sold by the Selling Debentureholder to the Underwriters (as defined below) on an instalment basis for a total of $1,000 per Debenture, which price and other terms of the Offering were determined by negotiation between the Corporation, the Selling Debentureholder and the Underwriters. After a reasonable effort has been made to sell all of the Debentures at the price specified above, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Debentures remaining unsold. Any such reduction will not affect the proceeds received by the Selling Debentureholder. **See "Plan of Distribution".**

An investment in the Debentures represented by Instalment Receipts, and the Common Shares issuable upon the conversion of Debentures, involves certain risks that should be considered by a prospective purchaser. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

Each of Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBC"), TD Securities Inc. ("TDSI"), CIBC World Markets Inc. ("CIBC"), BMO Nesbitt Burns Inc., National Bank Financial Inc. and Desjardins Securities Inc. are acting as underwriters (collectively, the "Underwriters") of the Offering. The Underwriters, as principals, conditionally offer the Debentures represented by Instalment Receipts, subject to prior sale, if, as and when issued, sold and delivered by the Selling Debentureholder to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation and the Selling Debentureholder by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's, and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Instalment Receipts representing the Debentures or the Common Shares at levels above those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Each of the Underwriters is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended (or will extend) credit facilities to, or holds (or will hold) other indebtedness of, the Corporation and/or its subsidiaries. In addition, Scotia Capital, RBC, TDSI and CIBC are acting as agents in the Concurrent Private Placement and will receive an agency fee in connection with such role. See "Financing the Acquisition". **Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Relationship between Fortis, the Selling Debentureholder and Certain Underwriters".**

Subscriptions for the Debentures represented by Instalment Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the Closing Date will take place on or about January 9, 2014, or such other date as may be agreed upon by the Corporation, the Selling Debentureholder and the Underwriters, but not later than January 20, 2014. The Debentures represented by Instalment Receipts offered hereby are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for the final short form prospectus relating to the Offering.

A book-entry only certificate representing the Instalment Receipts (representing the Debentures) distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or its nominee and will be deposited with CDS on the Closing Date. Subject to compliance with the provisions of the Instalment Receipt Agreement, as soon as practicable on or after the Final Instalment Date provided that payment of the final instalment has been made, the global certificate representing the Instalment Receipts will be cancelled and the global certificate representing the Debentures distributed hereunder, pledged to the Selling Debentureholder and held by Computershare Trust Company of Canada, as security agent, will be discharged, released and delivered to CDS and registered in the name of CDS or its nominee (as adjusted for Debentures that have been converted into Common Shares on the Final Instalment Date). The Corporation understands that a purchaser of Debentures represented by Instalment Receipts will receive only a customer confirmation from the registered dealer (who is a CDS participant) from or through whom the Debentures represented by Instalment Receipts are purchased. Except as otherwise stated herein, neither the holders of Instalment Receipts representing Debentures nor the holders of Debentures on or following the Final Instalment Date will be entitled to receive physical certificates representing their ownership thereof, as applicable. See "Details of the Offering".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Please refer to the "Glossary of Terms" beginning on page 95 of this short form prospectus (the "Prospectus") for a list of defined terms used herein.

This Prospectus, including the documents incorporated herein by reference, contain forward-looking information which reflects management's current expectations regarding: (i) the future growth, results of operations, performance, business prospects and opportunities of the Corporation; (ii) the Acquisition of UNS Energy; (iii) the impact of the Acquisition, this Offering, the Concurrent Private Placement and the Acquisition Credit Facilities on the financial position of the Corporation; and (iv) the future performance, business prospects and opportunities of UNS Energy and the integration of its electric and gas utility businesses with the existing operations of Fortis. These expectations may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the principal business of Fortis remaining the ownership and operation of regulated electric and gas utilities; the Corporation's primary focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030 to maintain system reliability; forecasted rate base for the Corporation's largest regulated utilities; the Corporation's consolidated forecasted gross capital expenditures for 2013 and in total over the six years from 2013 through 2018; the expectation that the CH Energy Acquisition will be accretive to earnings per Common Share in the first full year following its completion, excluding one-time Acquisition-Related Expenses; the expected timing and completion of the Tilbury LNG Facility expansion and the increased liquefaction and storage capacity of such facility following the expansion; the expected combined CAGR of utility rate base and hydroelectric generation investment over the next six years; the expectation that FortisAlberta's load and rate base will be positively impacted as a result of continuing economic growth in Alberta; various natural gas and electricity distribution or transmission investment opportunities that may be available to the Corporation; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's capital expenditure program will support continuing growth in earnings and dividends; the expectation that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source (or otherwise finance) the cash required to fund their capital expenditure programs; the expected consolidated long-term debt maturities and repayments on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2013; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2013; the expected impact on 2013 earnings for FortisAlberta and FortisBC of changes in the allowed ROE and common equity component of total capital structure; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties' Hospitality Division would have on annual basic earnings per Common Share; no expected material adverse credit rating actions in the near term; the expected impact of a change in the U.S. dollar-to-Canadian dollar foreign exchange rate on basic earnings per Common Share in 2013; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that consolidated defined benefit net pension cost for 2013 will be comparable to that in 2012 and that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future.

The forward-looking information contained herein pertaining to the Acquisition and the financing thereof, the future performance, business prospects and opportunities of UNS Energy and the integration of its electric and gas utility businesses with the existing operations of Fortis includes, but is not limited to, statements regarding: the terms and conditions of the Acquisition; the completion of the Acquisition; the realization of the anticipated benefits of the Acquisition by Fortis, including that the Acquisition will be accretive to the Corporation's earnings per Common Share in the first full year following its completion, excluding one-time Acquisition-Related Expenses; the accuracy of the *pro forma* combined financial information, which does not purport to be indicative of the financial information that will result from the operations of Fortis on a consolidated basis following the Acquisition; the completion of the Offering and the Concurrent Private Placement and the use of the proceeds therefrom; the conversion of the Debentures and the Private Placement Debentures into Common Shares and the impact of such conversion on the consolidated capitalization of Fortis; the receipt by the Selling Debentureholder of the aggregate amount of the final instalment payable in respect of the Debentures; the utilization by Fortis of the Acquisition Credit Facilities; the entering into by Fortis and the Selling Debentureholder of the Instalment Receipt Agreement and the Indenture; the rights of holders of Instalment Receipts to receive Debentures and Common Shares on the occurrence of certain events; the listing of the Instalment Receipts and Common Shares issuable on the exercise of the Debentures on the TSX; the rate of return and payment of interest on the Debentures; the impact of the Acquisition on a consolidated basis on the Corporation's operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; the ability of Fortis to satisfy its liabilities and meet its debt service obligations following completion of the Acquisition; the potential for the credit rating of Fortis to change as a result of the Acquisition and the financing thereof; the expectation that Fortis will retain key employees of UNS Energy and its subsidiaries; the performance, business prospects and opportunities of UNS Energy and its subsidiaries; the regulatory environment in the State of Arizona; the projected growth in jobs, retail sales and personal income in the State of Arizona for the six years from 2013 through 2018 and the projected growth in jobs for the 30 years ending in 2043; the expectation that there will be a material decrease in the use of coal by TEP in its generating stations and the expected ratio of generating fuels to be used by TEP in 2020; the anticipated impact of current and future environmental regulations on the business and operations of the UNS Utilities; the impact on the UNS Utilities of regulatory requirements relating to energy efficiency and renewable energy; the continued operation by TEP of its current generating stations; the expectation that labour relations with unionized employees of UNS Energy and its subsidiaries will continue to be good; the nature, timing and amount of certain capital projects; and expectations in respect of the operations, inventory, supply and generating capacity of the assets of UNS Energy and its subsidiaries.

The forecasts and projections that make up the forward-looking information included in this Prospectus are based on assumptions which include, but are not limited to: the completion of the Acquisition; the receipt of applicable regulatory approvals and requested rate orders; the receipt of UNS Energy shareholder approval and regulatory approvals relating to the Acquisition on terms acceptable to Fortis; the payment to the Selling Debentureholder of the aggregate amount of the final instalment; the conversion of all of the Debentures distributed pursuant to this Prospectus and in the Concurrent Private Placement into Common Shares; the realization of the anticipated benefits of the Acquisition; the ability of Fortis to successfully integrate the business and operations of UNS Energy into the Fortis group of companies; the ability of Fortis to retain key employees of UNS Energy and the UNS Utilities; the rate of growth in jobs, retail sales and personal income in the State of Arizona for the six years from 2013 through 2018 and the rate of growth in jobs for the 30 years ending in 2043; the amount of borrowings to be drawn down under the Acquisition Credit Facilities; the ability of Fortis to access the capital markets following the Acquisition to effect the repayment of the Acquisition Credit Facilities in accordance with their terms; the aggregate amount of the Acquisition-Related Expenses; the accuracy and completeness of the UNS Energy public and other disclosure incorporated in this Prospectus; the absence of undisclosed liabilities of UNS Energy; no material adverse regulatory decisions being received and the expectation of regulatory stability; FortisAlberta continuing to recover its cost of service and earn its allowed ROE under the PBR setting, which commenced for a five-year term effective January 1, 2013; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta Expansion; sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the GOB for fair value of the Corporation's investment in Belize Electricity that was expropriated by the GOB; the expectation that BECOL will not be expropriated by the GOB; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates at Fortis and UNS Energy and their respective subsidiaries and environmental costs at UNS Energy and its subsidiaries in customer rates; the ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices, electricity prices, coal prices and other fuel prices; the price obtainable from time to time for wholesale electricity and gas sales in the southwestern United States; continued favourable relations with co-owners or operators at generating plants in which TEP has an interest; the cost at which replacement sources of power could be obtained by TEP; the rate of decline in power consumption resulting from energy efficiency programs and customer-oriented generation; the continuation of observed weather patterns and trends; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel, coal and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to generate electricity using coal in the State of Arizona and the State of New Mexico; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; the absence of significant changes in government energy plans and environmental laws that may materially negatively affect the operations and cash flows of the Corporation and its subsidiaries; the ability of TEP to continue to receive electricity on a cost-effective basis from the generating stations in which it currently has an interest; the amount of capital expenditures which will be required to bring the generation assets of TEP and UNS Electric into compliance with current and future environmental regulations; no material change in public policies and directions by governments that could materially negatively affect the Corporation, UNS Energy and their respective subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of IFRS after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk, including risks relating to pending and future changes in environmental regulations and increased risk at FortisAlberta associated with the adoption of PBR for a five-year term commencing in 2013; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on the ROE of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas; natural gas, fuel, coal and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; risks relating to the inability to complete the Acquisition; risks relating to the realization of the anticipated benefits of the Acquisition; risks associated with a material decrease in the price of the Common Shares, and the impact this would have on the amount of Debentures ultimately required to be purchased or repaid at maturity by the Corporation; risks associated with the economic viability of bringing certain of the generating assets of TEP into compliance with current and future environmental regulations; risks associated with the co-ownership or lease of certain generating assets of TEP; risks associated with the cost of purchasing TEP's leased assets and the cost of procuring alternate sources of generation or purchased power; risks associated with TEP not being the operator of certain of the generating stations in which it has an interest; risks associated with defined benefit pension plan performance and funding requirements; risks related to FEVI; environmental risks; insurance coverage risk; risk of loss of licences and permits; risk of loss of service area; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure and cyber-attack; risk of not being able to access First Nations lands; labour relations risk; human resources risk; and risk of unexpected outcomes of legal proceedings currently against the Corporation or UNS Energy. For additional information with respect to the Corporation's risk factors and risk factors relating to the post-Acquisition business of Fortis, the operations of Fortis and UNS Energy, the Acquisition, the Debentures, the Instalment Receipts and Common Shares, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference and to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(i) the AIF;

(ii) audited comparative consolidated financial statements as at December 31, 2012 and December 31, 2011 and for the years ended December 31, 2012 and 2011, together with the notes thereto and the auditors' report thereon dated March 20, 2013, as contained in the Corporation's 2012 Annual Report, prepared in accordance with US GAAP;

(iii) the Annual MD&A;

(iv) the Management Information Circular;

(v) unaudited comparative interim consolidated financial statements as at September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012, together with the notes thereon, prepared in accordance with US GAAP;

(vi) Management Discussion and Analysis of financial condition and results of operations for the three and nine months ended September 30, 2013; and

(vii) the material change report dated December 12, 2013 announcing the Acquisition and the financing thereof, including this Offering and the Concurrent Private Placement.

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on SEDAR which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into this Prospectus and is not, and should not be considered to be, a part of this Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis and the Selling Debentureholder, and Stikeman Elliott LLP, counsel to the Underwriters, provided that the Common Shares are listed on a "designated stock exchange" (which includes the TSX) for the purposes of the Tax Act and subject to the provisions of any particular Exempt Plan (as defined below), the Debentures represented by Instalment Receipts and the Common Shares issuable on the conversion or maturity of the Debentures, if issued on the date hereof, would be qualified investments under the Tax Act as of the date hereof for a trust governed by a RRSP, a RRIF, a registered education savings plan, a DPSP, a registered disability savings plan and a TFSA (collectively, "Exempt Plans"), except, in the case of the Debentures, a DPSP to which Fortis, or an employer that does not deal at arm's length with Fortis, has made a contribution.

Notwithstanding the foregoing, if the Debentures or the Common Shares are a "prohibited investment" (as defined in the Tax Act) for a trust governed by a TFSA, RRSP or RRIF, the holder or annuitant thereof, as the case may be, will be subject to a penalty tax as set out in the Tax Act. The Debentures and Common Shares will not be a prohibited investment for a TFSA, RRSP or RRIF provided the holder or annuitant of such Exempt Plan, as the case may be, (i) deals at arm's length with Fortis, for purposes of the Tax Act and (ii) does not have a "significant interest" (as defined in the prohibited investment rules in the Tax Act) in Fortis. In addition, Common Shares will not be a "prohibited investment" if the Common Shares are "excluded property" as defined in the Tax Act for this purpose for trusts governed by a TFSA, RRSP and RRIF. Prospective purchasers who intend to hold Debentures or Common Shares in a TFSA, RRSP or RRIF are advised to consult their personal tax advisors.

PRESENTATION OF FINANCIAL INFORMATION

The financial statements of the Corporation included in this Prospectus are reported in Canadian dollars and have been prepared in accordance with US GAAP. All other financial information of UNS Energy and the audited historical financial statements of UNS Energy included in this Prospectus are reported in U.S. dollars and have been prepared in accordance with US GAAP. The assets and liabilities of UNS Energy shown in the unaudited *pro forma* consolidated balance sheet of the Corporation as at September 30, 2013 are reported in Canadian dollars and reflect the U.S.-to-Canadian dollar period-end closing exchange rate. The revenues and expenses of UNS Energy shown in the unaudited *pro forma* consolidated statements of earnings of the Corporation for the nine month period ended September 30, 2013 and for the year ended December 31, 2012 are reported in Canadian dollars and reflect the average U.S.-to-Canadian dollar exchange rates for such periods. Financial information in this Prospectus that has been derived from the unaudited *pro forma* consolidated financial statements has been translated to Canadian dollars on the same basis. Certain tables in the Prospectus may not add due to rounding.

CAUTION REGARDING UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

This Prospectus contains the unaudited *pro forma* consolidated balance sheet as at September 30, 2013 and consolidated statements of earnings of the Corporation as at and for the nine month period ended September 30, 2013 and for the year ended December 31, 2012, giving effect to: (i) the Offering, assuming no exercise of the Over-Allotment Option; (ii) the Concurrent Private Placement; (iii) the issuance of Common Shares upon the conversion of the Debentures and the Private Placement Debentures on the Final Instalment Date; (iv) the Acquisition Credit Facilities; and (v) the Acquisition. Such unaudited *pro forma* consolidated financial statements have been prepared using certain of the Corporation's and UNS Energy's respective financial statements as more particularly described in the notes to such unaudited *pro forma* consolidated financial statements. In preparing such unaudited *pro forma* consolidated financial statements, Fortis has had limited access to the non-public books and records of UNS Energy and makes no representation or warranty as to the accuracy or completeness of such information provided by UNS Energy, including the financial statements of UNS Energy that were used to prepare the unaudited *pro forma* consolidated financial statements. Such unaudited *pro forma* consolidated financial statements are not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated. Actual amounts recorded upon the finalization of the purchase price allocation under the Acquisition may differ from such unaudited *pro forma* consolidated financial statements. Since the unaudited *pro forma* consolidated financial statements have been developed to retroactively show the effect of a transaction that has or is expected to occur at a later date (even though this was accomplished by following generally accepted practice using reasonable assumptions), there are limitations inherent in the very nature of *pro forma* data.

The data contained in the unaudited *pro forma* consolidated financial statements represents only a simulation of the potential impact of the Corporation's acquisition of UNS Energy. Undue reliance should not be placed on such unaudited *pro forma* consolidated financial statements. See "Special Note Regarding Forward-Looking Statements" and "Risk Factors".

CURRENCY

In this Prospectus, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars", "$" or "Cdn$" are to lawful currency of Canada. References to "U.S. dollars" or "US$" are to lawful currency of the United States of America.

The following table sets forth, for each of the periods indicated, the period-end closing exchange rate, the average noon exchange rate and the high and low noon exchange rates of one U.S. dollar in exchange for Canadian dollars as reported by the Bank of Canada.

	Year ended December 31,			Nine months ended September 30,	
	2012	2011	2010	2013	2012
High	1.0418	1.0604	1.0778	1.0576	1.0418
Low	0.9710	0.9449	0.9946	0.9839	0.9710
Average	0.9996	0.9891	1.0299	1.0235	1.0022
Period End	0.9949	1.0170	0.9946	1.0303	0.9832

On December 12, 2013, the closing exchange rate as reported by the Bank of Canada was US$1.00 = Cdn$1.0640.

DEFINED TERMS

For an explanation of certain terms and abbreviations used in, and conversions applicable to, this Prospectus, reference is made to the "Glossary of Terms" beginning on page 95 of this Prospectus.

THIRD PARTY SOURCES AND INDUSTRY DATA

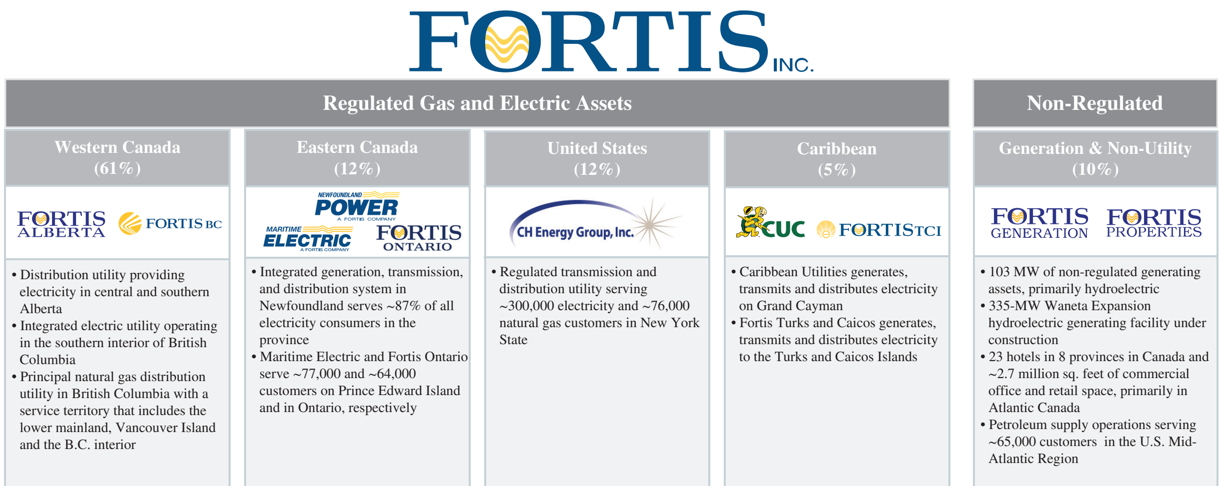
This Prospectus contains information from publicly available third party sources as well as industry data prepared by management on the basis of its knowledge of the regulated utility industry in which Fortis operates (including management's estimates and assumptions relating to the industry based on that knowledge). Management's knowledge of the regulated utility industry has been developed through its experience and participation in the industry. Management believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third-party sources, which include the University of Arizona Economic and Business Research Center and DBRS, generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although management believes it to be reliable, none of Fortis, the Selling Debentureholder or the Underwriters have independently verified any of the data from third-party sources referred to in this Prospectus or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic assumptions relied upon or referred to by such sources.

PROSPECTUS SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information and financial data and statements appearing elsewhere in this Prospectus and in the documents incorporated by reference herein. Please refer to the “Glossary of Terms” beginning on page 95 of this Prospectus for a list of defined terms used herein.

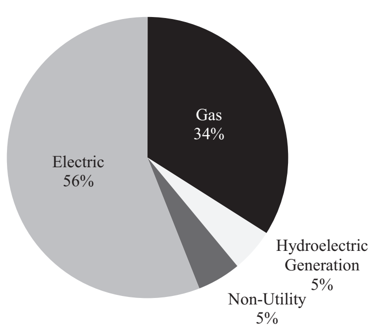
FORTIS

Fortis is the largest investor-owned gas and electric distribution utility in Canada with total assets of approximately $17.6 billion as at September 30, 2013 and fiscal 2012 revenue (which excludes the June 2013 acquisition of CH Energy Group) totalling approximately $3.7 billion. The Corporation serves more than 2,400,000 customers across Canada and in New York State and the Caribbean. Its regulated holdings include electric distribution utilities in five Canadian provinces, New York State and two Caribbean countries and natural gas utilities in British Columbia, Canada and New York State. See “Fortis”.

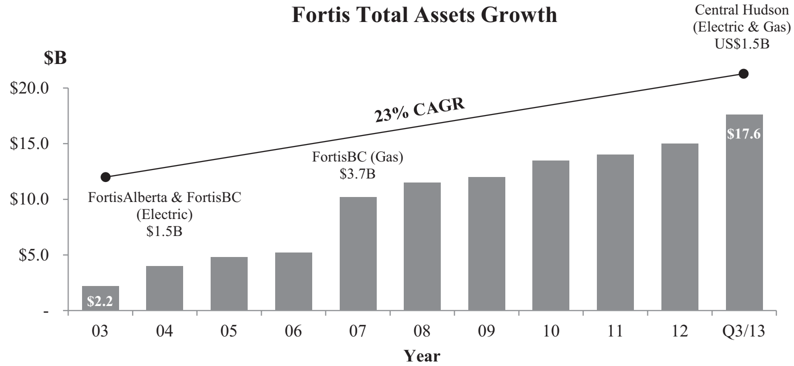


As at September 30, 2013, regulated utility assets comprised approximately 90% of the Corporation’s total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space, hotels and petroleum supply operations. Over the last decade, total assets of Fortis have grown at a CAGR of 23%.

90% Regulated Assets



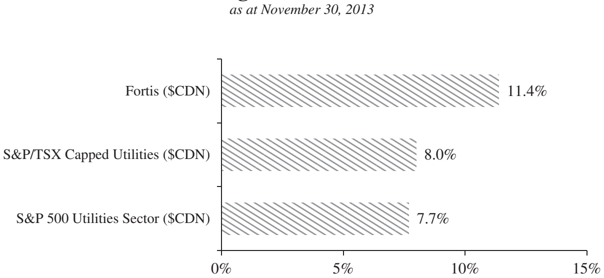
Fortis Total Assets Growth



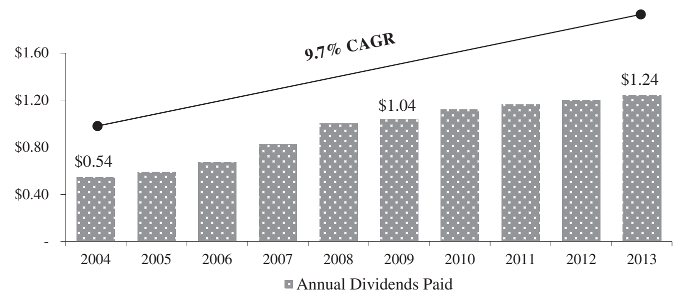
Earnings and dividend growth at Fortis have resulted in annualized total shareholder returns of 11.4% over the past 10 years. Over the same period, Fortis has maintained average annual dividend growth of 9.7%.

10-Year Average Annualized Total Return

as at November 30, 2013

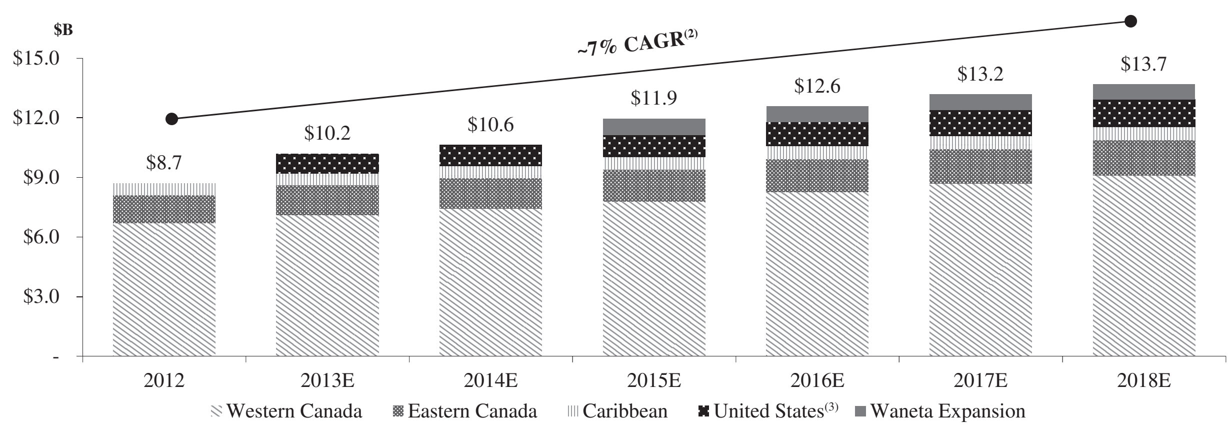


Annual Dividend Growth



Over the six years from 2013 through 2018, the Corporation's consolidated capital expenditure program, which is mostly funded at the individual subsidiary level and includes expenditures at Central Hudson, the Waneta Expansion and the Tilbury LNG Facility expansion, is expected to approximate $7.5 billion. Capital investment should allow the Corporation's consolidated regulated mid-year rate base, including incremental investment in rate base by Central Hudson and investment in the non-regulated Waneta Expansion, to increase at a combined CAGR of approximately 7% through 2018. Investment in energy infrastructure (rate base) to provide safe, reliable and cost-effective energy service to customers is expected to be the primary driver of earnings growth.

Mid-Year Rate Base including Waneta Expansion Investment (1)



(1) Rate base includes 100% of the Waneta Expansion Project investment (51% ownership) to be completed by Spring 2015 and Caribbean Utilities (~60% ownership).

(2) CAGR excludes the initial ~$1B rate base addition in 2013 related to the Central Hudson acquisition.

(3) Assumes C$/US$ FX rate of 1.03.

THE ACQUISITION

On December 11, 2013, Fortis and certain subsidiaries of Fortis entered into the Acquisition Agreement with UNS Energy which provides for, among other things, the Acquisition by an indirect wholly owned subsidiary of Fortis of all of the issued and outstanding common shares of UNS Energy and the merger of the acquiring subsidiary of Fortis into UNS Energy. The aggregate purchase price for the Acquisition is approximately US$4.3 billion, comprised of approximately US$2.5 billion in cash on closing and the assumption of approximately US$1.8 billion of debt. The Acquisition is subject to receipt of UNS Energy common shareholder approval and certain regulatory and governmental approvals, including approval by each of the ACC and FERC and the satisfaction of customary closing conditions. The closing of the Acquisition is currently expected to occur by the end of 2014.

UNS Energy, formerly UniSource Energy Corporation, is a utility services holding company headquartered in Tucson, Arizona engaged through its subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona. UNS Energy's fiscal 2012 operating revenue totalled approximately US$1.5 billion and, as at September 30, 2013, UNS Energy had total assets of approximately US$4.3 billion. Based on *pro forma* financial information as at September 30, 2013, following the Acquisition, the Corporation's total assets will increase by approximately 33.5% to approximately $23.5 billion. The Acquisition of UNS Energy is expected to increase the Corporation's consolidated rate base by approximately US$3.0 billion by 2015 and its total customers by approximately 654,000. Following the Acquisition, the regulated utility subsidiaries of Fortis will serve more than 3,000,000 customers. See "The Acquisition".

UNS Energy Overview

UNS Energy has three direct and indirect subsidiaries which are regulated utilities: TEP, UNS Gas and UNS Electric. UNS Energy's utility operations are vertically integrated with generation, transmission and distribution being regulated by either the ACC or FERC.

TEP is a vertically integrated regulated electric utility and is UNS Energy's largest and principal operating subsidiary, representing approximately 84% of the total assets as at September 30, 2013 and approximately 81% of the operating revenues of UNS Energy for the nine months ended September 30, 2013. TEP was incorporated in the State of Arizona in 1963 and currently generates, transmits and distributes electricity to approximately 412,000 retail electric customers in southern Arizona. TEP's service territory covers 1,155 square miles (2,991 square kilometres) and includes a population of approximately 1,000,000 people in the greater Tucson metropolitan area in Pima County, as well as parts of Cochise County. TEP also sells electricity to other entities in the western United States.

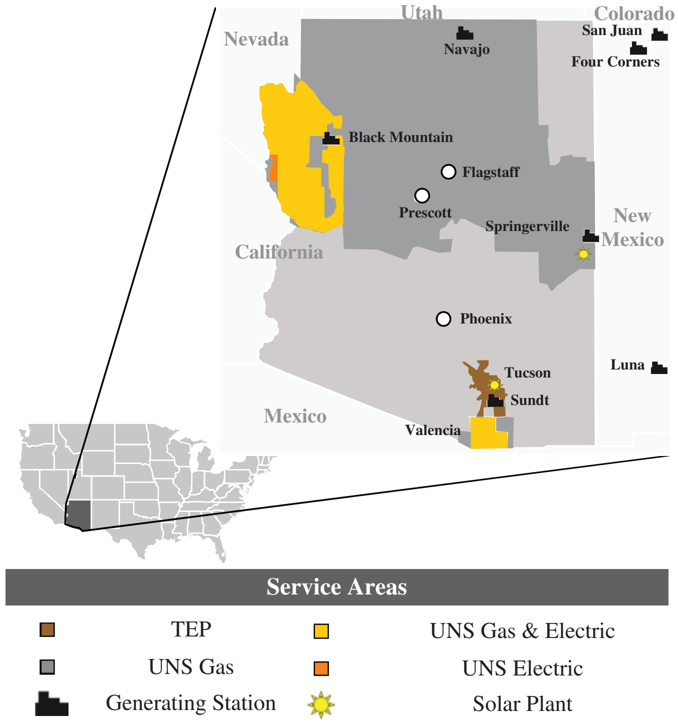
UNS Gas is a regulated gas distribution company serving approximately 149,000 retail customers in northern Arizona's Mohave, Yavapai, Coconino and Navajo counties, as well as Santa Cruz County in southern Arizona. These counties, with a combined population of approximately 700,000, comprise approximately 50% of the territory in the State of Arizona. UNS Gas represented approximately 7% of the total assets of UNS Energy as at September 30, 2013 and approximately 8% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

UNS Electric is a vertically integrated regulated electric utility company serving approximately 93,000 retail customers in Arizona's Mohave and Santa Cruz counties. These counties have a combined population of approximately 250,000. UNS Electric represented approximately 9% of the total assets of UNS Energy as at September 30, 2013 and approximately 11% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

The non-regulated business of UNS Energy, which comprises less than 1% of UNS Energy's total assets, includes the operations of Millennium and UniSource Energy Development Company. SES, a wholly owned subsidiary of Millennium, provides electrical contracting and meter reading services in Arizona, as well as other services at Springerville.

The following map depicts the service territories and generating stations of UNS Energy and its regulated utility subsidiaries. See “The Acquired Business”.

UNS Energy Utility Service Areas



ACQUISITION HIGHLIGHTS

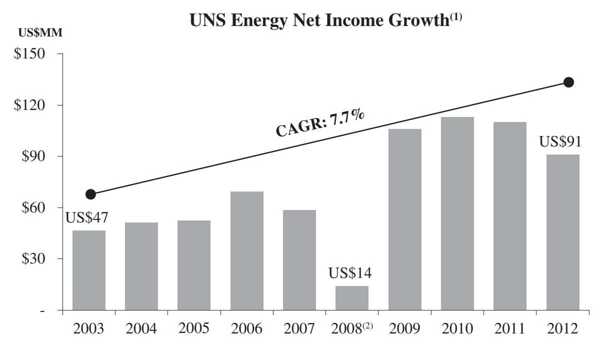
The business operated by UNS Energy is attractive to Fortis for the following reasons:

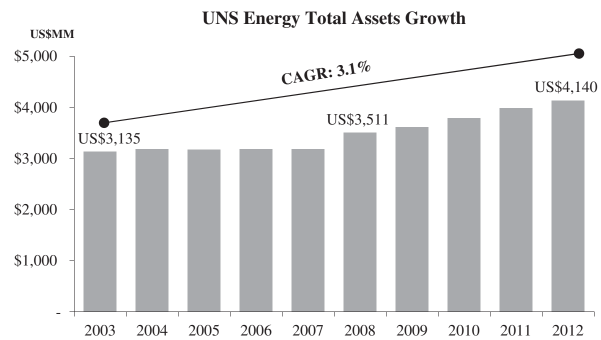
Accretive to Earnings per Common Share in the First Full Year

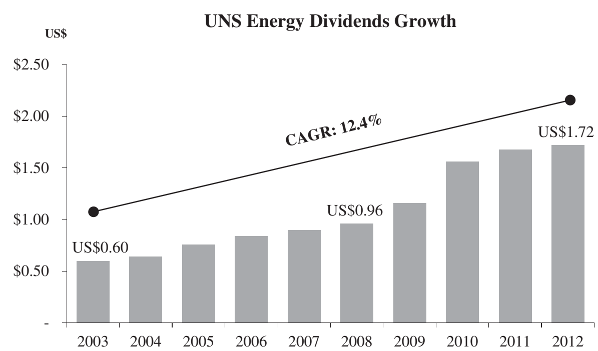
Management expects that the Acquisition will be accretive to the Corporation's earnings per Common Share in the first full year following its completion, excluding one-time Acquisition-Related Expenses. See "The Acquisition Agreement" and "The Acquired Business".

Acquisition of a Well-Run Utility

Over the past 10 years (through 2012), UNS Energy has (i) increased net income by a CAGR of 7.7%, (ii) increased total assets by a CAGR of 3.1% and (iii) increased annual dividends per common share from US$0.60 to US$1.72. Key drivers of earnings growth include the 2013 TEP Rate Order, which is primarily related to prior infrastructure investment, and the expiration and buyout of the Springerville Unit 1 Leases.





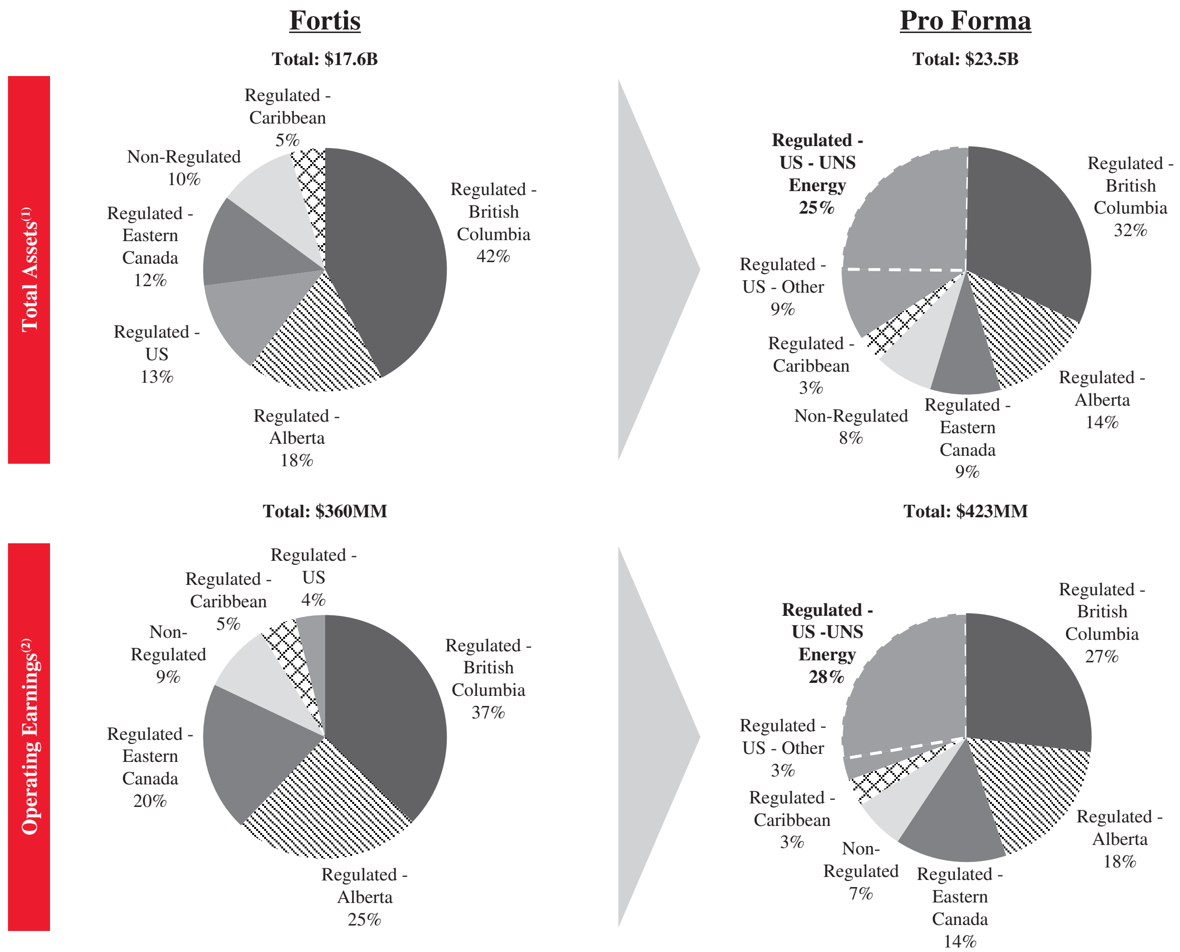


(1) Net income excludes the effect of extraordinary accounting changes and earnings from discontinued operations.

(2) UNS Energy's 2008 net income was reduced due to a US$58 million deduction of revenue for an over-collection of competitive transition charges, which the ACC ordered to be returned to customers, as well as higher fuel and purchased power costs, which prior to January 1, 2009 had not been collected from customers through a flow-through mechanism.

Diversification of Regulated Earnings Base

UNS Energy represents a significant opportunity for Fortis to further diversify its regulated assets, earnings base and cash flows and improve the risk profile of Fortis by diversifying its geographic reach and providing Fortis with a more economically diverse portfolio of assets. The increased diversification to, and growth in, the Corporation's regulated assets, earnings and cash flows is consistent with the Corporation's strategy of pursuing accretive acquisition opportunities both in the United States and Canada.



(1) As at September 30, 2013.

(2) For the nine-month period ended September 30, 2013. Operating earnings of Fortis excludes the $22 million extraordinary gain on settlement of expropriation matters associated with the Exploits River Hydro Partnership.

Supportive Regulatory Environment

UNS Energy operates within a supportive regulatory environment. The regulated utility rates for retail electric and natural gas service are determined by the ACC on a "cost of service" basis with rate design structures that pass through costs related to fuel, purchased power, environmental compliance, energy efficiency and distributed generation. Most of the ACC's regulatory components were recently ranked as "Excellent" or "Very Good" by DBRS.[1] The 2013 TEP Rate Order allows for 10.0% ROE on 43.5% common equity.

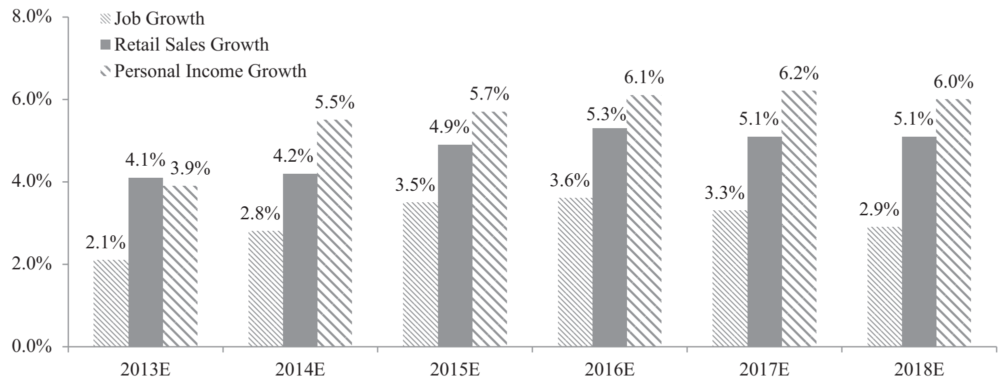
[1] Source: DBRS — The Regulatory Framework for Utilities, October 2013.

Favourable Arizona Economic Drivers

Arizona is a state in the southwestern region of the United States with a population of approximately 6.5 million, making it the 15th most populous of the 50 states of the United States. The largest employer in the State is the public service, with copper mining being the State's largest single industry. Copper mined in the state of Arizona accounts for two-thirds of the copper output of the United States.

Additionally, the Arizona economy continues to generate solid economic growth, with job growth at 2.0% over the past year, above the national rate of 1.6%. According to the University of Arizona Economic and Business Research Centre, growth in jobs, retail sales and personal income is expected to reach 2.9%, 5.1% and 6.0%, respectively, by 2018, providing a base of support for future utility earnings. Job growth in Arizona is expected to continue at an annual rate of 1.8% over the next 30 years, reaching 4.3 million jobs by 2043.

Arizona Economic Forecast (1)

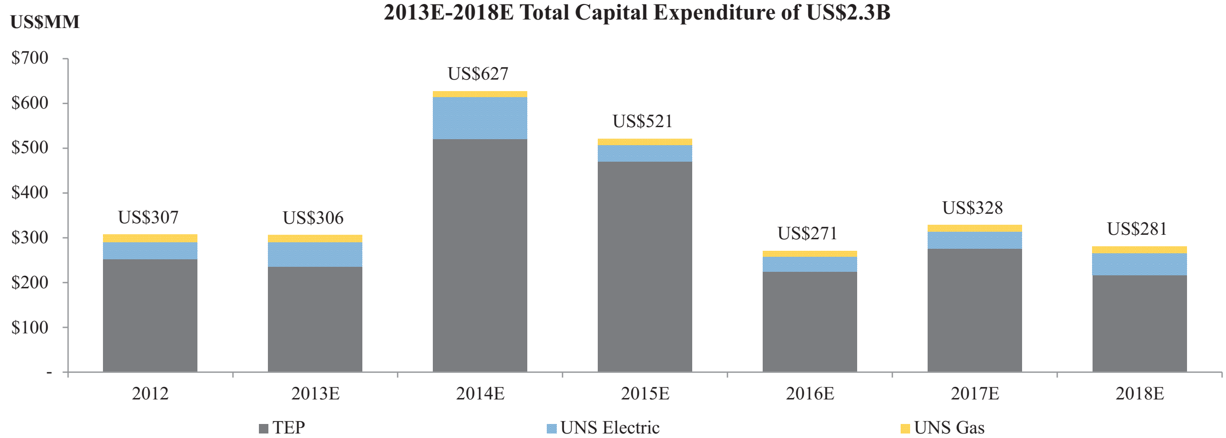


(1) Source: University of Arizona Economic and Business Research Centre, October 2013.

Rate Base Growth

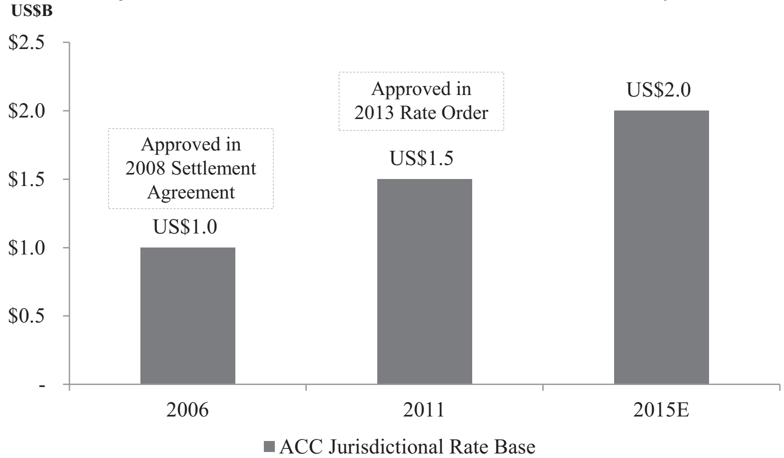
UNS Energy's continued investment in its electric and gas businesses to provide safe, reliable and cost-efficient energy service to its customers is expected to result in attractive rate base growth. UNS Energy has forecasted that capital investment will total approximately US$2.3 billion over the period from 2013 to 2018. UNS Energy's rate base is expected to reach US$3.0 billion by 2015 and to grow at a CAGR of approximately 7% through 2018.

2013E-2018E Total Capital Expenditure of US$2.3B



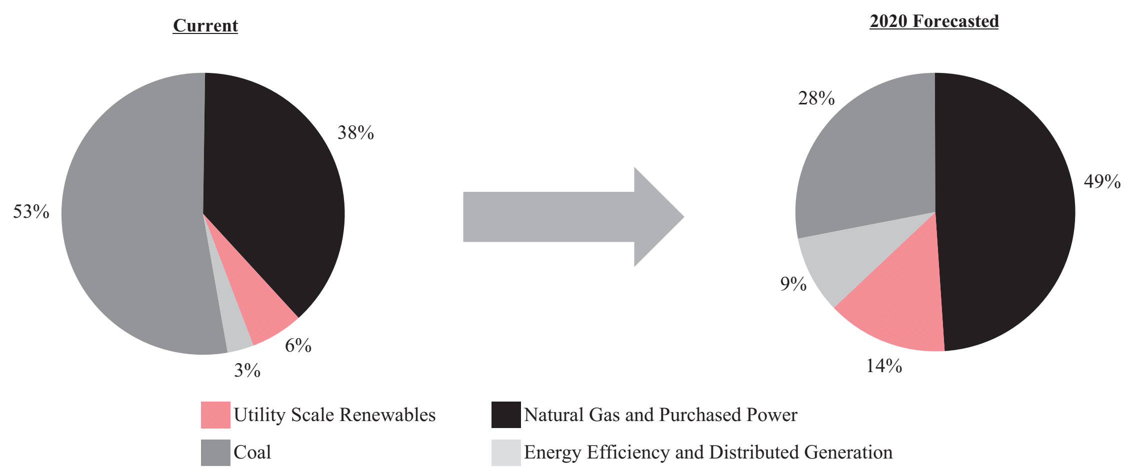
TEP projects that its ACC jurisdictional rate base will increase to approximately US$2.0 billion by 2015 (from an ACC approved 2011 rate base of US$1.5 billion). This is expected to increase UNS Energy's total rate base to approximately US$3.0 billion by 2015.

Projected TEP ACC Jurisdictional Rate Base of US$2.0B by 2015



TEP expects to invest significant capital into diversifying its generation fleet, including through the anticipated purchase of the natural gas-fired combined-cycle Gila River Unit 3 generation plant (with a capacity of 550 MW) and utility scale renewables generation. Renewables investments will diversify TEP's generation resources, as well as assist TEP in the mitigation of environmental impact.

TEP Generation Capacity Mix



Experienced Management Team

UNS Energy is a well-run utility with an experienced management team committed to providing customers with safe, reliable and cost-effective energy service. Over the last five years, UNS Energy customers have experienced, on average, approximately one outage for a duration of 1.5 hours per year. Management has decreased debt-to-capitalization of UNS Energy from 84% in 2000 to 62% as at September 30, 2013, resulting in a four notch upgrade to TEP's credit rating over the period to Baa2 (Moody's). Management has also demonstrated strong regulatory expertise, completing each of the past three rate cases in approximately one year on average.

FINANCING THE ACQUISITION

Acquisition Credit Facilities

For purposes of financing the Acquisition, on December 11, 2013, Fortis obtained a commitment letter from The Bank of Nova Scotia providing for an aggregate of $2.0 billion non-revolving term credit facilities in favour of Fortis consisting of a $1.7 billion short-term bridge facility (the "Short-Term Bridge Facility"), repayable in full nine months following its advance, and a $300 million medium-term bridge facility (the "Medium-Term Bridge Facility", and together with the Short-Term Bridge Facility, the "Acquisition Credit Facilities"), repayable in full on the second anniversary of its advance. The Acquisition Credit Facilities, together with the $600 million the Corporation has agreed to maintain under its existing Revolving Facility to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption (as described under "Details of the Offering — Debentures — Redemption"), would be sufficient, if necessary, to fund the full cash portion of the purchase price for the Acquisition.

Fortis is required to make prepayments of the Acquisition Credit Facilities in an amount equal to the net cash proceeds from any common or preferred equity or bond or other debt offerings by Fortis. Net proceeds from any equity offering will be applied firstly to repay the Short-Term Bridge Facility and secondly to repay the Medium-Term Bridge Facility. Net proceeds from any bond or other debt offerings, including the aggregate amount of the final instalment payable under this Offering and the Concurrent Private Placement, will be applied firstly to repay the Medium-Term Bridge Facility and secondly to repay the Short-Term Bridge Facility. Fortis expects that the remainder of borrowings under the Acquisition Credit Facilities will be reduced or repaid from the proceeds of one or more offerings of Common Shares, long-term debt securities, first preference shares or second preference shares or from amounts extended under other debt financings in order to restore the current consolidated capitalization structure of Fortis following the Acquisition. See "Use of Proceeds" and "Financing the Acquisition — Acquisition Credit Facilities".

As at December 11, 2013, the Corporation and its subsidiaries had consolidated credit facilities of approximately $2.7 billion, of which $2.2 billion was unused, including an unused amount of approximately $820 million under the Corporation's $1 billion committed revolving corporate credit facility (the "Revolving Facility"). Fortis (on a consolidated basis) intends to use the net proceeds of the first instalment under the Offering and the Concurrent Private Placement which are expected to be $563,400,000 in the aggregate (assuming no exercise of the Over-Allotment Option) to repay borrowings under the Revolving Facility and for other general corporate purposes, including financing equity requirements of the Corporation's subsidiaries. Fortis (on a consolidated basis) intends to use the net proceeds of the final instalment under the Offering and the Concurrent Private Placement which are expected to be $1,164,600,000 in the aggregate (assuming no exercise of the Over-Allotment Option) to repay borrowings under the Acquisition Credit Facilities following the closing of the Acquisition and for other Acquisition-Related Expenses. See "Use of Proceeds".

Concurrent Private Placement

The Corporation and the Selling Debentureholder have entered into subscription agreements dated December 11, 2013 pursuant to which Private Placement Subscribers will purchase on an instalment and private placement basis, Private Placement Debentures at a price of $1,000 per $1,000 principal amount of Private Placement Debentures for aggregate gross proceeds to the Selling Debentureholder of $206,000,000. The closing of the Concurrent Private Placement is scheduled to occur on the Closing Date and is subject to the concurrent closing of the Offering. Each Private Placement Subscriber will be paid a commitment fee in cash equal to $20.00 per $1,000 aggregate principal amount of Private Placement Debentures subscribed for by such Private Placement Subscriber payable on the Closing Date. In addition, Scotia Capital, RBC, TDSI and CIBC, the agents in the Concurrent Private Placement, will collectively receive an agency fee of $20.00 per $1,000 aggregate principal amount of Private Placement Debentures, payable on the Final Instalment Date, for Private Placement Debentures in respect of which the final instalment has been paid. See "Financing the Acquisition — Concurrent Private Placement".

THE OFFERING

Issuer:	Fortis Inc.
Selling Debentureholder:	FortisUS Holdings Nova Scotia Limited, a direct wholly owned subsidiary of the Corporation. See "Details of the Offering — The Selling Debentureholder".
Offering:	4.00% convertible unsecured subordinated debentures, due January 9, 2024, represented by Instalment Receipts and convertible into Common Shares at a Conversion Price of $30.72 per Common Share.
Amount:	$1,594,000,000 ($1,833,100,000 if the Over-Allotment Option is exercised in full) payable on an instalment basis.
Price:	$1,000 per $1,000 principal amount of Debentures payable on an instalment basis as follows: $333 per $1,000 principal amount of Debentures on the closing of this Offering; and $667 per $1,000 principal amount of Debentures on or before the Final Instalment Date.
Closing Date:	On or about January 9, 2014 or such other date as may be agreed upon by the Corporation, the Selling Debentureholder and the Underwriters, but not later than January 20, 2014.
Over-Allotment Option	The Selling Debentureholder has granted to the Underwriters an option, exercisable in whole or in part at any time on or prior to the 30th day following the Closing Date, to purchase additional Debentures represented by Instalment Receipts equal to up to 15% of the aggregate principal amount of Debentures represented by Instalment Receipts sold on the Closing Date, to cover over-allotments, if any. See "Plan of Distribution".
Concurrent Private Placement:	The Corporation and the Selling Debentureholder have entered into subscription agreements dated December 11, 2013 pursuant to which Private Placement Subscribers will purchase on an instalment and private placement basis, Private Placement Debentures represented by Instalment Receipts at a price of $1,000 per $1,000 principal amount of Private Placement Debentures for aggregate gross proceeds to the Selling Debentureholder of $206,000,000. The closing of the Concurrent Private Placement is scheduled to occur on the Closing Date and is subject to the concurrent closing of the Offering. Each Private Placement Subscriber will be paid a commitment fee in cash equal to $20.00 per $1,000 aggregate principal amount of Private Placement Debentures subscribed for by such Private Placement Subscriber payable on the Closing Date. In addition, Scotia Capital, RBC, TDSI and CIBC, the agents in the Concurrent Private Placement, will collectively receive an agency fee of $20.00 per $1,000 aggregate principal amount of Private Placement Debentures, payable on the Final Instalment Date, for Private Placement Debentures in respect of which the final instalment has been paid. See "Financing the Acquisition — Concurrent Private Placement".
Use of Proceeds:	The net proceeds from the Offering will be, in the aggregate, $1,528,240,000, determined after deducting the Underwriters' fee and the expenses of the Offering. In the event that the Over-Allotment Option is exercised in full, the net proceeds to be received by the Selling Debentureholder (and Fortis, on a consolidated basis) will be, in the aggregate, $1,757,776,000.

	The Selling Debentureholder intends to use the net proceeds of the Offering and of the Concurrent Private Placement to make distributions in the amounts of $1,528,240,000 (assuming no exercise of the Over-Allotment Option) and $197,760,000, respectively, to the Corporation. Fortis (on a consolidated basis) intends to use the net proceeds of the first instalment under the Offering and the net proceeds of the first instalment under the Concurrent Private Placement, which are expected to be $498,922,000 (assuming no exercise of the Over-Allotment Option) and $64,478,000, respectively, as follows: (i) to repay borrowings under the Revolving Facility, which borrowings have been incurred primarily in connection with the construction of the Waneta Expansion and financing of certain of the Corporation's subsidiaries; and (ii) for other general corporate purposes, including providing financing to the Corporation's regulated utility subsidiaries for capital expenditures. Fortis (on a consolidated basis) intends to use the net proceeds of the final instalment under the Offering and the net proceeds of the final instalment under the Concurrent Private Placement, which are expected to be $1,031,318,000 (assuming no exercise of the Over-Allotment Option) and $133,282,000, respectively, as follows: (a) to repay borrowings under the Acquisition Credit Facilities following the closing of the Acquisition; and (b) for other Acquisition-Related Expenses.
Listing and Trading:	Fortis has applied to list the Instalment Receipts (representing the Debentures and the Private Placement Debentures) and the Common Shares issuable on the conversion of the Debentures and the Private Placement Debentures on the TSX. Listing will be subject to the Corporation fulfilling all of the requirements of the TSX. **The Corporation has no current intention to list the Debentures or the Private Placement Debentures for trading on any exchange as it currently anticipates all Debentures and Private Placement Debentures will be converted to Common Shares on the Final Instalment Date.**
Interest:	Interest on Debentures at an annual rate of 4.00% per $1,000 principal amount of Debentures will be payable quarterly on the first business day of March, June, September and December of each year. The first interest payment will be made on March 3, 2014 in the amount of $5.5890 per $1,000 principal amount of Debentures and will include interest payable from and including the Closing Date. Subsequently, quarterly interest payments will be made in the amount of $10.00 per $1,000 principal amount of Debentures. A final interest payment will be made on the Final Instalment Date and will be equal to the unpaid interest accrued from the date of the last quarterly interest payment to and including the Final Instalment Date. On the day following the Final Instalment Date, the interest rate payable on the Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Debentures. Based on a first instalment of $333 per $1,000 principal amount of Debentures, the effective annual yield to and including the Final Instalment Date is 12.00%, and the effective annual yield thereafter is 0%. If the Final Instalment Date occurs on a day that is prior to the first anniversary of the Closing Date, holders of Debentures who have paid the final instalment on or before the Final Instalment Date will be entitled to receive, on the business day following the Final Instalment Date, in addition

	to the payment of accrued and unpaid interest to and including the Final Instalment Date, the Make-Whole Payment, being an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the Closing Date had the Debentures remained outstanding and continued to accrue interest until such date. No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the Closing Date. See "Details of the Offering — Debentures".
Conversion:	At the option of the holder, provided that payment of the final instalment has been made, each Debenture will be convertible into Common Shares on or at any time after the Final Instalment Date, but prior to the earlier of the date that the Corporation redeems the Debentures or the Maturity Date. The Conversion Price will be $30.72 per Common Share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Debentures, subject to adjustment in certain events. No fractional Common Shares will be issued on any conversion but in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the fractional interest multiplied by the Conversion Price; provided, however, the Corporation shall not be required to make any payment of less than $10.00. A holder of Debentures who does not exercise its conversion privilege concurrently with its payment of the final instalment in order to convert its Debentures to Common Shares on the Final Instalment Date will hold a Debenture that pays 0% interest and may be redeemed by the Corporation in whole or in part on any trading day following the Final Instalment Date at a price equal to its principal amount plus any unpaid interest which accrued prior to the Final Instalment Date. See "Details of the Offering — Debentures — Conversion Right".
Instalment Payment Arrangements:	The price of $1,000 per $1,000 principal amount of Debentures is payable on an instalment basis. Prior to full payment, beneficial ownership of the Debentures will be represented by Instalment Receipts. The first instalment of $333 per $1,000 principal amount of Debentures is payable on the Closing Date. The final instalment of $667 per $1,000 principal amount of Debentures is payable on or before the Final Instalment Date. The Final Instalment Notice will set the Final Instalment Date, which shall not be less than 15 days nor more than 90 days following the date of such notice. The Final Instalment Notice shall not be provided to holders until the Approval Conditions have been satisfied. See "The Acquisition" and "The Acquisition Agreement". Each Debenture represented by an Instalment Receipt will be pledged to the Selling Debentureholder to secure the obligation of the beneficial holder to pay the final instalment in respect of such Debenture on or before the Final Instalment Date. After payment of the final instalment, the Corporation understands that each beneficial holder of Instalment Receipts will receive a customer confirmation from the registered dealer (who is a CDS participant) from or through whom it purchased the Debentures, indicating that the Debentures are no longer pledged to the Selling Debentureholder. See "Details of the Offering — Instalment Receipts — Book-Entry Only System". **If a holder of an Instalment Receipt does not pay the final instalment on or before the Final Instalment Date, the Debentures represented by such Instalment Receipt may, at the option of the Selling Debentureholder, upon compliance with applicable law and the terms of the Instalment Receipt Agreement, be forfeited to the Selling**

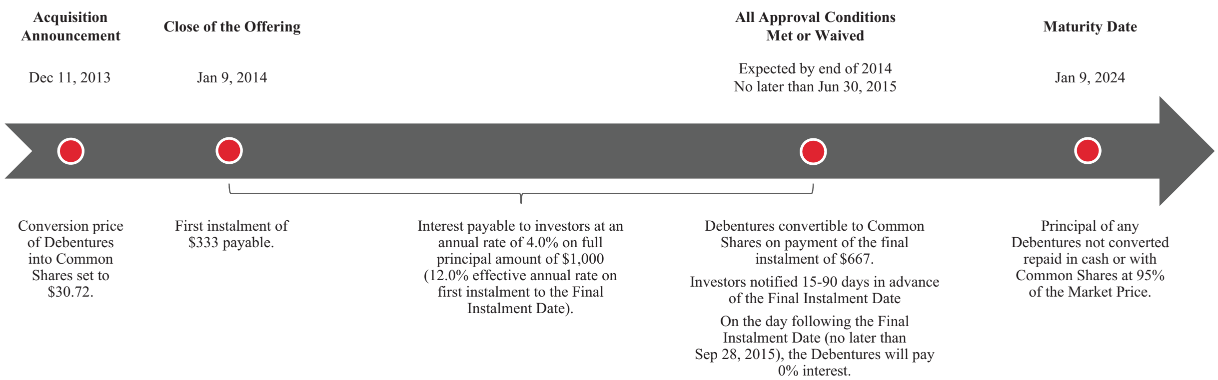
	Debentureholder in full satisfaction of the holder's obligations or such Debentures may be sold and the holder will remain liable for any deficiency in the proceeds of such sale. See "Details of the Offering — Instalment Receipts".
Rights of Instalment Receipt Holders:	Holders of Instalment Receipts will be entitled, in the manner set forth in the Instalment Receipt Agreement described herein, to fully receive payments of accrued interest and to exercise the rights of ownership attached to the Debentures represented by such Instalment Receipts unless they fail to pay the final instalment on or before the Final Instalment Date. See "Details of the Offering — Instalment Receipts — Rights and Privileges".
Redemption:	The Debentures may not be redeemed by the Corporation except that the Debentures will be redeemed by the Corporation at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the Approval Conditions will not be satisfied; (ii) termination of the Acquisition Agreement; and (iii) July 2, 2015 if the Final Instalment Notice has not been given on or before June 30, 2015. Upon any such redemption, the redemption proceeds will be paid by the Corporation to the Custodian on behalf of the holders. The Custodian will pay the following for each Debenture: (i) \$333 plus accrued and unpaid interest to the holder of the Instalment Receipt; and (ii) \$667 to the Selling Debentureholder on behalf of the holder of the Instalment Receipt in satisfaction of the final instalment. Under the terms of the Instalment Receipt Agreement, Fortis has agreed that until such time as the Debentures have been redeemed in accordance with the foregoing or the Final Instalment Date has occurred, the Corporation will at all times maintain availability under its Revolving Facility of not less than \$600,000,000 to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption. After the Final Instalment Date, any Debentures not converted to Common Shares may be redeemed by the Corporation at a price equal to their principal amount plus any unpaid interest which accrued prior to the Final Instalment Date. See "Details of the Offering — Debentures — Redemption".
Maturity Date:	January 9, 2024.
Payment upon Maturity:	On the Maturity Date, the Corporation will repay the principal amount of any Debentures not converted and remaining outstanding, in cash. The Corporation may, at its option and without prior notice, satisfy the obligation to pay the principal amount of such Debentures on maturity by delivery of that number of freely tradable Common Shares obtained by dividing the principal amount of the Debentures by 95% of the Market Price. See "Details of the Offering — Debentures — Payment Upon Maturity".
Subordination	The Debentures will be direct unsecured obligations of Fortis. Payment of the principal of, interest on and other amounts owing in respect of each Debenture will (i) be subordinated in right of payment to all present and future Senior Indebtedness (as defined under "Details of the Offering — Debentures — Subordination") of Fortis and (ii) rank *pari passu* with each other Debenture of the same series, including the Private Placement Debentures, (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future

subordinated and unsecured indebtedness of Fortis. The trust indenture pursuant to which the Debentures and the Private Placement Debentures will be issued does not limit the ability of the Corporation to incur additional indebtedness, including indebtedness that ranks senior to the Debentures and the Private Placement Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness. See "Details of the Offering — Debentures — Subordination".

Risk Factors: An investment in the Debentures represented by Instalment Receipts and the Common Shares issuable upon conversion thereof involves certain risks which should be carefully considered by prospective investors, including risks in respect of the Acquisition, the Instalment Receipts, the Debentures, the Common Shares and the post-Acquisition business and operations of the Corporation and UNS Energy. See "Risk Factors".

SUMMARY OF IMPORTANT DATES

The timeline set out below outlines the important dates in respect of the Offering and the Acquisition. This timeline is for illustrative purposes only and is subject to change.

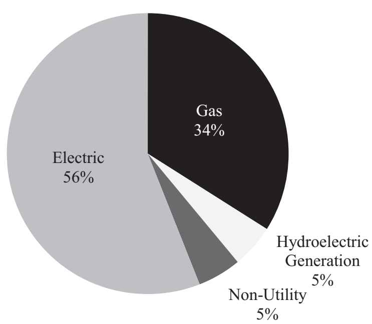


FORTIS

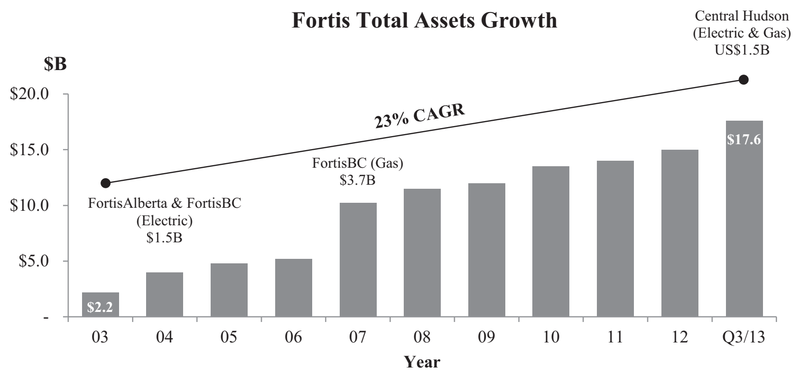
Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned gas and electric distribution utility in Canada with total assets of approximately $17.6 billion as at September 30, 2013 and fiscal 2012 revenue (which excludes the June 2013 acquisition of CH Energy Group) totalling approximately $3.7 billion. The Corporation serves more than 2,400,000 customers across Canada and in New York State and the Caribbean. Its regulated holdings include electric distribution utilities in five Canadian provinces, New York State and two Caribbean countries and natural gas utilities in British Columbia, Canada and New York State. As at September 30, 2013, regulated utility assets comprised approximately 90% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space, hotels and petroleum supply operations. Over the last decade, total assets of Fortis have grown at a CAGR of 23%.

90% Regulated Assets



Fortis Total Assets Growth



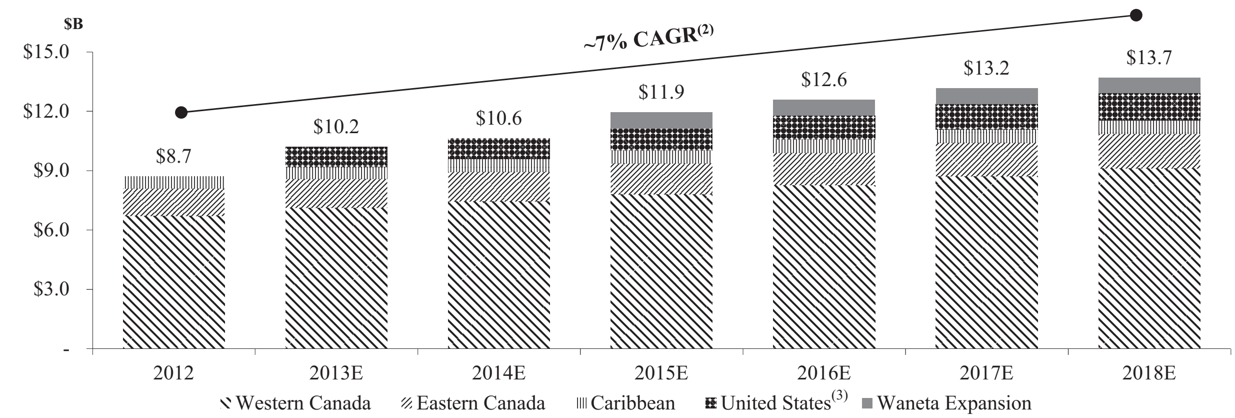
Fortis is the direct owner of all of the common shares of FortisBC Holdings, a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC, a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; Central Hudson, a regulated transmission and distribution utility serving electricity and natural gas customers in eight counties of New York State's Mid-Hudson River Valley; and Maritime Electric, the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power, the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario and its subsidiaries, CNPI, Cornwall Electric and Algoma Power, Fortis provides an integrated electric utility service in Ontario to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne and distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities, an integrated electric utility and the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, Fortis Turks and Caicos, which is the principal distributor of electricity in the Turks and Caicos Islands.

The Corporation's non-regulated generation operations consist of its 100% interest in each of BECOL, FortisOntario and FortisUS Energy, as well as non-regulated generation assets owned either directly or indirectly by FortisBC and by Fortis through its 51% controlling ownership interest in the Waneta Partnership. Fortis Generation East LLP, a limited liability partnership directly held by Fortis, owns six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Over the six years from 2013 through 2018, the Corporation's consolidated capital expenditure program, which is mostly funded at the individual subsidiary level and includes expenditures at Central Hudson, the Waneta Expansion and the Tilbury LNG Facility expansion, is expected to approximate $7.5 billion. Capital investment should allow the Corporation's consolidated regulated mid-year rate base, including incremental investment in rate base by Central Hudson and investment in the non-regulated Waneta Expansion, to increase at a combined CAGR of approximately 7% through 2018. Investment in energy infrastructure (rate base) to provide safe, reliable and cost-effective energy service to customers is expected to be the primary driver of earnings growth.

Mid-Year Rate Base including Waneta Expansion Investment(1)



(1) Rate base includes 100% of the Waneta Expansion Project investment (51% ownership) to be completed by Spring 2015 and Caribbean Utilities (~60% ownership).

(2) CAGR excludes the initial ~$1B rate base addition in 2013 related to the Central Hudson acquisition.

(3) Assumes C$/US$ FX rate of 1.03.

Non-utility operations are conducted through Fortis Properties and CH Energy Group. Through Fortis Properties, the Corporation owns and operates 23 hotels in eight Canadian provinces and owns approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada. Non-regulated operations of CH Energy primarily consist of Griffith Energy Services, which mainly supplies petroleum products and related services to approximately 65,000 customers in the Mid-Atlantic Region of the United States.

Regulated Gas Utilities — Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 947,000 customers as at September 30, 2013, FortisBC Holdings' subsidiaries provide service to over 96% of gas users in British Columbia. FEI is the largest of these subsidiaries, serving approximately 842,000 customers as at September 30, 2013. FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 102,000 customers as at September 30, 2013. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FEWI owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 3,000 residential and commercial customers as at September 30, 2013. Collectively, FEI, FEVI and FEWI own and operate approximately 47,000 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,336 TJ in 2012.

Regulated Gas & Electric Utility — United States

Central Hudson

Central Hudson, the main business of CH Energy Group, is a regulated transmission and distribution utility serving approximately 300,000 electricity and 76,000 natural gas customers in eight counties of New York State's

Mid-Hudson River Valley, as at September 30, 2013. Central Hudson's electric assets comprised approximately 78% of its total assets as at September 30, 2013 and include approximately 14,000 kilometres of distribution lines and 1,000 kilometres of transmission lines. The electric business met a peak demand of 1,168 MW in 2012. Central Hudson's natural gas assets comprised the remaining 22% of its total assets and include approximately 1,900 kilometres of distribution pipelines and more than 264 kilometres of transmission pipelines. The gas business met a peak day demand of 115 TJ in 2012. Central Hudson is subject to regulation by the New York State Public Service Commission under a traditional cost of service model.

Central Hudson primarily relies on electricity purchases from third-party providers and the New York Independent System Operator -administered energy and capacity markets to meet the demands of its full-service electricity customers. It also generates a small portion of its electricity requirements. Central Hudson purchases its gas supply requirements at various pipeline receipt points from a number of suppliers with whom it has contracted for firm transport capacity.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 514,000 customers in Alberta as at September 30, 2013, using approximately 116,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,652 MW in 2012. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 163,000 customers as at September 30, 2013, with residential customers representing the largest customer segment, and met a peak demand of 737 MW in 2012. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and BC Hydro, the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by CPC/CBT.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 254,000 customers as at September 30, 2013, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,241 MW in 2012. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. Newfoundland Power operates 29 small generating facilities, which generate the remaining 7% of the electricity it sells. Newfoundland Power's hydroelectric generating plants have a total capacity of 97 MW. The diesel plants and gas turbines have a total capacity of approximately 7 MW and 37 MW, respectively.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplies approximately 77,000 customers as at September 30, 2013, or 90% of electricity consumers on the Island, and met a peak demand of 230 MW in 2012. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations serve approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario as at September 30, 2013, and met a combined peak demand of 253 MW in 2012. FortisOntario's operations are comprised of CNPI, Cornwall Electric and Algoma Power. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, serve approximately 38,000 customers as at September 30, 2013.

Regulated Electric Utilities — Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008. Caribbean Utilities serves approximately 27,000 customers as at September 30, 2013, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 96 MW in 2012. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the TSX under the symbol CUP.U.

Fortis Turks and Caicos

Both of the Fortis Turks and Caicos utilities are integrated electric utilities, which collectively serve approximately 12,000 customers, or approximately 98% of electricity consumers on the Turks and Caicos Islands as at September 30, 2013. The utilities met a combined peak demand of approximately 35 MW in 2012. Fortis Turks and Caicos owns and operates approximately 600 kilometres of transmission and distribution lines. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to 50-year licences that expire in 2036 and 2037.

Expropriated Assets — Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the GOB enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at September 30, 2013, the long-term other asset, including foreign exchange impacts, totalled $105 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation and the book value of Belize Electricity.

In July 2012 the Belize Supreme Court dismissed the Corporation's claim of October 2011. Also in July 2012, Fortis filed its appeal of the above-noted trial judgment in the Belize Court of Appeal. The appeal was heard in October 2012 and a decision is pending. Any decision of the Belize Court of Appeal may be appealed to the Caribbean Court of Justice, the highest court of appeal available for judicial matters in Belize. There can be no assurances that a settlement with the GOB will be reached or that any appeal will be successful. Fortis believes it has a strong, well-positioned case before the Belize courts supporting the unconstitutionality of the expropriation. There exists, however, a reasonable possibility that the outcome of the litigation may be unfavourable to the Corporation and the amount of compensation otherwise to be paid to Fortis under the legislation expropriating Belize Electricity could be lower than the book value of the Corporation's expropriated investment in Belize Electricity.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 GWh. BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL, but there can be no assurance that it will not change its intentions. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation operations of FortisOntario are comprised of the operation of a 5-MW gas-powered cogeneration plant in Cornwall. All thermal energy output of this plant is sold to external third parties, while the electricity output is sold to Cornwall Electric. Fortis Generation East LLP owns and operates six small hydroelectric generating facilities in eastern Ontario with a combined capacity of 8 MW. The electricity produced from these facilities is sold to the Ontario Power Authority, via the Hydroelectric Contract Initiative, under fixed-price contracts.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet that sells its entire output to BC Hydro under a contract set to expire in the fourth quarter of 2013. Accordingly, FortisBC is exposed to the risk that it will not be able to sell the power from this facility beyond 2013 on similar terms.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is currently expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $534 million have been incurred on this capital project through September 30, 2013. Key construction activities for year-to-date 2013 include the ongoing civil construction of the powerhouse and intake, installation of the turbine components, installation of ancillary mechanical and electrical powerhouse services, and most notably, the encapsulating of the scrollcase in concrete. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the BCUC. The form of the agreement was originally accepted for filing by the BCUC in September 2010. In May 2012, the BCUC determined that the executed agreement was in the public interest and a hearing was not required. The agreement has been accepted for filing as an energy supply contract and FortisBC has been directed by the BCUC to develop a rate-smoothing proposal. A rate-smoothing deferral mechanism has been included as part of FortisBC's 2014-2018 PBR revenue requirements application, which was filed on July 5, 2013 and updated on October 18, 2013, and is currently subject to review by the BCUC.

Upstate New York

Non-regulated generation assets in Upstate New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from FERC. All four hydroelectric generating facilities sell energy at market rates through purchase agreements with Niagara Mohawk Power Corporation.

Non-Regulated — Non-Utility

Through Fortis Properties, the Corporation owns and operates 23 hotels, comprised of more than 4,400 rooms, in eight Canadian provinces and owns approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada. Non-regulated operations of CH Energy Group primarily consist of Griffith Energy Services, which mainly supplies petroleum products and related services to approximately 65,000 customers in the Mid-Atlantic Region of the United States.

RECENT DEVELOPMENTS

Completion of the Acquisition of CH Energy Group

On February 20, 2012, Fortis entered into an agreement to acquire all of the outstanding common shares of CH Energy Group for US$65.00 per share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of US$518 million of debt on closing. On June 27, 2013, Fortis completed the acquisition of CH Energy Group. The net purchase price of the acquisition of CH Energy Group (the “CH Energy Acquisition”) of approximately $1,019 million (US$972 million) was financed through the issuance of 18,500,000 Common Shares, pursuant to the conversion of Subscription Receipts concurrently with the closing of the CH Energy Acquisition for net proceeds of approximately $567 million after tax, with the balance of the purchase price being initially funded through drawings under the Revolving Facility.

Issuance of First Preference Shares, Series K

On July 18, 2013, Fortis issued 10,000,000 4.00% Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series K for gross proceeds of $250,000,000. The proceeds were used to redeem all of the Corporation’s 5.45% First Preference Shares, Series C on July 10, 2013 for $125 million, to repay a portion of credit facility borrowings and for other general corporate purposes.

Long-Term Debt Offerings

On September 13, 2013, FortisAlberta issued 30-year $150,000,000 unsecured debentures at 4.85%. The proceeds of the debt offering are being used to repay credit facility borrowings, to fund future capital expenditures and for general corporate purposes.

On November 8, 2013, Newfoundland Power issued 30-year $70,000,000 first mortgage bonds at 4.805%. The proceeds of the debt offering were used to repay credit facility borrowings incurred primarily to fund capital expenditures and for general corporate purposes.

Debt Offering by Fortis

On October 1, 2013, Fortis issued US$285,000,000 3.84% senior unsecured notes, series C due October 1, 2023 and US$40,000,000 5.08% senior unsecured notes, series D due October 1, 2043. The proceeds of the debt offering were used to repay a portion of the Corporation’s U.S. dollar-denominated borrowings under the Revolving Facility, which borrowings were used to fund the CH Energy Acquisition and for general corporate purposes.

Tilbury LNG Facility Expansion

On November 28, 2013, the Government of British Columbia announced its approval of an investment of up to $400 million by FEI to expand its LNG plant on Tilbury Island in Delta, British Columbia (the “Tilbury LNG Facility”) to provide LNG to transportation customers as a cleaner alternative to diesel. The expansion is expected to include a second storage tank and new liquefier, both of which are expected to be in service by mid-2016. The current

Tilbury LNG Facility can liquefy 130,000 cubic metres of natural gas per day. Following the expansion that capacity is expected to increase to as much as 1.69 million cubic metres a day. The storage capacity at Tilbury will also increase from the current equivalent of 17 million cubic metres of natural gas to more than 40 million cubic metres.

The Government of British Columbia has exempted the Tilbury LNG facility expansion from the requirement to obtain a certificate of public convenience and a necessity review by the BCUC. The commencement of construction of the expansion remains subject to approval of the FEI board and the B.C. Oil and Gas Commission, but the required zoning approval for the expansion has already been obtained.

FortisAlberta Capital Tracker Application

On December 6, 2013 the AUC released its decision in response to a 2013 capital tracker application (the "Capital Tracker Application") filed by, among others, FortisAlberta in connection with the PBR of utility companies in the Province of Alberta.

While the AUC's decision provides that the Capital Tracker Application meets certain of the criteria established under the PBR, the Capital Tracker Application requires that detailed capital-tracking calculations on a project-by-project basis and additional forecast information for certain projects be submitted. FortisAlberta will re-submit its Capital Tracker Application by May 15, 2014 including the required calculations, and until such time as the AUC releases its decision on the basis of the re-submitted calculations, FortisAlberta is entitled to the existing capital tracking recovery approved by the AUC on March 4, 2013.

Credit Rating Reviews

On December 11, 2013, following the announcement of the Acquisition, DBRS placed the Corporation's issuer rating, unsecured debt rating and preferred share ratings of A (low) 'under review with developing implications'. This action reflects DBRS' view that the proposed Acquisition would have a modestly negative impact on the Corporation's business risk profile, while the impact on the financial risk profile is uncertain since the financing plan for the Acquisition has not been finalized. DBRS will further review the Corporation's financing plan when it is finalized.

In addition, on December 12, 2013, S&P revised its outlook on the Corporation to negative from stable following the announcement of the Acquisition on the basis of its expectation that the Acquisition would be financed primarily using the Debentures and the Private Placement Debentures, which will depress key credit metrics of the Corporation until the conversion thereof to Common Shares. S&P has also revised from stable to negative its outlook on the credit ratings of the Corporation's subsidiaries FortisAlberta, Maritime Electric and Caribbean Utilities using its group rating methodology. S&P has revised from stable to positive its outlook on TEP and has confirmed the long-term 'A-' credit rating of Fortis and the 'BBB' long-term credit rating of TEP.

THE ACQUISITION

Overview

On December 11, 2013, Fortis and certain subsidiaries of Fortis entered into the Acquisition Agreement with UNS Energy which provides for, among other things, the Acquisition by an indirect wholly owned subsidiary of Fortis of all of the issued and outstanding common shares of UNS Energy and the merger of the acquiring subsidiary of Fortis into UNS Energy. The aggregate purchase price for the Acquisition is approximately US$4.3 billion, comprised of approximately US$2.5 billion in cash on closing and the assumption of approximately US$1.8 billion of debt. The Acquisition is subject to receipt of UNS Energy common shareholder approval and certain regulatory and governmental approvals, including approval by each of the ACC and FERC and the satisfaction of customary closing conditions. The closing of the Acquisition is currently expected to occur by the end of 2014.

UNS Energy, formerly UniSource Energy Corporation, is a utility services holding company headquartered in Tucson, Arizona engaged through its subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona. UNS Energy's fiscal 2012 operating revenue totalled approximately US$1.5 billion and, as at September 30, 2013, UNS Energy had total assets of approximately US$4.3 billion. Based on *pro forma* financial information as at September 30, 2013, following the Acquisition, the Corporation's total assets will increase by approximately 33.5% to approximately $23.5 billion. The Acquisition of UNS Energy is expected to increase the Corporation's consolidated rate base by approximately US$3.0 billion by 2015 and its total customers by approximately 654,000. Following the Acquisition, the regulated utility subsidiaries of Fortis will serve more than 3,000,000 customers.

UNS Energy Overview

UNS Energy has three direct and indirect subsidiaries which are regulated utilities: TEP, UNS Gas and UNS Electric. UNS Energy's utility operations are vertically integrated with generation, transmission and distribution being regulated by either the ACC or FERC.

TEP is a vertically integrated regulated electric utility and is UNS Energy's largest and principal operating subsidiary, representing approximately 84% of the total assets as at September 30, 2013 and approximately 81% of the operating revenues of UNS Energy for the nine months ended September 30, 2013. TEP was incorporated in the State of Arizona in 1963 and currently generates, transmits and distributes electricity to approximately 412,000 retail electric customers in southern Arizona. TEP's service territory covers 1,155 square miles (2,991 square kilometres) and includes a population of approximately 1,000,000 people in the greater Tucson metropolitan area in Pima County, as well as parts of Cochise County. TEP also sells electricity to other entities in the western United States.

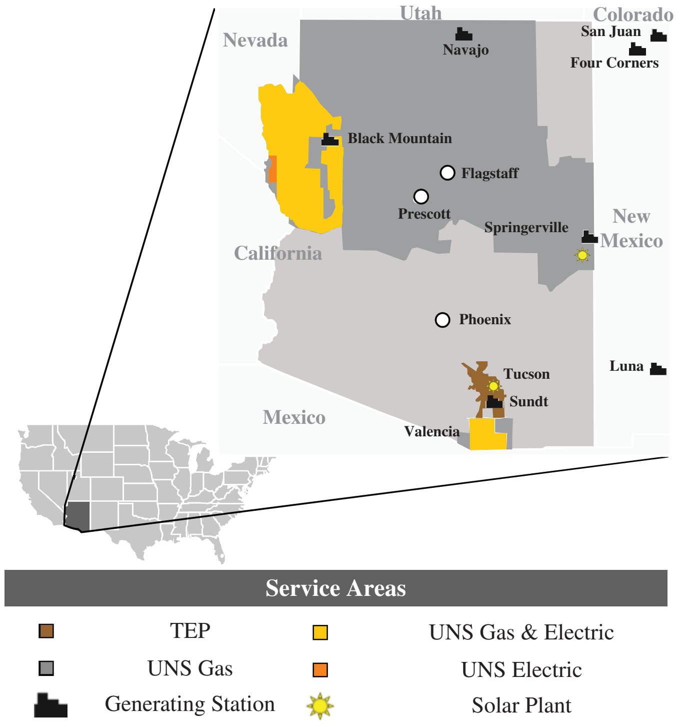
UNS Gas is a regulated gas distribution company serving approximately 149,000 retail customers in northern Arizona's Mohave, Yavapai, Coconino and Navajo counties, as well as Santa Cruz County in southern Arizona. These counties, with a combined population of approximately 700,000, comprise approximately 50% of the territory in the State of Arizona. UNS Gas represented approximately 7% of the total assets of UNS Energy as at September 30, 2013 and approximately 8% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

UNS Electric is a vertically integrated regulated electric utility company serving approximately 93,000 retail customers in Arizona's Mohave and Santa Cruz counties. These counties have a combined population of approximately 250,000. UNS Electric represented approximately 9% of the total assets of UNS Energy as at September 30, 2013 and approximately 11% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

The non-regulated business of UNS Energy, which comprises less than 1% of UNS Energy's total assets, includes the operations of Millennium and UniSource Energy Development Company. SES, a wholly owned subsidiary of Millennium, provides electrical contracting and meter reading services in Arizona, as well as other services at Springerville.

The following map depicts the service territories and generating stations of UNS Energy and its regulated utility subsidiaries. See “The Acquired Business”.

UNS Energy Utility Service Areas



Acquisition Rationale

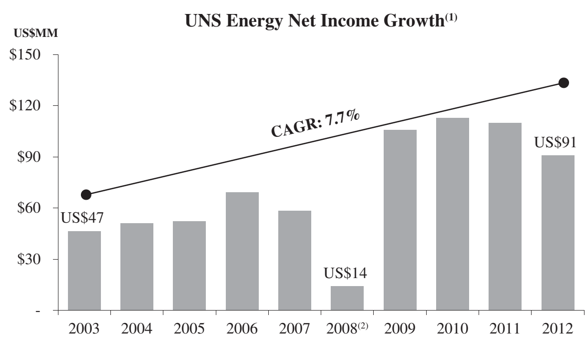
The business operated by UNS Energy is attractive to Fortis for the following reasons:

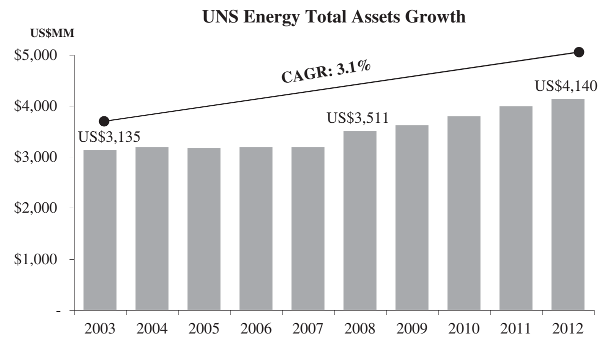
Accretive to Earnings per Common Share in the First Full Year

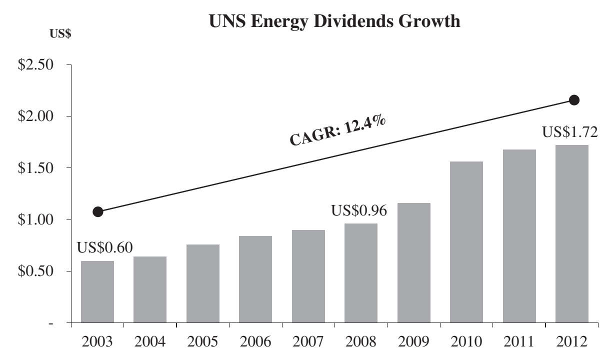
Management expects that the Acquisition will be accretive to the Corporation’s earnings per Common Share in the first full year following its completion, excluding one-time Acquisition-Related Expenses. See “The Acquisition Agreement” and “The Acquired Business”.

Acquisition of a Well-Run Utility

Over the past 10 years (through 2012), UNS Energy has (i) increased net income by a CAGR of 7.7%, (ii) increased total assets by a CAGR of 3.1% and (iii) increased annual dividends per common share from US$0.60 to US$1.72. Key drivers of earnings growth include the 2013 TEP Rate Order, which is primarily related to prior infrastructure investment, and the expiration and buyout of the Springerville Unit 1 Leases.





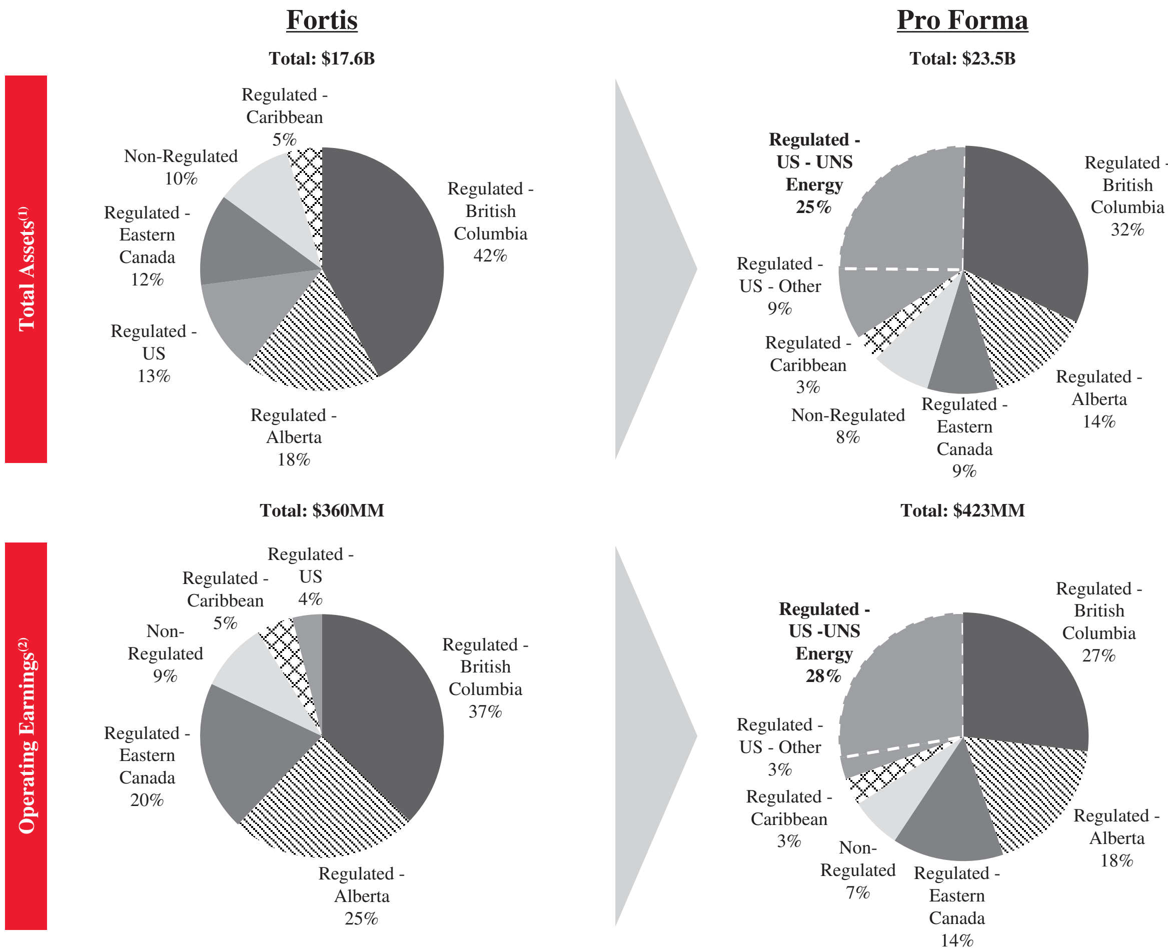


(1) Net income excludes the effect of extraordinary accounting changes and earnings from discontinued operations.

(2) UNS Energy's 2008 net income was reduced due to a US$58 million deduction of revenue for an over-collection of competitive transition charges, which the ACC ordered to be returned to customers, as well as higher fuel and purchased power costs, which prior to January 1, 2009 had not been collected from customers through a flow-through mechanism.

Diversification of Regulated Earnings Base

UNS Energy represents a significant opportunity for Fortis to further diversify its regulated assets, earnings base and cash flows and improve the risk profile of Fortis by diversifying its geographic reach and providing Fortis with a more economically diverse portfolio of assets. The increased diversification to, and growth in, the Corporation's regulated assets, earnings and cash flows is consistent with the Corporation's strategy of pursuing accretive acquisition opportunities both in the United States and Canada.



(1) As at September 30, 2013.

(2) For the 9-month period ended September 30, 2013. Operating earnings of Fortis excludes the $22 million extraordinary gain on settlement of expropriation matters associated with the Exploits River Hydro Partnership.

Supportive Regulatory Environment

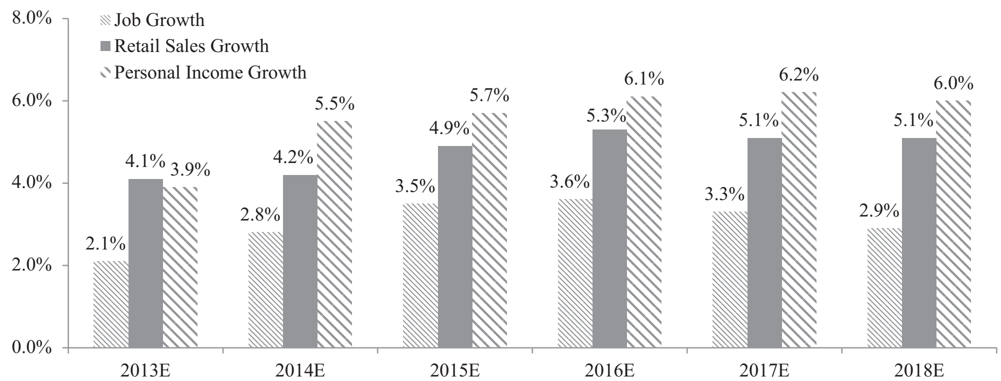
UNS Energy operates within a supportive regulatory environment. The regulated utility rates for retail electric and natural gas service are determined by the ACC on a "cost of service" basis with rate design structures that pass through costs related to fuel, purchased power, environmental compliance, energy efficiency and distributed generation. Most of the ACC's regulatory components were recently ranked as "Excellent" or "Very Good" by DBRS in its Regulatory Framework for Utilities report dated October 2013. The 2013 TEP Rate Order allows for 10.0% ROE on 43.5% common equity.

Favourable Arizona Economic Drivers

Arizona is a state in the southwestern region of the United States with a population of approximately 6.5 million, making it the 15th most populous of the 50 states of the United States. The largest employer in the State is the public service, with copper mining being the State's largest single industry. Copper mined in the state of Arizona accounts for two-thirds of the copper output of the United States.

Additionally, the Arizona economy continues to generate solid economic growth, with job growth at 2.0% over the past year, above the national rate of 1.6%. According to the University of Arizona Economic and Business Research Centre, growth in jobs, retail sales and personal income is expected to reach 2.9%, 5.1% and 6.0%, respectively, by 2018, providing a base of support for future utility earnings. Job growth in Arizona is expected to continue at an annual rate of 1.8% over the next 30 years, reaching 4.3 million jobs by 2043.

Arizona Economic Forecast (1)

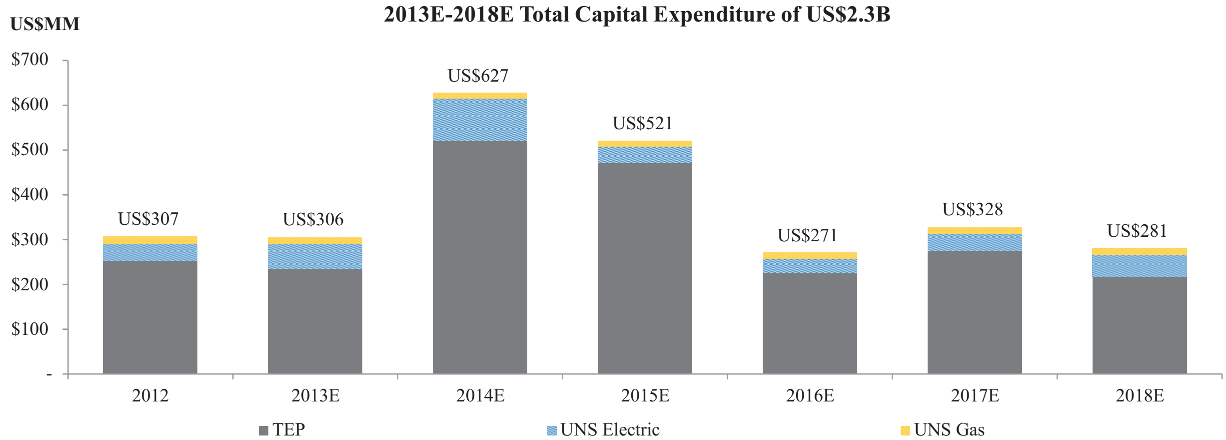


(1) Source: University of Arizona Economic and Business Research Centre, October 2013.

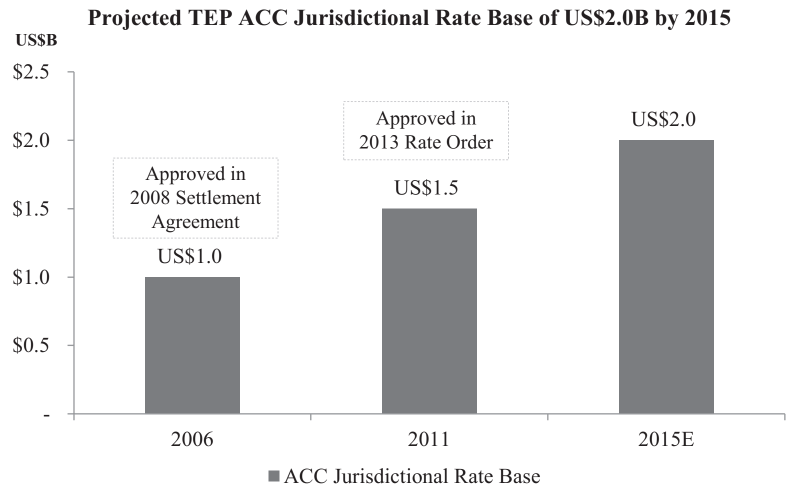
Rate Base Growth

UNS Energy's continued investment in its electric and gas businesses to provide safe, reliable and cost-efficient energy service to its customers is expected to result in attractive rate base growth. UNS Energy has forecasted that capital investment will total approximately US$2.3 billion over the period from 2013 to 2018. UNS Energy's rate base is expected to reach US$3.0 billion by 2015 and to grow at a CAGR of approximately 7% through 2018.

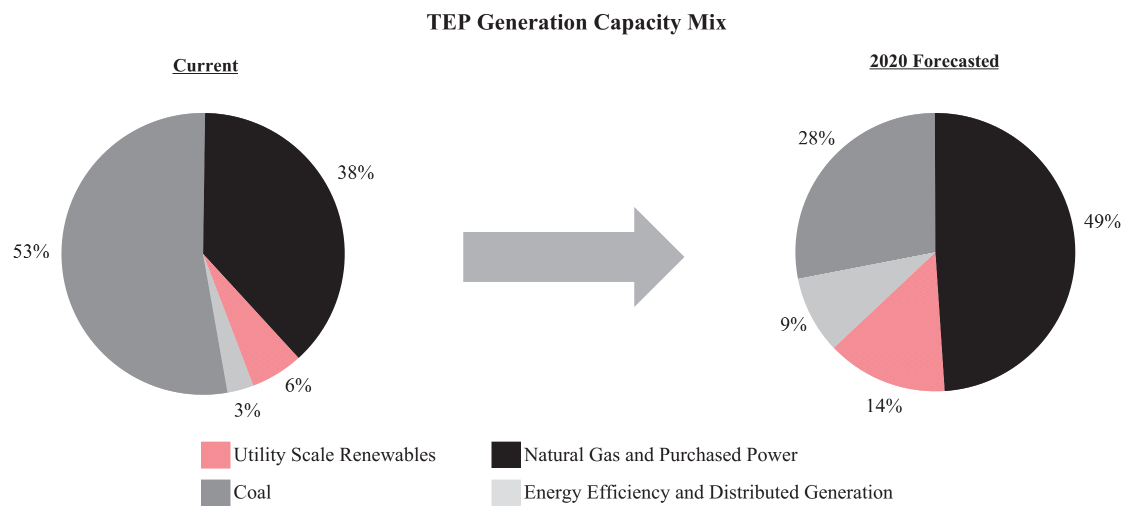
2013E-2018E Total Capital Expenditure of US$2.3B



TEP projects that its ACC jurisdictional rate base will increase to approximately US$2.0 billion by 2015 (from an ACC approved 2011 rate base of US$1.5 billion). This is expected to increase UNS Energy's total rate base to approximately US$3.0 billion by 2015.



TEP expects to invest significant capital into diversifying its generation fleet, including through the anticipated purchase of the natural gas-fired combined-cycle Gila River Unit 3 generation plant (with a capacity of 550 MW) and utility scale renewables generation. Renewables investments will diversify TEP's generation resources, as well as assist TEP in the mitigation of environmental impact.



Experienced Management Team

UNS Energy is a well-run utility with an experienced management team committed to providing customers with safe, reliable and cost-effective energy service. Over the last five years, UNS Energy customers have experienced, on average, approximately one outage for a duration of 1.5 hours per year. Management has decreased debt-to-capitalization of UNS Energy from 84% in 2000 to 62% as at September 30, 2013, resulting in a four notch upgrade to TEP's credit rating over the period to Baa2 (Moody's). Management has also demonstrated strong regulatory expertise, completing each of the past three rate cases in approximately one year on average.

Paul J. Bonavia was appointed Chairman and Chief Executive Officer of UNS Energy, TEP and UniSource Energy Services by UNS Energy's board of directors on January 1, 2009. Prior to joining UNS Energy, Mr. Bonavia served as the President of Xcel Energy's Commercial Enterprises business unit and the President of its Energy Markets unit. David Hutchens was named President and Chief Operating Officer of UNS Energy, TEP and UniSource Energy Services in December 2011 after serving as an Executive Vice President since March 2011 and was appointed to UNS

Energy's board of directors in December 2013. Mr. Hutchens joined TEP in July 1995 and has held various management positions overseeing wholesale energy sales. Mr. Hutchens graduated from the University of Arizona with a bachelor's degree in aerospace engineering and a master's degree in business administration with an emphasis in finance.

See "The Acquired Business", "The Acquisition Agreement", "Risk Factors — Risk Factors Relating to the Acquisition" and "Special Note Regarding Forward-Looking Statements".

Utility Management Approach of Fortis

The Corporation's approach to utility management is based on creating value for customers that ultimately translates into long-term value for shareholders. Fortis structures its operations as separate operating companies in each jurisdiction. Focused local management teams have the benefit of access to the utility management experience and expertise of Fortis. The senior management team of UNS Energy, which Fortis expects to retain, will add valuable operational expertise in electric generation and distribution and natural gas distribution to the existing expertise of Fortis in such areas. This approach allows local managers to build relationships with, and be responsive to, both customers and regulators. Fortis recognizes that regulation is a key aspect of its core business and has developed a disciplined, cost-conscious asset investment and operating philosophy which is responsive to regulation.

The management of Fortis has substantial experience in integrating newly acquired enterprises into the Fortis group. In 2013, Fortis acquired CH Energy Group and has successfully integrated its businesses into the Fortis group. In 2007, Fortis acquired FortisBC Holdings (formerly Terasen Inc.) and has successfully integrated the natural gas distribution business of the FortisBC Energy companies into the Fortis group. Fortis also successfully integrated FortisBC (formerly, Aquila Networks Canada (British Columbia) Ltd.) and FortisAlberta (formerly, Aquila Networks Canada (Alberta) Ltd.) into the Fortis group following their acquisition in 2004.

THE ACQUIRED BUSINESS

UNS Energy

UNS Energy, formerly UniSource Energy Corporation, is a utility services holding company headquartered in Tucson, Arizona engaged through its subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona. The common stock of UNS Energy trades on the NYSE under the symbol "UNS".

UNS Energy has three direct and indirect subsidiaries which are regulated utilities, TEP, UNS Gas and UNS Electric. The percentage of UNS Energy's total assets, operating revenues and net income by regulated utility subsidiary for the nine months ended September 30, 2013 was as follows:

Percentage of UNS Energy
(Nine Months Ended September 30, 2013)

Subsidiary	Total Assets	Operating Revenues	Net Income
TEP	84%	81%	85%
UNS Electric	9%	11%	10%
UNS Gas	7%	8%	5%

Revenues of each of TEP and UNS Electric include revenues from retail electricity sales and wholesale electricity sales made primarily from power generated at facilities owned or leased by TEP or UNS Electric, as applicable. In addition, TEP receives income from its transmission assets and its operation of Springerville Units 3 and 4 for Tri-State and SRP, respectively. UNS Gas' revenues primarily arise from retail and wholesale gas sales. The following table sets forth the total operating revenue of UNS Energy by source, for each of 2011, 2012 and the nine month period ended September 30, 2013.

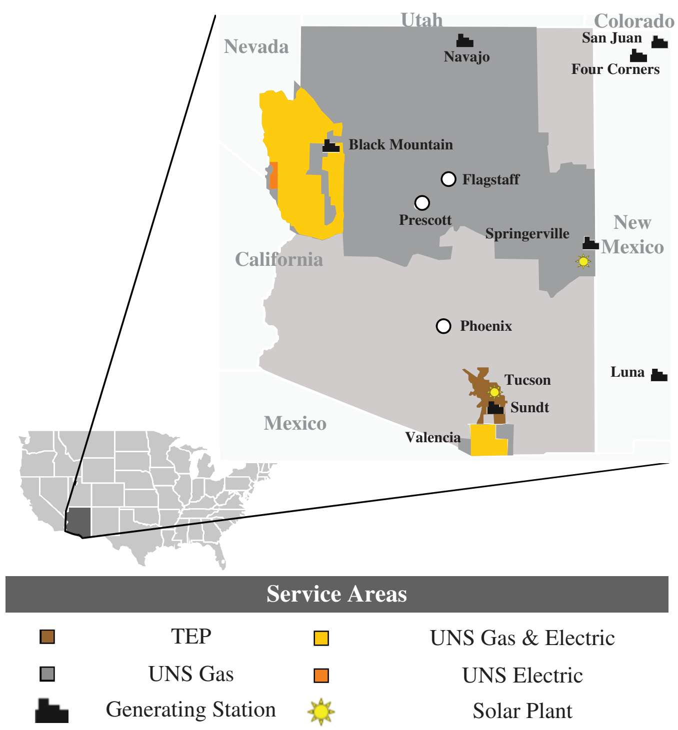
	Nine Months ended September 30, 2013	Years ended December 31, 2012	Years ended December 31, 2011
	(thousands of U.S. dollars)	(thousands of U.S. dollars)	
Operating Revenues			
Electric Retail Sales	$ 868,523	$1,087,279	$1,085,822
Electric Wholesale Sales	92,581	125,414	132,346
Gas Revenue	86,432	123,133	145,053
Other Revenues	86,863	125,940	115,481
Total Operating Revenues	$1,134,399	$1,461,766	$1,478,702

For further information on the financial condition and results of UNS Energy, reference is made to the audited consolidated financial statements of UNS Energy as of December 31, 2012 and 2011, including the consolidated statements of income and cash flows for each of the years ended December 31, 2012, 2011 and 2010, and the unaudited consolidated financial statements of UNS Energy for the three and nine months ended September 30, 2013, each of which is included in this Prospectus.

UNS Energy Service Territory

UNS Energy's regulated utility subsidiaries service approximately 654,000 retail customers in Arizona. The following map depicts the service territories and generating stations of UNS Energy and its regulated utility subsidiaries.

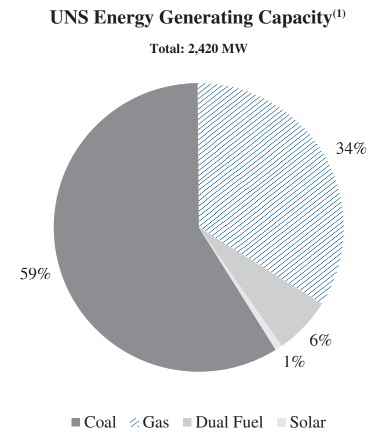
UNS Energy Utility Service Areas

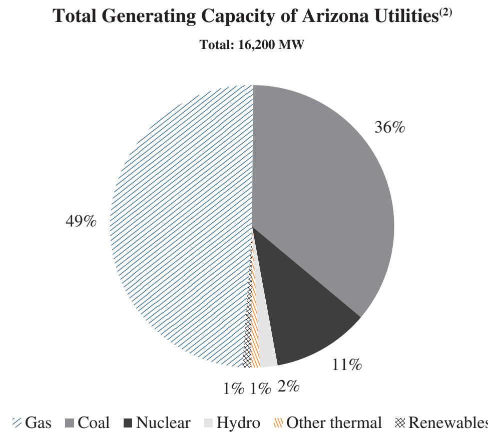


UNS Energy Generation Profile

UNS Energy currently owns or leases generation resources with an aggregate capacity of 2,420 MW, including 19 MW of solar capacity. As shown in the chart which follows, 59% of UNS Energy's generating capacity is fueled by coal. The aggregate generating capacity of Arizona's utilities is 16,200 MW, 36% of which is fueled by coal.

UNS Energy and Arizona Generation Capacity Mix





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(1) Owns 2,074 MW, including TEP's 14% ownership of the 401-MW Springerville Unit 1 Plant, and leases an additional 346 MW.

(2) Source: Energy Information Association. Arizona utilities include UNS Energy, Salt River Power Project, Arizona Electric Power Cooperative and Arizona Public Service.

TEP

TEP is a vertically integrated, regulated electric utility and UNS Energy's largest and principal operating subsidiary, representing approximately 84% of the total assets as at September 30, 2013 and approximately 81% of the operating revenues of UNS Energy for the nine months ended September 30, 2013. TEP was incorporated in the State of Arizona in 1963 and currently generates, transmits and distributes electricity to approximately 412,000 retail electric customers in southern Arizona. TEP's service territory covers 1,155 square miles (2,991 square kilometres) and includes a population of approximately 1,000,000 people in the greater Tucson metropolitan area in Pima County, as well as parts of Cochise County. TEP has sufficient generating capacity which, together with existing power purchase agreements and expected generation plant additions, should satisfy the requirements of its customer base and meet expected future peak demand requirements. In addition, TEP sells electricity to other entities in the western United States.

Peak Demand

Peak demand occurs during the summer months due to the cooling requirements of TEP's retail customers. Retail peak demand varies from year-to-year due to weather, economic conditions, and other factors. TEP's retail peak demand declined over the period of 2008 to 2012 due primarily to weak economic conditions and the implementation of energy efficiency programs. TEP experienced peak demand of 2,290 MW in 2012. TEP believes its existing generation capacity, together with power purchase agreements and expected generation plant additions will be sufficient to meet future demand.

Retail Customers

TEP provides electric utility service to a diverse group of residential, commercial, industrial and public sector customers. Retail sales accounted for 78.8% of TEP's operating revenues in 2012. In 2012, 41% of TEP's energy sales were to residential customers, 21% were to commercial customers, 23% were to non-mining industrial customers, 12% were to mining customers and 3% were to public entities. In 2013, the retail energy consumption by customer class is expected to be similar to the historical customer distribution. Major industries served include copper mining, cement manufacturing, defense, health care, education, military bases and other governmental entities. Two of TEP's largest single customers are in the copper mining industry. Sales to these two customers increased by 0.9% in 2012 and 0.3% in 2011 as a result of increased production due to high copper prices, but are not expected to materially increase in 2013 or 2014. TEP's retail sales are influenced by several factors, including economic conditions, seasonal weather patterns, DSM initiatives and the increasing use of energy efficient products and opportunities for customers to generate their own electricity.

Local, regional and national economic factors have impacted the growth in the number of customers in TEP's service territory. In 2012, 2011 and 2010, TEP's average number of retail customers increased by less than 1% year over year. During the past three years, economic conditions in the State of Arizona and state requirements for energy efficiency and distributed generation have negatively affected TEP's retail electricity sales. TEP's retail sales volumes in 2012 were approximately 9,265 GWh or 1.1% below 2009 sales volumes.

Although the Retail Electric Competition Rules established in 1999 ("Rules") by the ACC, which regulates portions of TEP's utility accounting practices and energy rates, contemplated that TEP's retail customers may be eligible to choose an alternative energy service provider ("ESP"), portions of those Rules have been invalidated by the Arizona courts and there are currently no ESPs authorized to provide alternative retail electric service to TEP's customers. See "The Acquired Business — Regulation — Retail Electric Competition Rules".

Wholesale Business

TEP's electric utility operations include the wholesale marketing of electricity to other utilities and power marketers in the southwestern United States. Wholesale sales transactions are made on both a firm and interruptible basis and accounted for 8.3% of TEP's total 2012 operating revenues. A firm contract requires TEP to supply power on demand (except under limited emergency circumstances), while an interruptible contract allows TEP to stop supplying power in specific circumstances. See "The Acquired Business — TEP — Generating and Other Resources".

Generally, TEP commits to future sales with third parties based on expected excess generating capability, forward prices and generation costs, using a diversified portfolio approach to provide a balance between long-term, mid-term and spot energy sales. TEP's wholesale sales consist primarily of long-term or short term sales.

Long-Term Sales

Long-term wholesale sales contracts cover periods of more than one year. TEP typically uses its own generation to serve the requirements of its long-term wholesale customers. In 2012, 26% of TEP's wholesale revenues, or approximately 2% of TEP's total 2012 operating revenues, were attributable to long-term wholesale sales contracts. TEP's material long-term wholesale power supply contracts are described below:

- Through May 2016, SRP is required to purchase 500,000 MWh of on-peak energy per year from TEP.
- TEP has a contract with the NTUA which expires in December 2022. TEP serves the portion of NTUA's load that is not served by the authority's allocation of federal hydroelectric power. Over the last three years, sales to NTUA averaged 225,000 MWh per year.

Short-Term Sales

Short-term forward contracts commit TEP to sell a specified amount of capacity or energy at a specified price over a given period of time, typically for one-month, three-month or one-year periods. TEP also engages in short-term sales by selling energy in the daily or hourly markets at fluctuating spot market prices and making other non-firm energy sales. In 2012, 74% of TEP's operating revenues from wholesale sales, or approximately 6% of TEP's total 2012 operating revenues, were attributable to short-term sales. All revenues from short-term wholesale sales offset fuel and purchased power costs and are passed through to TEP's retail customers. TEP uses short-term wholesale sales as part of its hedging strategy to reduce customer exposure to fluctuating power prices. In addition, 10% of profits from wholesale trading activity is passed through to TEP's retail customers.

Generating and Other Resources

At December 31, 2012, TEP had owned electrical generating capacity of 1,921 MW and leased electrical generating capacity of 346 MW, for total net generating capacity of 2,267 MW, as set forth in the table below. Several of the generating assets in which TEP has an interest are jointly owned. In the United States large power generation facilities are often developed by partnerships or joint ventures of different utilities to assist with financing the large capital expenditures required in connection with the construction of such facilities. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy — Jointly-owned generating plants and generating plants operated by third parties".

TEP Sources of Net Generating Capacity

Generating Source	Unit No.	Location	Date In Service	Resource Type	Net Capability MW	Operating Agent	TEP's Share %	TEP's Share MW
Springerville Station [1]	1	Springerville, AZ	1985	Coal	401	TEP	100.0	401
Springerville Station	2	Springerville, AZ	1990	Coal	403	TEP	100.0	403
Springerville Station [2]	3	Springerville, AZ	2005	Coal	400	TEP	0.0	0
Springerville Station [2]	4	Springerville, AZ	2009	Coal	400	TEP	0.0	0
San Juan Station	1	Farmington, NM	1976	Coal	340	PNM	50.0	170
San Juan Station	2	Farmington, NM	1973	Coal	340	PNM	50.0	170
Navajo Station	1	Page, AZ	1974	Coal	750	SRP	7.5	56
Navajo Station	2	Page, AZ	1975	Coal	750	SRP	7.5	56
Navajo Station	3	Page, AZ	1976	Coal	750	SRP	7.5	56
Four Corners Station	4	Farmington, NM	1969	Coal	784	APS	7.0	55
Four Corners Station	5	Farmington, NM	1970	Coal	784	APS	7.0	55
Luna Generating Station	1	Deming, NM	2006	Gas	555	PNM	33.3	185
Sundt Station	1	Tucson, AZ	1958	Gas/Oil	81	TEP	100.0	81
Sundt Station	2	Tucson, AZ	1960	Gas/Oil	81	TEP	100.0	81
Sundt Station	3	Tucson, AZ	1962	Gas/Oil	104	TEP	100.0	104
Sundt Station	4	Tucson, AZ	1967	Coal/Gas	156	TEP	100.0	156
Sundt Internal Combustion Turbines		Tucson, AZ	1972-1973	Gas/Oil	50	TEP	100.0	50
DeMoss Petrie		Tucson, AZ	1972	Gas/Oil	75	TEP	100.0	75
North Loop		Tucson, AZ	2001	Gas	95	TEP	100.0	95
Springerville Solar Station		Springerville, AZ	2002-2010	Solar	6	TEP	100.0	6
Tucson Solar Projects		Tucson, AZ	2010-2012	Solar	12	TEP	100.0	12
Total TEP Capacity [3]								2,267

(1) 14.1% owned and 85.9% of generating capacity under lease as of September 30, 2013. As of January 2015 the capacity received by TEP from Springerville Unit 1 will be reduced to 49.5% of its continuous operating capability. See "The Acquired Business — TEP —Generating and Other Resources — Springerville Generating Station".

(2) Springerville Units 3 and 4 are operated by TEP, but are owned by Tri-State and SRP, respectively. These facilities are located at the same site as Springerville Units 1 and 2. The owners of Springerville Units 3 and 4 compensate TEP for operating the facilities and pay an allocated portion of the fixed costs related to the Springerville Common Facilities and the Springerville Coal Handling Facilities. TEP is not entitled to any net generating capacity from Springerville Units 3 and 4.

(3) Excludes 683 MW of additional resources, which consist of certain capacity purchases and interruptible retail load.

Springerville Generating Station

TEP currently owns a 14.1% undivided interest in Unit 1 of the coal-fired Springerville and leases the remaining 85.9%. Springerville Unit 2 is owned by San Carlos Resources, Inc. ("San Carlos"), a wholly owned subsidiary of TEP. Springerville Units 3 and 4 are owned by Tri-State and SRP, respectively. TEP operates all four Springerville generating units, and Tri-State and SPR compensate TEP for operating the facilities. TEP is not entitled to any net generating capacity from Springerville Units 3 and 4.

TEP's other interests in Springerville include leasehold interests in the Springerville Coal Handling Facilities and the facilities at Springerville used in common by all four Springerville units ("Springerville Common Facilities"). In

1984, TEP sold and leased back the Springerville Coal Handling Facilities and has since purchased a 13% ownership interest therein. The terms of the Springerville Coal Handling Facilities leases ("Springerville Coal Handling Facilities Leases") expire in April 2015 but have fixed-rate renewal options if certain conditions are satisfied, as well as a fixed-price purchase provision of US$120 million. TEP has agreed with Tri-State, the lessee of Springerville Unit 3, and SRP, the owner of Springerville Unit 4, that if the Springerville Coal Handling Facilities Leases are not renewed, TEP will exercise the purchase options under these contracts. Upon such purchase, SRP will be obligated to buy a portion of the Springerville Common Facilities and Tri-State will be obligated to either buy a portion of the Springerville Common Facilities or continue making payments to TEP for the use of its facilities.

TEP's lease arrangement relating to Springerville Unit 1 and an undivided one-half interest in certain Springerville Common Facilities ("Springerville Unit 1 Leases"), expire in 2015 but contain optional fair market value renewal and purchase provisions. In August and October 2013, TEP exercised purchase options with respect to an additional aggregate 35.4% undivided interest in Springerville Unit 1 from the owner participants at an aggregate purchase price of approximately US$65.5 million, with the closing of the lease purchase options scheduled to occur in December 2014 and January 2015. In 2015, following TEP's acquisition of the additional 35.4% interest in Springerville Unit 1 and the expiry of the Springerville Unit 1 Leases, TEP's share of the continuous operating capability of Springerville Unit 1 will be reduced to 49.5%. TEP has indicated that it does not intend to acquire an ownership interest in Springerville Unit 1 that is greater than 50% due to its intention to reduce its exposure to coal generation.

TEP's lease arrangements relating to an undivided one-half interest in certain Springerville Common Facilities ("Springerville Common Facilities Leases"), which expire in 2017 and 2021, have optional fair market value renewal options as well as a fixed-price purchase provision. The fixed prices to acquire the interest in the Springerville Common Facilities currently leased by TEP are US$38 million in 2017 and US$68 million in 2021.

Sundt Station and Sundt Internal Combustion Turbines

TEP owns and operates the Sundt Internal Combustion Turbines and all four units of the Sundt Generating Station (the "Sundt Station") located near Tucson, Arizona. The Sundt Internal Combustion Turbines have a net generating capacity of 50 MW. Sundt Station Units 1, 2 and 3 can be operated on either natural gas or diesel oil and have a net generating capacity of 81 MW, 81 MW and 104 MW, respectively. Sundt Station Unit 4 can be operated on either natural gas or coal and has a net generating capacity of 156 MW. The Sundt Station and the Sundt Internal Combustion Turbines are designated as "must-run generation" facilities. Must-run generation units are required to run in certain circumstances to maintain distribution system reliability and to meet local load requirements. See "The Acquired Business — Environmental Regulation — Regional Haze Rules — Sundt".

Purchases and Interconnections

To supplement its leased and owned net generating capacity, TEP purchases power from other utilities and power marketers. TEP may enter into contracts: (a) to purchase energy under long-term contract to serve retail load and long-term wholesale contracts; (b) to purchase capacity or energy during periods of planned outages or for peak summer load conditions; and (c) to purchase energy for resale to certain wholesale customers under load and resource management agreements.

TEP typically uses generation from its gas-fired units, supplemented by power purchases, to meet the summer peak demands of its retail customers. Some of these power purchase agreements ("PPAs") are price-indexed to natural gas prices. Due to its increasingly seasonal gas and purchased power usage, TEP hedges a portion of its total natural gas exposure with fixed price contracts for a maximum of three years. TEP also purchases energy in the daily and hourly markets to meet higher than anticipated demands, to cover unplanned generation outages or when doing so is more economical than running owned generation.

TEP is a member of a regional reserve-sharing organization and has reliability and power sharing relationships with other utilities. These relationships allow TEP to call upon other utilities during emergencies, such as plant outages and system disturbances, and reduce the amount of power reserves TEP is required to carry.

As a result of the *Energy Policy Act of 2005*, owners and operators of bulk power transmission systems, including TEP, are subject to mandatory reliability standards that are developed and enforced by NERC and subject to the oversight of FERC. TEP periodically reviews its operating policies and procedures to ensure continued compliance with these standards.

Renewable Energy Resources

As of December 31, 2012, TEP owned 18 MW of photovoltaic ("PV") solar generating capacity. The Springerville solar system, which is located near Springerville, has a total capacity of 6 MW. TEP's remaining 12 MW of PV solar generating capacity is located in the City of Tucson.

In order to meet the ACC's renewable energy requirements which, among other things, require TEP, UNS Electric and other affected utilities to increase their use of renewable energy each year until it represents at least 15% of their total annual retail energy requirements in 2025, TEP has PPAs for 125 MW of capacity from solar resources, 50 MW of capacity from wind resources and 2 MW of capacity from a landfill gas generation plant. As of December 31, 2012, approximately 74 MW of solar resources and 50 MW of wind resources contracted by TEP were operational. The remaining resources contracted by TEP are expected to be developed over the next several years. The solar PPAs contain options that would allow TEP to purchase all or part of the related project at a future period. See "The Acquired Business — Regulation — Renewable Energy Standard and Tariff".

Future Generating Resources

TEP is evaluating several energy resource options, including coal, natural gas and renewables for future use to satisfy its power requirements. The focus of TEP's long-term energy resource diversification strategy is to provide long-term rate stability for customers, mitigate environmental impacts, comply with regulatory requirements and leverage existing utility infrastructure. TEP is gradually reducing its reliance on coal generation over time by increasing the capacity of efficient combined-cycle gas turbines and renewables, particularly by adding solar generating capacity, and expects coal to represent less than 50% of generating capacity by 2020. TEP will add generating resources and/or transmission import capability to meet forecasted retail and firm wholesale load demands. TEP's ACC approved 2013 RES implementation plan includes an investment of US$28 million for company-owned solar projects. TEP is emerging as an industry leader in the development and support of renewable energy and was named 2012 Investor Owned Utility of the Year by the Solar Electric Power Association. In addition, in August 2013, TEP entered into exclusive negotiations with Entegra to purchase the Gila River, Unit 3 Generating Station ("Gila River") in Gila Bend, Arizona. Gila River is a natural gas-fired combined-cycle unit with a capacity rating of 550 MW, which went into service in 2003. UNS Electric may purchase up to 150 MW of Gila River Unit 3, while TEP would purchase the remaining capacity. The anticipated purchase of Gila River is consistent with TEP's strategy to diversify its generation fuel mix and gradually reduce its reliance on coal. See "The Acquired Business — TEP — Fuel Supply".

Gila River will replace foregone coal-fired leased capacity following expiry of the Springerville Unit 1 Leases and the expected reduction of coal-fired generating capacity from San Juan Unit 2, which may be retired on or before December 31, 2017. See "The Acquired Business — Environmental Regulation — Regional Haze Rules — San Juan". TEP expects to execute a definitive purchase agreement with Entegra by the end of 2013 and close the purchase transaction in late 2014 subject to final agreement on terms and, among other things, receipt of required regulatory approvals. TEP expects to finance the anticipated acquisition of Gila River using its revolving credit facility and bridge financing and expects to ultimately refinance such indebtedness with equity injections and the issuance of long-term debentures.

Fuel Supply

TEP's fuel cost and usage information for the three most recently completed calendar years are:

	Average Cost per MMBtu Consumed by TEP			Percentage of Total Btu Consumed by TEP		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Coal	$2.44	$2.42	$2.23	88%	92%	90%
Gas	$3.92	$5.20	$4.69	12%	8%	10%
All Fuels	$2.63	$2.65	$2.47	100%	100%	100%

Coal

TEP's principal fuel for electric generation is low-sulfur, bituminous or sub-bituminous coal from mines in Arizona, New Mexico and Colorado. In 2012, 88% of the energy sold or used by TEP was generated from coal, down from 92% in 2011 and 90% in 2010. In 2012, 72% of the total power generated by TEP was generated from coal. More than 90% of TEP's coal supply is purchased under long-term contracts, which results in more predictable prices. TEP's average cost per tonne of coal, including transportation, was US$45.84 in 2012, US$46.64 in 2011 and US$41.99 in 2010. The following table sets forth the supplier, the contract expiration date and the amount of coal consumed in 2012 for TEP's coal generating stations in respect of which coal was purchased under a long-term supply contract:

Generating Station	Coal Supplier	2012 Coal Consumption (thousands of tonnes)	Contract Expiration
Springerville	Peabody Coalsales	3,287	2020
Four Corners	BHP Billiton	400	2016
San Juan	San Juan Coal Co.	1,098	2017
Navajo	Peabody Coalsales	475	2019

TEP is the operator and sole owner (or lessee) of the Springerville Units 1 and 2 (see "The Acquired Business — TEP — Generating and Other Resources — Springerville Generating Station") and Sundt Unit 4 coal-fired generation plants. The coal supplies for Springerville Units 1 and 2 are transported approximately 200 miles by railroad from northwestern New Mexico. TEP expects its contracted coal reserves to be sufficient to supply the estimated requirements for Springerville Units 1 and 2 for their presently estimated remaining lives.

The coal supplies for Sundt Unit 4 are transported approximately 1,300 miles by railroad from Colorado. Prior to 2010, Sundt Unit 4 was predominantly fueled by coal; however, the generating station can also be operated using natural gas. Both fuels are combined with methane, a renewable energy resource, piped in from a nearby landfill. Since 2010, TEP has fueled Sundt Unit 4 with both coal and natural gas depending on which resource is most economic. In 2013, TEP has fueled Sundt Unit 4 with coal from inventory. TEP does not expect to encounter any issues in sourcing coal for use in Sundt Unit 4 in the future, to the extent that coal is used as the fuel for this generator.

TEP also participates in jointly-owned coal-fired generating facilities at the Four Corners Generating Station ("Four Corners"), the Navajo Generating Station ("Navajo") and the San Juan Generating Station ("San Juan"). Four Corners, which is operated by Arizona Public Service ("APS") and San Juan, which is operated by Public Service Company of New Mexico ("PNM") are mine-mouth generating stations located adjacent to the coal reserves used in those generating plants. Navajo, which is operated by SRP, obtains its coal supply from a nearby coal mine with a dedicated rail delivery system. The coal supplies used at Four Corners, Navajo and San Juan are under long-term contracts administered by the operating agents. TEP expects coal reserves available to these three jointly-owned generating facilities to be sufficient for the remaining presently estimated lives of the generating stations. See also "The Acquired Business — Environmental Regulation — Regional Haze Rules" and "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Natural Gas Supply

TEP typically uses generation from its natural gas-fueled facilities, in addition to energy from its coal-fired facilities and purchased power, to meet the summer peak demands of its retail customers and local reliability needs. TEP purchases gas from Southwest Gas Corporation under a retail tariff for its North Loop generating station's 95 MW of internal combustion turbines and receives distribution service under a transportation agreement for its DeMoss Petrie generating station, a 75 MW internal combustion turbine. TEP purchases capacity from EPNG for transportation from the San Juan and Permian Basins to its Sundt plant under a contract effective through 2018. TEP also buys gas from third-party suppliers for the Sundt and DeMoss Petrie generating stations.

TEP purchases gas transportation for the Luna Generating Station ("Luna") from EPNG from the Permian Basin to the plant site under an agreement effective through January 2017, with right-of-first-refusal for continuation thereafter. TEP purchases gas for its share of Luna from various suppliers in the Permian Basin region.

Transmission Access

TEP has transmission access and power transaction arrangements with over 120 electric systems or suppliers. TEP also has various ongoing projects that are designed to increase access to the regional wholesale energy market and improve the reliability, capacity and efficiency of its existing transmission and distribution systems. In 2012, 1.4% of TEP's operating revenue was derived from TEP's transmission assets.

Employees

On September 30, 2013, TEP had 1,398 employees, of which approximately 49% are represented by the IBEW Local No. 1116. A new collective bargaining agreement between the IBEW Local No. 1116 and TEP was entered into in January 2013 and expires in January 2016.

UNS Gas

UNS Gas is a regulated, gas distribution company serving approximately 149,000 retail customers in northern Arizona's Mohave, Yavapai, Coconino and Navajo counties, as well as Santa Cruz County in southern Arizona. These counties, with a combined population of approximately 700,000, comprise approximately 50% of the territory in the State of Arizona. UNS Gas represented approximately 7% of the total assets of UNS Energy as at September 30, 2013 and approximately 8% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

The customer base of UNS Gas is primarily residential with sales to residential customers providing approximately 58% of the total revenues of UNS Gas in 2012. UNS Gas' annual retail customer growth rate was less than 1% from 2010 through 2012. UNS Gas typically records peak demand during the winter months when cooler weather leads to heating demand. Accordingly, UNS Gas typically records the majority of its net income during the first and fourth quarters.

Gas Supply and Transmission

UNS Gas directly manages its gas supply and transportation contracts. The market price for gas varies based upon the period during which the commodity is purchased and is affected by weather, supply issues, the economy and other factors. UNS Gas hedges its gas supply prices by entering into fixed price forward contracts and financial swaps at various times during the year to ensure more stable prices for its customers. These purchases and hedges are made up to three years in advance with the goal of hedging at least 45% of the expected monthly gas consumption with fixed prices prior to the beginning of each month.

UNS Gas buys most of the gas it distributes from the San Juan Basin. The gas is delivered on the EPNG and Transwestern Pipeline Company ("Transwestern") interstate pipeline systems under firm transportation agreements with combined capacity sufficient to meet the demands of the customers of UNS Gas.

With EPNG, the average daily capacity right of UNS Gas is approximately 655,000 therms per day, with an average of 1,095,000 therms per day in the winter season (November through March) to serve its northern and southern Arizona service territories. UNS Gas has capacity rights of 250,000 therms per day on the San Juan Lateral and Mainline of the Transwestern pipeline. The Transwestern pipeline principally delivers gas to the portion of the UNS Gas distribution system serving customers in Flagstaff and Kingman and also the Griffith Power Plant in Mohave County.

UNS Gas signed a separate agreement with Transwestern for transportation capacity rights on the Phoenix Lateral Extension Line that expires in 2024. The average daily capacity right of UNS Gas on such line is 126,100 therms per day, with an average of 221,900 therms per day in the winter season.

Employees

On September 30, 2013, UNS Gas had 183 employees, of which 107 employees were represented by IBEW Local No. 1116 and 5 employees were represented by IBEW Local No. 387. The agreements with the IBEW Local No. 1116 and No. 387 expire in June 2015 and February 2014, respectively. Negotiations for a new collective bargaining agreement with IBEW Local No. 387 are scheduled to begin in January 2014.

UNS Electric

UNS Electric is a regulated, vertically integrated electric utility company serving approximately 93,000 retail customers in Arizona's Mohave and Santa Cruz counties as at September 30, 2013. These counties have a combined population of approximately 250,000. UNS Electric represented approximately 9% of the total assets of UNS Energy as of September 30, 2013 and approximately 11% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

UNS Electric's customer base is primarily residential, with some commercial and industrial customers. Peak demand met by UNS Electric for 2012 was 437 MW. UNS Electric's annual retail customer growth rate was less than 1% from 2010 through 2012. UNS Electric typically records the majority of its net income during the second and third quarters when hot weather contributes to higher energy consumption.

Power Supply and Transmission

UNS Electric relies on a portfolio of long, intermediate and short-term purchases to meet customer load requirements. In addition, UNS Electric has generating resources which in 2012 met 152 MW or 35% of its 2012 peak demand.

Generating Resources

UNS Electric owns and operates the Black Mountain Generating Station ("BMGS"), a 90 MW gas-fired facility located near Kingman, Arizona. In July 2011, UNS Electric purchased BMGS from UNS Energy's subsidiary UniSource Energy Development Company. UNS Gas purchases and transports natural gas to BMGS for UNS Electric under long-term natural gas transportation and sales agreements.

UNS Electric also owns and operates the Valencia Power Plant ("Valencia"), located in Nogales, Arizona. Valencia consists of four gas and diesel-fueled combustion turbine units and provides approximately 62 MW of peaking resources. The Valencia facility is directly interconnected with the distribution system serving the city of Nogales and the surrounding areas.

In addition, if the Gila River purchase is successfully completed, UNS Electric will receive its proportionate share of the power generated annually at such facility.

Renewable Energy Resources

UNS Electric has agreed to purchase the output of a combined wind farm and solar generating facility located near Kingman, which is comprised of 10 MW of wind and 0.5 MW of solar. The above-market cost of energy purchased through the 20-year PPA will be recovered through the Renewable Energy Standard ("RES") surcharge. See "The Acquired Business — Regulation — Renewable Energy Standard and Tariff". UNS Electric also invested US$6 million in 2012 in company-owned solar PV capacity and expects to make similar annual solar energy investments in the near future.

Transmission

UNS Electric imports the power generated at BMGS into its Mohave County and Santa Cruz County service territories over Western Area Power Administration's ("WAPA") transmission lines. UNS Electric has transmission service agreements with WAPA for its transmission capacity that expire in June 2016. UNS Electric is upgrading its existing 115 kV transmission line serving Santa Cruz County to 138 kV to improve service reliability. This upgrade is expected to be completed by October 2014 and is included in UNS Electric's current capital expenditures forecast.

Employees

On September 30, 2013, UNS Electric had 145 employees, of which 27 were represented by IBEW Local No. 387 and 88 were represented by IBEW Local No. 769. The existing agreement with IBEW Local No. 387 expires in February 2014, with negotiations for a new collective bargaining agreement scheduled to begin in January 2014. The existing agreement with IBEW Local No. 769 expires in June 2016.

Other Non-Regulated Segments

The non-regulated businesses of UNS Energy, which comprises less than 1% of UNS Energy's total assets, include the operations of Millennium and UniSource Energy Development Company. SES, a wholly owned subsidiary of Millennium, provides electrical contracting and meter reading services in Arizona, as well as other services at Springerville. On September 30, 2013, SES had 266 employees, of which 233 are represented by IBEW Local No. 1116 and 20 by IBEW Local No. 570. The collective bargaining agreement with IBEW Local No. 1116 expires in December 2014. The collective bargaining agreement with IBEW Local No. 570 expires in May 2016.

Regulation

The ACC is a regulatory body governed by the Arizona state constitution and is composed of five elected commissioners. Commissioners are elected state-wide for staggered four-year terms and are limited to serving a total of two terms.

The ACC regulates portions of TEP, UNS Gas and UNS Electric's utility accounting practices and energy rates. The ACC has authority over rates charged to retail customers, the siting of generation and transmission facilities, the issuance of securities and transactions with affiliated parties. The regulated utility rates for retail electric and natural gas service are determined by the ACC on a cost of service basis. Retail rates as set by the ACC are designed to provide recovery of allowable operating expenses and an opportunity to earn a reasonable return on rate base. Rate base is generally determined by reference to the original cost (net of depreciation) of utility plant in service, and to various adjustments for deferred taxes and other items, plus a working capital component. Over time, additions to utility plant in service increase rate base while depreciation of utility plant reduces rate base. The rates charged to retail customers by TEP, UNS Gas and UNS Electric also include pass-through mechanisms that allow each utility to recover the actual prudently incurred costs of its fuel, transmission and energy purchases to serve retail customers. FERC regulates the terms and prices of transmission services and wholesale electricity sales, wholesale transport and purchases of natural gas and portions of the accounting practices of TEP, UNS Gas and UNS Electric. As generators of electricity, each of TEP and UNS Electric have FERC tariffs to sell power at market-based rates.

Renewable Energy Standard and Tariff

The ACC's RES requires TEP, UNS Electric and other affected utilities to increase their use of renewable energy each year until it represents at least 15% of their total annual retail energy requirements in 2025. Affected utilities must file annual RES implementation plans for review and approval by the ACC. The approved cost of carrying out those plans is recovered from retail customers through the RES surcharge. Any RES surcharge collections above or below the costs incurred to implement the plans are deferred and reflected in the financial statements of the utility as a regulatory asset or liability. Both TEP and UNS Electric have complied with the RES implementation plans filed by each such utility with the ACC to date. TEP and UNS Electric expect to meet the 2013 renewable energy target of 4% of retail kWh sales.

Electric Energy Efficiency Standards and Decoupling

In August 2010, the ACC approved new Electric Energy Efficiency Standards ("Electric EE Standards") designed to require TEP, UNS Electric and other affected electric utilities to implement cost-effective programs to reduce customers' energy consumption. In 2012, the Electric EE Standards targeted total kWh savings of 3% of 2011 retail kWh sales; in 2013, the Electric EE Standards target total kWh savings of 5% of 2012 retail kWh sales. The Electric EE Standards increase annually thereafter up to a targeted cumulative annual reduction in retail kWh sales of 22% by 2020. The programs adopted by TEP and UNS Electric in 2011 and 2012 to comply with Electric EE Standards saved cumulative energy as of December 31, 2012 equal to approximately 2.5% of their respective 2011 retail kWh sales.

New and existing DSM programs, direct load control programs and energy efficient building codes are acceptable means to meet the Electric EE Standards as set forth by the ACC. The Electric EE Standards provide for the recovery of costs incurred to implement DSM programs. DSM programs, and the rates charged to customers for such programs, are subject to annual review and approval by the ACC.

In 2010, the ACC issued a policy statement recognizing the need to adopt rate decoupling or another mechanism to make Arizona's Electric EE Standards viable. A decoupling mechanism is designed to encourage energy conservation by restructuring utility rates to separate the recovery of fixed costs from the level of energy consumed. The 2013 TEP Rate Order and the pending UNS Electric September 2013 settlement agreement with ACC staff include rate decoupling mechanisms. See "The Acquired Business — Rates — TEP" and "The Acquired Business — Rates — UNS Electric".

Gas Energy Efficiency Standards and Decoupling

In 2010, the ACC approved Gas Energy Efficiency Standards ("Gas EE Standards") which are designed to require UNS Gas and other affected utilities to implement cost-effective DSM programs. In 2012, the Gas EE Standards targeted total retail therm savings equal to 1.2% of 2011 sales; in 2013, the Gas EE Standards target total therm savings of 1.8% of 2012 retail therm sales. Targeted savings increase annually in subsequent years until they reach a cumulative annual reduction in retail therm sales of 6% by 2020. UNS Gas' programs, during 2011 and 2012, saved cumulative energy equal to approximately 0.35% of its 2011 retail therm sales.

New and existing DSM programs, renewable energy technology that displaces gas, and certain energy efficient building codes are acceptable means to meet the Gas EE Standards. The Gas EE Standards provide for the recovery of costs incurred to implement DSM programs. UNS Gas' DSM programs and rates charged to retail customers for these programs are subject to ACC approval.

Retail Electric Competition Rules

In 1999, the ACC approved the Rules which provided a framework for the introduction of retail electric competition in Arizona. Certain portions of the ACC Rules that enabled ESPs to compete in the retail market were invalidated by an Arizona Court of Appeals decision in 2004. In 2008, the ACC opened an administrative proceeding to address the Rules, and in 2012, a small number of companies filed applications for a Certificate of Convenience and Necessity ("CC&N") with the ACC to provide competitive retail electric services in TEP's service territory as an ESP.

In May 2013, the ACC voted to commence a process to consider the possibility of opening Arizona to retail electric competition. The first step in the process was to solicit comments on questions raised by the ACC on the potential benefits and risks to Arizona electric customers associated with retail electric competition. In July 2013, various parties, including TEP and UNS Electric, filed comments. TEP and UNS Electric oppose opening Arizona to retail electric competition. Responsive comments from the parties were filed in August 2013. In September 2013, the ACC voted to close the proceeding on retail competition, citing legal and constitutional challenges to which retail competition would be subject. The ACC decision to end its exploration into the deregulation of Arizona's electricity market signals improved coordination between the ACC, State utilities and industrial and commercial customers, and supports the improved views and ratings of Arizona's regulatory environment. UNS Energy cannot predict if the ACC will consider retail electric competition in the future. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Rates

TEP

In June 2013 the ACC issued the 2013 TEP rate order (the "2013 TEP Rate Order") that resolved the rate case filed by TEP in July 2012. The 2013 TEP Rate Order approved new rates for TEP effective July 1, 2013. The 2013 TEP Rate Order approved a non-fuel base rate increase of US$76 million over adjusted 2011 revenues, with an Original Cost Rate Base ("OCRB") of approximately US$1.5 billion and a Fair Value Rate Base ("FVRB") of approximately US$2.3 billion. In addition, the 2013 TEP Rate Order included a Lost Fixed Cost Recovery ("LFCR") mechanism to enable TEP to recover lost non-fuel costs due to lost kWh sales attributed to energy efficiency programs and distributed generation and an Environmental Compliance Adjustor ("ECA") mechanism that allows TEP to recover costs of complying with environmental standards required by federal or other governmental agencies between rate cases. The 2013 TEP Rate Order also approved adjustments and modifications to TEP's Purchased Power and Fuel Adjustment Clause mechanism, which permits TEP to pass through most fuel costs, including final reclamation costs, to customers.

The 2013 TEP Rate Order approved a 10.0% return on equity, a long-term cost of debt of 5.18% and a short-term cost of debt of 1.42%, resulting in a weighted average cost of capital of 7.26%. TEP's capital structure is permitted to be 43.5% equity, 56.0% long-term debt and 0.5% short-term debt. The provisions of the 2013 TEP Rate Order also give consideration to the fair value of TEP's rate base by approving a 0.68% return on the incremental difference of approximately US$800 million between TEP's OCRB and its FVRB.

UNS Gas

In April 2012, the ACC approved a base rate increase of US$2.7 million with an OCRB of US$183 million, as well as a LFCR mechanism to enable UNS Gas to recover lost fixed cost revenues as a result of implementing the Gas EE Standards. The LFCR mechanism is expected to recover lost fixed cost revenues of less than US$0.1 million in 2013, based on estimated lost retail therm sales from May through December 2012. The rate order approved by the ACC is based on an ROE of 9.75%, a common equity of 50.8% and long-term debt of 49.2%. The new rates became effective on May 1, 2012.

In October 2013, the ACC approved an increase to the existing Purchased Gas Adjustor ("PGA") credit from 4.5 cents per therm to 10 cents per therm in order to reduce the US$17 million over-collected PGA balance as of September 30, 2013. The new PGA credit will be effective for the period of November 1, 2013 through April 30, 2014.

UNS Electric

In December 2012, UNS Electric filed a general rate case with the ACC which was settled with ACC staff in September 2013. The settlement agreement provides for a non-fuel retail base rate increase of approximately US$3 million on an OCRB of approximately US$213 million and an FVRB of approximately US$283 million. The terms of the settlement agreement provide UNS Electric with a return on equity of 9.50% and a long-term cost of debt of 5.97% resulting in a weighted average cost of capital of 7.83%, with a capital structure of 52.6% equity and 47.4% long-term debt. In addition, the terms of the settlement agreement provide for (i) an LFCR mechanism to recover certain non-fuel costs relating to kWh sales lost due to energy efficiency programs and distributed generation and (ii) a transmission cost adjustor, which allows for more timely recovery of transmission costs associated with serving retail customers. The settlement agreement requires the approval of the ACC before new rates become effective.

Environmental Regulation

UNS Energy and its operations are subject to environmental regulation by federal, state and local bodies. The generating facilities of TEP and UNS Electric are primarily regulated by the EPA. Applicable environmental rules and regulations in the United States have changed significantly in the last five years and are expected to continue to evolve in ways that may limit, impair or add expense to the operations of UNS Energy and its regulated utility subsidiaries.

Clean Air Act Requirements

The EPA limits the amount of sulfur dioxide ("SO_2"), nitrogen oxide ("NO_X"), particulate matter, mercury and other emissions released into the atmosphere by power plants in the United States. As a result, TEP was required to spend US$2 million in 2012, US$8 million in 2011 and US$18 million in 2010 in construction costs to perform upgrades on its generating facilities to comply with environmental requirements, including costs associated with TEP's share of new pollution control equipment installed at San Juan.

TEP will continue to incur costs relating to environmental compliance and may incur added costs to comply with future changes in federal and state environmental laws, regulations and permit requirements at its power plants. Complying with these changes may reduce operating efficiency. TEP expects to recover the cost of environmental compliance from its retail customers. TEP currently has sufficient emission allowances to comply with acid rain SO_2 regulations.

The Clean Air Act requires the EPA to develop emission limit standards for hazardous air pollutants that reflect the maximum achievable control technology. In February 2012, the EPA issued final rules called the Mercury and Air Toxics Standards ("MATS") setting limits for mercury emissions and other hazardous air pollutants from power plants. The Navajo, Four Corners and Springerville power generation stations are currently expected to be affected by MATS, with TEP's portion of total capital expenditures required to bring the plants into compliance with MATS currently expected to be approximately US$50 million. TEP's portion of total required annual operating costs for the required equipment upgrades at Navajo, Four Corners and Springerville is currently expected to be less than US$6 million.

Climate Change

In 2007, the Supreme Court ruled in Commonwealth of *Massachusetts, et al. v. EPA* that carbon dioxide and other Greenhouse Gases ("GHG") are air pollutants under the Clean Air Act. In 2009, the EPA issued a final endangerment finding stating that GHGs endanger public health and welfare. The EPA issued final GHG regulations for new motor vehicles in 2010 triggering GHG permitting requirements for power plants under the Clean Air Act. As of January 2011, air quality permits for new sources, including power plants, and modifications of existing sources such as power plants must include an analysis for GHG controls. In the near term, based on current construction plans, UNS Energy does not currently expect the new permitting requirements to impact TEP or UNS Electric. In March 2012, the EPA released its proposed new source performance standard for GHGs. TEP does not currently anticipate this standard will have any material impact on its existing facilities.

In June 2013, U.S. President Barack Obama directed the EPA to move forward with carbon emission regulations for both new and existing fossil-fueled power plants. In September 2013, the EPA issued a re-proposed rule for new power plants. UNS Energy does not anticipate that a final rule related to new fossil-fueled power plant sources will have a significant impact on operations. For existing power plants, the President ordered the EPA to propose carbon emission standards by June 1, 2014, to finalize those standards by June 1, 2015 and to require states to submit their implementation plans to meet the standards by June 30, 2016. UNS Energy is working with federal and state regulatory agencies to promote compliance flexibility in the rules impacting existing fossil-fuel fired power plants. UNS Energy cannot predict the ultimate outcome of these matters.

Regional Haze Rules

The EPA's regional haze rules require emission controls known as Best Available Retrofit Technology ("BART") for certain industrial facilities emitting air pollutants that reduce visibility. The BART rules call for all states to establish goals and emission reduction strategies for improving visibility in national parks and wilderness areas. States must submit these goals and strategies to the EPA for approval. Because Navajo and Four Corners are located on the Navajo Indian Reservation, they are not subject to state oversight. The EPA directly oversees Regional Haze planning for these power plants.

Complying with the EPA's BART findings, and with other future environmental rules, may make it economically impractical to continue operating the Navajo, San Juan and Four Corners power plants or for individual owners to continue to participate in these power plants. TEP cannot predict the ultimate outcome of these matters. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Navajo

In January 2013, the EPA proposed an alternative BART determination for the Navajo generating facility that would require the installation of Selective Catalytic Reduction ("SCR") technology on all three units at Navajo by 2023. In July 2013, SRP, along with other stakeholders including impacted government agencies, environmental organizations and tribal representatives submitted an agreement to the EPA that would achieve greater NO_X emission reductions than the EPA's proposed BART rule. In September 2013, EPA issued a supplemental proposal incorporating the provisions of the agreement as a better-than-BART alternative.

Among other things, the agreement calls for the shutdown of one unit at Navajo or an equivalent reduction in emissions by 2020. The shutdown of one unit will not impact the total amount of energy delivered to TEP from Navajo. Additionally, the remaining Navajo participants would be required to install SCR or an equivalent technology on the remaining two units by 2030. As part of the agreement, the current owners have committed to cease their operation of conventional coal-fired generation at Navajo no later than December 2044. The Navajo Nation can continue operation after 2044 at its election.

If SCR technology is ultimately required at Navajo, TEP estimates its share of the capital cost relating to the required modifications will be approximately US$42 million. Also, the installation of SCR technology at Navajo could increase the power plant's particulate emissions which may require that baghouses be installed. TEP estimates that its share of the capital expenditure for baghouse installation would be approximately US$43 million. TEP's share of annual operating costs relating to the modifications is estimated at less than US$1 million for each of the control technologies (SCR and baghouses).

San Juan

In August 2011, the EPA issued a Federal Implementation Plan ("FIP") establishing new emission limits for air pollutants at San Juan. These requirements are more stringent than those proposed by the State of New Mexico. The FIP requires the installation of SCR technology with sorbent injection on all four units within five years to reduce NO_X and control sulfuric acid emissions by September 2016. TEP estimates its share of the cost to install SCR technology with sorbent injection at San Juan to be between US$180 million and US$200 million. TEP expects its share of the annual operating costs for SCR technology to be approximately US$6 million.

In 2011, PNM filed a petition for review of and a motion to stay the FIP with the Tenth Circuit United States Court of Appeals ("Circuit Court"). In addition, PNM filed a request for reconsideration of the rule with the EPA and a request to stay the effectiveness of the rule pending the EPA's reconsideration and the review by the Circuit Court. The State of New Mexico filed similar motions with the Circuit Court and the EPA. Several environmental groups were granted permission to join in opposition to PNM's petition to review in the Circuit Court. In addition, WildEarth Guardians filed a separate appeal against the EPA challenging the FIP's five-year implementation schedule. PNM was granted permission to join in opposition to that appeal. In March 2012, the Circuit Court denied PNM's and the State of New Mexico's motion for stay. Oral argument on the appeal was heard in October 2012 and the parties are currently awaiting the Circuit Court's decision.

In February 2013, the State of New Mexico, the EPA and PNM signed a non-binding agreement that outlines an alternative to the FIP. The terms of the agreement include: the retirement of San Juan Units 2 and 3 by December 31, 2017; the replacement by PNM of those units with non-coal generation sources; and the installation of Selective Non-Catalytic Reduction technology ("SNCR") on San Juan Units 1 and 4 by January 2016 or later depending on the timing of EPA approvals. The New Mexico Environmental Department prepared a revision to the regional haze State Implementation Plan ("SIP") incorporating the provisions of the agreement, and in September 2013, the New Mexico Environmental Improvement Board approved the SIP revision. The SIP revision now awaits final EPA approval.

TEP estimates its share of the cost to install SNCR technology on San Juan Unit 1 would be approximately US$35 million. TEP's share of incremental annual operating costs for SNCR is estimated at $1 million. TEP owns 340 MW or 50% of San Juan Units 1 and 2. At September 30, 2013, the book value of TEP's share of San Juan Unit 2 was US$114 million. If Unit 2 is retired early, TEP expects to request ACC approval to recover, over a reasonable time period, all costs associated with the early closure of the unit. TEP is evaluating various sources to replace the generation capacity that would be lost if Unit 2 is retired early. Any decision regarding early closure and replacement resources will require various actions by third parties as well as UNS Energy board and regulatory approvals. UNS Energy cannot predict the ultimate outcome of this matter. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

If the State of New Mexico's proposed plan is not accepted by the EPA, TEP may begin making capital expenditures to install SCRs on San Juan Units 1 and 2 to meet the FIP compliance deadline.

Four Corners

In August 2012, the EPA finalized the Regional Haze FIP for Four Corners. The final FIP requires SCR technology to be installed on all five units by 2017. However, the FIP also includes an alternative plan that allows APS to close their wholly owned Units 1, 2 and 3 and install SCR technology on Units 4 and 5. This option allows the installation of SCR technology to be delayed until July 2018. In either case, TEP's estimated share of the capital costs to install SCR technology at Four Corners is approximately US$35 million. TEP's share of annual operating costs for SCR at Four Corners is estimated at US$2 million.

Springerville

Regional haze regulations requiring emission control upgrades do not apply to Springerville currently and are not likely to impact Springerville operations until after 2018.

Sundt

In July 2013, the EPA determined that Sundt Unit 4 is subject to BART requirements. The EPA postponed its expected release of a proposed BART requirement for Sundt Unit 4 until December 2013, with a final determination expected in May 2014. While TEP does not agree that Sundt Unit 4 is BART eligible, in anticipation of EPA's proposed BART requirements, TEP has submitted a plan for EPA approval proposing to eliminate coal as a fuel after December 2017.

Coal Combustion Residuals

In 2010, the EPA proposed a rule to regulate the handling and disposal of coal ash and other Coal Combustion Residuals ("CCRs"). The EPA has proposed regulating CCRs as either non-hazardous solid waste or hazardous waste. The hazardous waste alternative would require additional capital investments and operational costs for both storage and handling at plants and transportation to disposal locations. Both the hazardous waste and non-hazardous solid waste alternatives would require liners for new ash landfills or expansions to existing ash landfills. The rules will apply to

CCRs produced by all of TEP's coal-fired generating assets. San Juan may also be subject to separate regulations being drafted by the Office of Surface Mining Reclamation and Enforcement because it disposes of CCRs in surface mine pits.

The EPA has not yet indicated a preference for an alternative. Each option would allow CCRs to be beneficially reused or recycled as components of other products. TEP currently expects the EPA to issue a final rule relating to the disposal of CCRs in 2014.

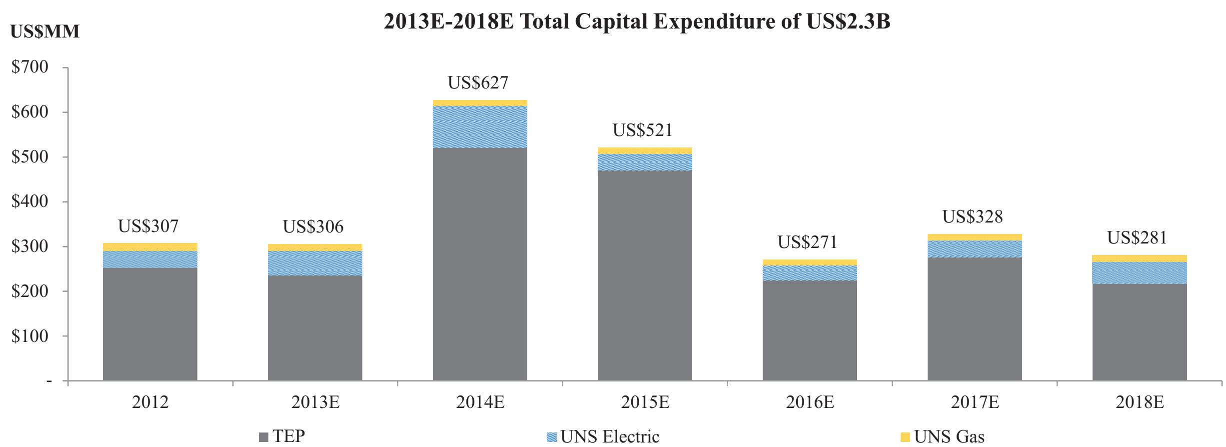
TEP also is contractually obligated to pay a portion of the environmental reclamation costs incurred at generating stations in which it has a minority interest and is obligated to pay similar costs at the coal mines that supply these generating stations. While TEP has recorded the portion of its obligations for such reclamation costs that can be determined at this time, the total costs for final reclamation at these sites are unknown and could be substantial. Costs associated with mine reclamation are flowed through to TEP's retail customers as incurred.

UNS Gas and UNS Electric

UNS Gas and UNS Electric are each subject to environmental regulation of air and water quality, resource extraction, waste disposal and land use by federal, state and local authorities. The facilities and operations of UNS Gas and UNS Electric are in substantial compliance with existing regulations.

Capital Expenditures

Capital expenditures for the UNS Energy utility subsidiaries over the period from 2013 through 2018 are projected to total approximately US$2.3 billion. The estimated capital expenditures include the capital required to finance the anticipated acquisition of Gila River in 2014 and the capital required to exercise the Springerville Unit 1 lease purchase options in December 2014 and January 2015. See "The Acquired Businesses — TEP — Generating and Other Resources" and "The Acquired Business — TEP — Future Generating Resources".



Strong operating cash flows are expected to provide flexibility in the financing of capital expenditure projects. The majority of UNS Energy's capital investments are expected to be funded largely through internally generated operating cash flow and long-term debt issued by the UNS Utilities.

The rate base of UNS Energy is expected to grow by a CAGR of approximately 7% through 2018 as a result of capital expenditures related to UNS Energy's generation diversification, including increased generation from renewable resources, and meeting mandated emission reductions applicable to the regulated utility subsidiaries. See "The Acquired Business — Environmental Regulation".

Operating and Maintenance Expense

Base O&M expenses, including the cost of generating plant maintenance, represent the fundamental level of expenses related to maintaining UNS Energy's core business. UNS Energy management has maintained a focus on the control of base O&M. As a result, base O&M has remained flat at approximately US$270 million annually for 2009 through 2012. Base O&M expenses are estimated to be in the range of US$280 to US$290 million annually for 2013 through 2015, which equates to an average annual growth rate of 1.2% since 2009.

Outstanding Indebtedness

For information on the financial condition and results of UNS Energy, reference is made to the audited consolidated financial statements of UNS Energy as of December 31, 2012 and 2011, including the consolidated statements of income and cash flows for each of the years ended December 31, 2012, 2011 and 2010, and the unaudited consolidated financial statements of UNS Energy for the three and nine months ended September 30, 2013, each of which is included in this Prospectus.

Long-Term Debt and Capital Lease Obligations

UNS Energy's long-term debt and capital lease obligations as of September 30, 2013 are described in the chart below. Fortis expects all such debt will remain in place following the Acquisition:

Long-Term Debt	Maturity	Interest Rate	As of September 30, 2013 (millions of U.S. dollars)
UNS Energy:			
Credit Agreement [1]	2016	Variable	52
TEP:			
Variable Rate Tax-Exempt Bonds [2]	2014-2016	Variable	215
Unsecured Fixed Rate Bonds	2020-2040	4.50%-6.38%	609
Unsecured Notes	2021-2023	3.85%-5.15%	400
UNS Gas and UNS Electric:			
Senior Unsecured Notes	2015-2026	5.39%-7.10%	200
UNS Electric:			
Unsecured Term Loan	2015	Variable	30
Total Long-Term Debt			1,506
Capital Lease Obligations [3]			299
Total Long-Term Debt and Capital Lease Obligations			1,805

(1) UNS Energy reflects borrowings under its revolving credit facility as long-term debt, as it has the ability and intention to leave the balance of its borrowings outstanding for at least the next twelve months.

(2) TEP also holds in treasury an aggregate of US$150 million of bonds issued by the Industrial Development Authority of the County of Apache which it may reissue or refund in the future. Subsequent to September 30, 2013, TEP acquired an additional US$100 million of bonds issued by the Industrial Development Authority of the County of Apache, which bonds are subject to a mandatory tender for purchase in 2018 and mature in 2032. TEP will use the proceeds of such bonds to redeem an existing series of outstanding bonds in the amount of US$100 million.

(3) Includes the long-term and current capital lease obligations with respect to TEP's leased interests in Springerville Unit 1, the Springerville Coal Handling Facilities and the Springerville Common Facilities. In August 2013, TEP recorded an increase of US$39 million due to TEP's commitment to purchase lease interests in January 2015.

Credit Facilities

UNS Energy maintains a US$125 million stand-alone revolving credit facility (the "UNS Energy Credit Facility"), expiring in November 2016, to provide committed liquidity beyond its cash balance. The facility is secured by a pledge of the common stock of Millennium, UniSource Energy Services and UniSource Energy Development Company. At September 30, 2013, UNS had approximately US$73 million available under its revolver and US$3 million in cash and cash equivalents.

TEP currently maintains a US$200 million revolving credit facility (the "TEP Credit Facility"), which expires in November 2016. As of September 30, 2013, TEP had US$1 million in borrowings under its revolver and US$35 million in cash and cash equivalents. TEP's credit agreements also provide for a US$186 million letter of credit facility, which also expires in November 2016 and a US$37 million letter of credit facility that expires in 2014 (together, the "TEP LOC Facilities"). The TEP LOC Facilities are used to support TEP's tax-exempt variable rate bonds.

UNS Gas and UNS Electric share a US$100 million revolving credit facility (the "UNS Electric/UNS Gas Credit Facility") that also expires in November 2016. Each utility's maximum draw under the facility is US$70 million but the total combined borrowed amount cannot exceed US$100 million and each utility is only liable for its own borrowings. As at September 30, 2013, UNS Gas had no borrowings under the revolver and US$27 million in cash and cash equivalents, while UNS Electric had US$23 million drawn on the revolver and US$4 million in cash and cash equivalents.

In August 2011, UNS Electric entered into a four-year $30 million variable rate term loan credit agreement (the "UNS Electric Term Loan"). The interest rate currently in effect under this facility is three-month London Interbank Offer Rate ("LIBOR") plus 1.125%. At the same time, UNS Electric entered into a fixed-for-floating interest rate swap in which UNS Electric will pay a fixed rate of 0.97% and receive a three-month LIBOR rate on a US$30 million notional amount over a four-year period ending August 2015. The UNS Electric Term Loan is guaranteed by UNS Electric's immediate shareholder UniSource Energy Services.

The UNS Energy Credit Facility, TEP Credit Facility, UNS Electric/UNS Gas Credit Facility and UNS Electric Term Loan contain restrictive covenants including restrictions on liens, mergers and sales of assets. These agreements also require that a certain maximum leverage ratio not be exceeded. Concurrently with the issuance of 2013 Series A Industrial Development Revenue Bonds on November 1, 2013, TEP entered into a covenants agreement with the purchaser of such bonds, STI Institutional & Government Inc., which contains covenants and events of default that are the same, in all material respects, as those in the TEP Credit Facilities and include restrictions on mergers and sales of assets, in addition to mandating that TEP not exceed a maximum leverage ratio. At September 30, 2013, UNS Energy and its subsidiaries were in compliance in all material respects with the terms of their respective credit agreements, the TEP LOC Facilities and the UNS Electric Term Loan.

THE ACQUISITION AGREEMENT

Set forth below is a description of the material terms of the Acquisition Agreement. The description is a summary only and is qualified in its entirety by the full text of the Acquisition Agreement. A copy of the Acquisition Agreement has been filed on the Corporation's SEDAR profile at www.sedar.com. This summary is not intended to be, and should not be relied upon as, disclosure of any facts and circumstances relating to Fortis or UNS Energy.

Purchase Price

Pursuant to the terms of the Acquisition Agreement, Fortis and certain subsidiaries of Fortis (collectively, the "Purchaser") have agreed to acquire UNS Energy for an aggregate purchase price of approximately US$4.3 billion, comprised of approximately US$2.5 billion in cash (the "Cash Purchase Price") for all of the issued and outstanding shares of UNS Energy and the assumption of approximately US$1.8 billion of debt on closing of the Acquisition.

Representations and Warranties

Under the Acquisition Agreement, the Purchaser and UNS Energy have made various representations and warranties. UNS Energy's representations and warranties relate to, among other things: organization and qualification of UNS Energy and its subsidiaries; capitalization; authority to enter into the Acquisition Agreement and to effect the Acquisition; no conflict; required filings, consents and approvals; possession of permits and compliance with all applicable laws; securities regulatory filings; reports and financial statements; sufficiency of internal control and disclosure controls; absence of undisclosed liabilities; absence of certain material changes or events since December 31, 2012; accuracy and completeness of information to be included in the UNS Energy proxy statement; pension and employee benefits; labour and employment matters; disclosure of material contracts; existence and status of litigation; real and personal property; environmental matters; intellectual property; tax matters; fairness opinion of financial advisor; adequacy of insurance; required shareholder vote; broker engagement and involvement; regulation as a utility; regulatory filings; non-applicability of takeover laws; disclosure of forward contracts and derivatives trading; regulatory proceedings and absence of dissenter's rights. The representations and warranties of the subsidiaries of the Corporation that are party to the Acquisition Agreement relate to, among other things: organization and qualification of such subsidiaries; authority to enter into the Acquisition Agreement and to effect the Acquisition; no conflict; required filings, consents and approvals; accuracy and completeness of information supplied to UNS Energy for inclusion in its proxy statement; existence and status of litigation; no ownership of UNS Energy capital stock by the Corporation or any of its subsidiaries; availability of funds to consummate the Acquisition; ownership of the merger subsidiary and prior activities of such subsidiary; absence of management agreement; and brokerage fees.

Covenants

UNS Energy and the Purchaser have made covenants relating to the closing of the Acquisition and related matters. UNS Energy and the Purchaser have agreed, among other things, to use their reasonable best efforts to take all appropriate action and to do all things necessary to complete and otherwise give effect to the Acquisition, including to satisfy the conditions described below under "— Closing Conditions" and to obtain the regulatory consents and approvals described below under "— Closing Conditions — Governmental Consents and Approvals", including to make all necessary filings with the relevant government authorities; provided that Purchaser shall not be required to, and UNS Energy shall not, take any action other than actions as are expressly agreed by the Purchaser and UNS Energy, that individually or in the aggregate would reasonably be expected to have a material adverse effect on UNS Energy or Fortis, in each case following the Acquisition. In addition, UNS Energy and the Purchaser have agreed not to take any action (including through their respective affiliates), including acquiring or making any investment in any corporation, partnership, limited liability company or other business organization or any division or assets thereof, that would reasonably be expected to cause a material delay in the satisfaction of the closing conditions contained in the Acquisition Agreement or the consummation of the Acquisition. The Purchaser has also covenanted in the Acquisition Agreement to indemnify all past and present directors, officers and employees of UNS Energy and its subsidiaries for a period of six years following closing of the Acquisition to the same extent as such persons are indemnified on the date of the Acquisition Agreement and to maintain certain employee benefits at pre-Acquisition levels for a period of two years following closing of the Acquisition.

During the period from the date of the Acquisition Agreement until the closing of the Acquisition, UNS Energy will, and UNS Energy will cause its subsidiaries to: (i) conduct their operations only in the ordinary course of business; (ii) comply in all material respects with applicable laws, orders and permits; and (iii) use their commercially reasonable best efforts (A) to maintain satisfactory relationships with third parties and governmental entities and (B) to preserve their business organization, key officers and employees, except as permitted or required by the Acquisition Agreement, or as required by law, government authority or the NYSE.

The Acquisition Agreement also contains specific restrictive covenants with respect to certain non-permissible activities of UNS Energy and its subsidiaries during the period from the date of the Acquisition Agreement until the closing of the Acquisition. These restrictive covenants provide that, subject to certain exceptions (including as permitted or required by the Acquisition Agreement), UNS Energy and its subsidiaries will respectively not take certain actions without the prior written approval of the Purchaser (such approval not to be unreasonably withheld, delayed or conditioned), including the following: (i) amend its articles, by-laws or equivalent organizational documents; (ii) issue equity securities other than pursuant to existing security-based compensation arrangements; (iii) sell, pledge, transfer or dispose of material assets; (iv) declare or pay dividends or make other distributions (other than the payment of regular quarterly cash dividends at the times and in the manner paid in the past and in an amount per share of UNS Energy common stock of not more than US$0.435 to holders of UNS Energy common stock on or before December 31, 2013 and US$0.48 after such date, inter-company dividends between the UNS Energy companies and dividend equivalent rights under security-based compensation arrangements and a stub period dividend to holders of record at the effective time of the Acquisition, if applicable); (v) acquire, redeem or amend the terms of its equity securities; (vi) merge or consolidate with another entity, or liquidate, dissolve, restructure, recapitalize or otherwise reorganize (or adopt any plan or resolution related thereto); (vii) acquire (including by exercising any right to acquire) or obtain any right to acquire (including by merger, consolidation or acquisition of stock or assets) any interest in any entity or any assets, other than acquisitions of inventory in the ordinary course of business, acquisition set out in the capital expenditure plan disclosed to the Purchaser or any assets the consideration for which does not exceed a specified threshold; (viii) incur any indebtedness except in connection with refinancings of existing indebtedness as such indebtedness matures upon market terms and conditions, draw-downs of existing credit facilities, or for borrowings in accordance with the financing plan of UNS Energy disclosed to the Purchaser; (ix) make loans, advances or capital contributions to, or investments in, any person (other than a wholly owned subsidiary) in excess of a specified threshold; (x) increase the compensation payable to directors, officers or employees other than otherwise required by law or in the ordinary course of business consistent with past practice or establish or amend any employee compensation plan or collective bargaining agreement other than in the ordinary course of business; (xi) make or revise a material tax election that is inconsistent with past practices; (xii) make any material change in accounting policies or procedures other than as required by US GAAP; (xiii) make or commit to capital expenditures in excess of the capital expenditures budget, other than as required by a governmental entity or as a result of an emergency; (xiv) terminate or allow a material permit to lapse; (xv) enter into, amend or terminate early a material contract or enter into any transaction with an affiliate or waive, release, assign, pay, discharge, settle or satisfy any material claims, liabilities or obligations other than in the ordinary course of business consistent with past practice or as otherwise required by their terms; (xvi) terminate employees or introduce a program or effort concerning the termination of employment of employees (other than employee terminations in the ordinary course); (xvii) hire any officer-level employee other than to replace any officer (not including UNS Energy's chief executive officer, chief financial officer or chief operating officer) that voluntarily terminates his or her employment or whose employment is terminated for cause, or terminate any officer-level employee, other than for cause; (xviii) settle or agree to settle any litigation, investigation, proceeding or other claim in excess of specified threshold amounts; (xix) redeem, repurchase, defease, cancel or otherwise acquire any indebtedness except pursuant to inter-company transactions or as otherwise permitted by the Acquisition Agreement; (xx) change energy price risk management policies or marketing of energy or enter into physical commodity transactions, futures options and derivatives not permitted by existing UNS Energy policy; (xxi) make any material change to the terms of insurance policies; (xxii) lower pricing for energy or capacity sold wholesale other than in the ordinary course; (xxiii) assign or license any material intellectual property; or (xxiv) authorize or enter into any contract to do any of the foregoing. In addition, from the date of the Acquisition Agreement until the time of closing, UNS Energy and its subsidiaries must obtain the Purchaser's consent prior to initiating any general rate case and must consult with the Purchaser prior to making any material change to its rates or charges.

Closing Conditions

The Acquisition Agreement provides that the obligation of the Purchaser or UNS Energy to consummate the Acquisition is subject to the fulfillment of a number of conditions, each of which may be waived by joint action of the contracting parties, including the following:

(i) Shareholder Approval. UNS Energy must have obtained approval of the Acquisition Agreement and the transactions contemplated thereby, including the Acquisition, from the holders of UNS Energy's common shares representing a majority of the votes of all outstanding common shares entitled to vote at a duly convened meeting of UNS Energy's common shareholders ("UNS Energy Shareholder Approval").

(ii) Accuracy of Representations and Warranties. The representations and warranties made by UNS Energy (other than as described below), without regard to materiality or Company Material Adverse Effect qualifiers, must be true and correct as of the date of the Acquisition Agreement and as of the closing date of the Acquisition, except where the failure of such representations and warranties to be true and correct, individually or in the aggregate, have not had and would not be reasonably likely to have a Company Material Adverse Effect. The representations and warranties made by UNS Energy with respect to its capitalization must be true and correct in all respects (except for *de minimis* inaccuracies) as of the date of the Acquisition Agreement and as of the closing date of the Acquisition. The representations and warranties made by UNS Energy with respect to authority to enter into and perform its obligations under the Acquisition Agreement and absence of conflict with organizational documents, without regard to materiality or Company Material Adverse Effect qualifiers, must be true and correct in all material respects as of the date of the Acquisition Agreement and as of the closing date of the Acquisition. The representations and warranties made by the Purchaser (other than those with respect to authority), without regard to materiality qualifiers, must be true and correct as of the date of the Acquisition Agreement and as of the closing date of the Acquisition, except where the failure of such representations and warranties to be true and correct, individually or in the aggregate, would not reasonably be expected to prevent or materially delay or materially impair the ability of the Purchaser to consummate the Acquisition. The representations and warranties made by the Purchaser with respect to authority to enter into and perform its obligations under the Acquisition Agreement must be true and correct in all respects as of the Acquisition Agreement and as of the closing date of the Acquisition.

"Company Material Adverse Effect" is defined in the Acquisition Agreement to mean any fact, change, event, circumstance, occurrence, effect or development that is materially adverse to: (i) the business, assets, liabilities, financial condition or results of operations of UNS Energy or its subsidiaries, taken as a whole; or (ii) the ability of UNS Energy to consummate the Acquisition or to perform its obligations under the Acquisition Agreement on a timely basis in accordance with the Acquisition Agreement, provided that certain external events will not constitute a Company Material Adverse Effect unless they specifically relate to or have a materially disproportionate effect on UNS Energy and its subsidiaries, taken as a whole, compared with other entities operating in the natural gas and electric utility industry.

(iii) Material Adverse Effect. There must not have occurred any Company Material Adverse Effect or any change, event, occurrence, effect or development that, individually or in the aggregate, has had or would reasonably be expected to result in a Company Material Adverse Effect.

(iv) Performance of Covenants. The other party has performed or complied in all material respects with all agreements and covenants required by the Acquisition Agreement to be performed or complied with on or prior to the closing date of the Acquisition.

(v) Legal Proceedings. There must not be any order, decree, judgment, injunction or other ruling or law that has the effect of making the merger of an indirect wholly owned subsidiary of Fortis into UNS Energy illegal or would otherwise prohibit consummation of the Acquisition.

(vi) Governmental Consents and Approvals. Each party has received the governmental and regulatory consents and approvals required to be obtained by it under the Acquisition Agreement. The regulatory approvals that must be obtained prior to the closing of the Acquisition include:

(a) the issuance by the ACC of an order approving the Acquisition under Arizona Administrative Code R14-2-801 et seq., which shall not contain any term which has the effect of reducing the consideration received by holders of UNS Energy common stock;

(b) the approval of the Acquisition by FERC;

(c) pre-approvals of license transfers with the Federal Communications Commission;

(d) the expiration or termination of any applicable waiting period, together with any extensions thereof, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and

(e) written confirmation from the Committee on Foreign Investment in the United States ("CFIUS") that CFIUS has reviewed the information provided to it regarding the Acquisition and based on its review and, where applicable, investigation, has determined that there are no unresolved national security concerns with respect to the Acquisition.

Superior Proposal

Pursuant to the terms of the Acquisition Agreement, UNS Energy and its subsidiaries, officers, directors, employees and representatives are not permitted to, directly or indirectly, encourage or facilitate another acquisition proposal, or any inquiry or proposal by another person that could reasonably be expected to lead to another acquisition proposal. However, if at any time prior to receipt of UNS Energy Shareholder Approval, UNS Energy receives a bona fide written acquisition proposal from a third party that its board of directors determines in good faith constitutes or is reasonably likely to lead to an acquisition proposal more favourable to UNS Energy than the terms of the Acquisition (a "Superior Proposal"), UNS Energy may (i) furnish information with respect to UNS Energy to the third party making the acquisition proposal and/ or (ii) participate in discussions or negotiations with such third party; provided that the third party enters into an acceptable confidentiality agreement and UNS Energy provides to the Purchaser any information made available to the third party which was not previously provided or made available to the Purchaser. Under the terms of the Acquisition Agreement, UNS Energy is obligated to keep the Purchaser informed, in all material respects, on a reasonably prompt basis of the status and details of any acquisition proposal, and to provide to the Purchaser as soon as reasonably practicable copies of all written material specifying the material terms and conditions of such acquisition proposal.

UNS Energy's board of directors may not withdraw or take any action inconsistent with its recommendation that its common shareholders approve and adopt the Acquisition (which for greater certainty includes taking a neutral position with respect to a third party acquisition proposal), unless, after receiving a Superior Proposal and before such Superior Proposal is withdrawn, UNS Energy has first provided written notice to the Purchaser specifying the reasons for UNS Energy board's change of recommendation, including the material terms and conditions of such Superior Proposal and attaching a copy of the most current draft of any written agreement relating thereto, has negotiated in good faith with the Purchaser to amend the terms of the Acquisition Agreement and has determined that UNS Energy board's failure to change its recommendation would be a breach of its fiduciary duties under applicable law and such Superior Proposal continues to be Superior Proposal taking into account any changes to the terms of the Acquisition Agreement committed to by the Purchaser.

In addition, if there occurs any change, event, occurrence, effect or development that (i) is material to UNS Energy and its subsidiaries taken as a whole, (ii) does not relate to a third party acquisition proposal and (iii) is not known to UNS Energy's board of directors as of the date of the Acquisition Agreement, then UNS Energy's board of directors may make a change to its recommendation that its common shareholders approve and adopt the Acquisition, if (and only if) UNS Energy's board of directors determines in good faith that the failure to do so would be a breach of its fiduciary duties under applicable law; provided, however, that UNS Energy's board of directors has provided prior written notice to the Purchaser specifying the reasons therefor, has negotiated in good faith with the Purchaser to amend the terms of the Acquisition Agreement and taking into account any changes to the terms of the Acquisition Agreement committed to by the Purchaser, UNS Energy's board of directors has determined in good faith that its failure to make a change of recommendation would be a breach of its fiduciary duties under applicable law.

Termination

The Acquisition Agreement may be terminated by the Purchaser or UNS Energy at any time prior to closing in certain circumstances, whether before or after receipt of the UNS Energy Shareholder Approval, including:

(i) the mutual written consent of the Purchaser and UNS Energy;

(ii) if the Acquisition has not closed by December 11, 2014 provided, however, that if the only unsatisfied conditions to closing is obtaining the required regulatory approvals, then such date shall automatically be extended without any further action to June 11, 2015 (subject to any waiting period imposed by law);

(iii) the UNS Energy Shareholder Approval is not obtained upon a vote by holders of UNS Energy's outstanding common shares entitled to vote at a duly convened meeting of UNS Energy's shareholders;

(iv) if a court of competent jurisdiction or a government authority issues a final order or injunction permanently enjoining, restraining or prohibiting the Acquisition;

(v) prior to receipt of UNS Energy Shareholder Approval, by (a) UNS Energy upon receipt of an acquisition proposal which is determined, by the board of directors of UNS Energy, to be a Superior Proposal, provided that, among other things, UNS Energy has subsequently negotiated in good faith with the Purchaser to amend the terms of the Acquisition Agreement; or (b) Purchaser in the event that (I) the board of directors of UNS Energy changes its prior recommendation that its common shareholders approve and adopt the Acquisition or (II) UNS Energy enters into a definitive agreement with respect to a Superior Proposal; or

(vi) if the other party fails to comply with any of its covenants and agreements or breaches its representations and warranties, and such failure to comply is not cured within 30 days of receiving written notice of such breach and results in a failure to satisfy the conditions to closing.

In the event that the Acquisition Agreement is terminated by the Purchaser or UNS Energy pursuant to paragraph (v), UNS Energy will be required to pay to the Purchaser a termination fee of US$63,900,000 (the "Termination Fee").

In the event that the Acquisition Agreement is terminated: (a) by the Purchaser or UNS Energy pursuant to paragraphs (ii) or (iii) or by the Purchaser pursuant to paragraph (vi); (b) prior to the termination pursuant to paragraph (ii), the UNS Energy shareholder meeting or a breach or failure giving rise to the Purchaser's right to terminate pursuant to paragraph (vi), as applicable, where an acquisition proposal by a third party has been made to UNS Energy or its board of directors or publicly disclosed and not withdrawn prior to the termination; and (c) UNS Energy enters into a definitive agreement with respect to, or consummates, an acquisition proposal by a third party within 12 months after such termination, UNS Energy will be required to pay to the Purchaser the Termination Fee less any fees and expenses previously paid to the Purchaser on termination.

UNS Energy will be required to reimburse the Purchaser for all fees and expenses incurred or paid for in connection with the Acquisition, including fees and expenses in connection with the Purchaser's equity and debt financing, not in excess of US$12,500,000 in the aggregate where the Acquisition Agreement is terminated: (a) by the Purchaser or UNS Energy pursuant to paragraphs (ii) or (iii) or by the Purchaser pursuant to paragraph (vi); and (b) prior to the termination pursuant to paragraph (ii), the UNS Energy shareholder meeting or a breach or failure giving rise to the Purchaser's right to terminate pursuant to paragraph (vi), as applicable, where an acquisition proposal by a third party has been made to UNS Energy or its board of directors or publicly disclosed and not withdrawn prior to the termination.

FINANCING THE ACQUISITION

The Acquisition will be financed with the proceeds of the Acquisition Credit Facilities. The amount outstanding under the Acquisition Credit Facilities following the closing of the Acquisition will be reduced with the net proceeds of the final instalment under the Offering and the Concurrent Private Placement. See “Use of Proceeds”.

Acquisition Credit Facilities

For purposes of financing the Acquisition, on December 11, 2013, Fortis obtained a commitment letter from The Bank of Nova Scotia providing for an aggregate of $2.0 billion non-revolving term credit facilities in favour of Fortis consisting of a $1.7 billion Short-Term Bridge Facility, repayable in full nine months following its advance, and a $300 million Medium-Term Bridge Facility, repayable in full on the second anniversary of its advance. The Acquisition Credit Facilities, together with the $600 million the Corporation has agreed to maintain under its existing Revolving Facility to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption (as described under “Details of the Offering — Debentures Redemption”), would be sufficient, if necessary, to fund the full cash portion of the purchase price for the Acquisition.

As at December 11, 2013, the Corporation and its subsidiaries had consolidated credit facilities of approximately $2.7 billion, of which $2.2 billion was unused, including an unused amount of approximately $820 million under the Corporation’s $1 billion committed Revolving Facility. Fortis (on a consolidated basis) intends to use the net proceeds of the first instalment under the Offering and the Concurrent Private Placement which are expected to be $563,400,000 in the aggregate (assuming no exercise of the Over-Allotment Option) to repay borrowings under the Revolving Facility and for other general corporate purposes, including financing equity requirements of the Corporation’s subsidiaries. Fortis (on a consolidated basis) intends to use the net proceeds of the final instalment under the Offering and the Concurrent Private Placement which are expected to be $1,164,600,000 in the aggregate (assuming no exercise of the Over-Allotment Option) to repay borrowings under the Acquisition Credit Facilities following the closing of the Acquisition and for other Acquisition-Related Expenses. See “Use of Proceeds”.

Fortis is required to make prepayments of the Acquisition Credit Facilities in an amount equal to the net cash proceeds from any common or preferred equity or bond or other debt offerings by Fortis. Net proceeds from any equity offering will be applied firstly to repay the Short-Term Bridge Facility and secondly to repay the Medium-Term Bridge Facility. Net proceeds from any bond or other debt offerings, including the aggregate amount of the final instalment payable under this Offering and the Concurrent Private Placement, will be applied firstly to repay the Medium-Term Bridge Facility and secondly to repay the Short-Term Bridge Facility. Fortis expects that the remainder of borrowings under the Acquisition Credit Facilities will be reduced or repaid from the proceeds of one or more offerings of Common Shares, long-term debt securities, first preference shares or second preference shares or from amounts extended under other debt financings in order to restore the current consolidated capitalization structure of Fortis following the Acquisition.

The credit agreement pursuant to which the Acquisition Credit Facilities will be extended (the “Acquisition Credit Agreement”) will contain certain prepayment options in favour of Fortis and certain prepayment obligations upon the occurrence of certain events. In particular, the net proceeds of any equity or debt offering by Fortis (other than certain permitted equity or debt offerings for strategic investments) will be required to be used to prepay the Short-Term Bridge Facility and Medium-Term Bridge Facility, respectively, and any prepayment under the Acquisition Credit Facilities may not be re-borrowed.

The Acquisition Credit Agreement will contain customary representations and warranties and affirmative and negative covenants of Fortis that will closely resemble those in the Revolving Facility. As part of these covenants, Fortis will be required to maintain a consolidated debt to consolidated capitalization ratio of not more than 0.70:1, which is consistent with the Revolving Facility.

Customary fees are payable by Fortis in respect of the Acquisition Credit Facilities and amounts outstanding under the Acquisition Credit Facilities will bear interest at market rates.

Concurrent Private Placement

The Corporation and the Selling Debentureholder have entered into subscription agreements dated December 11, 2013 (each a “Subscription Agreement”) pursuant to which Private Placement Subscribers will purchase on an instalment and private placement basis, Private Placement Debentures at a price of $1,000 per Private Placement

Debenture for aggregate gross proceeds to the Selling Debentureholder of $206,000,000 (the “Concurrent Private Placement”). The closing of the Concurrent Private Placement is scheduled to occur on the Closing Date, which is expected to take place on or about January 9, 2014 or such other date as may be agreed upon by the Corporation, the Selling Debentureholder and the Underwriters, but not later than January 20, 2014 and is conditional on the concurrent closing of the Offering. Each Private Placement Subscriber will be paid a commitment fee in cash equal to $20.00 per $1,000 aggregate principal amount of Private Placement Debentures subscribed for by such Private Placement Subscriber payable on the Closing Date. The Private Placement Debentures, the Instalment Receipts representing such Private Placement Debentures and the Common Shares issuable on the conversion of the Private Placement Debentures will be subject to resale restrictions for a four-month period from the closing of the Private Placement, in accordance with applicable Canadian securities laws. Fortis has applied to list the Instalment Receipts (representing the Private Placement Debentures) and the Common Shares issuable on the conversion of the Private Placement Debentures on the TSX.

Fortis, the Selling Debentureholder and Scotia Capital, RBC, TDSI and CIBC have entered into an agency agreement dated December 11, 2013 (the “Agency Agreement”) pursuant to which Scotia Capital, RBC, TDSI and CIBC are, collectively, entitled to receive an agency fee of $20.00 per $1,000 aggregate principal amount of Private Placement Debentures in connection with the Concurrent Private Placement. Such agency fee will be paid on the Final Instalment Date, provided that the final instalment has been paid in respect of such Private Placement Debentures.

Purchasers of Debentures under this Prospectus should not rely on the fact that the Private Placement Subscribers have decided to participate in the Concurrent Private Placement and make an investment in the Private Placement Debentures. The net proceeds of the first instalment under the Concurrent Private Placement will be used to repay amounts outstanding under the Revolving Facility. The net proceeds of the final instalment under the Concurrent Private Placement will be used to reduce the amount outstanding under the Acquisition Credit Facilities following the closing of the Acquisition. See “Use of Proceeds”. The subscription price for the Private Placement Debentures was negotiated between the Corporation, the Selling Debentureholder and each of the Private Placement Subscribers.

CAPITALIZATION

Upon completion of the Offering, the closing of the Acquisition and assuming the payment of the final instalment and the conversion of the Debentures and the Private Placement Debentures into Common Shares, there will be an aggregate of 58.6 million additional Common Shares outstanding, or 66.4 million additional Common Shares if the Over-Allotment Option is exercised in full (in each case on a non-fully diluted basis).

The following table sets out the consolidated capitalization of the Corporation as at September 30, 2013 and on a *pro forma* basis, assuming no exercise of the Over-Allotment Option, as of such date after giving effect to (i) the net proceeds of the Offering, determined after deducting the Underwriters' fee and estimated expenses of the Offering on an after-tax basis, (ii) the net proceeds of the Concurrent Private Placement, determined after deducting the commitment fee, the agency fee and estimated expenses of the Concurrent Private Placement, (iii) the Acquisition Credit Facilities to be drawn at the closing of the Acquisition to fund the balance of the purchase price, (iv) the Acquisition and the assumption of the UNS Energy debt, (v) the conversion of the Debentures and the Private Placement Debentures into Common Shares and (vi) the changes in Common Shares, long-term debt, capital lease and finance obligations from October 1, 2013 up to and including December 11, 2013. See "Changes in Share and Loan Capital Structure" and "Financing the Acquisition". The financial information set out below has been prepared in accordance with US GAAP. See "Index to Financial Statements".

	As at September 30, 2013 (unaudited)	*Pro forma* As at September 30, 2013 (unaudited)[(1)]
	(in millions of dollars)	
Total debt, capital lease and finance obligations [(2)] (net of cash)	7,503	10,300
Shareholders' equity		
Securities offered hereby [(3)]	—	1,749
Common Shares [(4)]	3,760	3,782
Preference shares	1,229	1,229
Additional paid-in capital	16	16
Accumulated other comprehensive loss	(101)	(101)
Retained earnings	1,013	989
Total capitalization [(5)]	13,420	17,964

(1) After giving effect to (i) the net proceeds of the Offering, assuming no exercise of the Over-Allotment Option, determined after deducting the Underwriters' fee and estimated expenses of the Offering on an after-tax basis, (ii) the net proceeds of the Concurrent Private Placement, determined after deducting the commitment fee, the agency fee and estimated expenses of the Concurrent Private Placement, (iii) the Acquisition Credit Facilities to be drawn at the closing of the Acquisition to fund the balance of the purchase price, (iv) the Acquisition and the assumption of the UNS Energy debt and (v) the changes in Common Shares, long-term debt, capital lease and finance obligations from October 1, 2013 up to and including December 11, 2013. See "Changes in Share and Loan Capital Structure".

(2) Includes long-term debt, capital lease and finance obligations, including the current portion and short-term borrowings.

(3) Assuming the conversion of the Debentures and the Private Placement Debentures into Common Shares.

(4) Does not include the Common Shares issuable upon the conversion of the Debentures and the Private Placement Debentures, which are included as "Securities offered hereby".

(5) Excludes non-controlling interests.

EARNINGS COVERAGE RATIOS

The Corporation's interest requirements on all of its outstanding debt securities after giving effect to the issue of $1.8 billion principal amount of 4.00% Debentures distributed hereunder and under the Concurrent Private Placement (and the repayment of outstanding amounts under the Revolving Facility using the payment of the first instalment) amounted to $459 million and $471 million for the 12 months ended December 31, 2012 and the 12 months ended September 30, 2013, respectively. The Corporation's dividend requirements on all of its First Preference Shares for the 12 months ended December 31, 2012 and 12 months ended September 30, 2013, adjusted to a before-tax equivalent, amounted to $55 million using an effective income tax rate of 14.1% and $60 million using an effective income tax rate of 5.0%, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2012 and 12 months ended September 30, 2013 were $782 million and $761 million, respectively, which is 1.52 times and 1.43 times, respectively, the Corporation's aggregate interest and dividend requirements for the periods.

The earnings coverage ratios of the Corporation, calculated on a *pro forma* basis after giving effect to the Acquisition, including the conversion of the Debentures and the Private Placement Debentures into Common Shares and the Acquisition Credit Facilities remaining outstanding after the payment of the final instalment, are calculated as follows: (i) the Corporation's interest requirements on all of its outstanding debt securities amounted to $547 million and $416 million for each of the 12 months ended December 31, 2012 and the 9 months ended September 30, 2013, respectively; (ii) the Corporation's dividend requirements on all of its First Preference Shares for the 12 months ended December 31, 2012 and 9 months ended September 30, 2013, adjusted to a before-tax equivalent, amounted to $57 million using an effective income tax rate of 17.2% and $48 million using an effective income tax rate of 8.7%, respectively; and (iii) the Corporation's earnings before interest and income tax for the 12 months ended December 31, 2012 and 9 months ended September 30, 2013 were $1,033 million and $799 million, respectively, which is 1.71 times and 1.72 times, respectively, the Corporation's aggregate interest and dividend requirements for the periods.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at December 11, 2013, 213,143,372 Common Shares, 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G"), 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H"), 8,000,000 Cumulative Redeemable First Preference Shares, Series J (the "First Preference Shares, Series J") and 10,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series K (the "First Preference Shares, Series K") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K are listed on the TSX under the symbols "FTS", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G", "FTS.PR.H", "FTS.PR.J" and "FTS.PR.K", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since September 30, 2013:

(i) During the period from October 1, 2013 up to and including December 11, 2013, Fortis issued an aggregate of 725,112 Common Shares pursuant to the Corporation's DRIP, CSPP and ESPP and upon the exercise of options granted pursuant to the 2006 and 2002 Stock Option Plans, for aggregate consideration of approximately $22 million.

(ii) During the period from October 1, 2013 up to and including December 11, 2013, the Corporation's consolidated long-term debt, capital lease and finance obligations, including current portions and committed credit facility borrowings classified as long-term debt, increased by approximately $66 million, principally due to the following:

   (a) the issuance by the Corporation of US$285,000,000 3.84% senior unsecured notes, series C due October 1, 2023 and US$40,000,000 5.08% senior unsecured notes, series D due October 1, 2043, the proceeds of which were used to repay committed credit facility borrowings;

   (b) the issuance by Newfoundland Power of 30-year $70,000,000 4.805% first mortgage bonds, the proceeds of which were partially used to repay credit facility borrowings; and

   (c) credit facility borrowings at FortisAlberta to fund capital expenditures and for general corporate purposes.

(iii) As a result of the Offering and the Concurrent Private Placement, after giving effect to the assumed conversion of the Debentures and the Private Placement Debentures into Common Shares, shareholders' equity in the Corporation will increase by approximately $1.7 billion.

PRIOR SALES

The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares within the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
December 1, 2012	Common — DRIP (1)	$32.42	493,631
December 1, 2012	Common — ESPP (2)	$33.06	70,016
December 1, 2012	Common — CSPP (3)	$33.06	12,404
December 2013	Common — Exercise of Stock Options (4)	$27.12	161,261
January 2013	Common — Exercise of Stock Options (4)	$25.08	113,179
February 2013	Common — Exercise of Stock Options (4)	$14.61	73,086
March 1, 2013	Common — DRIP (1)	$32.94	562,571
March 1, 2013	Common — ESPP (2)	$33.58	146,325
March 1, 2013	Common — CSPP (3)	$33.58	8,777
March 20, 2013	Issue of Stock Options	$33.58	807,600
March 2013	Common — Exercise of Stock Options (4)	$12.81	5,660
April 2013	Common — Exercise of Stock Options (4)	$17.94	135,132
May 2013	Common — Exercise of Stock Options (4)	$18.59	43,990
June 1, 2013	Common — DRIP (1)	$32.93	483,209
June 1, 2013	Common — ESPP (2)	$33.50	70,835
June 1, 2013	Common — CSPP (3)	$33.58	7,960
June 27, 2013	Common (5)	$32.50	18,500,000
August 2013	Common — Exercise of Stock Options (4)	$19.45	16,400
September 1, 2013	Common — DRIP (1)	$29.58	591,651
September 1, 2013	Common — ESPP (2)	$30.17	75,470
September 1, 2013	Common — CSPP (3)	$30.17	9,928
September 2013	Common — Exercise of Stock Options (4)	$22.29	7,740
October 2013	Common — Exercise of Stock Options (4)	$22.29	10,000
November 2013	Common — Exercise of Stock Options (4)	$28.19	4,000
December 1, 2013	Common — DRIP (1)	$30.75	625,911
December 1, 2013	Common — ESPP (2)	$31.33	76,068
December 1, 2013	Common — CSPP (3)	$31.35	9,133

(1) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").

(2) Issued pursuant to the Corporation's Employee Share Purchase Plan ("ESPP").

(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").

(4) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.

(5) Issued on the exchange of 18,5000,000 subscription receipts issued by the Corporation on June 27, 2012 in connection with the acquisition of CH Energy Group.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; and First Preference Shares, Series K, on the TSX.

	Trading of Common Shares		
	TSX		
	High	Low	Volume
	($)	($)	(#)
2012			
December	34.35	32.83	9,203,571
2013			
January	34.85	33.92	7,028,930
February	34.89	32.89	8,565,427
March	34.29	33.21	9,213,786
April	35.08	33.06	9,634,522
May	35.14	33.00	11,446,339
June	33.32	30.70	13,237,638
July	32.95	31.25	8,084,459
August	32.45	29.92	8,815,840
September	31.57	29.78	13,894,725
October	32.80	30.76	9,216,065
November	32.84	31.00	9,949,813
December 1 to 12	31.68	29.51	5,240,262

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2012						
December	27.33	26.80	25,304	25.96	25.74	46,410
2013						
January	27.19	26.64	38,132	26.05	25.80	63,277
February	27.03	26.30	61,519	26.25	25.74	372,278
March	26.64	26.18	161,461	26.02	25.79	68,561
April	26.83	26.27	62,483	26.17	25.65	49,615
May	26.54	25.40	151,923	26.06	25.08	133,510
June	26.27	25.95	17,127	25.12	22.89	109,880
July	26.16	25.90	25,989	24.76	23.28	93,996
August	26.15	25.15	102,324	23.64	21.51	160,433
September	26.04	25.80	277,950	24.12	21.67	268,832
October	26.16	25.90	142,029	24.77	22.87	112,290
November	26.22	25.83	110,659	24.05	23.25	83,563
December 1 to 12	26.25	25.92	22,430	23.51	22.82	173,512

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2012						
December	24.74	24.05	382,796	25.75	25.40	132,976
2013						
January	25.10	24.32	619,282	26.03	25.43	236,790
February	25.31	24.87	462,897	26.25	25.45	232,420
March	25.38	24.99	231,399	26.38	25.80	293,989
April	25.39	25.09	166,680	26.26	25.29	166,015
May	25.78	25.01	233,188	25.92	25.10	142,715
June	25.12	22.33	141,639	25.46	24.05	169,198
July	24.92	24.03	172,482	24.62	22.53	186,298
August	24.05	22.90	152,750	22.98	19.90	266,107
September	23.82	23.20	186,736	22.17	20.68	254,009
October	24.10	23.35	210,044	22.30	20.12	330,407
November	24.19	23.78	166,399	22.38	20.80	447,312
December 1 to 12	24.08	23.76	142,455	21.55	21.00	353,166

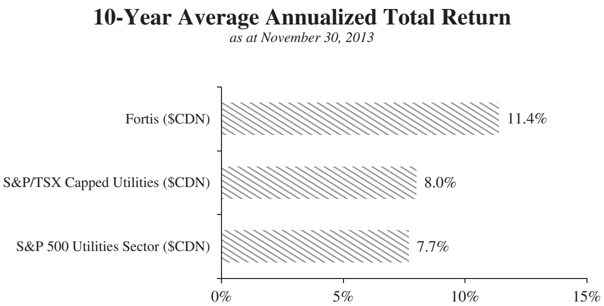
	Trading of First Preference Shares, Series J			Trading of First Preference Shares, Series K		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2012						
December	25.80	25.23	247,752	—	—	—
2013						
January	26.09	25.54	455,909	—	—	—
February	26.27	25.56	296,524	—	—	—
March	26.12	25.60	307,650	—	—	—
April	26.26	25.85	271,529	—	—	—
May	26.10	25.52	166,192	—	—	—
June	25.60	22.31	206,705	—	—	—
July (1)	24.49	22.75	193,041	25.29	24.90	619,484
August	23.58	20.99	239,500	25.25	24.25	216,119
September	23.75	21.13	378,127	24.84	24.10	158,746
October	23.75	22.33	215,901	24.76	24.20	329,716
November	23.59	22.37	252,735	24.78	23.96	137,442
December 1 to 12	22.70	21.74	261,254	24.84	24.10	78,307

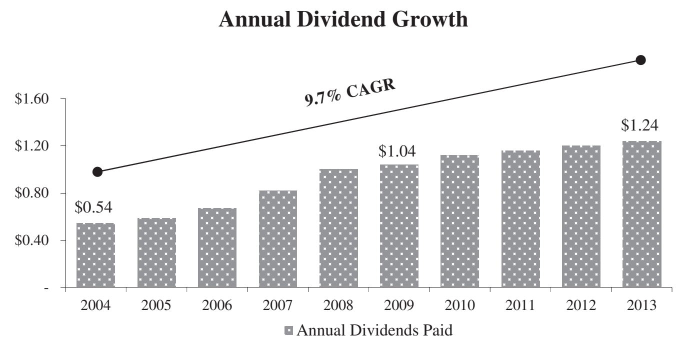
(1) The First Preference Shares, Series K commenced trading on July 18, 2013.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation declared cash dividends on its Common Shares of $1.21 in 2012 and $1.17 in 2011. On September 23, 2013, the Board of Directors declared a fourth quarter dividend of $0.31 per Common Share, which was paid on December 1, 2013 to holders of record on November 15, 2013, resulting in Fortis paying cumulative cash dividends on its Common Shares of $1.24 in 2013. On December 9, 2013, the Board of Directors declared a first quarter dividend of $0.32 per Common Share, payable on March 1, 2014 to holders of record on February 14, 2014. Fortis has increased its annual Common Share dividend payment for 41 consecutive years.

Earnings and dividend growth at Fortis have resulted in annualized total shareholder returns of 11.4% over the past 10 years. Over the same period, Fortis has maintained average annual dividend growth of 9.7%.





Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; and First Preference Shares, Series K, respectively. The Board of Directors declared a fourth quarter dividend on the First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; and First Preference Shares, Series K, on September 23, 2013, in each case in accordance with the applicable prescribed annual rate, which was paid on December 1, 2013 to holders of record on November 15, 2013. On December 9, 2013, the Board of Directors declared a first quarter dividend on the First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; and First Preference Shares, Series K, in each case in accordance with the applicable prescribed annual rate, payable on March 1, 2014 to holders of record on February 14, 2014.

DESCRIPTION OF COMMON SHARES

Dividends

Dividends on Common Shares are declared at the discretion of the Board of Directors. Holders of Common Shares are entitled to dividends on a *pro rata* basis if, as and when declared by the Board of Directors. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board of Directors may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

Liquidation, Dissolution or Winding-Up

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of the assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Voting Rights

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and to one vote in respect of each Common Share held at such meetings.

DETAILS OF THE OFFERING

The Offering consists of $1,594,000,000 aggregate principal amount of Debentures represented by Instalment Receipts at a price of $1,000 per Debenture, which are being sold by the Selling Debentureholder on an instalment basis. The first instalment of $333 per $1,000 principal amount of Debentures is payable on the Closing Date. The final instalment of $667 per $1,000 principal amount of Debentures is payable following notification to holders (the "Final Instalment Notice") that (i) the Corporation has received all regulatory and governmental approvals required to finalize the Acquisition and (ii) the Corporation and UNS Energy have fulfilled or waived all other outstanding conditions precedent to closing the Acquisition, other than those which by their nature cannot be satisfied until the closing of the Acquisition (collectively, the "Approval Conditions") as itemized in the Acquisition Agreement. Such notification, which must be given by no later than June 30, 2015, will establish a date for payment of the final instalment (the "Final Instalment Date"), which shall not be less than 15 days nor more than 90 days following the date of such notice. Payment of the final instalment in full must be received by the Custodian by no later than 3:30 p.m. (Toronto time) on the Final Instalment Date. Holders should make arrangements with the securities broker, trust company or other financial institution though which they hold Instalment Receipts to pay the final instalment sufficiently in advance of the Final Instalment Date to ensure that such payment is received by the Custodian prior to this deadline.

The Selling Debentureholder

The Selling Debentureholder is a wholly owned subsidiary of Fortis organized under the *Companies Act* (Nova Scotia) on December 19, 2008 and continued under the *Canada Business Corporations Act* on March 6, 2013. The Selling Debentureholder will acquire the Debentures offered pursuant to this Prospectus from Fortis for the purpose of participating in this Offering. The Selling Debentureholder will also be the seller of the Private Placement Debentures. See "Financing the Acquisition — Concurrent Private Placement".

If the Over-Allotment Option is exercised by the Underwriters, the Selling Debentureholder will acquire the Debentures purchased in the Over-Allotment Option from Fortis and will sell them to the Underwriters on the terms and conditions set out in the Underwriting Agreement.

Instalment Receipts

The following is a summary of the material attributes and characteristics of the Instalment Receipts representing Debentures and the rights and obligations of holders thereof. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, the terms of the instalment receipt and pledge agreement (the "Instalment Receipt Agreement"), to be dated as of the Closing Date, among the Corporation, the Selling Debentureholder, the Underwriters and Computershare Trust Company of Canada in its capacity as custodian and security agent (the "Custodian"). Copies of the Instalment Receipt Agreement are available for inspection at the principal offices of the Custodian in Toronto and Montreal. A prospective purchaser of Debentures represented by Instalment Receipts should carefully review the Instalment Receipt Agreement, a copy of which will also be available on the Corporation's SEDAR profile at www.sedar.com.

Holders of Instalment Receipts will be bound by the terms of the Instalment Receipt Agreement. The Instalment Receipt Agreement will provide that legal title to the Debentures offered hereby will be held by the Custodian following payment of the first instalment and until the Final Instalment Date provided the final instalment has been fully paid to the Custodian on behalf of the Selling Debentureholder on or before the Final Instalment Date (and in no case later than 3:30 p.m. (Toronto time) on the Final Instalment Date). The Debentures offered hereby will be pledged to the Selling Debentureholder by the Underwriters at Closing and the physical certificates representing the Debentures will be held in the possession of the Custodian, as security agent, on behalf of the Selling Debentureholder, subject to the terms of the Instalment Receipt Agreement.

An Instalment Receipt will evidence, among other things, the fact that the first instalment has been paid in respect of the Debenture represented thereby and the right of a holder thereof, subject to compliance with the provisions of the Instalment Receipt Agreement, (i) to have the pledge of the Debentures released following the Final Instalment Date provided that payment in full of the final instalment with respect to such Debentures has been received by the Custodian on or prior to such date or (ii) if the Debentures are redeemed by the Corporation prior to payment of the final instalment, to receive (after the Custodian pays the final instalment to the Selling Debentureholder on behalf of the holder) $333 per underlying Debenture plus accrued and unpaid interest on such Debenture up to but excluding the redemption date. A holder of an Instalment Receipt is deemed to have assumed the obligation to pay the final instalment on or before the Final Instalment Date and to have acquired beneficial ownership of the Debenture represented by the Instalment Receipt, subject to the pledge of such Debenture which secures such obligation. A holder of an Instalment Receipt is further deemed to agree that the foregoing pledge will remain in effect and be binding and effective notwithstanding any transfer of or other dealings with the Instalment Receipt and the rights evidenced or arising thereby.

The Corporation shall as soon as practicable following satisfaction of the Approval Conditions (but no later than June 30, 2015) cause a Final Instalment Notice to be given to holders of Debentures represented by Instalment Receipts (i) confirming that all Approval Conditions have been fulfilled to the satisfaction of the Corporation, (ii) setting the Final Instalment Date (which shall not be less than 15 days nor more than 90 days following the date that such notice is first given) and (iii) advising holders of their ability to exercise the conversion privilege with respect to Debentures represented by their Instalment Receipts concurrently with the payment of the final instalment. See "— Debentures — Conversion Rights". The Selling Debentureholder shall also cause to be issued a press release containing particulars of the Final Instalment Notice. Payment of the final instalment is required regardless of whether a holder receives the Final Instalment Notice, directly or indirectly.

A holder of an Instalment Receipt will be entitled to make payment, in accordance with the provisions of the Instalment Receipt Agreement, of the final instalment at any time following receipt of the Final Instalment Notice and prior to 3:30 p.m. (Toronto time) on the Final Instalment Date. **A holder of Instalment Receipts that fails to pay the final instalment in full by 3:30 p.m. (Toronto time) on the Final Instalment Date (a "Defaulting Holder") has no further right to pay the final instalment and all rights and privileges of the Defaulting Holder described below under "— Rights and Privileges" shall immediately cease (unless otherwise waived by the Selling Debentureholder).**

Subject to compliance with the provisions of the Instalment Receipt Agreement and timely payment of the final instalment, the Custodian will, as soon as practicable on or after the Final Instalment Date, discharge and release the pledge of the Debentures represented by such Instalment Receipts and such Debentures (or the Common Shares into which the Debentures may be converted) will be held through the facilities of CDS Clearing and Depository Services Inc. ("CDS"), in which case the holder will receive only a customer confirmation of purchase of the Debentures (or, if the conversion privilege is exercised, the underlying Common Shares) from the holder's CDS Participant (as defined below).

The Instalment Receipts representing the Debentures are issued in "book-entry only" form and must be purchased or transferred through a participant in CDS (a "CDS Participant"). The Corporation will cause a global certificate or certificates representing any newly issued Instalment Receipts to be delivered to, and registered in the name of, CDS or its nominee. All rights and obligations of holders of Instalment Receipts must be exercised or performed through, and all notices, payments or other property to which such holders are entitled will be made or delivered by the holder holding such Instalment Receipts through CDS or the CDS Participants in accordance with the rules and procedures applicable to CDS and such CDS Participants. Each person who acquires Instalment Receipts will receive only a customer confirmation of purchase from the CDS Participant from or through which the Instalment Receipts representing the Debentures are acquired in accordance with the practices and procedures of that registered dealer. The practices of CDS Participants may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book-entry accounts for its CDS Participants having interests in Instalment Receipts. See "— Book-Entry Only System". **Because payment of the final instalment will be made by holders of Instalment Receipts through CDS and CDS Participants, it is strongly advised that holders make arrangements with the securities broker, trust company or other financial institution though which they hold Instalment Receipts to pay their final instalment sufficiently in advance of the Final Instalment Date to ensure that such payment is received by the Custodian by no later than 3:30 p.m. (Toronto time) on the Final Instalment Date.**

Transfer of Instalment Receipts

Application has been made to list the Instalment Receipts on the facilities of the TSX. If listing approval is obtained from the TSX, it is anticipated that holders will be able to transfer Instalment Receipts through the facilities of the TSX until the close of trading on the trading day immediately preceding the Final Instalment Date following which, Instalment Receipts will stop trading on the TSX. Upon a transfer of an Instalment Receipt, the transferee will acquire the transferor's rights, subject to the pledge in favour of the Selling Debentureholder and become subject to the obligations of a holder of Instalment Receipts under the Instalment Receipt Agreement, including the assumption by the transferee of the obligation to pay the final instalment on or before the Final Instalment Date. No transfer of an Instalment Receipt after the Final Instalment Date will be accepted (except where an intermediary holds Instalment Receipts on behalf of a non-registered holder and such non-registered holder has failed to pay the final instalment when due, or with the express consent of the Selling Debentureholder).

Liability of Instalment Receipt Holders

Pursuant to the Instalment Receipt Agreement, the Underwriters will pledge the Debentures purchased on an instalment basis to secure payment of the final instalment. If payment of the final instalment is not duly received by the Custodian from a holder of Instalment Receipts when due, the Instalment Receipt Agreement will provide that (except as set out below) any Debenture then remaining pledged under the Instalment Receipt Agreement may, at the option of the Selling Debentureholder, subject to complying with applicable law, be forfeited to the Selling Debentureholder in full satisfaction of the obligations of such holder of Instalment Receipts secured thereby. The Instalment Receipt Agreement will further provide that the Selling Debentureholder may direct the Custodian to sell the Debentures in respect of which payment of the final instalment was not duly received, in accordance with the requirements of applicable law and of the Instalment Receipt Agreement, and remit to the Defaulting Holder of Instalment Receipts its *pro rata* portion of the proceeds of sale after deducting therefrom the amount of the remaining unpaid final instalment, the amount of any applicable withholding taxes and the Defaulting Holder's *pro rata* portion of the costs of sale (such costs not to exceed $25 per $1,000 principal amount of Debentures). **The Instalment Receipt Agreement will provide that, unless the Debentures are forfeited to the Selling Debentureholder in full satisfaction of the obligation of a Defaulting Holder, the foregoing shall not limit any other remedies available to the Selling Debentureholder against such Defaulting Holder of the Instalment Receipt in the event proceeds of such sale are insufficient to cover the amount of the final instalment and the costs of sale and accordingly, such holder shall in such circumstances remain liable to the Selling Debentureholder for any such deficiency.**

Rights and Privileges

Under the Instalment Receipt Agreement, holders of Instalment Receipts will have the same rights and privileges, and will be subject to the same limitations, as holders of Debentures. In particular, holders of Instalment Receipts will be entitled under arrangements through the Custodian, in the manner set forth in the Instalment Receipt Agreement, to (i) receive interest on the Debentures represented by Instalment Receipts until the Final Instalment Date, after which the interest rate payable on the Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Debentures and (ii) exercise the votes attached to the Debentures represented by such Instalment Receipts. In the event that the Corporation issues (including on liquidation, dissolution or winding up) to the holders of Debentures, any securities, or options, rights or warrants to purchase any securities, or any securities convertible into or exchangeable for securities, property or other assets, the Custodian will, as promptly as commercially reasonable sell such securities, options, rights, warrants, evidences of indebtedness, property or assets and remit *pro rata* to the holders of Instalment Receipts, the proceeds of sale net of the Custodian's costs of disposition, subject to withholding tax requirements.

Redemption of Debentures and Cancellation of Instalment Receipts

In the event that Debentures are redeemed prior to the payment of the final instalment and before the Final Instalment Date (if any), the Corporation shall, in respect of each Instalment Receipt outstanding on the date of such redemption, pay to the Selling Debentureholder, on behalf of the holder of an Instalment Receipt, an amount equal to the final instalment and pay the balance plus any accrued and unpaid interest to the holder. Payment of such redemption price will be made on the date that the Debentures are redeemed by the Corporation.

Modification

Apart from changes which do not materially prejudice the holders of Instalment Receipts as a group (which may be made without the consent of such holders), the Instalment Receipt Agreement may not be amended without the affirmative vote of the holders of Instalment Receipts entitled to not less than two-thirds of the principal amount of Debentures (including the Private Placement Debentures) represented by Instalment Receipts which are represented and voted at a meeting duly called for the purpose or rendered by instruments in writing signed by the holders of Instalment Receipts representing not less than two-thirds of the principal amount of the Debentures (including the Private Placement Debentures).

General

The Custodian may require holders of Instalment Receipts from time to time to furnish such information and documents as may be necessary or appropriate to comply with any fiscal or other laws or regulations relating to the Debentures or to rights and obligations represented by Instalment Receipts. The Custodian shall not be responsible for any taxes, duties, governmental charges or expenses which are or may become payable in respect of the Debentures or Instalment Receipts. In this regard, the Custodian shall be entitled to deduct or withhold from any payment or other distribution required or contemplated by the Instalment Receipt Agreement the appropriate amount of money or property, or to require holders of Instalment Receipts to make any required payments, and to withhold delivery of certificates representing the Debentures from Defaulting Holders of Instalment Receipts until satisfactory provision for payment is made, in respect of any non-resident Canadian withholding taxes or other taxes, duties or governmental charges or expenses required by applicable law to be withheld or paid.

Holders of Instalment Receipts will not be liable for charges and expenses of the Custodian except for any taxes, duties and other governmental charges which may be payable as described above.

Book-Entry Only System

Registration of interests in and transfers of Instalment Receipts will be made only through the book-entry only system of CDS (the "Book-Entry Only System"). Instalment Receipts must be purchased, transferred and surrendered through a CDS Participant. Upon purchase of any Instalment Receipts representing Debentures, the Corporation understands that the holder of Instalment Receipts will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Instalment Receipts are purchased. References in this Prospectus to a holder of Instalment Receipts mean, unless the context otherwise requires, the owner of the beneficial interest in such Instalment Receipts.

The ability of a beneficial owner of Instalment Receipts to pledge such Instalment Receipts or otherwise take action with respect to such beneficial holder's interest in such Instalment Receipts (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Selling Debentureholder has the option to terminate registration of the Instalment Receipts through the Book-Entry Only System in which case certificates for the Instalment Receipts in fully registered form would be issued to holders of such Instalment Receipts.

Debentures

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, the terms of the trust indenture (the "Indenture") to be dated on or about the Closing Date between the Corporation, as issuer, and Computershare Trust Company of Canada, as trustee (in such capacity, the "Trustee"). A prospective purchaser of Debentures represented by Instalment Receipts should carefully review the Indenture, a copy of which will be available on the Corporation's SEDAR profile at www.sedar.com on or about the Closing Date.

The Debentures and the Private Placement Debentures will be issued to the Selling Debentureholder on the Closing Date as the initial series under the Indenture and in the aggregate principal amount of $1,800,000,000. In the event that the Over-Allotment Option is exercised, Fortis will issue additional debentures of the same series under the Indenture.

The Debentures will be dated as of the Closing Date and will mature on the Maturity Date. The Debentures are issuable in denominations of $1,000 and integral multiples thereof and will bear interest at an annual rate of 4.00% per $1,000 principal amount of Debentures and will be payable quarterly on the first business day of March, June, September and December of each year to and including the Final Instalment Date. The first interest payment will be made on March 3, 2014 in the amount of $5.5890 per $1,000 principal amount of Debentures and will include interest payable from and including the date of issue. Subsequently, quarterly interest payments will be made in the amount of $10.00 per $1,000 principal amount of Debentures. A final interest payment will be made on the Final Instalment Date and will be equal to the unpaid interest accrued from the date of the last quarterly interest payment to and including the Final Instalment Date. On the day following the Final Instalment Date, the interest rate payable on the Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Debentures. Based on a first instalment of $333 per $1,000 principal amount of Debenture, the effective annual yield to and including the Final Instalment Date is 12.00%, and the effective yield thereafter is 0%.

If the Final Instalment Date occurs on a day that is prior to the first anniversary of the Closing Date, holders of Debentures who have paid the final instalment on or before the Final Instalment Date will be entitled to receive, on the business day following the Final Instalment Date, in addition to the payment of accrued and unpaid interest to and including the Final Instalment Date, the Make-Whole Payment, being an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the Closing Date had the Debentures remained outstanding and continued to accrue interest until such date. No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the Closing Date.

The Debentures will be direct obligations of Fortis and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of the Corporation as described under "— Subordination". The Indenture does not restrict the Corporation from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

Payment Upon Maturity

On the Maturity Date, the Corporation will repay the principal amount of any Debentures not converted into Common Shares and remaining outstanding, in cash. The Corporation may, at its option and without prior notice, satisfy the obligation to pay all or a portion of the principal amount of such Debentures on maturity by delivery of that number of freely tradable Common Shares obtained by dividing the principal amount of the Debentures with respect to which the Corporation is exercising such right by 95% of the Market Price.

Conversion Right

At the option of the holder and provided that payment of the final instalment has been made, each Debenture will be convertible into Common Shares on or at any time after the Final Instalment Date, but prior to the earlier of the date that the Corporation redeems the Debentures or the Maturity Date. The Conversion Price will be $30.72 per Common Share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Debentures, subject to adjustment in certain events. No adjustment will be made for cash dividends on Common Shares issuable upon conversion or for accrued and unpaid interest, which will be paid by the Corporation in cash. A holder of Debentures who does not exercise its conversion privilege concurrently with its payment of the final instalment in order to convert its Debentures to Common Shares on the Final Instalment Date will hold a Debenture that pays 0% interest and may be redeemed by the Corporation in whole or in part on any trading day following the Final Instalment Date at a price equal to its principal amount plus any unpaid interest which accrued to and including the Final Instalment Date.

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in certain events including: (a) the distribution of Common Shares or securities convertible into Common Shares to holders of its Common Shares by way of stock dividend or otherwise other than an issue of Common Shares to holders of outstanding Common Shares who have elected to receive dividends in stock in lieu of receiving cash dividends paid in the ordinary course; (b) the subdivision or consolidation of the outstanding Common Shares; (c) the issuance of rights or warrants to all holders of Common Shares entitling them to acquire Common Shares or other securities convertible into Common Shares at less than the Conversion Price; (d) the distribution to all holders of Common Shares of any securities or assets (other than cash dividends and dividends in Common Shares); or (e) if an issuer bid or exchange offer is made by the Corporation for its Common Shares. There will be no adjustment of the Conversion Price in respect of any event described herein if, with the prior regulatory approval and the approval of the TSX, the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to such transaction. The Corporation will not be required to make adjustments in the Conversion Price unless the effect of such adjustment would change the Conversion Price by at least 1%, provided that any adjustment of less than 1% will be carried forward and taken into account in connection with any subsequent adjustment.

No fractional Common Shares will be issued on any conversion but in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the Conversion Price of such fractional interest, provided that the Corporation shall not be required to make any cash payment of less than $10.00.

Redemption

The Debentures may not be redeemed by the Corporation except that the Debentures will be redeemed by the Corporation at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the Approval Conditions will not be satisfied; (ii) termination of the Acquisition Agreement; and (iii) July 2, 2015 if the Final Instalment Notice has not been given on or before June 30, 2015. Upon any such redemption, the redemption proceeds will be paid by the Corporation to the Custodian on behalf of the holders. The Custodian will pay the following for each $1,000 principal amount of Debentures: (i) $333 plus accrued and unpaid interest to the holder of the Instalment Receipt; and (ii) $667 to the Selling Debentureholder on behalf of the holder of the Instalment Receipt in satisfaction of the final instalment. Under the terms of the Instalment Receipt Agreement, Fortis has agreed that until such time as the Debentures have been redeemed in accordance with the foregoing or the Final Instalment Date has occurred, the Corporation will at all times maintain availability under the Revolving Facility of not less than $600,000,000 to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption.

In addition, after the Final Instalment Date, (i) any Debentures not converted to Common Shares may be redeemed by the Corporation at a price equal to their principal amount plus any unpaid interest which accrued prior to the Final Instalment Date and (ii) the Corporation will have the right to purchase Debentures in the open market or by tender or by private contract at prices not exceeding 100% of the principal amount thereof together with accrued and unpaid interest and costs of purchase.

Subordination

The Debentures will be direct unsecured obligations of Fortis. Payment of the principal of, interest on and other amounts owing in respect of each Debenture will be subordinated in right of payment to all present and future liabilities of the Corporation for (i) moneys borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers acceptances, debt instruments and any liability represented by bonds, debentures, notes or similar instruments), (ii) the deferred purchase price of assets or services or (iii) any trade debts in effect at any time and from time to time (collectively, the “Senior Indebtedness”). Payment of the principal of, interest on and other amounts owing in respect of each Debenture will rank *pari passu* with each other Debenture issued under the Indenture (including the Private Placement Debentures) regardless of their actual date or terms of issue, and with all other present and future unsecured and subordinated indebtedness of Fortis except as prescribed by law.

The Indenture does not limit the ability of the Corporation to incur additional indebtedness, including indebtedness that ranks senior to the Debentures or from mortgaging, encumbrancing, pledging or charging its properties to secure any indebtedness. The Indenture provides that the Corporation shall not make any payment, and the holders of Debentures shall not be entitled to demand, accelerate, institute proceedings for the collection of, or receive any payment or benefit (including, without limitation, by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (i) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures; (ii) at any time when an event of default has occurred under the Senior Indebtedness and is continuing, unless and until such Senior Indebtedness has been paid and satisfied in full or such default or event of default shall have been cured or waived in writing in accordance with the provisions of such Senior Indebtedness; or (iii) if the making of any such payment or the taking of any such action would create, including by the lapse of time or giving of notice, a default or an event of default under any Senior Indebtedness unless and until such Senior Indebtedness has been satisfied in full or the making of any such payment or taking of any such action would no longer create, including by lapse of time or giving of notice, a default or an event of default under any Senior Indebtedness.

In addition, the Trustee on behalf of the holders of Debentures may, at the request of the Corporation, enter into contractual subordination agreements with certain lenders of the Corporation with terms to the foregoing effect.

Events of Default

The Indenture will include the following events of default:

(a) failure to pay any principal or premium, if any, on the Debentures, when the same becomes due and payable whether on maturity, redemption or otherwise, which default continues for a period of five business days;

(b) failure to pay any interest on the Debentures, which default continues for 30 days after the date when due;

(c) default in the delivery when due of all cash and any Common Shares or other consideration deliverable upon conversion of any Debentures, which default continues for 30 days;

(d) the Corporation's failure to comply with any of its other agreements under the Debentures or contained in the Indenture for a period 30 days after receipt of notice of default specifying such failure;

(e) default by the Corporation or any "material subsidiary" (as defined in the Indenture), with respect to any indebtedness (excluding amounts due to the holders of Debentures), where the aggregate principal amount of such indebtedness exceeds an amount equal to the greater of 2% of the consolidated net worth of Fortis at such time and $100,000,000, and (i) if the default is a payment default, such default continues to exist for a period exceeding 30 days; provided that if the payment obligation to which the default relates is accelerated, then the default shall constitute an event of default immediately following such acceleration, and (ii) if the default is not a payment default, then as a result of the default and the passing of any applicable cure period, the maturity of the obligation is accelerated; provided that, in each case, if the default is cured prior to acceleration of the Debentures, then the event of default shall be deemed to have been cured; and

(f) certain events of bankruptcy, insolvency or reorganization affecting the Corporation.

If an event of default shall have occurred and is continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Debentures then outstanding may declare the principal of the Debentures and any accrued and unpaid interest through the date of such declaration immediately due and payable. In the case of certain events of bankruptcy or insolvency, the principal amount of the Debentures together with any accrued interest through the occurrence of such event shall automatically become and be immediately due and payable.

Modification

The rights of the holders of the Debentures may be modified. For that purpose, among others, the Indenture will contain certain provisions which will make binding on all holders of Debentures resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66⅔% of the principal amount of the Debentures, or rendered by instruments in writing signed by the holders of not less than 66⅔% of the principal amount of the Debentures then outstanding.

Certification and the Book-Entry Only System

Registration of interests in and transfers of Debentures represented by Instalment Receipts will be made only through the Book-Entry Only System. Debentures represented by Instalment Receipts must be purchased, transferred and surrendered through a CDS Participant. From the Closing Date to the Final Instalment Date, the Debentures will be issued in certificated and fully registered form in the name of Computershare Trust Company of Canada, in its capacity as security agent under the Instalment Receipt Agreement. Promptly following 3:30 p.m. (Toronto time) on the Final Instalment Date, provided due payment of the final instalment has been made in accordance with the terms of the Instalment Receipt Agreement, the Selling Debentureholder will cause the Custodian to deliver to CDS (i) a global certificate representing those Debentures not converted to Common Shares by exercise of the conversion right and (ii) Common Shares issued upon conversion of Debentures, in each case, to be registered in the name of CDS or its nominee. The Debentures will be represented by one or more global certificates. Thereafter, registration of interests in and transfers of the Debentures will be made only through the depository service of CDS and transfers of Common Shares will be effected electronically through the non-certificated inventory system administered by CDS.

Upon purchase of any Debentures through the Book-Entry Only System, the Corporation understands that the holder of Debentures will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Debentures are purchased. References in this Prospectus to a holder of Debentures mean, unless the context otherwise requires, the owner of the beneficial interest in such Debentures.

The Corporation will have the option to terminate registration of the Debentures through the Book-Entry Only System in which case certificates for the Debentures in fully registered form would be issued to holders of such Debentures.

USE OF PROCEEDS

The net proceeds from the Offering will be, in the aggregate, $1,528,240,000, determined after deducting the Underwriters' fee and the estimated expenses of the Offering. In the event that the Over-Allotment Option is exercised in full, the net proceeds to be received by the Selling Debentureholder (and Fortis, on a consolidated basis) will be, in the aggregate, $1,757,776,000.

The Selling Debentureholder intends to use the net proceeds of the Offering and of the Concurrent Private Placement to make distributions in the amounts of $1,528,240,000 and $197,760,000, respectively, to the Corporation. See "Details of the Offering — The Selling Debentureholder".

Fortis (on a consolidated basis) intends to use the net proceeds of the first instalment under the Offering and the Concurrent Private Placement, which are expected to be $563,400,000 (assuming no exercise of the Over-Allotment Option or $636,238,300 if the Over-Allotment Option is exercised), in each case when paid to Fortis by the Selling Debentureholder, as follows: (i) to repay borrowings under the Revolving Facility, which borrowings have been incurred primarily in connection with the construction of the Waneta Expansion and financing of certain of the Corporation's subsidiaries; and (ii) for other general corporate purposes, including providing financing to the Corporation's regulated utility subsidiaries for capital expenditures. Fortis (on a consolidated basis) intends to use the net proceeds of the final instalment under the Offering and the Concurrent Private Placement, which are expected to be $1,164,600,000 (assuming no exercise of the Over-Allotment Option or $1,319,297,700 if the Over-Allotment Option is exercised), as follows: (a) to repay borrowings under the Acquisition Credit Facilities following the closing of the Acquisition; and (b) for other Acquisition-Related Expenses. See "Financing the Acquisition", "The Acquisition Agreement" and "Details of the Offering".

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated December 13, 2013 (the "Underwriting Agreement") among Fortis, the Selling Debentureholder and the Underwriters, the Selling Debentureholder has agreed to sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, all but not less than all of the Debentures offered hereby on an instalment basis at a price of $1,000 per $1,000 principal amount of Debentures (the "Offering Price"). The Offering Price is payable in cash to the Selling Debentureholder on delivery as follows: the first instalment of $333 per $1,000 principal amount of Debenture is payable on the Closing Date against delivery; and the final instalment of $667 per $1,000 principal amount of Debenture is payable on or before the Final Instalment Date. See "Details of the Offering — The Selling Debentureholder".

The obligations of the Underwriters under the Underwriting Agreement are several and not joint or joint and several and may be terminated by them on the basis of certain stated events. Under the Underwriting Agreement, the obligations of any Underwriter may be terminated in their discretion if, at or prior to the Closing Date: (a) there should occur or commence, or be announced or threatened, any inquiry, action, suit, investigation or other proceeding (whether formal or informal) other than any inquiry, action, suit, investigation or other proceeding based on alleged activities of the Underwriters, or any order is issued by any governmental authority, other than an order based on the alleged activities of the Underwriters, or any law or regulation is promulgated, changed or announced, which, in the reasonable opinion of the Underwriters (or any of them), is expected to prevent or materially restrict the trading in or the distribution of the Debentures, the Instalment Receipts representing the Debentures, the underlying Common Shares or any other securities of the Corporation or would be expected to have a material adverse effect on the market price or value of the Debentures, the Instalment Receipts representing the Debentures, the underlying Common Shares or any other securities of the Corporation; (b) there should develop, occur or come into effect or existence any event, action, state, condition or occurrence of national or international consequence, acts of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, or any law, action, regulation or other occurrence of any nature whatsoever which, in the reasonable opinion of the Underwriters (or any of them), materially adversely affects or involves, or is expected to materially adversely affect or involve, financial markets generally or the business, affairs or operations of the Corporation; (c) there should occur any material change (financial or otherwise) in the business, affairs or operations of the Corporation or any change in any material fact (other than a change related solely to the Underwriters), or the Underwriters become aware of any undisclosed material information, which, in the reasonable opinion of the Underwriters (or any of them), could be expected to have a material adverse effect on the market price or value of the Debentures, the Instalment Receipts representing the Debentures or any other securities of the Corporation; or (d) the Acquisition Agreement is terminated prior to 8:00 a.m. (Toronto time) on the Closing Date.

The Underwriters are obligated to take up and pay for all of the Debentures represented by Instalment Receipts offered hereby (other than the Debentures represented by Instalment Receipts issuable on exercise of the Over-Allotment Option) if any of those Debentures are purchased under the Underwriting Agreement. The Debentures represented by Instalment Receipts offered hereby are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for the Prospectus.

The Selling Debentureholder has granted to the Underwriters the Over-Allotment Option, which is exercisable in whole or in part at any time until the date that is 30 days following the Closing Date and pursuant to which the Underwriters may purchase additional Debentures represented by Instalment Receipts equal to up to 15% of the aggregate principal amount of Debentures represented by Instalment Receipts sold in the Offering on the same terms as set forth above, to cover over-allotments, if any. This Prospectus qualifies the grant of the Over-Allotment Option and the issuance of Debentures represented by Instalment Receipts on the exercise of the Over-Allotment Option. A purchaser who acquires Debentures represented by Instalment Receipts forming part of the Underwriters' over-allocation position acquires those Debentures under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The Underwriting Agreement provides that the Underwriters will be paid a fee equal to 4.00% of the gross proceeds of the Offering ($40.00 per Debenture) in consideration for their services in connection with the Offering, one-half of which is payable on the Closing Date and the remaining one-half of which is payable on the Final Instalment Date. Accordingly, upon payment of the final instalment and assuming the final instalment payment is made for all outstanding Instalment Receipts, the total price to the public will be $1,594,000,000, the Underwriters' fee will be $63,760,000 and the net proceeds to the Selling Debentureholder will be approximately $1,528,240,000, after deducting the expenses of the Offering estimated at $2,000,000, which will be paid out of the general funds of Fortis. After the Underwriters have made reasonable efforts to sell all the Debentures represented by Instalment Receipts at the Offering Price, the Offering Price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Debentures represented by Instalment Receipts is less than the gross proceeds paid by the Underwriters to Fortis. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation, the Selling Debentureholder and the Underwriters.

There is currently no market through which the Debentures represented by Instalment Receipts may be sold and purchasers may not be able to resell securities purchased under this Prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. Fortis has applied to list the Instalment Receipts (representing the Debentures and the Private Placement Debentures) and the Common Shares issuable on the conversion of the Debentures and the Private Placement Debentures on the TSX. Listing will be subject to the Corporation fulfilling all of the requirements of the TSX. The Corporation has no current intention to list the Debentures or the Private Placement Debentures for trading on any exchange as it currently anticipates all Debentures and Private Placement Debentures will be converted to Common Shares on the Final Instalment Date.

Provided that listing approval is obtained from the TSX, the Instalment Receipts (representing the Debentures and the Private Placement Debentures) will be quoted and traded on the TSX in the same manner as other debentures listed on the TSX, with all bids and offers for and trades of Instalment Receipts reflecting only the partly paid capital portion of the Debentures and not accrued interest. Accrued interest will be reflected in the settlement amount and in the confirmations generated by the CDS participant from or through whom the trade was executed. Bid, offer and trading prices for the Instalment Receipts listed on the TSX will be expressed as a percentage of the $1,000 principal amount of a fully paid Debenture (and not as a percentage of the $333 first instalment already paid). In accordance with TSX trading rules, the Instalment Receipts will be quoted based on $100 principal amounts and all trades in Instalment Receipts will be made in multiples of $1,000. A board lot of Instalment Receipts is represented by one Instalment Receipt, the underlying value of which is $1,000 principal amount of a fully paid Debenture.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Debentures represented by Instalment Receipts ends and all stabilization arrangements relating to the Debentures represented by Instalment Receipts are terminated, bid for or purchase Instalment Receipts, Debentures or Common Shares. The foregoing restrictions are subject to certain exceptions including: (i) a bid for or purchase made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada; (ii) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period; and (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Instalment Receipts, Debentures or Common Shares is for the purpose of maintaining a fair and orderly market in the Instalment Receipts, Debentures or Common Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Debentures, the Instalment Receipts representing the Debentures, and the Common Shares into which the Debentures may be converted have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, may not be offered, or delivered, directly or indirectly, or sold in the United States or to, or for the account or benefit of, U.S. persons (other than distributors) unless the Debentures represented by Instalment Receipts and the Common Shares into which the Debentures may be converted are registered under the 1933 Act or an exemption from the registration requirements of the 1933 Act and any applicable state securities laws is available. The Underwriters have agreed that they will not offer or sell the Debentures represented by Instalment Receipts within the United States or to, or for the account or benefit of, any U.S. person, except in accordance with the Underwriting Agreement pursuant to the exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Debentures represented by Instalment Receipts within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with Rule 144A. When used in this section, the terms "United States", "U.S. person" and "distributor" have meanings ascribed to them in Regulation S under the 1933 Act ("Regulation S").

To comply with the requirements of Regulation S, any Underwriter and any other distributor selling Debentures represented by Instalment Receipts to a distributor, dealer or other person receiving a selling concession, fee or other remuneration in respect of the securities sold, prior to the expiration of 40 days after the closing of the offering of the Debentures represented by Instalment Receipts pursuant to this Prospectus, must send to the purchaser a confirmation or other notice stating that the purchaser is subject to the same restrictions on offers and sales of the Debentures represented by Instalment Receipts that apply to such Underwriter or other distributor.

RELATIONSHIP BETWEEN FORTIS, THE SELLING DEBENTUREHOLDER AND CERTAIN UNDERWRITERS

Each of the Underwriters is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended (or will extend) credit facilities to, or holds (or will hold) other indebtedness of, the Corporation and/or its subsidiaries, including the Revolving Facility and the Acquisition Credit Facilities (collectively, the "Bank Indebtedness"). See "Financing the Acquisition" and "Capitalization". In addition, Scotia Capital, RBC, TDSI and CIBC are acting as agents in the Concurrent Private Placement and will receive an agency fee in connection with such role pursuant to the Agency Agreement. See "Financing the Acquisition — Concurrent Private Placement". Scotia Capital is also acting as financial advisor to Fortis in connection with the Acquisition and is receiving a fee therefor. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation.

Except as described in “Use of Proceeds”, none of these Underwriters will receive any direct benefit from the Offering other than the underwriting commission relating to the Offering and the agency fee payable pursuant to the Agency Agreement in connection with the Concurrent Private Placement. The decision to distribute the Debentures hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation, the Selling Debentureholder and the Underwriters. No bank had any involvement in such decision or determination. As at December 11, 2013, an aggregate of approximately $426 million was outstanding under the Bank Indebtedness. Fortis and/or its subsidiaries are in material compliance with their respective obligations under the Bank Indebtedness. Since entering into the Bank Indebtedness, no breach thereunder has been waived by the lenders thereof; there has been no material change in the financial position or condition of Fortis or its subsidiaries, except as otherwise described in this Prospectus (including in the documents incorporated by reference herein); and the value of any security for any such Bank Indebtedness has not changed, except in the ordinary course of business. See “Use of Proceeds”.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis and the Selling Debentureholder, and Stikeman Elliott LLP, counsel to the Underwriters, (collectively, “Counsel”) the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable to a holder who acquires Debentures represented by Instalment Receipts pursuant to this offering and who, for the purposes of the Tax Act and at all relevant times: (i) is resident, or is deemed to be resident, in Canada; (ii) holds the Debentures and will hold any Common Shares received on the conversion or maturity of the Debentures (collectively, the “Securities”) as capital property; (iii) deals at arm’s length with Fortis, the Selling Debentureholder and the Underwriters; and (iv) is not affiliated with the Corporation or the Selling Debentureholder (a “Holder”). Generally, the Securities will be considered to be capital property to a Holder provided the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Holders who might not otherwise be considered to hold their Securities as capital property may, in certain circumstances, be entitled to have the Securities, and all other “Canadian securities” (as defined in the Tax Act) owned by such holders in the taxation year of the election and all subsequent taxation years, deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Holders are advised to consult their personal tax advisors to determine whether such an election is available and desirable in their particular circumstances.

This summary is not applicable to a Holder: (i) that is a “financial institution”, as defined in the Tax Act for the purposes of the mark-to-market rules; (ii) that is a “specified financial institution” as defined in the Tax Act; (iii) an interest which would be a “tax shelter investment” as defined in the Tax Act; (iv) that has elected to report its “Canadian tax results” in a currency other than the Canadian currency pursuant to the “functional currency” reporting rules, as all those terms are defined in the Tax Act; (v) that enters into a “derivative forward agreement” in respect of the Debentures or Common Shares, as defined in the Tax Act; or (vi) that is a corporation which is, or becomes as part of a series of transactions, controlled by a non-resident corporation and in respect of which a subsidiary of Fortis is, or would at any time be, a “foreign affiliate” (as defined in the Tax Act). Any such Holder should consult its own tax advisor with respect to an investment in the Securities.

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly announced prior to the date hereof (the “Proposed Amendments”) and Counsel’s understanding of the current published administrative practices of the Canada Revenue Agency. This summary assumes that the Proposed Amendments will be enacted in the form proposed; however, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, if at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax consequences to any Holder are made. Consequently, Holders and prospective holders of Securities should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring Securities pursuant to this offering, having regard to their particular circumstances. This summary does not address any tax

considerations applicable to persons other than Holders and such persons should consult their own tax advisors regarding the consequences of acquiring, holding and disposing of Securities under the Tax Act and any jurisdiction in which they may be subject to tax.

Taxation of Interest on Debentures

A Holder of Debentures represented by Instalment Receipts that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues to it to the end of the particular taxation year or that has become receivable by or is received by the Holder before the end of that taxation year, except to the extent that such interest was included in computing the Holder's income for a preceding taxation year. A "Canadian-controlled private corporation" (as defined in the Tax Act) also may be liable to pay a 6⅔% refundable tax on certain investment income including interest.

Any other Holder, including an individual, will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Holder in that taxation year (depending upon the method regularly followed by the Holder in computing income), except to the extent that the interest was included in the Holder's income for a preceding taxation year.

Where, on acquisition of a Debenture represented by an Instalment Receipt, a Holder pays an amount on account of interest accrued on the Debenture to the date of acquisition, such amount may be deducted in computing the Holder's income in the taxation year in which, and to the extent that, the accrued interest is included in the Holder's income as interest. The adjusted cost base to the Holder of the Debenture represented by an Instalment Receipt will be reduced by the amount that is so deductible.

Any premium or bonus paid by the Corporation to a Holder because the Debenture is redeemed before the maturity thereof will be deemed to be interest received at that time by the Holder to the extent that such premium can reasonably be considered to relate to, and does not exceed the value at the time of the redemption of, the interest that would have been paid or payable on the Debenture for a taxation year ending after the redemption had the Debenture not been redeemed.

Exercise of Conversion Privilege

Generally, a Holder who converts a Debenture into Common Shares pursuant to the conversion privilege will be deemed not to have disposed of the Debenture (except for purposes of the deduction for interest included in income but not received as discussed below under "— Disposition of Debentures"). Accordingly, a Holder who converts a Debenture into Common Shares will not be considered to realize a capital gain (or capital loss) on such conversion. Under the current administrative practice of the Canada Revenue Agency, a Holder who, upon conversion of a Debenture, receives cash not in excess of $200 in lieu of a fraction of a Common Share may either treat this amount as proceeds of disposition of a portion of the Debenture, thereby realizing a capital gain (or capital loss), or reduce the adjusted cost base of the Common Shares that the Holder receives on the conversion by the amount of the cash received.

The aggregate cost to a Holder of Common Shares acquired on the conversion of a Debenture will generally be equal to the Holder's adjusted cost base of the Debenture immediately before the conversion. For the purposes of determining the adjusted cost base to a Holder of Common Shares at any time, the cost of such Common Shares will be averaged with the adjusted cost base of any other Common Shares owned by the Holder as capital property at the time.

Disposition of Debentures

A disposition or deemed disposition of a Debenture by a Holder, including upon redemption or at maturity but not including the conversion of a Debenture into Common Shares pursuant to the Holder's right of conversion as described above, will generally result in the Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below) are greater (or less) than the aggregate of the Holder's adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "— Taxation of Capital Gains and Capital Losses". In this regard, the cost to a Holder of a Debenture represented by an Instalment Receipt will include all amounts paid or payable by the Holder for such

Debenture, including the amount of the final instalment, whether paid or unpaid. The proceeds of disposition to a Holder who disposes of a Debenture represented by an Instalment Receipt will include the amount of any unpaid final instalment.

Upon a disposition or deemed disposition, other than upon redemption or at maturity, interest accrued on the Debenture to the date of disposition will be included in computing the Holder's income for the year of disposition, except to the extent that it was included in computing the Holder's income for that or a preceding taxation year, and will be excluded from the Holder's proceeds of disposition of the Debenture. Where a Holder has disposed of a Debenture for consideration equal to its fair market value, the Holder will be entitled to deduct in computing income for the year of disposition any amount that has been included in the Holder's income as interest in respect of such Debenture for that year or any preceding taxation year to the extent such amount exceeds the amount received or receivable by the Holder in respect thereof. A conversion of a Debenture into Common Shares is a disposition for purposes of this rule.

If the Corporation pays the principal amount of the Debentures upon maturity by issuing Common Shares to the Holder, the Holder's proceeds of disposition of the Debenture will be equal to the fair market value, at the time of disposition of the Debenture, of the Common Shares and any other consideration so received (except any consideration received in satisfaction of accrued interest). The Holder's aggregate cost of the Common Shares so received will be equal to the fair market value of such Common Shares. For the purposes of determining the adjusted cost base to a Holder of the Common Shares at any time, the cost of such Common Shares will be averaged with the adjusted cost base of any other Common Shares owned by the Holder as capital property at that time.

Where a Debenture represented by an Instalment Receipt is forfeited to the Selling Debentureholder or is sold by the Custodian as a consequence of the Holder's failure to pay the final instalment, the Holder may be subject to special rules in the Tax Act relating to the seizure by a seller of property previously sold or the settlement or forgiveness of debt. Holders should consult their own tax advisors with respect to these special rules.

Receipt of Dividends on Common Shares

Dividends received or deemed to be received on Common Shares by a Holder who is an individual (other than certain trusts) will be included in computing the individual's income for tax purposes and will be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from "taxable Canadian corporations" (as defined in the Tax Act), including the enhanced gross-up and dividend tax credit for "eligible dividends". A dividend will be an eligible dividend if the recipient receives written notice (which may include a notice published on the Corporation's website) from the Corporation designating the dividend as an "eligible dividend". There may be limitations on the ability of the Corporation to designate dividends as eligible dividends.

Taxable dividends received by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

A Holder that is a corporation will include dividends received or deemed to be received on Common Shares in computing its income for tax purposes and generally will be entitled to deduct the amount of such dividends in computing its taxable income, with the result that no tax will be payable by it in respect of such dividends.

Certain corporations, including a "private corporation" or a "subject corporation" (as such terms are defined in the Tax Act), may be liable to pay a refundable tax under Part IV of the Tax Act of 33⅓% on dividends received or deemed to be received on Common Shares to the extent such dividends are deductible in computing taxable income.

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Holder will generally result in the Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share are greater (or less) than the aggregate of the Holder's adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "— Taxation of Capital Gains and Capital Losses".

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in the Holder's income for the year, and one-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year must be deducted from taxable capital gains realized by the Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act. Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act. A "Canadian-controlled private corporation" (as defined in the Tax Act) also may be liable to pay a 6⅔% refundable tax on certain investment income including taxable capital gains.

The amount of any capital loss realized by a Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances described in the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

RISK FACTORS

An investment in: (i) the Debentures represented by Instalment Receipts pending payment of the final instalment; (ii) the Debentures following payment of the final instalment; and (iii) the Common Shares issuable upon the conversion of the Debentures, involves certain risks. A prospective purchaser of Debentures should carefully consider the risk factors described under:

(a) the heading "Business Risk Management" in the Annual MD&A as found on pages 49 to 66 of the Corporation's 2012 Annual Report;

(b) note 33 "Financial Risk Management" found on pages 136 to 139 in the Corporation's audited comparative consolidated financial statements as at December 31, 2012 and for the years ended December 31, 2012 and 2011, as contained in the Corporation's 2012 Annual Report; and

(c) note 20 "Financial Risk Management" found on pages F-26 to F-31 in the Corporation's unaudited comparative interim consolidated financial statements as at September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012,

each of which is incorporated by reference herein. In addition, a prospective purchaser of Debentures should carefully consider the risk factors described in this section which relate to the Acquisition, the Instalment Receipts, the Debentures and the post-Acquisition business and operations of the Corporation and UNS Energy, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein).

Risk Factors Relating to the Acquisition

Failure to complete the Acquisition

The closing of the Acquisition is subject to the normal commercial risks that the Acquisition will not close on the terms negotiated (including with respect to the consideration to be paid for each outstanding share of common stock of UNS Energy) or at all. The completion of the Acquisition is subject to receipt of UNS Energy Shareholder Approval and satisfaction of the other Approval Conditions, including obtaining the approval of each of the ACC and FERC, and the satisfaction or waiver of certain closing conditions contained in the Acquisition Agreement. The failure to obtain the required approvals or satisfy or waive the conditions contained in the Acquisition Agreement may result in the termination of the Acquisition Agreement. There is no assurance that such closing conditions will be satisfied or waived. Accordingly, there can be no assurance that Fortis will complete the Acquisition in the timeframe or on the basis described herein, if at all. The termination of the Acquisition Agreement may have a negative effect on the price of the Instalment Receipts, the Debentures and the Common Shares and will result in the redemption of the Debentures. If the closing of the Acquisition does not take place as contemplated, the Corporation could suffer adverse consequences, including the loss of investor confidence. See "The Acquisition Agreement — Closing Conditions".

The Cash Purchase Price could increase

UNS Energy is a public company and its directors owe fiduciary duties to UNS Energy which may require them to consider competing offers to purchase the common stock of UNS Energy as alternatives to the Acquisition. The Acquisition Agreement preserves the ability of the directors of UNS Energy to accept an alternative or competing offer in certain circumstances if such offer constitutes a Superior Proposal. If a Superior Proposal to acquire UNS Energy is made Fortis may exercise its right to match such offer and as a result the Cash Purchase Price may increase. See "The Acquisition Agreement".

Length of time required to complete the Acquisition is unknown

As described above under "— Failure to complete the Acquisition", the closing of the Acquisition is subject to the receipt of required shareholder and regulatory approvals and the satisfaction of other closing conditions contained in the Acquisition Agreement. There is no certainty, nor can Fortis provide any assurance, as to when these conditions will be satisfied, if at all. A substantial delay in obtaining regulatory approvals or the imposition of unfavourable terms and/or conditions in such approvals could have a material adverse effect on the Corporation's ability to complete the Acquisition and on the Corporation's or UNS Energy's business, financial condition or results of operations. Fortis intends to complete the Acquisition as soon as practicable after obtaining the required UNS Energy Shareholder Approval and regulatory approvals and satisfying the other required closing conditions. See "The Acquisition Agreement — Closing Conditions".

Fortis may not realize all of the anticipated benefits of the Acquisition

As described in "The Acquisition — Acquisition Rationale", Fortis believes that the Acquisition will provide benefits to the Corporation, including that the Acquisition will be accretive in the first full year following the closing of the Acquisition, excluding one-time Acquisition-Related Expenses. However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Corporation. The challenge of integrating previously independent businesses makes evaluating the Corporation's business and future financial prospects difficult. The past financial performance of the Corporation may not be indicative of its future financial performance.

Failure to realize the anticipated benefits of the Acquisition may impact the financial performance of the Corporation, the price of its Common Shares and the ability of Fortis to continue to pay dividends on its Common Shares at current rates or at all. The declaration of dividends by the Corporation is at the discretion of the Board of Directors and the Board of Directors may determine at any time to cease paying dividends. See "Dividend Policy" and "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Foreign exchange risk

The cash consideration for the Acquisition is required to be paid in U.S. dollars, while funds raised in the Offering, which will constitute a significant portion of the funds ultimately used to finance the Acquisition, are denominated in Canadian dollars. See "Use of Proceeds". As a result, increases in the value of the U.S. dollar versus the Canadian dollar prior to payment of the final instalment will increase the purchase price translated in Canadian dollars and thereby reduce the proportion of the purchase price for the Acquisition ultimately obtained by Fortis under this Offering.

In addition, the operations of UNS Energy are conducted in U.S. dollars. Following the Acquisition, the consolidated earnings and cash flows of Fortis will be impacted to a much greater extent by movements in the U.S. dollar relative to the Canadian dollar. To manage these risks, Fortis may enter into forward foreign exchange contracts and utilize certain derivatives as cash flow hedges of its exposure to foreign currency risk to a greater extent than in the past. There is no guarantee that such hedging strategies, if adopted, will be effective. In addition, currency hedging entails a risk of illiquidity and, to the extent the applicable U.S. dollar depreciates against the Canadian dollar, the risk of using hedges could result in losses greater than if the hedging had not been used. Hedging arrangements may have the effect of limiting or reducing the total returns to Fortis if management's expectations concerning future events or market conditions prove to be incorrect, in which case the costs associated with the hedging strategies may outweigh their benefits.

Significant demands will be placed on the Corporation as a result of the Acquisition

As a result of the pursuit and completion of the Acquisition, significant demands will be placed on the Corporation's managerial, operational and financial personnel and systems. No assurance can be given that the Corporation's systems, procedures and controls will be adequate to support the expansion of the Corporation's operations resulting from the Acquisition. The Corporation's future operating results will be affected by the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational and financial controls and reporting systems.

Failure to pay final instalment will negatively impact the consolidated capitalization of the Corporation

Completion of the Acquisition is not conditional on the completion of this Offering by the Corporation or on the Corporation obtaining financing on favourable terms or at all. If a material amount due on payment of the final instalment is not paid by holders of Instalment Receipts and the Corporation is not able to quickly realize on the Debentures pledged to secure the obligation to pay the final instalment, the Corporation will not be able to use those proceeds to repay the Acquisition Credit Facilities. As a result, it may take Fortis longer than anticipated to repay the Acquisition Credit Facilities which may have a negative impact on the consolidated capitalization of Fortis until such time as the Acquisition Credit Facilities have been repaid by Fortis in full.

The Acquisition Credit Facilities may become unavailable

The commitment of the lenders to enter into the Acquisition Credit Facilities is subject to certain standard conditions which may result in such facilities becoming unavailable to Fortis in certain circumstances. If the Acquisition Credit Facilities become unavailable to Fortis, Fortis may not be able to complete the Acquisition. The inability of Fortis to complete the Acquisition will result in redemption of the Debentures. See "Financing the Acquisition — Acquisition Credit Facilities".

The Concurrent Private Placement may not be completed

Each of the Private Placement Subscribers has entered into a binding Subscription Agreement with the Corporation and the Selling Debentureholder, but such Subscription Agreements contain standard terms and conditions which may result in their termination prior to completion of the Concurrent Private Placement. In addition, one or more Private Placement Subscribers may breach the terms of their Subscription Agreement on or before the Closing Date or thereafter, resulting in non-payment of all or a portion of the price for the Private Placement Debentures or the final instalment with respect to such Private Placement Debentures. Any termination or non-completion with respect to any portion of the Concurrent Private Placement will have an adverse effect on the Corporation and any such termination or non-completion prior to the closing of the Offering will render certain disclosure in this Prospectus incorrect, potentially requiring the Corporation to file an amendment to the Prospectus, thereby delaying the closing of the Offering.

Fortis does not currently control UNS Energy and its subsidiaries

Although the Acquisition Agreement contains covenants on the part of UNS Energy regarding the operation of its business prior to closing the Acquisition, Fortis will not control UNS Energy and its subsidiaries until completion of the Acquisition and the UNS Energy business and results of operations may be adversely affected by events that are outside of the Corporation's control during the intervening period. Historic and current performance of UNS Energy's business and operations may not be indicative of success in future periods. The future performance of UNS Energy may be influenced by, among other factors, economic downturns, increased environmental regulation, turmoil in financial markets, unfavourable regulatory decisions, rising interest rates and other factors beyond the Corporation's control. As a result of any one or more of these factors, among others, the operations and financial performance of UNS Energy may be negatively affected which may adversely affect the future financial results of Fortis. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Fortis expects to incur significant Acquisition-Related Expenses

Fortis expects to incur a number of costs associated with completing the Acquisition. The substantial majority of these costs will be non-recurring expenses resulting from the Acquisition and will consist of transaction costs related to the Acquisition, including costs relating to the financing of the Acquisition and obtaining regulatory approval. Additional unanticipated costs may be incurred.

Information relating to UNS Energy in this Prospectus has been obtained from UNS Energy or its public disclosure record

All information relating to UNS Energy or its affiliates contained in this Prospectus has been provided to Fortis by UNS Energy or taken from the UNS Energy public disclosure record. Although the Corporation has conducted what it believes to be a prudent and thorough level of investigation in connection with the Acquisition and the disclosure relating to UNS Energy contained in this Prospectus, an unavoidable level of risk remains regarding the accuracy and completeness of such information. While Fortis has no reason to believe the information provided by UNS Energy or taken from the public disclosure record is misleading, untrue or incomplete, Fortis cannot assure the accuracy or completeness of such information nor can Fortis compel UNS Energy to disclose events which may have occurred or may affect the completeness or accuracy of such information but which are unknown to Fortis.

Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy

Fortis will have a substantial amount of indebtedness which may adversely affect its cash flow and ability to operate its business

After giving effect to the Acquisition, Fortis will have a significant amount of debt, including US$1.8 billion of debt of UNS Energy assumed by Fortis as a result of the Acquisition. As of September 30, 2013, on a pro forma basis after giving effect to the Acquisition and other refinancing activities, but assuming conversion of all Debentures to Common Shares, details of which are included in the Capitalization table provided herein, Fortis would have approximately $10.3 billion of total indebtedness outstanding. The change in the capital structure of Fortis as a result of the Acquisition, the Offering, the Concurrent Private Placement and the entering into of the Acquisition Credit Facilities could cause credit rating agencies which rate the outstanding debt obligations of Fortis to re-evaluate and potentially downgrade the Corporation's current credit ratings, which could increase the Corporation's borrowing costs. See "Capitalization" and "Recent Developments".

The Corporation's historical and pro forma combined financial information may not be representative of the results of the Corporation following the Acquisition

The *pro forma* combined financial information included in this Prospectus has been prepared using the consolidated historical financial statements of Fortis and the consolidated historical financial statements of UNS Energy and does not purport to be indicative of the financial information that will result from the operations of Fortis on a consolidated basis following the Acquisition. In addition, the *pro forma* combined financial information included in this Prospectus is based in part on certain assumptions regarding the Acquisition that Fortis currently believes are reasonable. Fortis makes no assurances that its current assumptions will prove to be accurate over time. Accordingly, the historical and pro forma financial information included in this Prospectus does not necessarily represent the Corporation's results of operations and financial condition had Fortis and UNS Energy operated as a combined entity during the periods presented, or of the Corporation's results of operations and financial condition in the future. The Corporation's potential for future business success and operating profitability must be considered in light of the risks, uncertainties, expenses and difficulties typically encountered by recently combined companies.

In preparing the pro forma financial information contained in this Prospectus, Fortis has given effect to, among other items, the Offering, the Acquisition Credit Facilities, the completion of the Acquisition and the assumption of UNS Energy's outstanding indebtedness. Fortis has also assumed that the Debentures and the Private Placement Debentures will be converted into Common Shares on or immediately following the Final Instalment Date. While management believes that the estimates and assumptions underlying the pro forma financial information are reasonable, such assumptions and estimates may be materially different than the Corporation's actual experience following completion of the Acquisition. See also "Risk Factors — Risks Relating to the Acquisition". See the notes to the *pro forma* financial statements of Fortis incorporated in this Prospectus.

Potential undisclosed liabilities associated with the Acquisition

In connection with the Acquisition, there may be liabilities of UNS Energy and its subsidiaries that the Corporation failed to discover or was unable to quantify in the due diligence which it conducted prior to the execution of the Acquisition Agreement and the Corporation may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities of UNS Energy and its subsidiaries could have a material adverse effect on the Corporation's business, financial condition or future prospects.

Fortis may not be successful in retaining the services of certain key personnel of UNS Energy following the Acquisition

Fortis currently intends to retain certain key personnel of UNS Energy following the completion of the Acquisition to continue to manage and operate UNS Energy as a separate operating company. Fortis will compete with other potential employers for employees, and it may not be successful in keeping the services of the executives and other employees that it needs to realize the anticipated benefits of the Acquisition. The Corporation's failure to retain key personnel to remain as part of the management team of UNS Energy in the period following the Acquisition could have a material adverse effect on the business and operations of UNS Energy and Fortis on a consolidated basis.

Fortis is subject to risks associated with its results of operations and financing risks

Management of Fortis believes, based on its current expectations as to the Corporation's future performance (which reflects, among other things, the completion of the Acquisition), that the cash flow from its operations and funds available to it under its Revolving Facility and its ability to access capital markets will be adequate to enable the Corporation to finance its operations, execute its business strategy and maintain an adequate level of liquidity. However, expected revenue and the costs of planned capital expenditures are only estimates. Moreover, actual cash flows from operations are dependent on regulatory, market and other conditions that are beyond the control of the Corporation. As such, no assurance can be given that management's expectations as to future performance will be realized. In addition, management's expectations as to the Corporation's future performance reflect the current state of its information about UNS Energy and its operations and there can be no assurance that such information is correct and complete in all material respects.

The Corporation's degree of leverage could have adverse consequences for Fortis, particularly if a significant portion of the Acquisition Credit Facilities are drawn to complete the Acquisition or if a significant portion of the Debentures are not converted into Common Shares by the holders thereof. The significant increase in the degree of the Corporation's leverage could, among other things, limit the Corporation's ability to obtain additional financing for working capital, investment in subsidiaries, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; restrict the Corporation's flexibility and discretion to operate its business; limit the Corporation's ability to declare dividends on its Common Shares; require Fortis to dedicate a portion of cash flows from operations to the payment of interest on its existing indebtedness, in which case such cash flows will not be available for other purposes; cause ratings agencies to re-evaluate or downgrade the Corporations' existing credit ratings; expose Fortis to increased interest expense on borrowings at variable rates; limit the Corporation's ability to adjust to changing market conditions; place Fortis at a competitive disadvantage compared to its competitors that have less debt; make Fortis vulnerable to any downturn in general economic conditions; and render Fortis unable to make expenditures that are important to its future growth strategies.

Within the next five years (from September 30, 2013), approximately $2 billion of the Corporation's consolidated indebtedness will become due. Assuming the completion of the Acquisition, within the next five years (from September 30, 2013), approximately $2.7 billion of the Corporation's consolidated indebtedness will become due. Therefore, the Corporation will need to refinance or reimburse amounts outstanding under the Corporation's existing consolidated indebtedness. There can be no assurance that any indebtedness of the Corporation will be refinanced or that additional financing on commercially reasonable terms will be obtained, if at all. In the event that such indebtedness cannot be refinanced, or if it can be refinanced on terms that are less favourable than the current terms, the ability of the Corporation to declare dividends may be adversely affected.

The ability of the Corporation to meet its debt service requirements will depend on its ability to generate cash in the future, which depends on many factors, including the financial performance of the Corporation, debt service obligations, the realization of the anticipated benefits of the Acquisition and working capital and future capital expenditure requirements. In addition, the ability of the Corporation to borrow funds in the future to make payments on outstanding debt will depend on the satisfaction of covenants in existing credit agreements and other agreements. A failure to comply with any covenants or obligations under the Corporation's consolidated indebtedness could result in a default under one or more such instruments, which, if not cured or waived, could result in the termination of distributions by the Corporation and permit acceleration of the relevant indebtedness. If such indebtedness were to be accelerated, there can be no assurance that the assets of the Corporation would be sufficient to repay such indebtedness in full. There can also be no assurance that the Corporation will generate cash flow in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

Jointly owned generating plants and generating plants operated by third parties

Certain of the generating stations from which TEP receives power are jointly owned with, or are operated by, third parties. TEP may not have the sole discretion or any ability to affect the management or operations at such facilities. As a result of this reliance on other operators, TEP may not be able to ensure the proper management of the operations and maintenance of the plants. Further, TEP may have no ability or a limited ability to make determinations on how best to manage the changing environmental regime which affects such facilities. In addition, TEP will not have sole discretion as to how to proceed in the face of requirements relating to environmental compliance which could require significant capital expenditures or the closure of such generating stations. A divergence in the interests of TEP and the co-owners or operators, as applicable, of such generating facilities could negatively impact the business and operations of TEP.

Pension and other employee benefit obligations of UNS Energy

UNS Energy's future benefit obligations to employees were estimated to be US$142 million (net of fair value of plan assets) as at September 30, 2013. Economic fluctuations could adversely impact the funding and expenses associated with these obligations and there can be no assurance that these pension and employee benefit obligations will not increase materially in the future, thereby negatively impacting UNS Energy's results of operations, net income and cash flows, and those of Fortis following the Acquisition.

National and local economic conditions can have a significant impact on the results of operations, net income and cash flows at UNS Energy and its subsidiaries

The business of UNS Energy and the UNS Utilities is concentrated in the State of Arizona. In recent years economic conditions in the State of Arizona have contributed significantly to a reduction in TEP's retail customer growth and lower energy usage by the company's residential, commercial and industrial customers. As a result of weak economic conditions, TEP's average retail customer base grew by less than 0.4% in each year from 2008 through 2012 compared with average increases of approximately 2% in each year from 2003 to 2007. In 2012, total retail kWh sales were 0.7% below 2011 levels. Similar impacts were felt at UNS Gas and UNS Electric. Annual average increases in the number of retail customers at both companies remained below 1% in 2008 through 2012 compared with average annual growth rates of 3% from 2003 to 2007. While it is expected that economic conditions in the State of Arizona will improve in the future, if they do not or if they should worsen, retail customer growth rates may stagnate or decline and customers' energy usage may further decline, adversely affecting UNS Energy's results of operations, net income and cash flows and those of Fortis following the Acquisition.

Stranded assets

The coal-fired San Juan, Four Corners and Navajo generating stations in which TEP is a participant may be required to be closed before the end of their useful life due to recent changes in environmental regulation. Future changes in environmental regulation relating to CO_2 emissions may also further negatively impact the ability of the coal-fired generating plants from which TEP receives power to operate on an economically viable basis or at all. If any of the coal-fired generation plants from which TEP obtains power are closed prior to the end of their useful life, TEP could incur a material write-down of its assets and incur added expenses relating to the maintenance, decommissioning and cancellation of long-term coal contracts of such generating plants. Closure of any of such generating stations may force TEP to find higher cost replacement sources for the power it obtains from such generating facilities. TEP may not be permitted or entitled to seek reimbursement for such incremental increases in costs in the rates it charges its customers. See "The Acquired Business — Environmental Regulation".

New technological developments and the implementation of new Electric EE Standards will continue to have a significant impact on retail sales, which could negatively impact UNS Energy's results of operations, net income and cash flows

Heightened awareness of energy costs and environmental concerns has increased demand for products intended to reduce consumers' use of electricity. TEP and UNS Electric also are promoting DSM programs designed to help customers reduce their energy use and these efforts will increase significantly under energy efficiency rules approved in 2010 by the ACC and effective commencing in 2012. Unless the ACC makes a specific provision for the recovery of usage-based revenues lost to these energy efficiency programs, the reduced retail sales that could result from the success of these efforts could negatively impact the results of operations, net income and cash flows of TEP and UNS Electric and those of Fortis following the Acquisition.

Developments in technology could reduce demand for electricity

Research and development activities are ongoing for new technologies that produce power or reduce power consumption. These technologies include renewable energy, customer-oriented generation, energy efficiency and more energy efficient appliances and equipment. Advances in these, or other technologies, could reduce the cost of producing electricity or make the existing generating facilities of UNS Energy less economical. In addition, advances in such technologies could reduce electrical demand, which could negatively impact the results of operations, net income and cash flows of TEP and UNS Electric and those of Fortis following the Acquisition.

The revenues, results of operations and cash flows of the UNS Utilities are seasonal and are subject to weather conditions and customer usage patterns

TEP typically earns the majority of its operating revenue and net income in the third quarter because retail customers increase their air conditioning usage during the summer. Conversely, TEP's first quarter net income is typically limited by relatively mild winter weather in its retail service territory. UNS Electric's earnings follow a similar pattern, while UNS Gas' sales peak in the winter during home heating season. Cool summers or warm winters may reduce customer usage at all three companies, adversely affecting operating revenues, cash flows and net income by reducing sales.

The UNS Utilities are subject to regulation by the ACC, which sets the companies' retail rates and oversees many aspects of their business in ways that could negatively affect the companies' results of operations, net income and cash flows

The ACC is a regulatory body governed by the Arizona state constitution and is composed of five elected commissioners. Commissioners are elected state-wide for staggered four-year terms and are limited to serving a total of two terms. As a result, the composition of the commission and therefore its policies, are subject to change every two years.

The ACC is charged with setting retail electric and gas rates that provide utility companies in Arizona with an opportunity to recover their costs of service and earn a reasonable rate of return. ACC rate orders also regulate average cost of capital and the capital structure of the UNS Utilities, among other things, which limits the discretion of management in respect of the manner in which it runs such businesses. The decisions of these elected officials on such matters impact the net income and cash flows of the UNS Utilities.

In May 2013, the ACC initiated and subsequently closed an inquiry to discuss the possibility of opening Arizona to retail electric competition. If the ACC ultimately decides to implement retail electric competition in Arizona, it could negatively impact the results of operations, net income and cash flows of TEP and UNS Electric. See "The Acquired Business — Regulation".

Changes in U.S. federal energy regulation may negatively affect the results of operations, net income and cash flows of the UNS Utilities

The UNS Utilities are subject to the impact of comprehensive and changing governmental regulation at the federal level in the United States that continues to change the structure of the electric and gas utility industries and the ways in which these industries are regulated. The UNS Utilities are subject to regulation by FERC. FERC has jurisdiction over rates for electric transmission in interstate commerce and rates for wholesale sales of electric power, including terms and prices of transmission services and sales of electricity at wholesale prices. Changes in regulations by FERC may negatively affect the results of operations, net income and cash flows of the UNS Utilities.

The UNS Utilities are subject to numerous environmental laws and regulations that may increase their cost of operations or expose them to environmentally-related litigation and liabilities. Many of these regulations could have a significant impact on TEP due to its reliance on coal as its primary fuel for electricity generation

Numerous federal, state and local environmental laws and regulations in the United States and the State of Arizona affect present and future operations of UNS Energy's regulated utility subsidiaries. Those laws and regulations include rules regarding air emissions, water use, wastewater discharges, solid waste, hazardous waste and management of coal combustion residuals.

These laws and regulations can contribute to higher capital, operating and other costs, particularly with regard to enforcement efforts focused on existing power plants and new compliance standards related to new and existing power plants. These laws and regulations generally require TEP and UNS Electric to obtain and comply with a wide variety of environmental licenses, permits, authorizations and other approvals. Both public officials and private individuals may seek to enforce applicable environmental laws and regulations against UNS Energy and its regulated utility subsidiaries. Failure to comply with applicable laws and regulations may result in litigation, the imposition of civil or criminal fines and penalties and a requirement for costly equipment upgrades by regulatory authorities against UNS Energy and its regulated utility subsidiaries.

Existing environmental laws and regulations may be revised or new environmental laws and regulations may be adopted or become applicable to the facilities and operations of the UNS Utilities. Increased compliance costs or additional operating restrictions from revised or additional regulation could have an adverse effect on the results of operations of the UNS Utilities, particularly if those costs are not fully recoverable from customers. TEP's obligation to comply with the EPA's BART determinations as a participant in the San Juan, Four Corners and Navajo electricity generating plants, coupled with the financial impact of future climate change legislation, other environmental regulations and other business considerations, could jeopardize the economic viability of these electricity generating plants or the ability of individual participants to meet their obligations and continue their participation in these electricity generating plants. TEP cannot predict the ultimate outcome of these matters.

TEP also is contractually obligated to pay a portion of the environmental reclamation costs incurred at generating stations in which it has a minority interest and is obligated to pay similar costs at the coal mines that supply these generating stations. While TEP has recorded the portion of its obligations for such reclamation costs that can be determined at this time, the total costs for final reclamation at these sites are unknown and could be substantial.

New federal regulations to limit greenhouse gas emissions could increase TEP's cost of operations and result in a change in the composition of TEP's coal-dominated generating fleet

Based on the finding by the EPA in December 2009 that emissions of greenhouse gases endanger public health and welfare, the agency is in the process of regulating greenhouse gas emissions. In addition, there are proposals and ongoing studies at the state, federal and international levels to address global climate change that could also result in the regulation of CO_2 and other greenhouse gases. Any future regulatory actions taken to address global climate change represent a business risk to the operations of UNS Energy. In 2012, 72% of TEP's total energy resources came from its coal-fueled generating facilities.

Reductions in CO_2 emissions to the levels specified by some proposals could be materially adverse to the financial position or results of operations of UNS Energy if associated costs of control or limitation cannot be recovered from customers. In June 2013, President Obama directed the EPA to move forward with carbon emission regulations for both new and existing fossil-fueled power plants. For existing power plants, the President ordered the EPA to propose carbon emission standards by June 1, 2014, to finalize those standards by June 1, 2015 and to require states to submit their implementation plans to meet the standards by June 30, 2016. Changes to existing environmental laws applicable to the generating assets of TEP and UNS Electric could negatively impact the ability of certain of the generating plants to operate on an economically viable basis or at all and could result in significant capital expenditures being required to bring such plants into compliance with any new legislation. There is a particular risk that any new rules proposed by the EPA will significantly impair the ability to operate certain of TEP's coal-fired generation plants on an economically viable basis or at all. If any of the coal-fired generation plants from which TEP obtains power were closed prior to the end of their useful lives, TEP would likely be forced to find replacement sources for the power it obtains from such generating facilities at increased cost and could incur a material write-down of its assets. The impact of legislation or regulation to address global climate change would depend on the specific terms of those measures and cannot be determined at this time.

Failure to meet renewable energy standards and gas energy efficiency standards

The ACC's renewable energy standards require TEP and UNS Electric to increase their use of renewable energy each year until it represents at least 15% of their total annual retail energy requirements in 2025. Further, in 2010, the ACC approved Gas EE Standards and Electric EE Standards which are designed to require TEP, UNS Gas and UNS Electric to implement cost-effective programs to reduce customers' energy consumption. There is a possibility that these renewable energy standards and gas efficiency standards will not be met which may result in regulatory sanctions and adverse financial consequences to TEP, UNS Gas or UNS Electric.

Volatility or disruptions in the financial markets may increase UNS Energy's financing costs, limit access to the credit markets and increase pension funding obligations, which may adversely affect UNS Energy's liquidity and ability to carry out its financial strategy

UNS Energy relies on access to the bank markets and capital markets as a significant source of liquidity and for capital requirements not satisfied by cash flow from operations. Market disruptions such as those experienced over the last four years in the United States and internationally may increase the cost of borrowing or adversely affect the ability of UNS Energy to access sources of liquidity needed to finance its operations and satisfy its obligations as they become due. These disruptions may include turmoil in the financial services industry, including substantial uncertainty surrounding particular lending institutions and counterparties UNS Energy does business with, unprecedented volatility in the markets where the outstanding securities of UNS Energy currently trade and general economic downturns in the UNS Energy regulated utility subsidiary service territories. If UNS Energy is unable to access credit at competitive rates, or if its borrowing costs dramatically increase, its ability to finance its operations, meet its short-term obligations and execute its financial strategy could be adversely affected.

Changing market conditions could negatively affect the market value of assets held in the pension and other retiree plans of UNS Energy and may increase the amount and accelerate the timing of required future funding contributions. See "— Pension and other employee benefit obligations of UNS Energy".

TEP, UNS Gas and UNS Electric are subject to wholesale credit risk

TEP, UNS Gas and UNS Electric are subject to credit risk related to their respective wholesale sales, purchases, procurement and hedging activities. This includes the risk of non-payment on power sales and delivery risk on power and gas purchases. All three companies have forward physical and financial contracts which may result in positive mark-to-market values which are subject to default risk. Significant levels of default or non-payment in connection with these activities would have an adverse impact on the financial condition of the UNS Utilities.

UNS Energy's net income and cash flows can be adversely affected by rising interest rates

As of February 13, 2013, TEP had US$215 million of tax-exempt variable rate debt obligations, US$50 million of which was hedged with a fixed-for-floating interest rate swap through September 2014. The variable interest rates are set weekly with maximum interest rates of 20% on US$178 million of debt obligations and 10% on the remaining US$37 million. The average weekly interest rate ranged from 0.06% to 0.26% in 2012.

UNS Energy, TEP, UNS Gas and UNS Electric also are subject to risk resulting from changes in the interest rate on their borrowings under revolving credit facilities. Revolving credit borrowings may be made on a spread over LIBOR or an Alternate Base Rate. Each of these agreements is a committed facility and expires in November 2016, subject to any rights of the lenders to terminate those facilities as a result of the Acquisition.

If capital market conditions result in rising interest rates, the resulting increase in the cost of variable rate borrowings would negatively impact UNS Energy's, TEP's, UNS Gas' and UNS Electric's results of operations, net income and cash flows.

TEP, UNS Gas and UNS Electric may be required to post margin under their power and fuel supply agreements, which could negatively impact their liquidity

TEP, UNS Gas and UNS Electric secure power and fuel supply resources to serve their respective retail customers. The agreements under which these regulated utilities contract for such resources include requirements to post credit enhancement in the form of cash or LOCs in certain circumstances, including changes in market prices of power and fuel supply which affect contract values, or a change in creditworthiness of the respective companies.

In order to post such credit enhancement, TEP, UNS Gas and UNS Electric would be required to use available cash, draw under their revolving credit agreements, or issue LOCs under their revolving credit agreements.

The maximum amount TEP may use under its revolving credit facility is US$200 million. As of September 30, 2013, TEP had US$199 million available to borrow under its revolving credit facility. The maximum amount UNS Gas or UNS Electric may borrow is US$70 million, so long as the combined amount drawn by both companies does not exceed US$100 million (the size of their combined borrowing capacity under the revolving credit facility). As of September 30, 2013, UNS Gas had US$70 million and UNS Electric had US$47 million, available to borrow under their revolving credit facility. From time to time, TEP, UNS Gas and UNS Electric use their respective revolving credit facilities to post collateral. If additional collateral is required, it may negatively impact TEP, UNS Gas and/or UNS Electric's ability to fund their capital requirements. As of September 30, 2013, TEP and UNS Electric each had posted less than US$1 million with counterparties in the form of cash or LOCs.

UNS Energy and its subsidiaries have debt which could adversely affect their business and results of operations

UNS Energy has no operations of its own and derives all of its revenues and cash flow from its subsidiaries. At December 31, 2012, the ratio of total debt (including capital lease obligations net of investments in lease debt) to total capitalization for UNS Energy and its subsidiaries was 63%. This debt level:

- requires UNS Energy and its subsidiaries to dedicate a substantial portion of their cash flow to pay principal and interest on their debt, which could reduce the funds available for working capital, capital expenditures and other general corporate purposes;
- could limit UNS Energy and its subsidiaries' ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of its business strategy or other purposes;
- could limit the ability of UNS Energy to pay dividends following the Acquisition; and
- could negatively impact the realization of the anticipated benefits of the Acquisition by Fortis.

The cost of purchasing TEP's leased assets and the cost of procuring alternate sources of generation or purchased power in 2015 could require significant outlays of cash in a short period of time, which could be difficult to finance

In August and October 2013, TEP exercised purchase options with respect to an additional aggregate 35.4% undivided interest in Springerville Unit 1 from the owner participants at an aggregate purchase price of approximately US$65.5 million, with the closing of the lease purchase options scheduled to occur in December 2014 and January 2015. In 2015, following the acquisition by TEP of the additional 35.4% interest in Springerville Unit 1 and the expiry of the Springerville Unit 1 Leases, the capacity received by TEP from this facility will be reduced to 49.5% of the continuous operating capability of Springerville Unit 1.

In August 2013, TEP entered into exclusive negotiations with Entegra to purchase Gila River, a natural gas-fired combined-cycle unit with a capacity rating of 550 MW. The purchase of Gila River, if completed, will replace foregone coal-fired leased capacity following expiry of the Springerville Unit 1 Leases.

The Springerville Coal Handling Facilities can be purchased in 2015 for a fixed price of US$120 million. TEP also leases a 50% undivided interest in the Springerville Common Facilities with primary lease terms ending in 2017 and 2021. Upon expiration of the Springerville Coal Handling Facilities Leases and Springerville Common Facilities Leases (whether at the end of the initial term or any renewal term), TEP has the obligation under agreements with the owners of Springerville Units 3 and 4 to purchase such facilities. Upon acquisition by TEP, the owner of Springerville Unit 3 has the option and the owner of Springerville Unit 4 has the obligation to purchase from TEP a 14% interest in the Common Facilities and a 17% interest in the Coal Handling Facilities.

The anticipated purchase by TEP of the additional 35.4% interest in Springerville Unit 1, Gila River and the Springerville Coal Handling Facilities in 2014 and 2015 will result in significant capital expenditures by TEP in a short period of time, which may be difficult to finance.

Regulatory rules and other restrictions could limit the ability of TEP, UNS Gas and UNS Electric to make distributions to UNS Energy

As a holding company, UNS Energy is dependent on the earnings and distributions of funds from its subsidiaries to service its debt. Several restrictions could preclude the ability of any of the UNS Utilities to transfer funds to UNS Energy, including the following:

- TEP, UNS Gas and UNS Electric are restricted from lending to affiliates or issuing securities without ACC approval;
- the Federal Power Act states that an electric utility's dividends shall not be paid out of funds properly included in capital accounts. Although TEP now has a positive balance of retained earnings as of September 30, 2013, TEP has historically had an accumulated deficit rather than positive retained earnings. UNS Energy currently believes that there is a reasonable basis for TEP to pay dividends from current year earnings even if it were to have an accumulated deficit. However, there can be no assurance that FERC would permit such dividend payments; and
- TEP, UNS Gas and UNS Electric must be in compliance with their respective debt agreements in order to make dividend payments to UNS Energy.

Restrictions of this nature could limit the ability of UNS Energy to pay dividends following the Acquisition and could negatively impact the realization of the anticipated benefits of the Acquisition by Fortis.

Unanticipated financing needs or reductions to net income could adversely impact the ability to comply with financial covenants in the UNS Energy, TEP and UNS Electric Credit Agreements

The UNS Energy, TEP and UNS Electric credit and reimbursement agreements include a maximum leverage ratio. The leverage ratios are calculated as the ratio of total indebtedness to total capital. The ability to comply with these covenants could be adversely impacted by unanticipated borrowing needs or unexpected charges to earnings or shareholder equity. In the event that UNS Energy, TEP or UNS Electric seek to renegotiate these provisions to provide additional flexibility, they may need to pay fees or increased interest rates on borrowings as a condition to any amendments or waivers.

The operation of electric generating stations involves risks that could result in unplanned outages or reduced generating capability that could adversely affect TEP's or UNS Electric's results of operations, net income, and cash flows

The operation of electric generating stations involves certain risks, including equipment breakdown or failure (due to wear and tear, latent defect, design error or operator error, among other things), interruption of fuel supply and lower than expected levels of efficiency or operational performance. Unplanned outages, including extensions of planned outages due to equipment failure or other complications, occur from time to time and are an inherent risk of the businesses of TEP and UNS Electric. There can be no assurance that the generation facilities of TEP or UNS Electric will continue to operate in accordance with expectations. If an unplanned outage or an equipment breakdown occurs, TEP or UNS Electric could be adversely affected. In addition, any applicable insurance coverage may not be adequate to protect the business of TEP and UNS Electric from material adverse effects as a result of such operational failures.

Operations may be adversely affected if water supply is materially reduced

Natural gas and coal-fired plants require continuous water flow for their operation. Shifts in weather or climate patterns, seasonable precipitation, the timing and rate of melting, run off, and other factors beyond the control of TEP and UNS Electric, may reduce the water flow to their generation facilities. Any material reduction in the water flow to such facilities would limit the ability of TEP and UNS Electric to produce and market electricity from such facilities and could have a material adverse effect on the business of each such company. Further, any change in regulations or the level of regulation respecting the use, treatment and discharge of water, or respecting the licensing of water rights in the jurisdictions where TEP and UNS Electric operate could result in a material adverse effect on the business of each such company.

Disruption of fuel supply could have an adverse impact on the financial condition of the UNS Utilities

The UNS Utilities depend on third parties to supply fuel, including natural gas and coal. As a result, there are risks of supply interruptions and fuel price volatility, as fuel deliveries may not exactly match those required for energy sales or use in electricity production, due in part to the need to pre-purchase fuel inventories for reliability and dispatch requirements. Disruption of transportation services for fuel, whether because of weather-related problems, strikes, lock-outs, break-downs of locks and dams, pipeline failures or other events could impair the ability to deliver electricity or gas or generate electricity and could adversely affect operations. Further, the loss of coal suppliers or the inability to renew existing coal and natural gas contracts at favorable terms could significantly affect the ability to serve customers and have an adverse impact on the financial condition and results of operations of the UNS Utilities.

The facilities and operations of UNS Energy could be affected by natural disasters or other catastrophic events.

UNS Energy's facilities and operations are exposed to potential damage and partial or complete loss resulting from environmental disasters (e.g. floods, high winds, fires and earthquakes), equipment failures, vandalism, potentially catastrophic events such as a major accident or incident at one of the sites, and other events beyond the control of UNS Energy. The operation of transmission and distribution systems involves certain risks, including gas leaks, fires, explosions, pipeline ruptures and other hazards and risks that may cause unforeseen interruptions, personal injury or property damage. Any such incident could have an adverse effect on UNS Energy. In certain cases, there is potential that some events may not excuse UNS Energy and its utility subsidiaries from performing obligations pursuant to agreements with third parties.

TEP could be subject to higher costs and the possibility of significant penalties as a result of mandatory transmission standards

As a result of the Energy Policy Act of 2005, owners and operators of bulk power transmission systems, including TEP, are subject to mandatory transmission standards developed and enforced by NERC and subject to the oversight of FERC. Compliance with modified or new transmission standards may subject TEP to higher operating costs and increased capital costs. Failure to comply with the mandatory transmission standards could subject TEP to sanctions, including substantial monetary penalties.

UNS Energy may be subject to cyber-attacks and information security risks

As operators of critical energy infrastructure, UNS Energy and its regulated utility subsidiaries may face a heightened risk of cyber-attack and their corporate and information technology systems may be vulnerable to disability or failures as a result of unauthorized access due to hacking, viruses, acts of war or terrorism and other causes. In addition, the utility business requires access to sensitive customer data, including personal and credit information, in the ordinary course of business. If, despite the security measures of UNS Energy and its regulated utility subsidiaries, a significant or widely publicized breach occurred, UNS Energy and its regulated utility subsidiaries could have their operations disrupted, property damaged and customer information stolen, experience substantial loss of revenues, response costs and other financial loss; and be subject to increased regulation, litigation and damage to their reputation, any of which could have a negative impact on the business and results of operations of UNS Energy and its regulated utility subsidiaries.

TEP or UNS Electric might not be able to secure adequate rights-of-way to construct transmission lines and distribution related facilities and could be required to find alternate ways to provide adequate sources of energy and maintain reliable service for their customers

TEP and UNS Electric rely on federal, state and local governmental agencies and the Navajo Nation to secure right-of-way and siting permits to construct transmission lines and distribution-related facilities. If adequate right-of-way and siting permits to build new transmission lines cannot be secured:

- TEP and UNS Electric may need to rely on more costly alternatives to provide energy to their customers;
- TEP and UNS Electric may not be able to maintain reliability in their service areas; or
- TEP and UNS Electric's ability to provide electric service to new customers may be negatively impacted.

TEP and UNS Electric rely on transmission lines they do not own or control, which may hinder their ability to produce, sell and deliver electricity

TEP and UNS Electric depend on transmission and distribution facilities that are owned and operated by other utilities and power companies to deliver some of the electricity that they generate. An extended disruption in transmission, a failure in any such transmission system or a lack of available transmission and distribution facilities could impact the ability of TEP and UNS Electric to produce, sell and deliver electricity, which could result in a material adverse effect to the respective businesses of such companies.

Labour Relations

The organized employees of the UNS Energy utility subsidiaries are members of labour unions which have entered into collective bargaining agreements with their respective employer. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by the UNS Energy utility subsidiaries. The UNS Energy utility subsidiaries consider their relationships with their respective labour unions to be satisfactory, but 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. Collective bargaining agreements covering certain employees of TEP and UNS Electric have expired. 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 for the UNS Energy utility subsidiaries, which could have an adverse effect on the results of operations, cash flow and net income of such companies and on UNS Energy.

Underinsured and Uninsured Losses

UNS Energy and its utility subsidiaries maintain at all times insurance coverage in respect of potential liabilities and the accidental loss of value of certain of their assets from risks, in amounts 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, not all risks are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on economically feasible terms or that the amounts of insurance will be sufficient to cover losses or claims that may occur involving the assets or operations of UNS Energy or any of its utility subsidiaries.

Risk Factors Relating to the Instalment Receipts

Balance of Instalment Receipt purchase price remains outstanding and the failure of a holder of instalment receipts to pay the balance of the purchase price on or before the Final Instalment Date will have adverse consequences for the holder

Each Instalment Receipt purchased in the Offering represents an obligation of the holder of such security to pay $667 per $1,000 principal amount of Debentures on or before the Final Instalment Date. If the final instalment of the purchase price is not paid when due, the Defaulting Holder will no longer be able to pay the final instalment without the consent of the Selling Debentureholder. In addition, the Defaulting Holder will no longer be able to exercise the rights described under "Details of the Offering — Instalment Receipts — Rights and Privileges" and will cease to be entitled to any principal and the Make-Whole Payment (if applicable) in respect of the Debenture represented by such Instalment Receipt. In addition, if the holder of an Instalment Receipt does not pay the final instalment when due, the Debentures evidenced by such Instalment Receipt may, at the Selling Debentureholder's option, upon compliance with applicable law and the terms of the Instalment Receipt Agreement, be forfeited to the Selling Debentureholder in full satisfaction of the Defaulting Holder's obligations or such Debentures may be sold and the Defaulting Holder will remain liable for any deficiency in the proceeds of such sale. The Selling Debentureholder will have the right to and may commence legal action against Defaulting Holders who do not pay the final instalment on or before the Final Instalment Date. The commencement of any such litigation by the Selling Debentureholder may negatively affect the Corporation and the Selling Debentureholder, and could have an adverse effect on the price of the Debentures and the Common Shares.

There is currently no market through which the Instalment Receipts may be sold

There is currently no market through which the Instalment Receipts may be sold and purchasers of Debentures may not be able to resell Instalment Receipts. There can be no assurance that an active trading market will develop for the Instalment Receipts after the Offering or, if developed, that such a market will be sustained. This may affect the pricing of the Instalment Receipts in the secondary market, the transparency and availability of trading prices, the liquidity of Instalment Receipts, and the extent of issuer regulation. If an active market for the Instalment Receipts fails to develop or be sustained, the prices at which the Instalment Receipts trade may be adversely affected. Whether or not the Instalment Receipts will trade at lower prices depends on many factors, including liquidity of the Instalment Receipts, prevailing interest rates and the market for similar securities, the market price of debt securities with maturities comparable to the Debentures, the market price of the Common Shares, general economic conditions and Fortis' financial condition, historic financial performance and future prospects.

Fortis has applied to list the Instalment Receipts (representing the Debentures and the Private Placement Debentures) and the Common Shares issuable on the conversion of the Debentures and the Private Placement Debentures on the TSX. Listing will be subject to the Corporation fulfilling all of the requirements of the TSX and there is no assurance that the TSX will approve such listing application. The Corporation has no current intention to list the Debentures or the Private Placement Debentures for trading on the TSX or any other exchange as it currently anticipates all Debentures and the Private Placement Debentures will be converted to Common Shares on the Final Instalment Date.

Fluctuations in trading price

An Instalment Receipt entitles the holder to unencumbered ownership of a Debenture upon payment of the final instalment on or before the Final Instalment Date. Interest rate movements will cause the value of debt instruments with a maturity comparable to the Debentures to fluctuate, and this will be reflected in the market price of the Instalment Receipts. The price volatility of the Instalment Receipts will be greater than the price volatility of debt instruments of a maturity comparable to the Debentures. This is due to the fact that the payment for the Instalment Receipts represents only 33.3% of the total principal amount payable for the underlying Debenture.

Further, the market price of the Common Shares underlying the Debentures may be volatile. This volatility may affect the ability of holders of Instalment Receipts to sell the Instalment Receipts at an advantageous price, particularly if the market price for Common Shares falls below the Conversion Price of Debentures represented by Instalment Receipts. In addition, it may result in greater volatility in the market price of the Instalment Receipts than would be expected for other debt securities or for non-convertible or non-exchangeable securities. Market price fluctuations in the Common Shares may be due to, among other things, the operating results of the Corporation failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, market perception of the likelihood of the completion of the Acquisition, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by Fortis, or by Fortis' competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the prices of the Instalment Receipts and the Common Shares.

Rights of holders of Instalment Receipts may change

Purchasers of Debentures will, prior to payment of the final instalment, be holders of Instalment Receipts and will be bound by the terms and conditions of the Instalment Receipt Agreement. The Instalment Receipt Agreement will provide that, pending payment of the final instalment, legal title to the Debentures offered hereby will be held by the Custodian on behalf of the Selling Debentureholder pursuant to the pledge to secure the payment of the final instalment. The terms and conditions of the Instalment Receipt Agreement may be amended in certain circumstances, including with the approval of holders of Instalment Receipts representing two-thirds of the principal amount of the Debentures represented thereby. The description of the Instalment Receipt Agreement contained in this Prospectus is qualified in its entirety by the provisions of such agreement, which should be reviewed by holders of Instalment Receipts. The Instalment Receipt Agreement will be filed by Fortis on SEDAR on the Closing Date.

Use of proceeds

There is no restriction on the ability of the Selling Debentureholder to use the proceeds of the Offering following closing of the Offering, both before and after the payment of the final instalment. Any such proceeds may be used by the Selling Debentureholder prior to the completion of the Acquisition for purposes unrelated to the Acquisition. Fortis currently expects that the aggregate amount of the final instalment will ultimately be used to repay amounts drawn under the Acquisition Credit Facilities and for other Acquisition-Related Expenses. See "Use of Proceeds".

Right to receive unencumbered Debentures may terminate

The Corporation has the obligation to redeem the Debentures at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the Approval Conditions will not be satisfied; (ii) termination of the Acquisition Agreement; and (iii) July 2, 2015 if the Final Instalment Notice has not been given on or before June 30, 2015. See "Details of the Offering — Debentures — Redemption". Accordingly, it is possible that Instalment Receipts will be outstanding for a very limited period of time. Upon such redemption, a holder will no longer be entitled to pay the final instalment or to receive any unencumbered Debentures and will only be entitled to receive a net payment equal to the redemption price less the amount of the final instalment otherwise payable by such holder to the Selling Debentureholder plus accrued and unpaid interest thereon. Until the Approval Conditions are satisfied and the Debentures are delivered to holders of Instalment Receipts pursuant to the Instalment Receipt Agreement, such holders have the rights described under "Details of the Offering — Instalment Receipts".

While the right of holders of Instalment Receipts to receive unencumbered Debentures may terminate as a result of a redemption by the Corporation of the Debentures as described herein, the Acquisition could potentially still be completed by the Corporation. If the Acquisition is completed following the redemption of the Debentures, holders of Instalment Receipts will not receive any of the benefits which may accrue to shareholders of the Corporation following completion of the Acquisition.

Acquisition may be completed on other terms

Both before and after payment of the final instalment, the Corporation may, in its sole discretion, amend the Acquisition Agreement and consummate the Acquisition on terms that may be substantially different from those contemplated in this Prospectus. Any such change will not affect the obligation of the holder of an Instalment Receipt to pay the final instalment on or before the Final Instalment Date. See "The Acquisition Agreement" and "Risk Factors — Risks Relating to the Acquisition — Failure to complete the Acquisition".

Risk Factors Relating to the Debentures

There is currently no market through which the Debentures may be sold

There is currently no market through which the Debentures may be sold and purchasers of Debentures may not be able to resell Debentures purchased under this Prospectus. The Corporation has not applied to list the Debentures for trading on the TSX, but has applied to list the Common Shares into which the Debentures may be converted. Accordingly, an investor who does not exercise the conversion privilege in respect of fully paid Debentures will be holding what Fortis expects will be highly illiquid securities. There can be no assurance that an active trading market will develop for the Debentures after payment of the final instalment or, if developed, that such a market will be sustained. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of Debentures, and the extent of issuer regulation. If an active market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including, among others, liquidity of the Debentures, prevailing interest rates and the market for similar securities, the market price of the Common Shares, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects.

Fluctuations in trading price

After the Final Instalment Date, Debentures will stop accruing interest. Accordingly, their value will be a function of the value of the underlying Common Share into which the Debenture is convertible. The market price of the Common Shares underlying the Debentures may be volatile. This volatility may affect the ability of holders of Debentures to sell the Debentures at an advantageous price. In addition, it may result in greater volatility in the market price of the Debentures than would be expected for other debt securities or non-convertible securities. Market price fluctuations in the Common Shares may be due to the operating results of the Corporation failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, market perception of the likelihood of the completion of the Acquisition, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by Fortis, or by Fortis' competitors, along with a variety of additional factors.

Existing and Prior Ranking Indebtedness

On the Closing Date the Corporation expects to have consolidated indebtedness of approximately $8.4 billion (including the Debentures). After giving effect to the Acquisition, assuming receipt of the aggregate total amount of the final instalment for each of the Debentures and the Private Placement Debentures and the use of such amounts to repay a portion of the Acquisition Credit Facilities, conversion of all Debentures and Private Placement Debentures into Common Shares and the assumption of UNS Energy's outstanding indebtedness, management estimates that the consolidated indebtedness of the Corporation will be $10.3 billion. See "Financing of the Acquisition" and "Capitalization".

The Debentures will be subordinate to all Senior Indebtedness of the Corporation. See "Details of the Offering — Debentures — Subordination". Therefore, in the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the Corporation, the assets of the Corporation would be made available to satisfy its obligations with respect to the Debentures only after it has paid all of its secured creditors and all holders of senior indebtedness. Accordingly, all or a substantial portion of the Corporation's assets could be unavailable to satisfy the claims of holders of the Debentures. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Absence of Covenant Protection

The Indenture does not restrict the Corporation or any of its subsidiaries from incurring additional indebtedness for borrowed money or otherwise from mortgaging, pledging or charging their properties to secure any indebtedness or other financing. The Indenture does not contain any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Corporation or any of its subsidiaries.

Rights of holders of Debentures may change

Holders of Debentures will be bound by the terms and conditions of the Indenture. The terms and conditions of the Indenture may be amended in certain circumstances, including with the approval of two-thirds of holders of outstanding Debentures. The description of the Indenture contained in this Prospectus is qualified in its entirety by the provisions of the Indenture, which should be reviewed by holders of Instalment Receipts and Debentures. The Indenture will be filed by Fortis on SEDAR on the Closing Date.

Redemption Prior to Maturity

The Debentures may be redeemed, at the option of the Corporation and without the consent of holders of Debentures, subject to certain conditions, after the Final Instalment Date and prior to the Maturity Date at a redemption price equal to the principal amount thereof, plus any unpaid interest which accrued prior to the Final Instalment Date, as described under "Details of the Offering — Debentures — Redemption".

The right of holders of Debentures to receive Common Shares will terminate as a result of a redemption by the Corporation of the Debentures as described herein. If a holder of Debentures has its Debentures redeemed by the Corporation following completion of the Acquisition, but prior to conversion by the holder of such Debentures into Common Shares, such holder will not receive any of the benefits which may accrue to shareholders of the Corporation following completion of the Acquisition. In addition, the redemption price of the Debentures may be worth less than the consideration obtained on a conversion of those Debentures by the holder thereof.

Conversion of Debentures following satisfaction of the Approval Conditions

Subject to satisfaction by the Corporation of the Approval Conditions and payment of the final instalment by the holder of an Instalment Receipt on or prior to the Final Instalment Date, such holder may convert its Debentures after the Final Instalment Date but prior to the earlier of the date of redemption or the Maturity Date. The Conversion Price will be $30.72 per Common Share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Debentures, subject to adjustment in certain circumstances. See "Details of the Offering — Debentures — Conversion Right". If the market price of the Common Shares is less than the Conversion Price, the trading price of the Debentures will be negatively impacted. If the market price of the Common Shares is less than the Conversion Price on the date of conversion by a holder, such holder will receive fewer Common Shares on conversion of its Debentures than they would be able to purchase with funds equal to the principal amount of its Debentures.

Interest on Debentures will cease to be payable prior to the Maturity Date

After giving the Final Instalment Notice, Fortis has the right, but not the obligation, to redeem any outstanding and unconverted Debentures at any time on or after the Final Instalment Date and prior to the Maturity Date, but may choose not to redeem such Debentures. Any unconverted Debentures outstanding on or after the day following the Final Instalment Date will cease to accrue interest. A holder who has not exercised its conversion privilege by such date will be holding a convertible debt security which no longer earns interest.

Credit risk

The likelihood that holders of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of the Corporation and its creditworthiness. Although Fortis currently has an investment grade credit rating, there is no assurance the Corporation will have sufficient capital to repay the Debentures in cash on redemption or at the Maturity Date or that it will be able to raise sufficient capital on acceptable terms by the applicable redemption date or the Maturity Date to repay the outstanding Debentures. While Fortis has covenanted to maintain availability under its Revolving Facility of not less than $600,000,000, which is equal to one-third of the principal amount of the Debentures until the Final Instalment Date, there can be no certainty that the Revolving Facility will continue to be available at the time of redemption. The risk of default in any payment obligation by Fortis may increase to the extent that there is a significant decline in the price of the Common Shares.

No security or guarantees

The Debentures are unsecured obligations of the Corporation and are not secured by any of its assets or assets of any current or future subsidiaries of the Corporation.

Prevailing yields on similar securities

The prevailing yield on debt securities with comparable maturities will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. The market value of the Debentures may also decline after the Debentures cease to accrue interest depending on the value of the underlying Common Shares.

Dilutive effects on shareholders

The issuance of Common Shares on conversion of the Debentures and the Private Placement Debentures may have a dilutive effect on shareholders of Fortis and an adverse impact on the price of the Common Shares, which may also adversely impact the price of the Debentures. Potential future offerings by Fortis of Common Shares or securities convertible into or exchangeable for Common Shares would dilute purchasers acquiring securities under this Prospectus.

Investment eligibility

The Corporation will endeavour to ensure that the Debentures represented by Instalment Receipts and the Common Shares continue to be qualified investments for Exempt Plans under the Tax Act, although there is no assurance that the conditions prescribed for such qualified investments will be adhered to at any particular time. The Tax Act imposes penalties for the acquisition or holding of non-qualified or prohibited investments.

Income tax matters

The income of the Corporation and its subsidiaries must be computed and is taxed in accordance with Canadian and other applicable tax laws, all of which may be changed in a manner that could adversely affect the amount of cash distributions. There can be no assurance that taxation authorities will accept the tax positions adopted by the Corporation or its subsidiaries, including their determinations of the amounts of income and capital taxes and the reasonableness of inter-company transfer prices, including interest charges, which could materially adversely affect cash positions of the Corporation or its subsidiaries, and holders of Debentures and the Common Shares.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

The auditors of UNS Energy and TEP are PricewaterhouseCoopers LLP, in Phoenix, Arizona. PricewaterhouseCoopers LLP is an independent registered public accounting firm that audited the financial statements of UNS Energy and TEP included in this Prospectus.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation and the Selling Debentureholder by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Instalment Receipts, the Debentures represented thereby and the Common Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

Mr. Frank Crothers, one of the Corporation's directors, resides outside of Canada and has appointed Fortis Inc., Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 as agent for service of process. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person that resides outside of Canada, even if such person has appointed an agent for service of process.

GLOSSARY OF TERMS

In this Prospectus, unless the context otherwise requires, the following terms have the meanings set forth below.

"**1933 Act**" means the United States *Securities Act of 1933*, as amended.

"**2013 TEP Rate Order**" has the meaning ascribed thereto under the heading "The Acquired Business — Rates — TEP".

"**ACC**" means the Arizona Corporation Commission.

"**Acquisition**" means the acquisition by an indirect wholly owned subsidiary of Fortis of all of the issued and outstanding shares of UNS Energy pursuant to the terms of the Acquisition Agreement.

"**Acquisition Agreement**" has the meaning ascribed thereto on the cover page.

"**Acquisition Credit Agreement**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Acquisition Credit Facilities".

"**Acquisition Credit Facilities**" has the meaning ascribed thereto under the heading "Prospectus Summary — Financing the Acquisition — Acquisition Credit Facilities".

"**Acquisition-Related Expenses**" means the estimated non-recurring costs, including related income tax effects and any governmental and other imposed costs, that may be incurred to consummate the Acquisition. Such costs, which will be fully expensed when incurred in accordance with US GAAP, include but are not limited to fees associated with financial advisory, consulting, accounting, tax, legal and other professional services, bridge facility commitment fees, costs associated with change of control and integration, out-of-pocket costs and other costs of a non-recurring nature.

"**Agency Agreement**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Concurrent Private Placement".

"**AIF**" means the Annual Information Form of Fortis dated March 22, 2013 for the year ended December 31, 2012.

"**Algoma Power**" means Algoma Power Inc.

"**Annual MD&A**" means the Management Discussion and Analysis of financial condition and results of operations of Fortis for the year ended December 31, 2012 as contained in the Corporation's 2012 Annual Report.

"**Approval Conditions**" has the meaning ascribed thereto under the heading "Details of the Offering".

"**APS**" means the Arizona Public Service.

"**AUC**" has the meaning ascribed thereto under the heading "Recent Developments — FortisAlberta Capital Tracker Application".

"**Bank Indebtedness**" has the meaning ascribed thereto under the heading "Relationship Between Fortis, The Selling Debentureholder and Certain Underwriters".

"**BART**" has the meaning ascribed thereto under the heading "The Acquired Business — Environment Regulation — Regional Haze Rules".

"**BC Hydro**" means British Columbia Hydro and Power Authority.

"**BCUC**" means British Columbia Utilities Commission.

"**BECOL**" means Belize Electric Company Limited.

"**Belize Electricity**" means Belize Electricity Limited.

"**BMGS**" means the Black Mountain Generating Station.

"**BMO**" means BMO Nesbitt Burns Inc.

"**Board of Directors**" means the board of directors of Fortis.

"**Book-Entry Only System**" has the meaning ascribed thereto under the heading "Details of the Offering — Instalment Receipts — Book-Entry Only System".

"**CAGR**" means compound annual growth rate.

"**Capital Tracker Application**" has the meaning ascribed thereto under the heading "Recent Developments — FortisAlberta Capital Tracker Application".

"**Caribbean Utilities**" means Caribbean Utilities Company, Ltd.

"**Cash Purchase Price**" has the meaning ascribed thereto under the heading "The Acquisition Agreement — Purchase Price".

"**CC&N**" means a Certificate of Convenience and Necessity.

"**CCRs**" has the meaning ascribed thereto under the heading "The Acquired Business — Environmental Regulation — Coal Combustion Residuals".

"**CDS Participant**" means a participant in the CDS depository service.

"**CDS**" means CDS Clearing and Depository Services Inc.

"**Central Hudson**" means Central Hudson Gas & Electric Corporation.

"**CFIUS**" means the Committee on Foreign Investment in the United States.

"**CH Energy Acquisition**" has the meaning ascribed thereto under the heading "Recent Developments — Acquisition of CH Energy Group".

"**CH Energy Group**" means CH Energy Group, Inc.

"**CIBC**" means CIBC World Markets Inc.

"**Circuit Court**" means the Tenth Circuit United States Court of Appeals.

"**Closing Date**" has the meaning ascribed thereto on the cover page.

"**CNPI**" means Canadian Niagara Power Inc.

"**Common Shares**" means the common shares of Fortis.

"**Company Material Adverse Effect**" has the meaning ascribed thereto under the heading "The Acquisition Agreement — Closing Conditions".

"**Concurrent Private Placement**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Concurrent Private Placement".

"**Conversion Price**" has the meaning ascribed thereto on the cover page.

"**Cornwall Electric**" means Cornwall Street Railway, Light and Power Company, Limited.

"**Corporation**" means Fortis Inc.

"**Counsel**" has the meaning ascribed thereto under the heading "Canadian Federal Income Tax Considerations".

"**CPC/CBT**" means Columbia Power Corporation and Columbia Basin Trust.

"**CSPP**" means the Consumer Share Purchase Plan of Fortis.

"**Custodian**" has the meaning ascribed thereto under the heading "Details of the Offering — Instalment Receipts".

"**DBRS**" means DBRS Limited.

"**Debentures**" means 4.00% convertible unsecured subordinated debentures of Fortis offered pursuant to this Prospectus.

"**Defaulting Holder**" has the meaning ascribed thereto under the heading "Details of the Offering — Instalment Receipts".

"**Desjardins Securities**" means Desjardins Securities Inc.

"**DPSP**" has the meaning ascribed thereto under the heading "Eligibility for Investment".

"**DRIP**" means the Dividend Reinvestment Plan of Fortis.

"**DSM**" means demand side management.

"**ECA**" means an Environmental Compliance Adjustor.

"**Electric EE Standards**" has the meaning ascribed thereto under the heading "The Acquired Business — Regulation — Electric Energy Efficiency Standards and Decoupling".

"**Entegra**" means Entegra Power Group LLC.

"**EPA**" means the United States Environmental Protection Agency.

"**EPNG**" means the El Paso Natural Gas Company.

"**ESP**" means energy service provider.

"**ESPP**" means the Employee Share Purchase Plan of Fortis.

"**Exempt Plans**" has the meaning ascribed thereto under the heading "Eligibility for Investment".

"**FEI**" means FortisBC Energy Inc.

"**FERC**" means the United States Federal Energy Regulatory Commission.

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

"**FEWI**" means FortisBC Energy (Whistler) Inc.

"**Final Instalment Date**" has the meaning ascribed thereto under the heading "Details of the Offering".

"**Final Instalment Notice**" has the meaning ascribed thereto under the heading "Details of the Offering".

"**FIP**" has the meaning ascribed thereto under the heading "The Acquired Business — Environmental Regulation — Regional Haze Rules — San Juan".

"**First Preference Shares, Series E**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series F**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series G**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series H**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series J**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series K**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**Fortis**" means Fortis Inc.

"**FortisAlberta**" means FortisAlberta Inc.

"**FortisBC Holdings**" means FortisBC Holdings Inc.

"**FortisBC**" means FortisBC Inc.

"**FortisOntario**" means FortisOntario Inc.

"**FortisUS Energy**" means FortisUS Energy Corporation.

"Fortis Properties" means Fortis Properties Corporation.

"**Fortis Turks and Caicos**" means, collectively, FortisTCI Limited and its subsidiary Turks and Caicos Utilities Limited.

"**Four Corners**" means the Four Corners Generating Station.

"**FVRB**" means the Fair Value Rate Base.

"**Gas EE Standards**" has the meaning ascribed thereto under the heading "The Acquired Business — Regulation — Gas Energy Efficiency Standards and Decoupling".

"**GHG**" has the meaning ascribed thereto under the heading "The Acquired Business — Environmental Regulation — Climate Change".

“**Gila River**” has the meaning ascribed thereto under the heading “The Acquired Business — TEP — Future Generating Resources”.

“**GOB**” means the Government of Belize.

“**Griffith Energy Services**” means Griffith Energy Services, Inc.

“**GWh**” means gigawatt hours.

“**Holder**” has the meaning ascribed thereto under the heading “Canadian Federal Income Tax Considerations”.

“**IBEW**” means the International Brotherhood of Electrical Workers.

“**IFRS**” means International Financial Reporting Standards.

“**Indenture**” has the meaning ascribed thereto under the heading “Details of the Offering — Debentures”.

“**Instalment Receipt Agreement**” has the meaning ascribed thereto under the heading “Details of the Offering — Instalment Receipts”.

“**Instalment Receipts**” has the meaning ascribed thereto on the cover page.

“**kWh**” means kilowatt hour.

“**LFCR**” means the Lost Fixed Cost Recovery.

“**LIBOR**” has the meaning ascribed thereto under the heading “The Acquired Business — Outstanding Indebtedness — Credit Facilities”.

“LNG” means liquefied natural gas.

“LOCs” means letters of credit.

“**Luna**” means the Luna Generating Station.

“**Make-Whole Payment**” has the meaning ascribed thereto on the cover page.

“**Management Information Circular**” means the Management Information Circular of Fortis dated March 21, 2013 prepared in connection with the Corporation’s annual meeting of shareholders held on May 9, 2013.

“**Maritime Electric**” means Maritime Electric Company, Limited.

“Market Price” means the weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days preceding the Maturity Date.

“**MATS**” means the EPA’s Mercury and Air Toxics Standards.

“**Maturity Date**” means January 9, 2024.

“**Medium-Term Bridge Facility**” has the meaning ascribed thereto under the heading “Prospectus Summary — Financing the Acquisition — Acquisition Credit Facilities”.

“**Millennium**” means Millennium Energy Holdings, Inc.

“**Moody’s**” means Moody’s Investor Services.

“**MW**” means megawatts.

“**Navajo**” means the Navajo Generating Station.

“**NB Financial**” means National Bank Financial Inc.

“**NERC**” means the North American Electric Reliability Corporation.

“**Newfoundland Hydro**” means Newfoundland and Labrador Hydro Corporation.

“**Newfoundland Power**” means Newfoundland Power Inc.

“**NO_X**” means nitrogen oxide.

"**NTUA**" means the Navajo Tribal Utility Authority.

"**NYSE**" means the New York Stock Exchange.

"**O&M**" has the meaning ascribed under the heading "The Acquired Business — Environmental Regulation — Clean Air Act Requirements".

"**OCRB**" means the Original Cost Rate Base.

"**Offering**" the offering of Debentures pursuant to this Prospectus.

"**Offering Price**" means $1,000 per Debenture.

"**Operating Earnings**" means net earnings before corporate and other segment net expenses.

"**Over-Allotment Option**" has the meaning ascribed thereto on the cover page.

"**PBR**" means the performance-based rate.

"PGA" means Purchased Gas Adjustor.

"**PNM**" means the Public Service Company of New Mexico.

"**PPAs**" means power purchase agreements.

"**Private Placement Debentures**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Concurrent Private Placement".

"**Private Placement Subscriber**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Concurrent Private Placement".

"**Proposed Amendments**" has the meaning ascribed thereto under the heading "Canadian Federal Income Tax Considerations".

"**Prospectus**" means this short form prospectus.

"**Purchaser**" has the meaning ascribed thereto under the heading "The Acquisition Agreement — Representations and Warranties".

"**PV**" means photovoltaic solar generating capacity.

"**RBC**" means RBC Dominion Securities Inc.

"**Regulations**" means the regulations under the Tax Act.

"**Regulation S**" has the meaning ascribed thereto under the heading "Plan of Distribution".

"**RES**" means the ACC's Renewable Energy Standard.

"**Revolving Facility**" has the meaning ascribed thereto under the heading "Prospectus Summary — Financing the Acquisition — Acquisition Credit Facilities".

"**ROE**" means the return on common shareholders' equity.

"**RRIF**" has the meaning ascribed thereto under the heading "Eligibility for Investment".

"**RRSP**" has the meaning ascribed thereto under the heading "Eligibility for Investment".

"**Rules**" means the Retail Electric Competition Rules.

"**San Carlos**" means San Carlos Resources, Inc., a wholly owned subsidiary of TEP.

"**San Juan**" means the San Juan Generating Station.

"**Scotia Capital**" means Scotia Capital Inc.

"**SCR**" has the meaning ascribed thereto under the heading "The Acquired Business — Environment Regulation — Regional Haze Rules — Navajo".

"**Securities**" has the meaning ascribed thereto under the heading "Canadian Federal Income Tax Considerations".

“**SEDAR**” means the Canadian System for Electronic Document Analysis and Retrieval.

“**Selling Debentureholder**” means FortisUS Holdings Nova Scotia Limited.

“**Senior Indebtedness**” has the meaning ascribed thereto under the heading “Details of the Offering — Debentures — Subordination”.

“**SES**” means Southwest Energy Solutions, Inc., a wholly owned subsidiary of Millennium.

“**Short-Term Bridge Facility**” has the meaning ascribed thereto under the heading “Prospectus Summary — Financing the Acquisition — Acquisition Credit Facilities”.

“**SIP**” has the meaning ascribed thereto under the heading “The Acquired Business — Environmental Regulation — Regional Haze Rules — San Juan”.

“**SNCR**” has the meaning ascribed thereto under the heading “The Acquired Business — Environmental Regulation — Regional Haze Rules — San Juan”.

“**SO_2**” means sulfur dioxide.

“**Springerville**” means the Springerville Generating Station.

“**Springerville Coal Handling Facilities Leases**” has the meaning ascribed thereto under the heading “The Acquired Business — TEP — Generating and Other Resources — Springerville Generating Station”.

“**Springerville Common Facilities**” has the meaning ascribed thereto under the heading “The Acquired Business — TEP — Generating and Other Resources — Springerville Generating Station”.

“**Springerville Common Facilities Leases**” has the meaning ascribed thereto under the heading “The Acquired Business — TEP —

“**Springerville Unit 1 Leases**” has the meaning ascribed thereto under the heading “The Acquired Business — TEP — Generating and Other Resources — Springerville Generating Station”.

“**SRP**” means the Salt River Project Agriculture Improvement and Power District.

“**Subscription Agreement**” has the meaning ascribed thereto under the heading “Financing the Acquisition — Concurrent Private Placement”.

“**Sundt Station**” has the meaning ascribed thereto under the heading “The Acquired Business — TEP — Generating and Other Resources — Sundt Station and Sundt Internal Combustion Turbines”.

“**Superior Proposal**” has the meaning ascribed thereto under the heading “The Acquisition Agreement — Superior Proposal”.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder.

“**TDSI**” means TD Securities Inc.

“**TEP**” means Tucson Electric Power Company.

“TEP Credit Facility” has the meaning ascribed thereto under the heading “The Acquired Business — Outstanding Indebtedness — Credit Facilities”.

“**TEP LOC Facilities**” has the meaning ascribed thereto under the heading “The Acquired Business — Outstanding Indebtedness — Credit Facilities”.

“**TFSA**” has the meaning ascribed thereto under the heading “Eligibility for Investment”.

“**Tilbury LNG Facility**” has the meaning ascribed thereto under the heading “Recent Development — Tilbury LNG Facility Expansion”.

“**TJ**” means terajoules.

“**Transwestern**” means Transwestern Pipeline Company.

“**Tri-State**” means Tri-State Generation and Transmission Association, Inc.

“**Trustee**” has the meaning ascribed thereto under the heading “Details of the Offering — Debentures”.

“**TSX**” means the Toronto Stock Exchange.

“**Underwriters**” has the meaning ascribed thereto under the heading “Plan of Distribution”.

“**Underwriting Agreement**” has the meaning ascribed thereto under the heading “Plan of Distribution”.

“**UNS Electric**” means UNS Electric Inc.

“**UNS Electric Term Loan**” has the meaning ascribed thereto under the heading “The Acquired Business — Outstanding Indebtedness — Credit Facilities”.

“**UNS Electric/UNS Gas Credit Facility**” has the meaning ascribed thereto under the heading “The Acquired Business — Outstanding Indebtedness — Credit Facilities”.

“**UNS Energy**” means UNS Energy Corporation.

“**UNS Energy Credit Facility**” has the meaning ascribed thereto under the heading “The Acquired Business — Outstanding Indebtedness — Credit Facilities”.

“**UniSource Energy Services**” means UniSource Energy Services, Inc.

“**UNS Energy Shareholder Approval**” has the meaning ascribed thereto under the heading “The Acquisition Agreement — Closing Conditions”.

“**UNS Gas**” means UNS Gas, Inc.

“**UNS Utilities**” means, collectively, TEP, UNS Electric and UNS Gas.

“**U.S. dollar**” has the meaning ascribed thereto under the heading “Currency”.

“**US GAAP**” means generally accepted and accounting principles in the United States.

“**Valencia**” means the Valencia Power Plant.

“**Waneta Expansion**” has the meaning ascribed thereto under the heading “Fortis — Non-Regulated — Fortis Generation — British Columbia”.

“**Waneta Partnership**” has the meaning ascribed thereto under the heading “Fortis”.

“**WAPA**” means Western Area Power Administration.

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(1) The Report of Independent Registered Public Accounting Firm on the consolidated financial statements of Tucson Electric Power Company, a wholly-owned subsidiary of UNS Energy Corporation, is also included.

(2) The financial statements of Tucson Electric Power Company are also included.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
UNS Energy Corporation:

In our opinion, the accompanying consolidated balance sheets and statements of capitalization and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholders' equity present fairly, in all material respects, the financial position of UNS Energy Corporation and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Phoenix, Arizona

February 26, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
Tucson Electric Power Company:

In our opinion, the accompanying consolidated balance sheets and statements of capitalization and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholder's equity present fairly, in all material respects, the financial position of Tucson Electric Power Company and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Phoenix, Arizona

February 26, 2013

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2012	**2011**	**2010**
	- Thousands of Dollars - (Except Per Share Amounts)		
Operating Revenues			
Electric Retail Sales	**$1,087,279**	$1,085,822	$1,051,002
Electric Wholesale Sales	**125,414**	132,346	123,943
California Power Exchange (CPX) Provision for Wholesale Refunds	**—**	—	(2,970)
Gas Revenue	**123,133**	145,053	141,036
Other Revenues	**125,940**	115,481	112,936
Total Operating Revenues	**1,461,766**	1,478,702	1,425,947
Operating Expenses			
Fuel	**327,832**	324,520	295,652
Purchased Energy	**224,696**	276,610	279,269
Transmission	**14,540**	7,334	10,945
Increase (Decrease) to Reflect PPFAC/PGA Recovery Treatment	**32,246**	(4,932)	(29,622)
Total Fuel and Purchased Energy	**599,314**	603,532	556,244
Operations and Maintenance	**383,689**	379,220	370,037
Depreciation	**141,303**	133,832	128,215
Amortization	**35,784**	30,983	28,094
Taxes Other Than Income Taxes	**49,881**	49,428	46,243
Total Operating Expenses	**1,209,971**	1,196,995	1,128,833
Operating Income	**251,795**	281,707	297,114
Other Income (Deductions)			
Interest Income	**1,106**	4,568	7,779
Other Income	**7,085**	8,288	11,038
Other Expense	**(7,988)**	(5,279)	(15,202)
Total Other Income (Deductions)	**203**	7,577	3,615
Interest Expense			
Long-Term Debt	**71,909**	73,217	65,020
Capital Leases	**33,613**	40,359	46,740
Other Interest Expense	**1,983**	2,535	1,651
Interest Capitalized	**(2,153)**	(3,753)	(2,587)
Total Interest Expense	**105,352**	112,358	110,824
Income Before Income Taxes	**146,646**	176,926	189,905
Income Tax Expense	**55,727**	66,951	76,921
Net Income	**$ 90,919**	$ 109,975	$ 112,984
Weighted-Average Shares of Common Stock Outstanding (000)			
Basic	**40,362**	36,962	36,415
Diluted	**41,755**	41,609	41,041
Earnings per Share			
Basic	**$ 2.25**	$ 2.98	$ 3.10
Diluted	**$ 2.20**	$ 2.75	$ 2.86
Dividends Declared per Share	**$ 1.72**	$ 1.68	$ 1.56

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2012	**2011**	**2010**
	-Thousands of Dollars-		
Comprehensive Income			
Net Income	**$90,919**	$109,975	$112,984
Other Comprehensive Income (Loss)			
Unrealized Loss on Cash Flow Hedges, net of $1,119, $2,376, and $4,216 income taxes	**(1,710)**	(3,626)	(6,431)
Reclassification of Realized Losses on Cash Flow Hedges to Net Income, net of $(1,862), $(1,412), and $(2,140) income taxes	**2,844**	2,153	3,264
SERP Benefit Adjustments, net of $608, $(804) and $523 income taxes	**(840)**	1,158	(800)
Total Other Comprehensive Income (Loss), Net of Income Taxes	**294**	(315)	(3,967)
Total Comprehensive Income	**$91,213**	$109,660	$109,017

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2012	2011	2010
	- Thousands of Dollars -		
Cash Flows from Operating Activities			
Cash Receipts from Electric Retail Sales	**$1,197,390**	$1,163,537	$1,142,364
Cash Receipts from Electric Wholesale Sales	**149,722**	183,151	194,580
Cash Receipts from Gas Sales	**141,590**	159,529	157,397
Cash Receipts from Operating Springerville Units 3 & 4	**107,927**	104,754	102,563
Cash Receipts from Wholesale Gas Sales	**5,233**	12,404	422
Interest Received	**2,947**	6,334	10,026
Income Tax Refunds Received	**1,821**	4,672	341
Performance Deposits Received	**200**	7,050	18,470
Other Cash Receipts	**24,105**	23,937	32,011
Fuel Costs Paid	**(321,355)**	(277,386)	(243,639)
Payment of Operations and Maintenance Costs	**(291,512)**	(295,662)	(259,833)
Purchased Energy Costs Paid	**(250,231)**	(328,713)	(364,132)
Taxes Other Than Income Taxes Paid, Net of Amounts Capitalized	**(187,257)**	(179,766)	(163,037)
Wages Paid, Net of Amounts Capitalized	**(127,176)**	(122,370)	(125,893)
Interest Paid, Net of Amounts Capitalized	**(69,478)**	(68,027)	(59,749)
Capital Lease Interest Paid	**(28,788)**	(32,103)	(38,646)
Wholesale Gas Costs Paid	**—**	(11,822)	—
Performance Deposits Paid	**(200)**	(4,550)	(19,220)
Income Taxes Paid	**—**	(700)	(22,797)
Other Cash Payments	**(6,829)**	(6,949)	(14,308)
Net Cash Flows—Operating Activities	**348,109**	337,320	346,920
Cash Flows from Investing Activities			
Return of Investments in Springerville Lease Debt	**19,278**	38,353	25,615
Proceeds from Note Receivable	**15,000**	—	—
Other Cash Receipts	**22,094**	15,251	12,958
Capital Expenditures	**(307,277)**	(374,122)	(279,240)
Purchase of Intangibles—Renewable Energy Credits	**(10,317)**	(5,992)	(7,514)
Deposit—San Juan Mine Reclamation Trust	**(1,445)**	—	—
Purchase of Sundt Unit 4 Lease Asset	**—**	—	(51,389)
Other Cash Payments	**(232)**	(578)	(5,490)
Net Cash Flows—Investing Activities	**(262,899)**	(327,088)	(305,060)
Cash Flows from Financing Activities			
Proceeds from Borrowings Under Revolving Credit Facilities	**359,000**	391,000	239,000
Proceeds from Issuance of Long-Term Debt	**149,513**	340,285	127,815
Proceeds from Stock Options Exercised	**3,570**	8,115	13,391
Other Cash Receipts	**4,865**	4,743	12,406
Repayments of Borrowings Under Revolving Credit Facilities	**(381,000)**	(351,000)	(268,500)
Payments of Capital Lease Obligations	**(89,452)**	(74,381)	(55,997)
Common Stock Dividends Paid	**(69,648)**	(61,904)	(56,590)
Repayments of Long-Term Debt	**(9,341)**	(252,125)	(51,592)
Payments of Debt Issue/Retirement Costs	**(3,547)**	(4,361)	(8,341)
Other Cash Payments	**(1,642)**	(1,813)	(2,775)
Net Cash Flows—Financing Activities	**(37,682)**	(1,441)	(51,183)
Net Increase (Decrease) in Cash and Cash Equivalents	**47,528**	8,791	(9,323)
Cash and Cash Equivalents, Beginning of Year	**76,390**	67,599	76,922
Cash and Cash Equivalents, End of Year	**$ 123,918**	$ 76,390	$ 67,599
Non-Cash Financing Activity			
Repayment of UED Short-Term Debt	**$ —**	$ —	$ (3,188)

See Note 15 for supplemental cash flow information.

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	-Thousands of Dollars-	
ASSETS		
Utility Plant		
Plant in Service	**$ 5,005,768**	$ 4,856,108
Utility Plant Under Capital Leases	**582,669**	582,669
Construction Work in Progress	**128,621**	89,749
Total Utility Plant	**5,717,058**	5,528,526
Less Accumulated Depreciation and Amortization	**(1,921,733)**	(1,869,300)
Less Accumulated Amortization of Capital Lease Assets	**(494,962)**	(476,963)
Total Utility Plant—Net	**3,300,363**	3,182,263
Investments and Other Property		
Investments in Lease Debt and Equity	**36,339**	65,829
Other	**36,537**	34,205
Total Investments and Other Property	**72,876**	100,034
Current Assets		
Cash and Cash Equivalents	**123,918**	76,390
Accounts Receivable—Customer	**93,742**	98,633
Unbilled Accounts Receivable	**53,568**	51,464
Allowance for Doubtful Accounts	**(6,545)**	(5,572)
Materials and Supplies	**93,322**	82,649
Fuel Inventory	**62,019**	33,263
Regulatory Assets—Current	**51,619**	97,056
Deferred Income Taxes—Current	**34,260**	23,158
Investments in Lease Debt	**9,118**	—
Derivative Instruments	**3,165**	11,966
Other	**33,567**	32,577
Total Current Assets	**551,753**	501,584
Regulatory and Other Assets		
Regulatory Assets—Noncurrent	**191,077**	173,199
Other Assets	**24,360**	32,199
Total Regulatory and Other Assets	**215,437**	205,398
Total Assets	**$ 4,140,429**	$ 3,989,279

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS — (Continued)

	December 31, 2012	December 31, 2011
	-Thousands of Dollars-	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	**$1,065,465**	$ 888,474
Capital Lease Obligations	**262,138**	352,720
Long-Term Debt	**1,498,442**	1,517,373
Total Capitalization	**2,826,045**	2,758,567
Current Liabilities		
Current Obligations Under Capital Leases	**90,583**	77,482
Borrowing Under Revolving Credit Facilities	**—**	10,000
Accounts Payable—Trade	**107,740**	109,760
Accrued Taxes Other than Income Taxes	**41,939**	41,997
Interest Accrued	**31,950**	38,302
Accrued Employee Expenses	**24,094**	25,660
Regulatory Liabilities—Current	**43,516**	41,911
Customer Deposits	**34,048**	32,485
Derivative Instruments	**14,742**	36,467
Other	**10,517**	8,455
Total Current Liabilities	**399,129**	422,519
Deferred Credits and Other Liabilities		
Deferred Income Taxes—Noncurrent	**364,756**	300,326
Regulatory Liabilities—Noncurrent	**279,111**	234,945
Pension and Other Retiree Benefits	**159,401**	139,356
Derivative Instruments	**12,709**	20,403
Other	**99,278**	113,163
Total Deferred Credits and Other Liabilities	**915,255**	808,193
Commitments, Contingencies, and Environmental Matters (Note 4)		
Total Capitalization and Other Liabilities	**$4,140,429**	$3,989,279

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CAPITALIZATION

			December 31, 2012	December 31, 2011
			- Thousands of Dollars -	
COMMON STOCK EQUITY				
Common Stock-No Par Value			**$ 882,138**	$ 725,903
	2012	**2011**		
Shares Authorized	**75,000,000**	75,000,000		
Shares Outstanding	**41,343,851**	36,918,024		
Accumulated Earnings			**193,117**	172,655
Accumulated Other Comprehensive Loss			**(9,790)**	(10,084)
Total Common Stock Equity			**1,065,465**	888,474
PREFERRED STOCK				
No Par Value, 1,000,000 Shares Authorized, None Outstanding			**—**	—
CAPITAL LEASE OBLIGATIONS				
Springerville Unit 1			**196,843**	253,481
Springerville Coal Handling Facilities			**48,038**	65,022
Springerville Common Facilities			**107,840**	111,699
Total Capital Lease Obligations			**352,721**	430,202
Less Current Maturities			**(90,583)**	(77,482)
Total Long-Term Capital Lease Obligations			**262,138**	352,720
LONG-TERM DEBT				
Issue	**Maturity**	**Interest Rate**		
UNS Energy:				
Convertible Senior Notes	2035	4.50%	**—**	150,000
Credit Agreement	2016	Variable	**45,000**	57,000
Tucson Electric Power Company:				
Variable Rate Tax-Exempt Bonds	2014 – 2016	Variable	**215,300**	215,300
Unsecured Fixed Rate Bonds	2020 – 2040	4.50% – 6.38%	**609,320**	615,855
Unsecured Notes	2021 – 2023	3.85% – 5.15%	**398,822**	249,218
UNS Gas and UNS Electric:				
Senior Unsecured Notes	2015 – 2026	5.39% – 7.10%	**200,000**	200,000
UNS Electric:				
Unsecured Term Loan	2015	Variable	**30,000**	30,000
Total Long-Term Debt			**1,498,442**	1,517,373
Total Capitalization			**$2,826,045**	$2,758,567

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares Outstanding*	Common Stock	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
			- Thousands of Dollars -		
Balances at December 31, 2009	**35,851**	**$696,206**	**$ 68,925**	**$ (5,802)**	**$ 759,329**
Comprehensive Income:					
2010 Net Income			112,984		112,984
Other Comprehensive Loss, net of $2,599 income taxes				(3,967)	(3,967)
Total Comprehensive Income					109,017
Dividends, Including Non-Cash Dividend Equivalents			(57,071)		(57,071)
Shares Issued under Deferred Compensation Plans	16	519			519
Shares Issued for Stock Options	660	12,756			12,756
Shares Issued Under Performance Share Awards	15	—			—
Other		6,206			6,206
Balances at December 31, 2010	**36,542**	**715,687**	**124,838**	**(9,769)**	**830,756**
Comprehensive Income:					
2011 Net Income			109,975		109,975
Other Comprehensive Loss, net of $160 income taxes				(315)	(315)
Total Comprehensive Income					109,660
Dividends, Including Non-Cash Dividend Equivalents			(62,158)		(62,158)
Shares Issued for Stock Options	319	8,176			8,176
Shares Issued Under Performance Share Awards	57	—			—
Other		2,040			2,040
Balances at December 31, 2011	**36,918**	**725,903**	**172,655**	**(10,084)**	**888,474**
Comprehensive Income:					
2012 Net Income			90,919		90,919
Other Comprehensive Income, net of $(135) income taxes				294	294
Total Comprehensive Income					91,213
Dividends, Including Non-Cash Dividend Equivalents			(70,457)		(70,457)
Shares Issued on Conversion of Notes and Related Tax					
Effect	4,262	149,805			149,805
Shares Issued for Stock Options	133	3,511			3,511
Shares Issued Under Performance Share Awards	31	—			—
Other		2,919			2,919
Balances at December 31, 2012	**41,344**	**$882,138**	**$193,117**	**$ (9,790)**	**$1,065,465**

* UNS Energy has 75 million authorized shares of Common Stock.

We describe limitations on our ability to pay dividends in Note 7.

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2012	**2011**	**2010**
	- Thousands of Dollars -		
Operating Revenues			
Electric Retail Sales	**$ 915,879**	$ 903,930	$ 868,188
Electric Wholesale Sales	**111,194**	129,861	141,103
California Power Exchange (CPX) Provision for Wholesale Refunds	**—**	—	(2,970)
Other Revenues	**134,587**	122,595	118,946
Total Operating Revenues	**1,161,660**	1,156,386	1,125,267
Operating Expenses			
Fuel	**318,901**	318,268	284,744
Purchased Power	**80,137**	105,766	118,716
Transmission	**5,722**	(1,435)	3,254
Increase (Decrease) to Reflect PPFAC Recovery Treatment	**31,113**	(6,165)	(21,541)
Total Fuel and Purchased Energy	**435,873**	416,434	385,173
Operations and Maintenance	**334,553**	330,801	316,625
Depreciation	**110,931**	104,894	99,510
Amortization	**39,493**	34,650	32,196
Taxes Other Than Income Taxes	**40,323**	40,199	37,732
Total Operating Expenses	**961,173**	926,978	871,236
Operating Income	**200,487**	229,408	254,031
Other Income (Deductions)			
Interest Income	**136**	3,567	6,707
Other Income	**6,043**	5,693	6,629
Other Expense	**(13,772)**	(12,064)	(11,506)
Total Other Income (Deductions)	**(7,593)**	(2,804)	1,830
Interest Expense			
Long-Term Debt	**55,038**	49,858	42,378
Capital Leases	**33,613**	40,358	46,734
Other Interest Expense	**1,446**	1,127	433
Interest Capitalized	**(1,782)**	(2,073)	(1,880)
Total Interest Expense	**88,315**	89,270	87,665
Income Before Income Taxes	**104,579**	137,334	168,196
Income Tax Expense	**39,109**	52,000	59,936
Net Income	**$ 65,470**	$ 85,334	$ 108,260

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2012	**2011**	**2010**
	-Thousands of Dollars-		
Comprehensive Income			
Net Income	**$65,470**	$85,334	$108,260
Other Comprehensive Income (Loss)			
Unrealized Loss on Cash Flow Hedges, net of $913, $2,331, and $4,216 income taxes	**(1,396)**	(3,555)	(6,431)
Reclassification of Realized Losses on Cash Flow Hedges to Net Income, net of $(1,800), $(1,390), and $(2,140) income taxes	**2,750**	2,122	3,264
SERP Benefit Adjustments, net of $608, $(804) and $523 income taxes	**(840)**	1,158	(800)
Total Other Comprehensive Income (Loss), Net of Income Taxes	**514**	(275)	(3,967)
Total Comprehensive Income	**$65,984**	$85,059	$104,293

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2012	**2011**	**2010**
	- Thousands of Dollars -		
Cash Flows from Operating Activities			
Cash Receipts from Electric Retail Sales	**$1,006,926**	$ 963,247	$ 947,498
Cash Receipts from Electric Wholesale Sales	**124,594**	152,618	190,779
Cash Receipts from Operating Springerville Units 3 & 4	**107,927**	104,754	102,563
Reimbursement of Affiliate Charges	**20,926**	18,448	18,356
Cash Receipts from Wholesale Gas Sales	**4,652**	11,825	—
Interest Received	**2,025**	5,367	8,998
Income Tax Refunds Received	**493**	7,492	3,369
Other Cash Receipts	**18,850**	19,611	23,429
Fuel Costs Paid	**(313,742)**	(271,975)	(232,591)
Payment of Operations and Maintenance Costs	**(282,752)**	(287,615)	(248,895)
Taxes Other Than Income Taxes Paid, Net of Amounts Capitalized	**(147,859)**	(139,728)	(134,540)
Wages Paid, Net of Amounts Capitalized	**(104,955)**	(100,942)	(101,815)
Purchased Power Costs Paid	**(81,328)**	(117,224)	(169,658)
Interest Paid, Net of Amounts Capitalized	**(52,125)**	(45,433)	(38,232)
Capital Lease Interest Paid	**(28,786)**	(32,103)	(38,640)
Income Taxes Paid	**(1,796)**	(2,346)	(19,663)
Wholesale Gas Costs Paid	**—**	(11,822)	—
Other Cash Payments	**(5,131)**	(5,880)	(8,475)
Net Cash Flows—Operating Activities	**267,919**	268,294	302,483
Cash Flows from Investing Activities			
Return of Investments in Springerville Lease Debt	**19,278**	38,353	25,615
Other Cash Receipts	**15,957**	7,195	8,044
Capital Expenditures	**(252,782)**	(351,890)	(225,920)
Purchase of Intangibles—Renewable Energy Credits	**(8,889)**	(5,111)	(7,903)
Deposit—San Juan Mine Reclamation Trust	**(1,445)**	—	—
Purchase of Sundt Unit 4 Lease Asset	**—**	—	(51,389)
Other Cash Payments	**—**	(558)	(1,483)
Net Cash Flows—Investing Activities	**(227,881)**	(312,011)	(253,036)
Cash Flows from Financing Activities			
Proceeds from Borrowings Under Revolving Credit Facility	**189,000**	220,000	177,000
Proceeds from Issuance of Long-Term Debt	**149,513**	260,285	118,245
Equity Investment from UNS Energy	**—**	30,000	15,000
Other Cash Receipts	**3,132**	2,458	3,241
Repayments of Borrowings Under Revolving Credit Facility	**(199,000)**	(210,000)	(212,000)
Payments of Capital Lease Obligations	**(89,452)**	(74,343)	(55,889)
Dividends Paid to UNS Energy	**(30,000)**	—	(60,000)
Repayments of Long-Term Debt	**(6,535)**	(172,460)	(30,000)
Payments of Debt Issue/Retirement Costs	**(3,547)**	(3,594)	(5,988)
Other Cash Payments	**(1,124)**	(894)	(1,491)
Net Cash Flows—Financing Activities	**11,987**	51,452	(51,882)
Net Increase (Decrease) in Cash and Cash Equivalents	**52,025**	7,735	(2,435)
Cash and Cash Equivalents, Beginning of Year	**27,718**	19,983	22,418
Cash and Cash Equivalents, End of Year	**$ 79,743**	$ 27,718	$ 19,983

See Note 15 for supplemental cash flow information.

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	- Thousands of Dollars -	
ASSETS		
Utility Plant		
Plant in Service	**$ 4,348,041**	$ 4,222,236
Utility Plant Under Capital Leases	**582,669**	582,669
Construction Work in Progress	**98,460**	76,517
Total Utility Plant	**5,029,170**	4,881,422
Less Accumulated Depreciation and Amortization	**(1,783,787)**	(1,753,807)
Less Accumulated Amortization of Capital Lease Assets	**(494,962)**	(476,963)
Total Utility Plant—Net	**2,750,421**	2,650,652
Investments and Other Property		
Investments in Lease Debt and Equity	**36,339**	65,829
Other	**35,091**	32,313
Total Investments and Other Property	**71,430**	98,142
Current Assets		
Cash and Cash Equivalents	**79,743**	27,718
Accounts Receivable—Customer	**71,813**	73,612
Unbilled Accounts Receivable	**33,782**	32,386
Allowance for Doubtful Accounts	**(4,598)**	(3,766)
Accounts Receivable—Due from Affiliates	**5,720**	4,049
Materials and Supplies	**80,377**	70,749
Fuel Inventory	**61,737**	32,981
Deferred Income Taxes—Current	**37,212**	21,678
Regulatory Assets—Current	**34,345**	71,747
Investments in Lease Debt	**9,118**	—
Other	**34,393**	15,192
Total Current Assets	**443,642**	346,346
Regulatory and Other Assets		
Regulatory Assets—Noncurrent	**178,330**	157,386
Other Assets	**17,223**	25,135
Total Regulatory and Other Assets	**195,553**	182,521
Total Assets	**$ 3,461,046**	$ 3,277,661

See Notes to Consolidated Financial Statements.

(Consolidated Balance Sheets Continued)

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	- Thousands of Dollars -	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	**$ 860,927**	$ 824,943
Capital Lease Obligations	**262,138**	352,720
Long-Term Debt	**1,223,442**	1,080,373
Total Capitalization	**2,346,507**	2,258,036
Current Liabilities		
Current Obligations Under Capital Leases	**90,583**	77,482
Borrowing Under Revolving Credit Facility	**—**	10,000
Accounts Payable—Trade	**82,122**	84,509
Accounts Payable—Due to Affiliates	**3,134**	4,827
Accrued Taxes Other than Income Taxes	**33,060**	32,155
Interest Accrued	**26,965**	30,877
Accrued Employee Expenses	**20,715**	22,099
Customer Deposits	**24,846**	23,743
Regulatory Liabilities—Current	**20,822**	23,702
Derivative Instruments	**4,899**	9,040
Other	**7,085**	5,957
Total Current Liabilities	**314,231**	324,391
Deferred Credits and Other Liabilities		
Deferred Income Taxes—Noncurrent	**319,216**	263,225
Regulatory Liabilities—Noncurrent	**241,189**	200,599
Pension and Other Retiree Benefits	**149,718**	130,660
Derivative Instruments	**10,565**	14,142
Other	**79,620**	86,608
Total Deferred Credits and Other Liabilities	**800,308**	695,234
Commitments, Contingencies, and Environmental Matters (Note 4)		
Total Capitalization and Other Liabilities	**$3,461,046**	$3,277,661

See Notes to Consolidated Financial Statements.

(Consolidated Balance Sheets Concluded)

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF CAPITALIZATION

			December 31, 2012	December 31, 2011
			- Thousands of Dollars -	
COMMON STOCK EQUITY				
Common Stock-No Par Value			**$ 888,971**	$ 888,971
	2012	2011		
Shares Authorized	**75,000,000**	75,000,000		
Shares Outstanding	**32,139,434**	32,139,434		
Capital Stock Expense			**(6,357)**	(6,357)
Accumulated Deficit			**(12,157)**	(47,627)
Accumulated Other Comprehensive Loss			**(9,530)**	(10,044)
Total Common Stock Equity			**860,927**	824,943
PREFERRED STOCK				
No Par Value, 1,000,000 Shares Authorized, None Outstanding			**—**	—
CAPITAL LEASE OBLIGATIONS				
Springerville Unit 1			**196,843**	253,481
Springerville Coal Handling Facilities			**48,038**	65,022
Springerville Common Facilities			**107,840**	111,699
Total Capital Lease Obligations			**352,721**	430,202
Less Current Maturities			**(90,583)**	(77,482)
Total Long-Term Capital Lease Obligations			**262,138**	352,720
LONG-TERM DEBT				
Issue	**Maturity**	**Interest Rate**		
Variable Rate Tax-Exempt Bonds	2014 – 2016	Variable	**215,300**	215,300
Unsecured Fixed Rate Bonds	2020 – 2040	4.50% – 6.38%	**609,320**	615,855
Unsecured Notes	2021 – 2023	3.85% – 5.15%	**398,822**	249,218
Total Long-Term Debt			**1,223,442**	1,080,373
Total Capitalization			**$2,346,507**	$2,258,036

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

	Common Stock	Capital Stock Expense	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholder's Equity
Balances at December 31, 2009	**$843,971**	**$(6,357)**	**$(181,221)**	**$ (5,802)**	**$650,591**
Comprehensive Income:					
2010 Net Income			108,260		108,260
Other Comprehensive Loss, net of $2,599 income taxes				(3,967)	(3,967)
Total Comprehensive Income					104,293
Capital Contribution from UNS Energy	15,000				15,000
Dividends Paid			(60,000)		(60,000)
Balances at December 31, 2010	**858,971**	**(6,357)**	**(132,961)**	**(9,769)**	**709,884**
Comprehensive Income:					
2011 Net Income			85,334		85,334
Other Comprehensive Loss, net of $137 income taxes				(275)	(275)
Total Comprehensive Income					85,059
Capital Contribution from UNS Energy	30,000				30,000
Balances at December 31, 2011	**888,971**	**(6,357)**	**(47,627)**	**(10,044)**	**824,943**
Comprehensive Income:					
2012 Net Income			65,470		65,470
Other Comprehensive Income, net of $(279) income taxes				514	514
Total Comprehensive Income					65,984
Dividends Paid			(30,000)		(30,000)
Balances at December 31, 2012	**$888,971**	**$(6,357)**	**$ (12,157)**	**$ (9,530)**	**$860,927**

We describe limitations on our ability to pay dividends in Note 7.

See Notes to Consolidated Financial Statements.

UNS ENERGY, TEP, AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

UNS Energy Corporation (UNS Energy), formerly UniSource Energy Corporation, is a utility services holding company engaged, through its subsidiaries, in the electric generation and energy delivery business. Each of UNS Energy's subsidiaries is a separate legal entity with its own assets and liabilities. UNS Energy owns 100% of Tucson Electric Power Company (TEP), UniSource Energy Services, Inc. (UES), Millennium Energy Holdings, Inc. (Millennium), and UniSource Energy Development Company (UED).

TEP is a regulated public utility and UNS Energy's largest operating subsidiary, representing approximately 84% of UNS Energy's total assets as of December 31, 2012. TEP generates, transmits and distributes electricity to approximately 406,000 retail electric customers in a 1,155 square mile area in southeastern Arizona. TEP also sells electricity to other utilities and power marketing entities, located primarily in the western United States. In addition, TEP operates Springerville Generating Station (Springerville) Unit 3 on behalf of Tri-State Generation and Transmission Association, Inc. (Tri-State) and Springerville Unit 4 on behalf of Salt River Project Agriculture Improvement and Power District (SRP).

UES holds the common stock of two regulated public utilities, UNS Gas, Inc. (UNS Gas) and UNS Electric, Inc. (UNS Electric). UNS Gas is a regulated gas distribution company, which services approximately 149,000 retail customers in Mohave, Yavapai, Coconino, and Navajo counties in northern Arizona, as well as in Santa Cruz County in southern Arizona. UNS Electric is a regulated public utility, which generates, transmits and distributes electricity to approximately 92,000 retail customers in Mohave and Santa Cruz counties.

UED and Millennium's investments in unregulated businesses represent less than 1% of UNS Energy's assets as of December 31, 2012.

Our business is comprised of three reporting segments – TEP, UNS Gas, and UNS Electric.

References to "we" and "our" are to UNS Energy and its subsidiaries, collectively.

REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

In the fourth quarter of 2012, we identified that we had incorrectly reported UNS Electric's sales and purchase contracts, which did not result in the physical delivery of energy. The transactions were reported on a gross basis rather than on a net basis during the first three quarters of 2012 as well as the calendar years 2011 and 2010. This error resulted in an equal and offsetting overstatement of Electric Wholesale Sales and Purchased Energy in the income statements of $31 million in 2011 and $28 million in 2010. This error had no impact to operating income, net income, retained earnings, or cash flows. We assessed the impact of these errors on prior period financial statements and concluded they were not material to any period. However, the errors were significant to the individual line items. As a result, in accordance with Staff Accounting Bulletin 108, we have revised the 2011 and 2010 financial statements included herein to correct these errors. See Note 17 for the quarterly impact of the revisions on the years presented. The interim financial data is unaudited. The revisions noted above impacted UNS Energy's statements of income as shown in the tables below:

	UNS Energy			
	Year Ended December 31, 2011		Year Ended December 31, 2010	
	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars-			
Income Statement				
Electric Wholesale Sales	$ 163,159	$ 132,346	$ 151,962	$ 123,943
Total Operating Revenues	1,509,515	1,478,702	1,453,966	1,425,947
Purchased Energy	307,423	276,610	307,288	279,269
Total Fuel and Purchased Energy	634,345	603,532	584,263	556,244
Total Operating Expenses	1,227,843	1,196,995	1,156,852	1,128,833

	UNS Energy 2012 Three Months Ended					
	March 31,		June 30,		September 30,	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars					
Income Statement						
Electric Wholesale Sales	$ 37,104	$ 33,538	$ 28,684	$ 24,381	$ 32,494	$ 28,836
Purchased Energy	63,276	59,790	51,376	48,203	60,238	57,085
Total Fuel and Purchased Energy	134,276	130,790	151,328	148,155	175,687	172,534
Total Operating Expenses	284,479	280,984	299,112	295,932	330,852	327,700

UNS Energy 2011 Three Months Ended								
	March 31,		June 30,		September 30,		December 31,	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars							
Income Statement								
Electric Wholesale Sales	$ 40,914	$ 35,438	$ 38,744	$ 35,331	$ 41,847	$ 32,818	$ 41,654	$ 28,759
Purchased Energy	78,274	71,685	66,336	61,804	88,734	79,343	74,079	63,778
Total Fuel and Purchased Energy	146,579	139,990	155,539	151,007	182,766	173,376	149,461	139,159
Total Operating Expenses	299,946	293,357	298,383	293,852	327,187	317,796	302,327	291,990

UNS Energy								
	Six Month Period Ended				Nine Month Period Ended			
	June 30, 2012		June 30, 2011		September 30, 2012		September 30, 2011	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars							
Income Statement								
Electric Wholesale Sales	$ 65,787	$ 57,919	$ 79,658	$ 70,769	$ 98,282	$ 86,755	$ 121,506	$ 103,587
Total Operating Revenues	686,044	679,384	714,439	703,318	1,123,305	1,113,492	1,165,387	1,144,875
Purchased Energy	114,653	107,993	144,610	133,489	174,891	165,078	233,344	212,832
Total Fuel and Purchased Energy	285,605	278,945	302,118	290,997	461,292	451,479	484,885	464,373
Total Operating Expenses	583,590	576,916	598,330	587,209	914,428	904,616	925,518	905,005
Operating Income(1)	102,454	102,468	116,109	116,109	208,877	208,876	239,869	239,869

(1) Includes immaterial reclassifications from Operating Expense to Other Expense to conform with current year presentation.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board issued authoritative guidance that eliminated the option to report other comprehensive income in the statement of changes in equity. Rather, an entity must elect to present items of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. In 2012, we elected to include two separate but consecutive statements.

We implemented accounting guidance in 2012 which enhances our disclosures regarding unobservable inputs in calculating the fair market value of certain assets and liabilities. The guidance requires additional quantitative analysis of inputs when we use significant unobservable inputs to measure the fair value of our derivatives and financial instruments. See Note 11.

BASIS OF PRESENTATION

We consolidate our investments in subsidiaries when we hold a majority of the voting stock and we can exercise control over the operations and policies of the company. Consolidation means accounts of the parent and subsidiary are combined and intercompany balances and transactions are eliminated. Intercompany profits on transactions between regulated entities are not eliminated if recovery from ratepayers is probable. See Note 2.

USE OF ACCOUNTING ESTIMATES

Management makes estimates and assumptions when preparing financial statements under generally accepted accounting principles (GAAP) in the United States. These estimates and assumptions affect:

- Assets and liabilities on our balance sheets at the dates of the financial statements;
- Our disclosures about contingent assets and liabilities at the dates of the financial statements; and
- Our revenues and expenses in our income statements during the periods presented.

Because these estimates involve judgments based upon our evaluation of relevant facts and circumstances, actual results may differ from the estimates.

ACCOUNTING FOR RATE REGULATION

We generally use the same accounting policies and practices used by unregulated companies. However, sometimes GAAP requires that rate-regulated companies apply special accounting treatment to show the effect of rate regulation. For example, we capitalize certain costs that would be included as expense in the current period by unregulated companies. Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in the rates charged to retail customers. Our Retail Rates are designed to allow TEP, UNS Gas, and UNS Electric an opportunity to recover reasonable operating and capital costs and earn a return on utility plant in service. Regulatory liabilities generally represent expected future costs that have already been collected from customers or items that are expected to be returned to customers through billing reductions. We evaluate regulatory assets each period and believe recovery is probable. If future recovery of costs ceases to be probable, the assets would be written off as a charge to current period earnings.

TEP, UNS Gas, and UNS Electric apply regulatory accounting as the following conditions exist:

- An independent regulator sets rates;
- The regulator sets the rates to recover the specific enterprise's costs of providing service; and
- Rates are set at levels that will recover the entity's costs and can be charged to and collected from customers.

CASH AND CASH EQUIVALENTS

We define Cash and Cash Equivalents as cash (unrestricted demand deposits) and all highly liquid investments purchased with an original maturity of three months or less.

As of December 31, 2012, we include $7 million of restricted cash in Investments and Other Property—Other on the balance sheets, of which $2 million has been legally restricted as to its use. At December 31, 2011, we included $9 million of restricted cash in Investments and Other Property – Other on the balance sheets, of which $3 million had been legally restricted as to its use.

UTILITY PLANT

Utility Plant includes the business property and equipment that supports electric and gas services, consisting primarily of generation, transmission, and distribution facilities. We report utility plant at original cost. Original cost includes materials and labor, contractor services, construction overhead (when applicable), and an Allowance for Funds Used During Construction (AFUDC).

We record the cost of repairs and maintenance, including planned major overhauls, to Operations and Maintenance (O&M) expense in the income statements as costs are incurred.

When a unit of regulated property is retired, we reduce accumulated depreciation by the original cost plus removal costs less any salvage value. There is no income statement impact.

AFUDC and Capitalized Interest

AFUDC reflects the cost of debt or equity funds used to finance construction and is capitalized as part of the cost of regulated utility plant. AFUDC amounts capitalized are included in rate base for establishing Retail Rates. For operations that do not apply regulatory accounting, we capitalize interest related only to debt as a cost of construction. The capitalized interest that relates to debt reduces Other Interest Expense in the income statements. The capitalized cost for equity funds is recorded as Other Income in the income statements.

The average AFUDC rates on regulated construction expenditures are included in the table below:

	2012	2011	2010
TEP	7.22%	6.72%	6.65%
UNS Gas	7.95%	8.32%	8.19%
UNS Electric	7.89%	8.18%	8.22%

UNS Energy did not capitalize interest in 2012. UNS Energy capitalized interest at a rate of 3.30% for 2011 and 1.96% for 2010.

Depreciation

We compute depreciation for owned utility plant on a group method straight-line basis at depreciation rates based on the economic lives of the assets. See Note 5. The Arizona Corporation Commission (ACC) approves depreciation rates for all generation and distribution assets. Transmission assets are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). Depreciation rates are based on average useful lives and reflect estimated removal costs, net of estimated salvage value for interim retirements. Below are the summarized average annual depreciation rates for all utility plant, which reflect immaterial adjustments in the calculation of rates in the years presented to exclude allocated depreciation (the adjustment did not affect Depreciation Expense recorded in the income statements).

	TEP	UNS Gas	UNS Electric
2012	3.22%	2.69%	3.99%
2011	3.14%	2.84%	4.02%
2010	3.16%	2.83%	4.35%

Computer Software Costs

We capitalize costs incurred to purchase and develop internal use computer software and amortize those costs over the estimated economic life of the product. If the software is no longer useful, we immediately charge capitalized computer software costs to expense.

TEP Utility Plant Under Capital Leases

TEP financed the following generation assets with capital leases: Springerville Unit 1; facilities at Springerville used in common with Springerville Unit 1 and Unit 2 (Springerville Common Facilities); and the Springerville Coal Handling Facilities. The capital lease expense incurred consists of Amortization Expense (see Note 5) and Interest Expense—Capital Leases. The lease terms are described in Note 6.

INVESTMENTS IN LEASE DEBT AND EQUITY

TEP held an investment in lease debt relating to Springerville Unit 1 through its maturity date in January 2013 and recorded this investment at amortized cost and recognized interest income. TEP holds a 14% equity interest in Springerville Unit 1 and a one-half interest in certain Springerville Common Facilities (Springerville Unit 1 Leases). The fair value of these investments is described in Note 11. These investments do not reduce the capital lease obligations reflected on the balance sheet because there is no legal right of offset. TEP makes lease payments to a trustee who then distributes the payments to the equity holders.

TEP accounts for its equity interest in the Springerville Unit 1 Lease trust using the equity method.

JOINTLY-OWNED FACILITIES

TEP has investments in several generation and transmission facilities jointly-owned with other companies. These projects are accounted for on a proportionate consolidation basis based on our ownership percentage. See Note 5.

ASSET RETIREMENT OBLIGATIONS

TEP and UNS Electric record a liability for the estimated present value of a conditional Asset Retirement Obligation (ARO) as follows:

- When it is able to reasonably estimate the fair value of any future obligation to retire as a result of an existing or enacted law, statute, ordinance, or contract; or
- If it can reasonably estimate the fair value.

When the liability is initially recorded at net present value, TEP and UNS Electric capitalize the cost by increasing the carrying amount of the related long-lived asset. TEP and UNS Electric adjust the liability to its present value by recognizing accretion expense in O&M expense, and the capitalized cost is depreciated in Depreciation and Amortization expense over the useful life of the related asset or when applicable, the terms of the lease subject to ARO requirements.

Based on the decommissioning studies to estimate timing and amount of future retirement of certain generation assets, both TEP and UNS Electric record legal AROs for these assets. Additionally, TEP and UNS Electric incurred AROs related to their photovoltaic assets as a result of entering into various ground leases.

TEP and UNS Electric record cost of removal for generation assets that are recoverable through the rates charged to retail customers. See Note 2.

We record cost of removal for transmission and distribution assets through depreciation rates and recover those amounts in the rates charged to retail customers. There are no legal obligations associated with transmission and distribution assets. We have recorded an obligation for estimated costs of removal as regulatory liabilities.

EVALUATION OF ASSETS FOR IMPAIRMENT

We evaluate long-lived assets and investments for impairment whenever events or circumstances indicate the carrying value of the assets may be impaired. If expected future cash flows (without discounting) are less than the carrying value of the asset, an impairment loss is recognized if the impairment is other-than-temporary and the loss is not recoverable through rates.

DEFERRED FINANCING COSTS

We defer the costs to issue debt and amortize such costs to interest expense on a straight-line basis over the life of the debt as this approximates the effective interest method. These costs include underwriters' commissions, discounts or premiums, and other costs such as legal, accounting, regulatory fees, and printing costs.

We defer and amortize the gains and losses on reacquired debt associated with regulated operations to interest expense over the remaining life of the original debt.

UTILITY OPERATING REVENUES

We record utility operating revenues when services or commodities are delivered to customers. Operating revenues include an estimate for unbilled revenues from service that has been provided but not billed by the end of an accounting period.

We determine amounts delivered through periodic readings of customer meters. At the end of the month, the usage since the last meter reading is estimated and the corresponding unbilled revenue is calculated. Unbilled revenue is estimated based on daily generation or purchased volumes, estimated usage by customer class, estimated line losses, and estimated average customer Retail Rates. Accrued unbilled revenues are reversed the following month when actual billings occur. The accuracy of the unbilled revenue estimate is affected by factors that include fluctuations in energy demands, weather, line losses, customer Retail Rates, and changes in the composition of customer classes.

The ACC authorized a rate-adjustment mechanism for TEP, UNS Gas, and UNS Electric that provides for the recovery of actual fuel, transmission, and purchased power/energy cost. The revenue surcharge or surcredit adjusts the customers' retail rate for delivered electricity or gas to collect or return under- or over-recovered energy costs. The ACC revises these rate-adjustment mechanisms periodically (annually for TEP and UNS Electric; monthly for UNS Gas) and may increase or decrease the costs recovered through Retail Rates for any difference between the total amount collected under the mechanisms and the recoverable costs incurred. See Note 2.

Arizona's mandatory Renewable Energy Standard (RES) requires TEP and UNS Electric to increase their use of renewable energy and allows recovery of compliance costs through a RES surcharge to customers. We charge customers a Demand Side Management (DSM) surcharge to recover the cost of ACC-approved Electric Energy Efficiency Programs (Electric EE Programs) or Gas Energy Efficiency Programs (Gas EE Programs). We defer differences between actual RES or DSM qualified costs incurred and the recovery of such costs from retail customers through the RES and DSM surcharges. Cost over-recoveries (the excess of cost recoveries through the RES and DSM surcharges over actual qualified costs incurred) are deferred as regulatory liabilities and cost under-recoveries (the excess of actual qualified costs incurred over cost recoveries through the RES and DSM surcharges) are deferred as regulatory assets. The surcharges typically reset annually and incorporate an adjustor mechanism that, upon approval of the ACC, allows us to apply any shortage or surplus in the prior year's program expenses to the subsequent year's RES or DSM surcharge. See Note 2.

For purchased power and wholesale sales contracts that are not settled with energy, TEP and UNS Electric net the sales contracts with the purchase power contracts and reflect the net amount as Electric Wholesale Sales. The corresponding cash receipts are recorded in the statement of cash flows as Cash Receipts from Electric Wholesale Sales, while cash payments are recorded as Purchased Energy/Power Costs Paid.

We record an Allowance for Doubtful Accounts to reduce accounts receivable for amounts estimated to be uncollectible. The allowance is determined based on historical bad debt patterns, retail sales, and economic conditions. We refer uncollected accounts to external collection agencies after 90 days.

TEP earns and recognizes Other Revenues monthly as the operator of Springerville Unit 3 on behalf of Tri-State and Springerville Unit 4 on behalf of SRP. Tri-State and SRP reimburse TEP for various operating expenses at Springerville, which are recorded in the respective line item of the income statements based on the nature of service or materials provided. Tri-State and SRP also pay TEP for the use of the Springerville Common Facilities and the Springerville Coal Handling Facilities which are recorded as Other Revenues.

INVENTORY

Materials and Supplies consist of transmission, distribution, and generation construction and repair materials. We record fuel, materials, and supply inventories at the lower of weighted average cost or market prices. We capitalize handling and procurement costs (such as materials, labor, overhead costs, and transportation costs) as part of the cost of the inventory.

RECOVERY OF FUEL AND PURCHASED ENERGY COSTS

TEP and UNS Electric Purchased Power and Fuel Adjustment Clause

TEP and UNS Electric record the actual fuel, transmission, and purchased power costs incurred on a monthly basis. Retail customers are billed monthly for the cost of fuel, transmission, and purchased power in Base Rates and via the current Purchased Power and Fuel Adjustment Clause (PPFAC) rate. The difference between the costs billed to customers (recoveries) and actual fuel costs incurred to provide retail electric service is deferred. Cost over-recoveries (excess of fuel cost recoveries) are deferred as regulatory liabilities and cost under-recoveries (excess of actual costs incurred over fuel costs recovered) are deferred as regulatory assets. See Note 2.

UNS Gas Purchased Gas Adjustor

UNS Gas defers the difference between actual gas costs incurred and the recovery of such costs under a Purchased Gas Adjustor (PGA) mechanism. Gas cost over-recoveries (the excess of gas costs recovered under the PGA mechanism over actual gas costs incurred) are deferred as regulatory liabilities and under-recoveries (the excess of actual gas costs incurred over gas costs recovered via the PGA mechanism) are deferred as regulatory assets. See Note 2.

RENEWABLE ENERGY CREDITS

The ACC uses Renewable Energy Credits (RECs) to measure compliance with the RES requirements. A REC equals one kWh generated from renewable resources. The cost of REC purchases are qualified renewable expenditures recoverable through the RES surcharge. When TEP or UNS Electric purchases renewable energy, the premium paid above the market cost of conventional power is the REC cost and the remaining cost is recoverable through the PPFAC.

When RECs are purchased, TEP and UNS Electric record the cost of the unretired RECs (an indefinite-lived intangible asset) as Other Assets, and a corresponding regulatory liability, to reflect the obligation to use the RECs for future RES compliance. When RECs are reported to the ACC for compliance with RES requirements, TEP and UNS Electric recognize Purchased Power expense and Other Revenues in an equal amount, in the income statements. See Note 2.

INCOME TAXES

Due to the difference between GAAP and income tax laws, many transactions are treated differently for income tax purposes than for financial statement presentation purposes. Temporary differences are accounted for by recording deferred income tax assets and liabilities on our balance sheets. These assets and liabilities are recorded using income tax rates expected to be in effect when the deferred tax assets and liabilities are realized or settled. We reduce deferred tax assets by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred income tax asset will not be realized.

Tax benefits are recognized as reductions to Deferred Income Taxes – Noncurrent/Other Current Liabilities when it is more likely than not that a tax position will be sustained upon examination by the tax authorities based on the technical merits of the position. The tax benefit recorded is the largest amount that is more than 50% likely to be realized upon ultimate settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Tax benefits taken on returns which do not meet these requirements are recorded in Deferred Income Taxes – Noncurrent/Other Liabilities – Noncurrent. Interest expense accruals relating to income tax obligations are recorded in Other Interest Expense.

Prior to 1990, TEP flowed through to ratepayers certain accelerated tax benefits related to utility plant as the benefits were recognized on tax returns. Regulatory Assets – Noncurrent includes income taxes recoverable through future rates, which reflects the future revenues due us from ratepayers as these tax benefits reverse. See Note 2.

We account for federal energy credits generated prior to 2012 using the grant accounting model. The credit is treated as deferred revenue, which is recognized over the depreciable life of the underlying asset. The deferred tax benefit of the credit is treated as a reduction to income tax expense in the year the credit arises. Federal energy credits generated in 2012 are deferred as Regulatory Liabilities – Noncurrent and amortized as a reduction in Income Tax Expense over the tax life of the underlying asset. Income Tax Expense attributable to the reduction in tax basis is accounted for in the year the federal energy credit is generated. All other federal and state income tax credits are treated as a reduction to Income Tax Expense in the year the credit arises.

Consolidated income tax liabilities are allocated to subsidiaries based on their taxable income as reported in the consolidated tax return.

TAXES OTHER THAN INCOME TAXES

We act as conduits or collection agents for sales taxes, utility taxes, franchise fees, and regulatory assessments. As we bill customers for these taxes and assessments, we record trade receivables. At the same time, we record liabilities payable, on the balance sheet, to governmental agencies for these taxes and assessments. These amounts are not reflected in the income statements.

DERIVATIVE FINANCIAL INSTRUMENTS

Risks and Overview

We are exposed to energy price risk associated with gas and purchased power requirements, volumetric risk associated with seasonal load, and operational risk associated with power plants, transmission, and transportation systems. We reduce our energy price risk through a variety of derivative and non-derivative instruments. The objectives for entering into such contracts include: creating price stability, ensuring we can meet load and reserve requirements, and reducing exposure to price volatility that may result from delayed recovery under the PPFAC or PGA. See Note 2.

We consider the effect of counterparty credit risk in determining the fair value of derivative instruments that are in a net asset position after incorporating collateral posted by counterparties and allocate the credit risk adjustment to individual contracts. We also consider the impact of our own credit risk after considering collateral posted on instruments that are in a net liability position and allocate the credit risk adjustment to all individual contracts.

We present cash collateral and derivative assets and liabilities associated with the same counterparty separately in our financial statements, and we separate all derivatives into current and long-term portions on the balance sheet.

In 2010 through 2012, we did not engage in trading of derivative financial instruments.

Cash Flow Hedges

TEP hedges the cash flow risk associated with unfavorable changes in the variable interest rates related to the leveraged lease arrangements relating to the Springerville Unit 1 Leases and variable rate industrial development revenue or pollution control revenue bonds (IDBs). In addition, TEP hedges the cash flow risk associated with a six-year power supply agreement using a six-year power purchase swap agreement. UNS Electric entered into a cash flow hedge in August 2011 to effectively convert the interest rate on the UNS Electric term loan from a variable rate to a fixed rate. TEP and UNS Electric account for cash flow hedges as follows:

- The effective portion of the changes in the fair value of the interest rate swaps and TEP's six-year power purchase swap agreement are recorded in Accumulated Other Comprehensive Income (AOCI) and the ineffective portion, if any, is recognized in earnings; and
- When TEP and UNS Electric determine a contract is no longer effective in offsetting the changes in cash flow of a hedged item, TEP and UNS Electric recognize the changes in fair value in earnings. The unrealized gains and losses at that time remain in AOCI and are reclassified into earnings as the underlying hedged transaction occurs.

We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives have been and are expected to remain highly effective in offsetting changes in the cash flows of hedged items. We discontinue hedge accounting when: (1) the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) we determine that designating the derivative as a hedging instrument is no longer appropriate.

Subsequent Measurement at Fair Value

- **TEP**

  TEP's hedges, such as forward power purchase contracts indexed to gas, short-term forward power sales contracts, or call and put options (gas collars), that did not qualify for either cash flow hedge accounting treatment or the normal scope exception are considered transactions subsequently measured at fair value. TEP hedges a portion of its monthly natural gas exposure for plant fuel, gas-indexed purchased power, and spot market purchases with fixed price contracts for a maximum of three years. Unrealized gains and losses are recorded as either a regulatory asset or regulatory liability to the extent they qualify for recovery through the PPFAC.

- **UNS Gas**

  UNS Gas enters into derivative contracts such as forward gas purchases and gas swaps, creating price stability and reducing exposure to natural gas price volatility that may result in delayed recovery under the PGA. Unrealized gains and losses are recorded as either a regulatory asset or regulatory liability, as the PGA mechanism permits the recovery of the cost of hedging contracts.

- **UNS Electric**

  UNS Electric hedges a portion of its purchased power exposure to fixed price and natural gas-indexed contracts with forward power purchases, financial gas swaps, and call and put options. Unrealized gains and losses are recorded as either a regulatory asset or regulatory liability, as the PPFAC mechanism allows recovery of the prudent costs of contracts for hedging fuel and purchased power costs.

Normal Purchases and Normal Sales

We enter into forward energy purchase and sales contracts, including call options, with counterparties for load serving requirements or counterparties with generating capacity to support our current load forecasts. These contracts are not required to be measured at fair value and are accounted for on an accrual basis. We evaluate our counterparties on an ongoing basis for non-performance risk to ensure it does not impact our ability to obtain the normal purchases and normal sales scope exception.

PENSION AND OTHER RETIREE BENEFITS

We sponsor noncontributory, defined benefit pension plans for substantially all employees and certain affiliate employees. Benefits are based on employees' years of service and average compensation. We also maintain a Supplemental Executive Retirement Plan (SERP) for upper management. TEP also provides limited health care and life insurance benefits for retirees. We fund the pension plans by contributing at least the minimum amount required under Internal Revenue Service (IRS) regulations.

We recognize the underfunded status of our defined benefit pension plans as a liability on our balance sheets. The underfunded status is measured as the difference between the fair value of the pension plans' assets and the projected benefit obligation for the pension plans. We recognize a regulatory asset to the extent these future costs are probable of recovery in the rates charged to retail customers, and expect to recover these costs over the estimated service lives of employees.

Additionally, we provide supplemental retirement benefits to certain employees whose benefits are subject to IRS benefit or compensation limitations. Changes in SERP benefit obligations are recognized as a component of AOCI.

Pension and other retiree benefit expense are determined by actuarial valuations, based on assumptions that we evaluate annually. See Note 9.

RECLASSIFICATIONS

UNS Energy and TEP reclassified the following items in the 2011 and 2010 financial statements to be comparable to the presentation in the 2012 financial statements:

- UNS Energy reclassified $4 million of 2011 trade receivables with credit balances from Accounts Receivable – Customer to Other Current Liabilities;
- UNS Energy and TEP reclassified $4 million of 2011 and 2010 O&M costs paid from Fuel Costs Paid to Payment of Operations and Maintenance Costs in the statements of cash flows;
- TEP reclassified $2 million of 2011 trade receivables with credit balances from Accounts Receivable – Customer to Other Current Liabilities;
- UNS Energy and TEP reclassified $1 million of 2011 payroll withholding taxes from Other Current Liabilities to Accrued Employee Expenses; and
- UNS Energy and TEP reclassified $35 thousand from Taxes Other Than Income Taxes to Other Expense in the 2011 income statement to conform to current year presentation.

NOTE 2. REGULATORY MATTERS

RATES AND REGULATION

The ACC and the FERC each regulate portions of the utility accounting practices and rates used by TEP, UNS Gas, and UNS Electric. The ACC regulates rates charged to retail customers, the siting of generation and transmission facilities, the issuance of securities, and transactions with affiliated parties. The FERC regulates terms and prices of transmission services and wholesale electricity sales.

TEP Rates

TEP 2008 Rate Order

The 2008 TEP Rate Order, issued by the ACC and effective December 1, 2008, provided an average base rate increase of 6% over TEP's previous Base Rates; an 8% authorized rate of return on Original Cost Rate Base (OCRB) of approximately $1 billion; a 5.6% rate of return on Fair Value Rate Base (FVRB) of approximately $1.5 billion, which did not include a return on the fair value increment of rate base (the fair value increment of rate base represents the difference between the OCRB and FVRB). The ACC authorized a fuel rate included in Base Rates of 2.9 cents per kilowatt-hour (kWh); a PPFAC effective January 1, 2009; and a base rate increase moratorium through January 1, 2013.

Pending TEP Rate Case

In July 2012, TEP filed a general rate case, on a cost-of-service basis, with the ACC requesting a Base Rate increase of approximately 15% to cover a revenue deficiency of $128 million. TEP requested a 7.74% return on an OCRB of $1.5 billion and a 5.68% return on FVRB of $2.3 billion. The return on FVRB includes a 1.56% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $800 million).

TEP requested a Lost Fixed Cost Recovery (LFCR) mechanism to recover non-fuel costs that would go unrecovered due to lost kilowatt-hour (kWh) sales as a result of implementing the ACC's Electric Energy Efficiency Standards (Electric EE Standards) and the RES. TEP also requested a mechanism, which would be adjusted annually, to recover the costs of complying with environmental standards required by federal or other governmental agencies between rate cases.

TEP proposed a three-year pilot program allowing for investment in Electric EE Programs to meet the Electric EE Standards in the most cost effective manner. Under TEP's proposal, energy efficiency investments would be considered regulatory assets and amortized over a four-year period. TEP would earn a return on investment and recover the return and amortization expense through the existing DSM surcharge.

In February 2013, TEP, ACC Staff, and other parties to TEP's pending rate case proceeding entered into a proposed settlement agreement. The proposed settlement agreement requires the approval of the ACC before new rates can become effective.

UNS Gas Rates

2012 UNS Gas Rate Order

In April 2012, the ACC approved a Base Rate increase of $2.7 million, or 1.8%, and a mechanism to enable UNS Gas to recover lost fixed cost revenues as a result of implementing the ACC's Gas Energy Efficiency Standards (Gas EE Standards). UNS Gas recognized less than $0.1 million of revenue under the LFCR in 2012.

The ACC approved an authorized rate of return of 8.3% on an OCRB of $183 million, and a 1.0% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $70 million). The new rates became effective in May 2012.

UNS Electric Rates

2010 UNS Electric Rate Order

In September 2010, the ACC approved a base rate increase of $7 million, or 4%, including an 8.3% authorized rate of return on an OCRB of $169 million, and a 1.3% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $73 million). The order also authorized new depreciation rates, effective October 2010.

In July 2011, UNS Electric completed the ACC and the FERC approved purchase of BMGS from UED for $63 million, UED's book value for the assets. BMGS was included in UNS Electric's Rate Base through a revenue-neutral rate reclassification of approximately 0.7 cents per kWh from base power supply rate to non-fuel Base Rates.

Pending UNS Electric Rate Case

In December 2012, as required in the 2010 UNS Electric Rate Order, UNS Electric filed with the ACC a general rate case, on a cost-of-service basis, requesting a non-fuel Base Rate increase of $7.5 million, or 4.6%. UNS Electric requested a rate of return of 8.4% on an OCRB of approximately $217 million and a 6.7% rate of return on a FVRB of $286 million. The return on FVRB includes a 1.6% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $69 million).

UNS Electric requested a LFCR mechanism to recover non-fuel costs that would go unrecovered due to lost kWh sales as a result of implementing Electric EE Standards and the RES. In addition to the LFCR mechanism, UNS Electric requested a Transmission Cost Adjustor (TCA). The TCA is designed to track changes to UNS Electric's FERC approved Open Access Transmission Tariff (OATT) rate which is updated annually and would allow UNS Electric to recover transmission costs in a timely manner.

COST RECOVERY MECHANISMS

TEP, UNS Gas, and UNS Electric have received regulatory decisions that allow for more timely recovery of certain costs through the recovery mechanisms described below.

Purchased Power and Fuel Adjustment Clause

The PPFAC provides for the adjustment of Retail Rates to reflect variations in retail fuel, transmission, and purchased power costs, including demand charges, and the prudent costs of contracts for hedging fuel. TEP and UNS Electric record deferrals for recovery or refund to the extent actual retail fuel, transmission, and purchased power costs vary from the fuel rate and current PPFAC rates. The TEP PPFAC became effective in January 2009. A PPFAC rate adjustment is made annually each April 1st (unless otherwise approved by the ACC) and goes into effect for the subsequent 12-month period automatically unless suspended by the ACC. UNS Electric's PPFAC rate adjustment is made annually each June 1st, effective for the subsequent 12-month period.

The PPFAC rate includes: 1) a forward component, under which TEP and UNS Electric recover or refund differences between, a) forecasted fuel, transmission, and purchased power costs for the upcoming calendar year and, b) those embedded in the fuel rate and the current PPFAC rates; and 2) a true-up component, which reconciles differences between actual fuel, transmission, and purchased power costs and those recovered through the combination of the fuel rate and the forward component for the preceding 12-month period.

The table below summarizes TEP's and UNS Electric's PPFAC rates in cents per kWh that are compared against actual fuel cost to create regulatory assets or liabilities:

	2012			2011		
	June - December	April - May	January - March	June - December	April - May	January - March
TEP						
PPFAC	0.77	0.77	0.53	0.53	0.53	0.09
CTC [(1)]	0.00	0.00	(0.53)	(0.53)	(0.53)	(0.09)
Total PPFAC Rate	0.77	0.77	—	—	—	—
UNS Electric	(1.44)	(0.88)	(0.88)	(0.88)	0.08	0.08

(1) Competition Transition Charge

As part of the TEP 2008 Rate Order, TEP was required to credit previously collected revenues to customers through the PPFAC. As a result, the PPFAC charge had been zero since it became effective in January 2009. In November 2011, the Fixed CTC revenue was fully refunded to customers and TEP began deferring the PPFAC eligible costs until a new PPFAC rate was approved by the ACC in April 2012.

UNS Gas Purchased Gas Adjustor

The PGA mechanism allows UNS Gas to adjust Retail Rates to reflect variations in natural gas costs. UNS Gas records deferrals for recovery or refund to the extent actual natural gas costs vary from the PGA rate. The PGA rate reflects a weighted, rolling average of the gas costs incurred by UNS Gas over the preceding 12 months. The PGA rate automatically adjusts monthly, but it is restricted from rising or falling more than $0.15 per therm in a twelve-month period. UNS Gas is required to request an additional surcredit if deferral balances reflect $10 million or more on a billed-to-customer basis. In 2012, the ACC approved a PGA temporary surcredit of 4.5 cents per therm effective for the period from May 2012 through April 2014, or when the PGA balance reaches zero, whichever comes first. At December 31, 2012, the PGA bank balance was over-collected by $10 million on a billed-to-customer basis, an increase of $2 million from December 31, 2011.

The PGA rate ranged from $0.5202 to $0.6501 cents per therm in 2012, and ranged from $0.6593 to $0.7296 cents per therm in 2011.

RES and Energy Efficiency Standards

The ACC has a mandatory RES that requires TEP and UNS Electric to expand their use of renewable energy through efforts funded by customer surcharges. TEP and UNS Electric are required to file five-year implementation plans with the ACC and annually seek approval for the upcoming year's RES funding amount. Similarly, TEP, UNS Gas, and UNS Electric recover the cost of ACC-approved energy efficiency programs through DSM surcharges established by the ACC.

The following table shows RES and DSM tariffs collected:

	TEP RES	UNS Electric RES	TEP DSM	UNS Gas DSM	UNS Electric DSM
			-Millions of Dollars-		
2012	$30	$7	$11	$1	$7
2011	35	7	11	1	2
2010	32	7	10	1	2

Renewable Energy Standard

The following table summarizes TEP's authorized 2010-2012 RES programs:

	Years Ended December 31,		
	2012[2]	2011	2010
	-Millions of Dollars-		
Investment in Company-Owned Solar Projects	$28	$28	$ 14
Return on Investment for Company-Owned Solar Projects	2	1	—
Program Budget[1]	30	36	44

(1) The authorized program budget for 2010 includes $12 million in carryforward of 2008 and 2009 RES funds.

(2) TEP met the 2012 renewable energy target of 3.5%.

The funding mechanism allows TEP to use RES funds to recover operating costs, depreciation, and property taxes, and to earn a return on company-owned solar projects until the projects can be incorporated in Base Rates.

In January 2013, the ACC approved TEP's 2013 RES implementation plan. Under the plan, TEP expects to collect approximately $36 million from retail customers during 2013. The plan includes an investment of $28 million in 2013 for company-owned solar projects, of which $8 million was previously approved by the ACC, as well as the continuation of the funding mechanism for company-owned solar projects. In accordance with the funding mechanism approved by the ACC, TEP could earn approximately $4 million pre-tax in 2013 on solar investments made in 2010, 2011, and 2012.

The following table summarizes UNS Electric's authorized 2010-2012 RES programs:

	Years Ended December 31,		
	2012[1]	2011	2010
	-Millions of Dollars-		
Investment in Company-Owned Solar Projects	$5	$ 5	$—
Return on Investment for Company-Owned Solar Projects	1	—	—
Program Budget	8	8	9

(1) UNS Electric met the 2012 renewable energy target of 3.5%.

UNS Electric will invest up to $5 million per year in company-owned renewable assets (between 2013 and 2014) subject to an annual prudency review and approval by the ACC. UNS Electric will recover the associated operating costs, depreciation, and property taxes under the RES program until the next rate case is filed and the assets are incorporated in the Base Rates.

In January 2013, the ACC approved UNS Electric's 2013 RES implementation plan. UNS Electric's will collect approximately $7 million from retail customers during 2013, a portion of which is expected to provide recovery of operating costs and a return on investment to UNS Electric for company-owned solar projects.

TEP and UNS Electric entered into multiple ACC-approved long-term purchase power agreements with companies developing renewable energy generation facilities. TEP and UNS Electric are required to purchase the full output of each facility for 20 years. Both utilities are authorized to recover a portion of the cost of renewable energy through the PPFAC, with the balance of costs recoverable through the RES tariff.

Energy Efficiency Standards

In 2010, the ACC approved new Electric EE Standards designed to require TEP and UNS Electric to implement cost-effective DSM programs, effective in 2011. In 2011, the Electric EE Standards targeted total retail kWh savings equal to 1.25% of 2010 sales, increasing to 22% by 2020, and provide for a DSM surcharge to recover the costs to implement DSM programs.

In May 2012, TEP filed a modification to its proposed 2011-2012 Energy Efficiency implementation plan with the ACC. The proposal included a request for a performance incentive for 2012 ranging from approximately $3 million to $4 million and the collection of the performance incentive over a period from October 1, 2012 to December 31, 2012. An administrative law judge issued a recommended opinion and order in August 2012. TEP did not record any income related to the proposed performance incentive in 2012. A proposed settlement agreement in TEP's pending rate case proceeding includes a new mechanism for recovery of costs incurred to implement DSM programs. The proposed settlement agreement requires the ACC's approval before it becomes effective.

The ACC approved new Gas EE Standards which required UNS Gas to implement cost effective DSM programs to reduce total retail therm sales in 2011, by 701,113 therms, or 0.5% of 2010 sales and to reduce total retail therm sales in 2012 by 1,679,890 therms, or 1.2% of 2011 sales. Targeted savings increase annually in subsequent years until they reach a cumulative annual reduction in retail therm sales of 6% by 2020.

In 2011, UNS Gas filed its 2011-2012 Gas Energy Efficiency implementation plan and subsequently filed an update in September 2011 which requested a waiver of the Gas EE Standards. In 2012, UNS Gas filed a request to amend its plan to include its 2013 Gas Energy Efficiency plan and for a modified waiver of the Gas EE Standards. We cannot predict when the ACC will rule on the Gas Energy Efficiency plan or the subsequent requests.

In January 2012, the ACC granted UNS Electric a waiver from complying with the 2011 and 2012 Electric EE Standards.

In June 2012, UNS Electric filed its 2013 Energy Efficiency implementation plan with the ACC. The proposal includes a request for a 2013 performance incentive of approximately $1 million. UNS Electric requested a waiver from complying with the 2013 Electric EE Standards. UNS Electric is unable to predict when the ACC will issue a final order in this matter.

Lost Fixed Cost Recovery Mechanism

In May 2012, the ACC authorized a mechanism for UNS Gas to recover therm sales lost as a result of implementing programs under the Gas EE Standards. The LFCR mechanism enables UNS Gas to recover non-purchased energy related costs that would go unrecovered due to lost therm sales as a result of implementing the Gas EE Standards. UNS Gas recorded less than $0.1 million of LFCR revenue in 2012.

Renewable Energy Credits

UNS Electric had $2 million of RECs on December 31, 2012, and $1 million of RECs on December 31, 2011, recorded in Other Assets on the balance sheets. TEP did not have RECs balances at the end of the periods presented since all RECs have been retired for compliance with the RES standard.

Regulatory Assets and Liabilities

The following tables summarize regulatory assets and liabilities:

	December 31, 2012			
	TEP	UNS Gas	UNS Electric	UNS Energy
	-Millions of Dollars-			
Regulatory Assets—Current				
Property Tax Deferrals [1]	$ 18	$—	$—	$ 18
Derivative Instruments (Notes 11 and 16)	2	3	6	11
PPFAC [3]	7	—	8	15
DSM [3]	5	—	—	5
Other Current Regulatory Assets [4]	2	1	—	3
Total Regulatory Assets—Current	34	4	14	52
Regulatory Assets—Noncurrent				
Pension and Other Retiree Benefits (Note 9)	130	4	5	139
Income Taxes Recoverable through Future Revenues [5]	8	—	2	10
PPFAC—Final Mine Reclamation and Retiree Health Care Costs [6]	22	—	—	22
Tucson to Nogales Transmission Line [7]	5	—	—	5
Other Regulatory Assets [4]	13	1	1	15
Total Regulatory Assets—Noncurrent	178	5	8	191
Regulatory Liabilities—Current				
PGA [8]	—	(17)	—	(17)
RES [8]	(19)	—	(4)	(23)
Other Current Regulatory Liabilities	(2)	(1)	(1)	(4)
Total Regulatory Liabilities—Current	(21)	(18)	(5)	(44)
Regulatory Liabilities—Noncurrent				
Net Cost of Removal for Interim Retirements [9]	(231)	(25)	(11)	(267)
Income Taxes Payable through Future Rates	(5)	(1)	—	(6)
Deferred Investment Tax Credit [10]	(5)	—	—	(5)
Other Regulatory Liabilities	—	—	(1)	(1)
Total Regulatory Liabilities—Noncurrent	(241)	(26)	(12)	(279)
Total Net Regulatory Assets (Liabilities)	$ (50)	$ (35)	$ 5	$ (80)

	December 31, 2011			
	TEP	UNS Gas	UNS Electric	UNS Energy
	-Millions of Dollars-			
Regulatory Assets—Current				
Property Tax Deferrals [1]	$ 16	$—	$—	$ 16
Derivative Instruments (Notes 11 and 16)	7	7	10	24
Deregulation Costs [2]	3	—	—	3
PPFAC [3]	34	—	7	41
DSM [3]	8	—	1	9
Other Current Regulatory Assets [4]	4	—	—	4
Total Regulatory Assets—Current	72	7	18	97
Regulatory Assets—Noncurrent				
Pension and Other Retiree Benefits (Note 9)	107	3	4	114
Income Taxes Recoverable through Future Revenues [5]	10	—	2	12
PPFAC [3]	6	—	—	6
PPFAC—Final Mine Reclamation and Retiree Health Care Costs [6]	20	—	—	20
Derivative Instruments (Notes 11 and 16)	2	2	3	7
Other Regulatory Assets [4]	12	1	1	14
Total Regulatory Assets—Noncurrent	157	6	10	173
Regulatory Liabilities—Current				
PGA [8]	—	(15)	—	(15)
RES [8]	(22)	—	(3)	(25)
Other Current Regulatory Liabilities	(2)	—	—	(2)
Total Regulatory Liabilities—Current	(24)	(15)	(3)	(42)
Regulatory Liabilities—Noncurrent				
Net Cost of Removal for Interim Retirements [9]	(198)	(23)	(10)	(231)
Other Regulatory Liabilities	(3)	(1)	—	(4)
Total Regulatory Liabilities—Noncurrent	(201)	(24)	(10)	(235)
Total Net Regulatory Assets (Liabilities)	$ 4	$ (26)	$ 15	$ (7)

Regulatory assets are either being collected in Retail Rates or are expected to be collected through Retail Rates in a future period. We describe regulatory assets and state when we earn a return below:

(1) Property Tax is recovered over an approximate six-month period as costs are paid, rather than as costs are accrued.

(2) Deregulation costs represent deferred expenses that TEP incurred to comply with various ACC deregulation orders, as authorized by the ACC. TEP earned a return on this asset and recovered these costs through Retail Rates over a four-year period ended November 2012.

(3) See Cost Recovery Mechanisms discussion above.

(4) TEP's other assets include unamortized loss on reacquired debt (recovery through 2032), coal contract amendment (recovery through 2017), and other assets (recovery through 2014). UNS Gas' other assets consist of rate case costs (recovery over 3 years), and costs of the low income assistance program.

(5) Income Taxes Recoverable through Future Revenues are amortized over the life of the assets.

(6) Final Mine Reclamation and Retiree Health Care Costs stem from TEP's jointly-owned facilities at the San Juan Generating Station, the Four Corners Generating Station, and the Navajo Generating Station. TEP is required to recognize the present value of its liability associated with final mine reclamation and retiree health care obligations. TEP recorded a regulatory asset because TEP is permitted to fully recover these costs through the PPFAC when the costs are invoiced by the miners. TEP expects to recover these costs over the remaining life of the mines, which is estimated to be between 14 and 20 years.

(7) The Tucson to Nogales Transmission Line regulatory asset does not earn a return. TEP and UNS Electric will request recovery from FERC for the prudent cost incurred to develop a high-voltage transmission line, which we expect to abandon. See Note 4.

Regulatory liabilities represent items that we either expects to pay to customers through billing reductions in future periods or plans to use for the purpose for which they were collected from customers, as described below:

(8) See Cost Recovery Mechanisms discussion above.

(9) Net Cost of Removal for Interim Retirements represents an estimate of the cost of future AROs net of salvage value. These are amounts collected through revenue for the net cost of removal of interim retirements for transmission, distribution, general, and intangible plant which are not yet expended. TEP and UNS Electric have also collected amounts for generation plant, which they have not yet expended.

(10) The Deferred Investment Tax Credit is related to federal energy credits generated in 2012 and are deferred as Regulatory Liabilities – Noncurrent and amortized over the tax life of the underlying asset.

Income Statement Impact of Applying Regulatory Accounting

Regulatory accounting had the following effects on TEP's net income:

	Years Ended December 31,		
	2012	2011	2010
	-Millions of Dollars-		
TEP			
Operating Revenues			
Amortization of the Fixed CTC Revenue to be Refunded	$ —	$ 36	$ 10
Operating Expenses			
Depreciation (related to Net Cost of Removal for Interim Retirements)	(33)	(29)	(30)
(Amortization)/Deferral of PPFAC Costs	(31)	6	22
Other	(7)	—	(8)
Non-Operating Income/Expenses			
Long-Term Debt (Amortization of Loss on Reacquired Debt Costs)	1	1	1
AFUDC—Equity	3	4	4
Income Taxes—Deferral	(3)	(8)	1
Offset by the Tax Effect of the Above Adjustments	26	(4)	—
Net (Decrease)/Increase to Net Income	$ (44)	$ 6	$—

Had UNS Gas and UNS Electric not applied regulatory accounting each would have recognized the difference between expected and actual purchased energy costs and commodity derivative unrealized gains or losses as a change in income statement expense, rather than as a change in regulatory balances. Regulatory accounting had the following effects on UNS Gas' and UNS Electric's net income:

	Years Ended December 31,		
	2012	2011	2010
	-Millions of Dollars-		
UNS Gas			
Net (Decrease)/Increase to Net Income	$(6)	$(5)	$(1)
UNS Electric			
Net (Decrease)/Increase to Net Income	(7)	3	(7)

Future Implications of Discontinuing Application of Regulatory Accounting

We regularly assess whether we can continue to apply regulatory accounting to regulated operations, and we have concluded regulatory accounting is applicable. If we stopped applying regulatory accounting to our regulated operations, the following would occur:

- Regulatory pension assets would be reflected in AOCI;
- We would write off remaining regulatory assets as an expense and regulatory liabilities as income in the income statements;
- At December 31, 2012, based on the regulatory assets balances, net of regulatory liabilities:
  - TEP would have recorded an extraordinary after-tax gain of $48 million and an after-tax loss in AOCI of $78 million;
  - UNS Gas would have recorded an extraordinary after-tax loss of $19 million and an after-tax loss in AOCI of $3 million; and
  - UNS Electric would have recorded an extraordinary after-tax gain of $6 million and an after-tax loss in AOCI of $3 million.

While future regulatory orders and market conditions may affect cash flows, our cash flows would not be affected if we stopped applying regulatory accounting to our regulated operations.

NOTE 3. SEGMENT AND RELATED INFORMATION

We have three reportable segments that are determined based on the way we organize our operations and evaluate performance:

(1) TEP, a regulated electric utility business, is our largest subsidiary;

(2) UNS Gas is a regulated gas distribution utility business; and

(3) UNS Electric is a regulated electric utility business.

Results for the UNS Energy and UES holding companies, Millennium, and UED are included in Other below.

We disclose selected financial data for our reportable segments in the following tables:

	Reportable Segments					
	TEP	UNS Gas	UNS Electric	Other	Reconciling Adjustments	UNS Energy
	-Millions of Dollars-					
2012						
Income Statement						
Operating Revenues-External	$1,145	$129	$189	$ —	$ (1)	$1,462
Operating Revenues-Intersegment	17	4	1	18	(40)	—
Depreciation and Amortization	150	9	18	—	—	177
Interest Income	—	—	—	1	—	1
Interest Expense	88	6	8	3	—	105
Income Tax Expense	39	6	11	—	—	56
Net Income	65	9	17	—	—	91
Cash Flow Statement						
Capital Expenditures	(253)	(16)	(38)	—	—	(307)
Balance Sheet						
Total Assets	3,461	310	370	1,121	(1,122)	4,140

	Reportable Segments					
	TEP	UNS Gas	UNS Electric	Other	Reconciling Adjustments	UNS Energy
	-Millions of Dollars-					
2011						
Income Statement						
Operating Revenues-External [(1)]	$1,141	$149	$188	$ —	$ 1	$1,479
Operating Revenues-Intersegment	15	2	2	23	(42)	—
Depreciation and Amortization	140	8	17	1	(1)	165
Interest Income	4	—	—	1	—	5
Interest Expense	89	7	7	9	—	112
Income Tax Expense (Benefit)	52	7	11	(1)	(2)	67
Net Income	85	10	18	—	(3)	110
Cash Flow Statement						
Capital Expenditures	(352)	(13)	(96)	(34)	121	(374)
Balance Sheet						
Total Assets	3,278	320	370	1,172	(1,151)	3,989
2010						
Income Statement						
Operating Revenue-External [(1)]	$1,096	$144	$185	$ —	$ 1	$1,426
Operating Revenue-Intersegment	29	6	2	28	(65)	—
Depreciation and Amortization	132	8	16	2	(2)	156
Interest Income	7	—	—	1	—	8
Interest Expense	88	7	7	9	—	111
Net Loss from Equity Method Investments	—	—	—	(6)	—	(6)
Income Tax Expense	60	6	10	4	(3)	77
Net Income (Loss)	108	9	15	(14)	(5)	113
Cash Flow Statement						
Capital Expenditures	(277)	(12)	(24)	(18)	—	(331)

(1) The amounts previously reported have been revised.

Reconciling adjustments consist of the elimination of intersegment revenue resulting from the following transactions, which are eliminated in consolidation:

	Reportable Segments			
	TEP	UNS Gas	UNS Electric	Other
Intersegment Revenue	-Millions of Dollars-			
2012:				
Wholesale Sales—TEP to UNS Electric [1]	$ 2	$—	$—	$—
Wholesale Sales—UNS Electric to TEP [1]	—	—	1	—
Wholesale Sales—UNS Gas to TEP [2]	—	1	—	—
Gas Revenue—UNS Gas to UNS Electric	—	3	—	—
Other Revenue—TEP to Affiliates[3]	12	—	—	—
Other Revenue—Millennium to TEP, UNS Electric, & UNS Gas [4]	—	—	—	18
Other Revenue—TEP to UNS Electric [5]	3	—	—	—
Total Intersegment Revenue	$ 17	$ 4	$ 1	$ 18
2011:				
Wholesale Sales—TEP to UNS Electric [1]	$ 2	$—	$—	$—
Wholesale Sales—UNS Electric to TEP [1]	—	—	2	—
Wholesale Sales—UED to UNS Electric	—	—	—	5
Gas Revenue—UNS Gas to UNS Electric	—	2	—	—
Other Revenue—TEP to Affiliates[3]	10	—	—	—
Other Revenue—Millennium to TEP, UNS Electric, & UNS Gas [4]	—	—	—	18
Other Revenue—TEP to UNS Electric [5]	3	—	—	—
Total Intersegment Revenue	$ 15	$ 2	$ 2	$ 23
2010:				
Wholesale Sales—TEP to UNS Electric [1]	$ 18	$—	$—	$—
Wholesale Sales—UNS Electric to TEP [1]	—	—	2	—
Wholesale Sales—UED to UNS Electric	—	—	—	11
Wholesale Sales—UNS Gas to TEP[2]	—	1	—	—
Gas Revenue—UNS Gas to UNS Electric	—	5	—	—
Other Revenue—TEP to Affiliates[3]	8	—	—	—
Other Revenue—Millennium to TEP, UNS Electric, & UNS Gas [4]	—	—	—	17
Other Revenue—TEP to UNS Electric[5]	3	—	—	—
Total Intersegment Revenue	$ 29	$ 6	$ 2	$ 28

(1) TEP and UNS Electric sell power to each other at third-party market prices.

(2) UNS Gas provides gas to TEP for generation of power at third-party market prices.

(3) Common costs (systems, facilities, etc.) are allocated on a cost-causative basis and recorded as revenue by TEP. Management believes this method of allocation is reasonable.

(4) Millennium provides a supplemental workforce and meter-reading services to TEP, UNS Gas, and UNS Electric. Amounts are based on costs of services performed and management believes that the charges for services are reasonable. Millennium charged TEP $17 million in 2012 and 2011, and $16 million in 2010 for these services.

(5) TEP charged UNS Electric for control area services based on a FERC-approved tariff.

TEP provides all corporate services (finance, accounting, tax, information technology services, etc.) to UNS Energy affiliated entities. Costs are directly assigned to the benefiting entity. Direct costs charged by TEP to affiliates were $10 million in 2012, 2011, and 2010.

UNS Energy incurs corporate costs that are allocated to TEP and its other subsidiaries. Corporate costs are allocated based on a weighted-average of three factors: assets, payroll, and revenues. Management believes this method of allocation is reasonable and approximates the cost that TEP would have incurred as a standalone entity. Charges allocated to TEP were $2 million in 2012 and 2011, and $3 million in 2010.

Other

Other significant reconciling adjustments include the elimination of investments in subsidiaries held by UNS Energy and reclassifications of deferred tax assets and liabilities.

NOTE 4. COMMITMENTS, CONTINGENCIES, AND ENVIRONMENTAL MATTERS

TEP COMMITMENTS

Firm Purchase Commitments

At December 31, 2012, TEP had the following firm non-cancelable purchase commitments (minimum purchase obligations) and operating leases:

	Purchase Commitments						
	2013	2014	2015	2016	2017	Thereafter	Total
	-Millions of Dollars-						
Fuel (Including Transportation)	$ 65	$ 65	$ 50	$ 47	$ 39	$ 60	$ 326
Purchased Power	50	41	29	28	28	386	562
RES Performance-Based Incentive Payments	4	4	4	4	4	42	62
Solar Equipment	12	—	—	—	—	—	12
Transmission	3	3	3	3	3	22	37
Operating Leases	2	2	2	1	1	10	18
Service Agreement	2	2	—	—	—	—	4
Total Unrecognized Firm Commitments	$138	$117	$ 88	$ 83	$ 75	$520	$1,021

Fuel, Purchased Power, and Transmission Contracts

TEP has long-term contracts for the purchase and delivery of coal with various expiration dates through 2020. Amounts paid under these contracts depend on actual quantities purchased and delivered. Some of these contracts include a price adjustment clause that will affect the future cost. TEP expects to spend more than the minimum purchase obligations to meet its fuel requirements.

TEP has agreements with utilities and other energy suppliers for purchased power to meet system load and energy requirements, replace generation from company-owned units under maintenance and during outages, and meet operating reserve obligations. In general, these contracts provide for capacity payments and energy payments based on actual power taken under the contracts. These contracts expire in various years between 2013 and 2015. Certain of these contracts are at a fixed price per MW and others are indexed to natural gas prices. The commitment amounts included in the table are based on projected market prices as of December 31, 2012.

Additionally, Purchased Power includes six 20-year Power Purchase Agreements (PPAs) with renewable energy generation facilities that achieved commercial operation in 2011 and 2012. TEP is obligated to purchase 100% of the output from these facilities. TEP has additional long-term renewable PPAs to comply with the RES requirements; however, TEP's obligation to purchase power under these agreements does not begin until the facilities are operational.

Fuel, purchased power, and transmission costs are recoverable from customers through the PPFAC. A portion of the cost of renewable energy is recoverable through the PPFAC, with the balance of costs recoverable through the RES tariff. See Note 2.

RES Performance-Based Incentives

TEP has entered into REC purchase agreements to purchase the environmental attributes from retail customers with solar installations. Payments for the RECs are termed Performance-Based Incentives (PBIs) and are paid in contractually agreed-upon intervals (usually quarterly) based on metered renewable energy production. PBIs are recoverable through the RES tariff. See Note 2.

Solar Equipment

TEP committed to purchase 9 MW of photovoltaic equipment through December 2013. TEP spent $11 million in 2012 and $10 million in 2011 under this contract. The ACC approved this purchase under TEP's RES implementation plan. TEP earns a return on investment in company-owned solar projects. See Note 2.

Operating Leases

TEP's aggregate operating lease expense is primarily for rail cars, office facilities, and computer equipment, with varying terms, provisions, and expiration dates. This expense totaled $2 million in each of 2012, 2011, and 2010.

Service Agreement

In February 2012, TEP entered into a long-term agreement for information technology services. TEP is obligated to pay $2 million per year through December 2014.

UNS GAS AND UNS ELECTRIC COMMITMENTS

At December 31, 2012, UNS Gas had firm non-cancelable purchase commitments for fuel, including transportation, as described in the table below:

	Purchase Commitments						
	2013	2014	2015	2016	2017	Thereafter	Total
	-Millions of Dollars-						
Total Unrecognized Firm Commitments – Fuel	$26	$13	$8	$6	$4	$17	$74

UNS Gas purchases gas from various suppliers at market prices. However, UNS Gas' risk of loss due to increased costs (as a result of changes in market prices of fuel) is mitigated through the use of the PGA, which provides for the pass-through of actual commodity costs to customers. UNS Gas' forward gas purchase agreements expire through 2015. Certain of these contracts are at a fixed price per Million British Thermal Units (MMBtu) and others are indexed to natural gas prices. The commitment amounts included in the table above are based on market prices as of December 31, 2012. UNS Gas has firm transportation agreements with capacity sufficient to meet its load requirements. These contracts expire in various years between 2013 and 2024.

At December 31, 2012, UNS Electric had various firm non-cancelable purchase commitments as described in the table below:

	Purchase Commitments						
	2013	2014	2015	2016	2017	Thereafter	Total
	-Millions of Dollars-						
Purchased Power	$55	$50	$14	$6	$ 5	$ 80	$210
Transmission	4	2	2	1	—	—	9
Total Unrecognized Firm Commitments	$59	$52	$16	$7	$ 5	$ 80	$219

UNS Electric enters into agreements with various energy suppliers for purchased power at market prices to meet its energy requirements. In general, these contracts provide for capacity payments and energy payments based on actual power taken. These contracts expire in various years through 2015. Certain of these contracts are at a fixed price per MW and others are indexed to natural gas prices. The commitment amounts included in the table above are based on market prices as of December 31, 2012. Purchased power commitments also include two 20-year PPAs with renewable energy generation facilities that achieved commercial operation in 2011 and 2012. UNS Electric is obligated to purchase 100% of the output from these facilities.

UNS Electric imports the power it purchases over the Western Area Power Administration's (WAPA) transmission lines. UNS Electric's transmission capacity agreements with WAPA provide for annual rate adjustments and expire in 2013 and 2016. However, the effects of both purchased power and transmission cost adjustments are mitigated through UNS Electric's PPFAC.

UNS Gas and UNS Electric have operating leases, primarily for office facilities and computer equipment, with varying terms and expiration dates. The expense was less than $1 million in each of the years 2012, 2011, and 2010. UNS Gas' and UNS Electric's estimated future minimum payments under non-cancelable operating leases are less than $1 million per year for 2013 through 2031.

RES Performance-Based Incentives

UNS Electric is contractually obligated to make RES PBI payments to retail customers with solar installations. UNS Electric's total obligation for RES PBIs is about $6 million with payments required over periods ranging from 10 to 20 years based on metered renewable energy production. PBIs are recoverable through the RES tariff. See Note 2.

Solar Project

In December 2012, UNS Electric entered into an agreement for the construction of a 7.182 MW solar photovoltaic power plant that will be constructed in two phases. The first phase will result in a 4.2 MW plant that UNS Electric expects to be operational in June of 2013. The balance of the project will be completed in 2014. UNS Electric invested $5 million in this project in 2012. The contract requires additional investments of $4 million in each of 2013 and 2014. This is an approved project under UNS Electric's RES implementation plan. See Note 2.

TEP CONTINGENCIES

Springerville Generating Station Unit 3 Outage

In July 2012, Springerville Unit 3 experienced an unplanned outage. As a result of the outage, TEP recorded a pre-tax loss of $2 million in the third quarter of 2012 as TEP did not meet certain availability requirements under the terms of TEP's operating agreement with Tri-State.

Claims Related to San Juan Generating Station

San Juan Coal Company (SJCC) operates an underground coal mine in an area where certain gas producers have oil and gas leases with the federal government, the State of New Mexico, and private parties. These gas producers allege that SJCC's underground coal mine interferes with their operations, reducing the amount of natural gas they can recover. SJCC has compensated certain gas producers for any remaining production from wells deemed close enough to the mine to warrant plugging and abandoning them. These settlements, however, do not resolve all potential claims by gas producers in the area. TEP owns 50% of Units 1 and 2 at San Juan Generating Station (San Juan), which represents approximately 20% of the total generation capacity at San Juan, and is responsible for its share of any settlements. TEP cannot estimate the impact of any future claims by these gas producers on the cost of coal at San Juan.

Claims Related to Four Corners Generating Station

In October 2011, EarthJustice, on behalf of several environmental organizations, filed a lawsuit in the United States District Court for the District of New Mexico against Arizona Public Service Company (APS) and the other Four Corners Generating Station (Four Corners) participants, alleging violations of the Prevention of Significant Deterioration (PSD) provisions of the Clean Air Act at Four Corners. In January 2012, EarthJustice amended their complaint alleging violations of New Source Performance Standards resulting from equipment replacements at Four Corners. Among other things, the plaintiffs seek to have the court issue an order to cease operations at Four Corners until any required PSD permits are issued, and order the payment of civil penalties, including a beneficial mitigation project. In April 2012, APS filed Motions to Dismiss with the court for all claims asserted by EarthJustice in the amended complaint. The parties filed a Joint Motion to Stay in November 2012 in furtherance of settlement talks.

TEP owns 7% of Four Corners Units 4 and 5 and is liable for its share of any resulting liabilities. TEP cannot predict the final outcome of the claims relating to Four Corners, and, due to the general and non-specific nature of the claims and the indeterminate scope and nature of the injunctive relief sought for these claims, TEP cannot determine estimates of the range of loss at this time. TEP accrued estimated losses of less than $1 million in 2011 for this claim.

Mine Closure Reclamation at Generating Stations Not Operated by TEP

TEP pays ongoing reclamation costs related to coal mines that supply generating stations in which TEP has an ownership interest but does not operate. TEP is liable for a portion of final reclamation costs upon closure of the mines servicing Navajo Generating Station (Navajo), San Juan, and Four Corners. TEP's share of reclamation costs is expected to be $27 million upon expiration of the coal supply agreements, which expire between 2016 and 2019. The reclamation liability (present value of future liability) was $16 million at December 31, 2012, and $13 million at December 31, 2011.

Amounts recorded for final reclamation are subject to various assumptions, such as estimations of reclamation costs, the dates when final reclamation will occur, and the credit-adjusted risk-free interest rate to be used to discount future liabilities. As these assumptions change, TEP will prospectively adjust the expense amounts for final reclamation over the remaining coal supply agreement terms. TEP does not believe that recognition of its final reclamation obligations will be material to TEP in any single year because recognition will occur over the remaining terms of its coal supply agreements.

TEP's PPFAC allows us to pass through most fuel costs (including final reclamation costs) to customers. Therefore, TEP classifies these costs as a regulatory asset by increasing the regulatory asset and the reclamation liability over the remaining life of the coal supply agreements on an accrual basis and recovering the regulatory asset through the PPFAC as final mine reclamation costs are paid to the coal suppliers.

In June 2012, the participants at San Juan executed a Trust Reclamation Agreement requiring each participant to individually establish and fund a trust based on the participant's share of the estimated final mine reclamation costs. The trust must remain in effect through completion of final mine reclamation activities currently projected to be 2050. TEP established and funded its trust with $1 million in 2012. TEP expects to make additional cumulative deposits to the trust of approximately $1 million over the next five years.

Tucson to Nogales Transmission Line

TEP and UNS Electric are parties to a project development agreement for the joint construction of a 60-mile transmission line from Tucson, Arizona to Nogales, Arizona. This project was initiated in response to an order by the ACC to UNS Electric to improve the reliability of electric service in Nogales. TEP had previously capitalized $11 million related to the project, including $2 million to secure land and land rights. UNS Electric had previously capitalized $0.4 million related to the project.

TEP and UNS Electric expect to abandon the project based on the cost of the proposed 345-kV line, the difficulty in reaching agreement with the Forest Service on a path for the line, and concurrence by the ACC of recent transmission plans filed by TEP and UNS Electric supporting the elimination of this project. In TEP's pending rate case proceeding before the ACC, TEP entered into a proposed settlement agreement in which it agrees to seek recovery of the project costs from FERC before seeking rate recovery from the ACC. In the fourth quarter of 2012, TEP and UNS Electric wrote off a portion of the capitalized costs believed not probable of recovery and recorded a regulatory asset for the balance deemed probable of recovery. TEP and UNS Electric believe it is probable that we will recover at least $5 million and $0.2 million, respectively, of costs incurred through 2012.

RESOLUTION OF CONTINGENCIES

In April 2010, the Sierra Club filed a citizens' suit under the Resource Conservation and Recovery Act (RCRA) and the Surface Mine Control and Reclamation Act (SMCRA) in the United States District Court for the District of New Mexico against Public Service Company of New Mexico (PNM), as operator of San Juan, SJCC, and PNM's and SJCC's respective parent companies. The suit alleged that certain activities at San Juan and the San Juan mine associated with the treatment, storage, and disposal of coal and Coal Combustion Residuals (CCRs) violated

RCRA and SMCRA. The suit sought an injunction with respect to the placement of CCRs at the mine, the imposition of civil penalties, and attorney's fees and costs. In March 2012, the parties settled the case. The settlement was approved by the court.

TEP is responsible for its share of the settlement of the San Juan claims. TEP recorded less than $1 million for its share of the costs to fund environmental projects and Sierra Club attorney and expert fees required by the settlement, substantially all of which was recorded in 2011. In addition, TEP paid $1 million for its share of construction costs for a new groundwater recovery system adjacent to San Juan and other environmental projects required by the settlement.

San Juan Mine Fire

In September 2011, a fire at the underground mine that provides coal to San Juan caused mining operations to shut down. The mine resumed production in June 2012. The mine fire did not have a material effect on TEP's financial condition, results of operations, or cash flows due to the use of on-hand inventory of previously mined coal and the low market price of wholesale power during the closure. TEP awaits final resolution in the matter pending an insurance settlement between the mine operator and its insurance company.

ENVIRONMENTAL MATTERS

Environmental Regulation

The Environmental Protection Agency (EPA) limits the amount of sulfur dioxide (SO_2), nitrogen oxide (NOx), particulate matter, mercury and other emissions released into the atmosphere by power plants. TEP capitalized $2 million in 2012, $8 million in 2011, and $18 million in 2010 in construction costs to comply with environmental requirements, including TEP's share of new pollution control equipment installed at San Juan. TEP expects to capitalize environmental compliance costs of $10 million in 2013 and $27 million in 2014. In addition, TEP recorded O&M expenses of $15 million in 2012, $12 million in 2011, and $14 million in 2010 related to environmental compliance. TEP expects environmental O&M expenses to be $16 million in 2013.

TEP may incur additional costs to comply with future changes in federal and state environmental laws, regulations, and permit requirements at its power plants. Complying with these changes may reduce operating efficiency. TEP expects to recover the cost of environmental compliance from its ratepayers.

Hazardous Air Pollutant Requirements

The Clean Air Act requires the EPA to develop emission limit standards for hazardous air pollutants that reflect the maximum achievable control technology. In February 2012, the EPA issued final rules called the Mercury and Air Toxics Standards setting limits for mercury emissions and other hazardous air pollutants from power plants.

<u>Navajo</u>

Based on the EPA's final standards, Navajo may need mercury and particulate matter emission control equipment by 2015. TEP's share of the estimated capital cost of this equipment is less than $1 million for mercury control and about $43 million if the installation of baghouses to control particulates is necessary. TEP expects its share of the annual operating costs for mercury control and baghouses to be less than $1 million each. The operator of Navajo is currently analyzing the need for baghouses under various regulatory scenarios, which include the regional haze final Best Available Retrofit Technology (BART) rules.

<u>San Juan</u>

TEP expects San Juan's current emission controls to be adequate to comply with the EPA's final standards.

<u>Four Corners</u>

Based on the EPA's final standards, Four Corners may need mercury emission control equipment by 2015. The estimated capital cost of this equipment is less than $1 million. TEP expects the annual operating cost of the mercury emission control equipment to be less than $1 million.

<u>Springerville</u>

Based on the EPA's final standards, Springerville may need mercury emission control equipment by 2015. The estimated capital cost of this equipment for Springerville Units 1 and 2 is about $5 million. TEP expects the annual operating cost of the mercury emission control equipment to be about $3 million.

<u>Sundt Generating Station</u>

TEP expects the final EPA standards will have little effect on capital expenditures at Sundt Generating Station (Sundt).

Regional Haze Rules

The EPA's regional haze rules require emission controls known as BART for certain industrial facilities emitting air pollutants that reduce visibility. The rules call for all states to establish goals and emission reduction strategies for improving visibility in national parks and wilderness areas. States must submit these goals and strategies to the EPA for approval. Because Navajo and Four Corners are located on the Navajo Indian Reservation, they are not subject to state oversight. The EPA oversees regional haze planning for these power plants.

Complying with the EPA's BART findings, and with other environmental rules, may make it economically impractical to continue operating the Navajo, San Juan, and Four Corners power plants or for individual owners to continue to participate in these power plants. TEP cannot predict the ultimate outcome of these matters.

Navajo

In January 2013, the EPA proposed an alternative BART determination that would require the installation of SCR technology on all three units at Navajo by 2023. If SCR technology is ultimately required at Navajo, TEP estimates its share of the capital cost will be $42 million. Also, the installation of SCR technology at Navajo could increase the power plant's particulate emissions which may require that baghouses be installed. TEP estimates that its share of the capital expenditure for baghouses would be about $43 million. TEP's share of annual operating costs is estimated at less than $1 million for each of the control technologies (SCR and baghouses).

San Juan

In August 2011, the EPA issued a Federal Implementation Plan (FIP) establishing new emission limits for air pollutants at San Juan. These requirements are more stringent than those proposed by the State of New Mexico. The FIP requires the installation of SCR technology with sorbent injection on all four units within five years to reduce NOx and control sulfuric acid emissions by September 2016. TEP estimates its share of the cost to install SCR technology with sorbent injection to be between $180 million and $200 million. TEP expects its share of the annual operating costs for SCR technology to be approximately $6 million.

In 2011, PNM filed a petition for review of and a motion to stay the FIP with the Tenth Circuit United States Court of Appeals (Circuit Court). In addition, PNM filed a request for reconsideration of the rule with the EPA and a request to stay the effectiveness of the rule pending the EPA's reconsideration and the review by the Circuit Court. The State of New Mexico filed similar motions with the Circuit Court and the EPA. Several environmental groups were granted permission to join in opposition to PNM's petition to review in the Circuit Court. In addition, WildEarth Guardians filed a separate appeal against the EPA challenging the FIP's five-year implementation schedule. PNM was granted permission to join in opposition to that appeal. In March 2012, the Circuit Court denied PNM's and the State of New Mexico's motion for stay. Oral argument on the appeal was heard in October 2012 and the parties are currently awaiting the Circuit Court's decision.

In February 2013, the State of New Mexico released a proposed plan that it presented to the EPA as an alternative to the FIP. The proposed plan includes: the retirement of San Juan Units 2 and 3 by December 31, 2017; the replacement of those units with non-coal generation sources; and the installation of selective non-catalytic reduction technology (SNCR) on San Juan Units 1 and 4 by January 2016. TEP estimates its share of the cost to install SNCR technology on San Juan Unit 1 would be approximately $25 million.

TEP owns 340 MW, or 50%, of San Juan Units 1 and 2. At December 31, 2012, the book value of TEP's share of San Juan Units 1 and 2 was $217 million. If Unit 2 is retired early, we expect to request ACC approval to recover, over a reasonable time period, all costs associated with the early closure of the unit. We are evaluating various replacement resources. Any decision regarding early closure and replacement resources will require various actions by third parties as well as UNS Energy board and regulatory approvals.

If the proposed plan is not accepted and agreed to by the EPA, the New Mexico Environmental Department, the San Juan participants, and various other regulatory entities, TEP may begin making capital expenditures to install SCRs on San Juan Units 1 and 2 in 2013 to meet the FIP compliance deadline. TEP cannot predict the ultimate outcome of this matter.

Four Corners

In August 2012, the EPA finalized the regional haze FIP for Four Corners. The final FIP requires SCR technology to be installed on all five units by 2017. However, the FIP also includes an alternative plan that allows APS to close their wholly-owned Units 1, 2, and 3 and install SCR technology on Units 4 and 5. This option allows the installation of SCR technology to be delayed until July 2018. In either case, TEP's estimated share of the capital costs to install SCR technology is about $35 million. TEP's share of annual operating costs for SCR is estimated at $2 million.

Springerville

Regional haze regulations requiring emission control upgrades do not apply to Springerville currently and are not likely to impact Springerville operations until after 2018.

Sundt

In December 2012, the EPA issued a proposed rule on provisions, that had not been previously addressed, in the Arizona State Implementation Plan related to regional haze. Contrary to the Arizona plan the EPA disapproved, among other things, the determination that Sundt Unit 4 is not subject to the BART provisions of the regional haze rule and is therefore subject to BART requirements. If the BART eligibility determination stands, Sundt Unit 4 will be required to reduce certain emissions within five years of the final EPA BART rule which is likely to be completed in October 2013. The EPA is expected to release a proposed BART requirement for Sundt Unit 4 in March 2013.

NOTE 5. UTILITY PLANT AND JOINTLY-OWNED FACILITIES

UTILITY PLANT

The following table shows Utility Plant in Service by major class:

	UNS Energy		TEP	
	December 31,		December 31,	
	2012	2011	2012	2011
	-Millions of Dollars-			
Plant in Service:				
Electric Generation Plant	$1,932	$1,879	$1,847	$1,795
Electric Transmission Plant	842	810	796	766
Electric Distribution Plant	1,495	1,453	1,271	1,234
Gas Distribution Plant	240	233	—	—
Gas Transmission Plant	18	18	—	—
General Plant	347	331	309	302
Intangible Plant—Software Costs [1] [2]	124	122	123	121
Intangible Plant—Other	5	5	—	—
Electric Plant Held for Future Use	3	5	2	4
Total Plant in Service	$5,006	$4,856	$4,348	$4,222
Utility Plant under Capital Leases	$ 583	$ 583	$ 583	$ 583

(1) Unamortized computer software costs were $36 million for UNS Energy and $35 million for TEP as of December 31, 2012, and $43 million for UNS Energy and $42 million for TEP as of December 31, 2011.

(2) The amortization of computer software costs in UNS Energy's income statements was $13 million in 2012, $10 million in 2011, and $9 million in 2010. The amortization of computer software costs in TEP's income statements before intercompany allocations was $13 million in 2012, $10 million in 2011, and $9 million in 2010.

TEP Utility Plant under Capital Leases

All TEP utility plant under capital leases is used in TEP's generation operations and amortized over the primary lease term. See Note 6. At December 31, 2012, the utility plant under capital leases includes: 1) Springerville Unit 1; 2) Springerville Common Facilities; and 3) Springerville Coal Handling Facilities. The following table shows the amount of lease expense incurred for TEP's generation-related capital leases:

	Years Ended December 31,		
	2012	2011	2010
	-Millions of Dollars-		
Lease Expense:			
Interest Expense – Included in:			
Capital Leases	$ 34	$40	$47
Operating Expenses – Fuel	3	4	4
Other Expense	—	1	2
Amortization of Capital Lease Assets – Included in:			
Operating Expenses – Fuel	4	3	3
Operating Expenses – Amortization	14	14	14
Total Lease Expense	$ 55	$62	$70

The depreciable lives as of December 31, 2012, were as follows:

Major Class of Utility Plant in Service	TEP	UNS Gas and UNS Electric
Electric Generation Plant	11-57 years	38-49 years
Electric Transmission Plant	20-60 years	20-50 years
Electric Distribution Plant	28-60 years	23-50 years
Gas Distribution Plant	n/a	30-55 years
Gas Transmission Plant	n/a	30-65 years
General Plant	5-31 years	5-40 years
Intangible Plant	3-19 years	3-32 years

See *Utility Plant* in Note 1 and *TEP Capital Lease Obligations* in Note 6.

JOINTLY-OWNED FACILITIES

At December 31, 2012, TEP's interests in jointly-owned generating stations and transmission systems were as follows:

	Ownership Percentage	Plant in Service	Construction Work in Progress	Accumulated Depreciation	Net Book Value
		-Millions of Dollars-			
San Juan Units 1 and 2	50.0%	$ 443	$ 7	$220	$230
Navajo Units 1, 2, and 3	7.5	148	1	106	43
Four Corners Units 4 and 5	7.0	97	2	73	26
Luna Energy Facility	33.3	53	—	—	53
Transmission Facilities	7.5 to 95.0	328	22	186	164
Total		$1,069	$ 32	$585	$516

TEP has financed or provided funds for the above facilities and TEP's share of its operating expenses is reflected in the income statements based on the nature of the expense.

ASSET RETIREMENT OBLIGATIONS

The accrual of AROs is primarily related to generation and photovoltaic assets and is included in Deferred Credits and Other Liabilities on the balance sheets. The following table reconciles the beginning and ending aggregate carrying amounts of ARO accruals on the balance sheets:

	UNS Energy and TEP	
	December 31, 2012	December 31, 2011
	-Millions of Dollars-	
Beginning Balance	$ 13	$ 4
Liabilities Incurred	—	1
Liabilities Settled	—	—
Accretion Expense	1	—
Revision to Estimated Cash Flows	—	8
Ending Balance	$ 14	$ 13

NOTE 6. DEBT, CREDIT FACILITIES, AND CAPITAL LEASE OBLIGATIONS

Long-term debt matures more than one year from the date of the financial statements. We summarize UNS Energy's and TEP's long-term debt in the statements of capitalization.

UNS ENERGY DEBT—CONVERTIBLE SENIOR NOTES

In 2005, UNS Energy issued $150 million of 4.50% Convertible Senior Notes (Convertible Senior Notes) due in 2035. In 2012, UNS Energy converted or redeemed the entire $150 million Convertible Senior Notes outstanding. Holders of the Convertible Senior Notes had the option of converting their interests to Common Stock at a conversion rate applicable at the time of each notice of redemption or receiving the redemption price of par plus accrued interest for the Convertible Senior Notes. In the first quarter of 2012, holders of approximately $73 million of the Convertible Senior Notes converted their interests into approximately 2.1 million shares of Common Stock and $2 million were redeemed for cash. In the second quarter of 2012, holders of approximately $74 million of Convertible Senior Notes converted their interests into approximately 2.2 million shares of Common Stock and $1 million were redeemed for cash.

TEP DEBT

Tax-Exempt Variable Rate Bonds and Interest Rate Swap

TEP had $215 million in tax-exempt variable rate debt outstanding at December 31, 2012 and December 31, 2011. Each series of bonds is supported by a Letter of Credit (LOC) issued under the TEP Credit Agreement or separate TEP Letter of Credit and Reimbursement Agreements. The LOCs are secured by mortgage bonds issued under TEP's 1992 Mortgage.

In November 2011, TEP repurchased $150 million of variable rate bonds. TEP did not cancel the repurchased bonds, which remained outstanding under their respective indentures but were not reflected as debt on the balance sheet. See 2011 TEP Unsecured Notes below.

In December 2010, TEP issued $37 million of Coconino County, Arizona, tax-exempt pollution control bonds (2010 Coconino Bonds). The 2010 Coconino Bonds are supported by a LOC, which is secured by $37 million of 1992 Mortgage Bonds and expires December 2014. The bonds accrue interest at a variable weekly rate and are due October 2032. These bonds are multi-modal bonds that allow TEP to change the interest feature of the bonds. They are callable at any time at par plus accrued interest and are subject to mandatory redemption under certain circumstances if the LOC is not extended. The average interest rate on TEP's 2010 Coconino Bonds was 0.22% in 2012 and 0.23% in 2011. TEP used the proceeds to redeem a corresponding principal amount of fixed rate Coconino pollution control bonds. TEP capitalized less than $1 million in costs related to the issuance of these bonds and will amortize the costs to Interest Expense – Long-Term Debt in the income statements through October 2032, the term of the bonds.

The following table shows interest rates on TEP's variable rate bonds which are reset weekly by its remarketing agents:

	Years Ended December 31,		
	2012	2011	2010
Interest Rates on Bonds:			
Average Interest Rate	0.17%	0.18%	0.26%
Range of Average Weekly Rates	0.06% to 0.26%	0.05% to 0.34%	0.17% to 0.39%

In August 2009, TEP entered into an interest rate swap that had the effect of converting $50 million of variable rate bonds to a fixed rate of 2.4% from September 2009 to September 2014.

Unsecured Fixed Rate Bonds

At December 31, 2012, TEP had $609 million in unsecured fixed rate bonds. At December 31, 2011, TEP had $616 million outstanding.

In March 2012, the Industrial Development Authority of Apache County, Arizona issued $177 million of unsecured tax-exempt pollution control bonds on behalf of TEP. The bonds bear interest at a fixed rate of 4.5%, mature in March 2030, and may be redeemed at par on or after March 1, 2022. The proceeds from the sale of the bonds, together with $7 million of principal and $1 million for accrued interest provided by TEP, were deposited with a trustee to retire $184 million of unsecured tax-exempt bonds with interest rates of 5.85% and 5.875% and maturity dates ranging from 2026 to 2033. TEP's $8 million payment to the trustee was the only cash flow activity since proceeds from the newly-issued bonds were not received or disbursed by TEP. TEP capitalized approximately $2 million in costs related to the issuance of the bonds and will amortize the costs to Interest Expense – Long-Term Debt in the income statements through March 2030, the term of the bonds.

In June 2012, the Industrial Development Authority of Pima County, Arizona issued approximately $16 million of unsecured tax-exempt industrial development bonds on behalf of TEP. The bonds bear interest at a fixed rate of 4.5%, mature in June 2030, and may be redeemed at par on or after June 1, 2022. The proceeds from the sale of the bonds together with $0.4 million accrued interest provided by TEP, were deposited with a trustee to retire approximately $16 million of outstanding unsecured tax-exempt bonds with interest rates of 5.85% and 5.875%, and maturity dates ranging from 2026 to 2033. TEP's payment of accrued interest was the only cash flow activity since proceeds from the newly-issued bonds were not received or disbursed by TEP. TEP capitalized less than $0.5 million in costs related to the issuance of the bonds and will amortize the costs to Interest Expense – Long-Term Debt in the income statements through June 2030, the term of the bonds.

In November 2011, TEP redeemed $22 million in unsecured fixed rate bonds. See 2011 TEP Unsecured Notes below.

In October 2010, TEP issued $100 million of Pima County, Arizona tax-exempt IDBs. The IDBs are unsecured, bear interest at a rate of 5.25%, mature in October 2040, and are callable at par on or after October 1, 2020. Net of an underwriting discount, $99 million of proceeds were deposited in a construction fund with the bond trustee. The proceeds were applied to the construction of certain of TEP's transmission and distribution facilities used to provide electric service in Pima County. TEP drew down $88 million of the proceeds from the construction fund in 2010 and $11 million in 2011. TEP capitalized approximately $1 million in costs related to the issuance of these bonds and will amortize the costs to Interest Expense-Long-Term Debt in the income statements through October 2040, the term of the bonds.

2012 TEP Unsecured Notes

In September 2012, TEP issued $150 million of 3.85% unsecured notes due March 2023. TEP may call the debt prior to December 15, 2022, with a make-whole premium plus accrued interest. After December 15, 2022, TEP may call the debt at par plus accrued interest. The unsecured notes contain a limitation on the amount of secured debt that TEP may have outstanding. TEP used the net proceeds to repay approximately $72 million outstanding on the revolving credit facility, with the remaining proceeds used for general corporate purposes. TEP capitalized approximately $1 million in costs related to the issuance of unsecured notes and will amortize the costs to Interest Expense – Long-Term Debt in the income statements through March 2023, the term of the unsecured notes.

2011 TEP Unsecured Notes

In November 2011, TEP issued $250 million of 5.15% unsecured notes due November 2021. TEP may call the debt any time before August 15, 2021, with a make-whole premium plus accrued interest. After August 15, 2021, the debt is callable at par plus accrued interest. TEP used the net proceeds from the sale to: 1) repurchase $150 million of variable rate bonds; 2) redeem $22 million of 6.1% fixed rate bonds; and 3) repay $78 million of outstanding revolving credit facility balances, with the remaining proceeds applied to general corporate purposes. The variable rate bonds were supported by LOCs issued under TEP's Credit Facility. As a result of the repurchase of the variable rate bonds, TEP cancelled $155 million of LOCs and reduced its mortgage bonds supporting the LOCs by the same amount. TEP capitalized $2 million in costs related to the issuance of the notes and will amortize the costs to Interest Expense-Long-Term Debt in the income statements through November 2021, the term of the unsecured notes.

1992 Mortgage

TEP's 1992 Mortgage creates liens on and security interests in most of TEP's utility plant assets, with the exception of Springerville Unit 2. San Carlos Resources Inc., a wholly-owned subsidiary of TEP, holds title to Springerville Unit 2. Utility Plant under Capital Leases is not subject to such liens nor is it available to TEP creditors, other than the lessors. The net book value of TEP's utility plant subject to the lien of the indenture was approximately $2 billion at December 31, 2012, and December 31, 2011.

TEP CAPITAL LEASE OBLIGATIONS

Springerville Leases

The terms of TEP's capital leases are as follows:

- The Springerville Unit 1 Leases have an initial term to January 2015 and provide for renewal periods of three or more years through 2030. TEP has a fair market value purchase option for facilities under the Springerville Unit 1 Lease. In December 2011, TEP and the owner participants of the Springerville Unit 1 Leases completed a formal appraisal process to determine the fair market value purchase price, in accordance with the Springerville Unit 1 Leases agreements. Based on that appraisal, TEP would have to pay $159 million in 2015 for the 86% interest not already owned by TEP. In 2012, TEP initiated a proceeding seeking judicial confirmation of the results of the appraisal process in federal district court. In the proceeding, the owner participants alleged that the appraisal process failed to yield a legitimate purchase price for the leased interest. In January 2013, the federal district court denied TEP's petition on the grounds that the court lacks jurisdiction in the matter. In February 2013, TEP appealed the matter to the U.S. Court of Appeals for the Ninth Circuit.
- The Springerville Coal Handling Facilities Leases have an initial term to April 2015 and provide for fixed-rate lease renewal options if certain conditions are satisfied as well as a fixed-price purchase provision of $120 million. The lease provides for one renewal period of six years beginning in April 2015, with additional renewal periods of five or more years through 2035.
- The Springerville Common Facilities Leases have an initial term to December 2017 for one lease and January 2021 for the other two leases, subject to optional renewal periods of two or more years through 2025. Instead of extending the leases TEP may exercise a fixed-price purchase provision. The fixed prices for the acquisition of common facilities are $38 million in 2017 and $68 million in 2021.

TEP agreed with Tri-State, the owner of Springerville Unit 3, and SRP, the owner of Springerville Unit 4, that if the Springerville Coal Handling Facilities and Common Facilities Leases are not renewed, TEP will exercise the purchase options under these contracts. SRP will then be obligated to buy a portion of these facilities and Tri-State will then be obligated to either: 1) buy a portion of these facilities; or 2) continue making payments to TEP for the use of these facilities.

In January 2013, through scheduled lease payments, TEP reduced its capital lease obligations by $82 million.

LEASE DEBT AND EQUITY

Investments in Springerville Lease Debt and Equity

TEP's investments in Springerville Unit 1 lease debt totaled $9 million at December 31, 2012, and $29 million at December 31, 2011. In January 2013, TEP received the final maturity payment of $9 million on the investment in Springerville Unit 1 lease debt. TEP also held an undivided equity ownership interest in the Springerville Unit 1 Leases totaling $36 million at December 31, 2012, and $37 million at December 31, 2011.

Interest Rate Swaps—Springerville Common Facilities Lease Debt

TEP's interest rate swaps hedge the floating interest rate risk associated with the Springerville Common Facilities lease debt. Interest on the lease debt is payable at six-month London Interbank Offered Rate (LIBOR) plus a spread. The applicable spread was 1.75% at December 31, 2012, and 1.625% at December 31, 2011.

The swaps have the effect of fixing the interest rates on the amortizing principal balances as follows:

Outstanding at December 31, 2012	Fixed Ratio	LIBOR Spread
$ 34 million	5.77%	1.75%
$ 19 million	3.18%	1.75%
$ 6 million	3.32%	1.75%

TEP recorded these interest rate swaps as a cash flow hedge for financial reporting purposes. See Note 16.

UNS ELECTRIC SENIOR UNSECURED NOTES

UNS Electric has $100 million of senior unsecured notes: $50 million at 6.5%, due 2015 and $50 million at 7.1%, due 2023. The UNS Electric long-term notes are guaranteed by UES. The notes may be prepaid with a make-whole call premium reflecting a discount rate equal to an equivalent maturity United States Treasury security yield plus 50 basis points.

UNS Electric's long-term notes contain certain restrictive covenants, including restrictions on transactions with affiliates, mergers, liens to secure indebtedness, restricted payments, and incurrence of indebtedness.

UNS ELECTRIC TERM LOAN CREDIT AGREEMENT AND INTEREST RATE SWAP

In August 2011, UNS Electric entered into a four-year $30 million variable rate term loan credit agreement. UNS Electric used the $30 million in proceeds to repay borrowings under its revolving credit facility. The interest rate currently in effect is three-month LIBOR plus 1.125%. At the same time, UNS Electric entered into a fixed-for-floating interest rate swap in which UNS Electric will pay a fixed rate of 0.97% and receive a three-month LIBOR rate on a $30 million notional amount over a four-year period ending August 2015. The UNS Electric term loan credit agreement, included in Long-Term Debt on the balance sheet, is guaranteed by UES.

The term loan credit agreement contains certain restrictive covenants for UNS Electric and UES. The covenants include restrictions on transactions with affiliates, restricted payments, additional indebtedness, liens, and mergers. UNS Electric must meet an interest coverage ratio to issue additional debt. However, UNS Electric may, without meeting these tests, refinance indebtedness and incur short-term debt in an amount not to exceed $5 million. The credit agreement also requires UNS Electric to maintain a maximum leverage ratio, and allows UNS Electric to pay dividends so long as it maintains compliance with the credit agreement.

UNS GAS SENIOR UNSECURED NOTES

In August 2011, UNS Gas issued $50 million of senior guaranteed notes at 5.39% due August 2026. UNS Gas used the proceeds to pay in full the $50 million of UNS Gas 6.23% notes that matured in August 2011. UNS Gas has another $50 million of notes at 6.23% due August 2015. The notes may be prepaid with a make-whole call premium reflecting a discount rate equal to an equivalent maturity United States Treasury security yield plus 50 basis points. UES guarantees the notes. UNS Gas capitalized less than $0.5 million of costs related to the issuance of the notes and will amortize these costs over the life of the notes.

UNS Gas' long-term debt contains certain restrictive covenants, including restrictions on transactions with affiliates, mergers, liens to secure indebtedness, restricted payments, and incurrence of indebtedness.

UNS ENERGY CREDIT AGREEMENT

In November 2011, UNS Energy amended its existing credit agreement to extend the expiration date from November 2014 to November 2016.

In November 2010, UNS Energy amended and restated its existing credit agreement. As amended, the agreement consists of a $125 million revolving credit facility and revolving letter of credit facility. UNS Energy's obligations under the agreement are secured by a pledge of the capital stock of Millennium, UES, and UED.

UNS Energy capitalized less than $0.5 million related to the 2011 credit agreement amendment and $1 million related to the 2010 credit agreement amendment and restatement, and will amortize these costs through November 2016.

UNS Energy had $45 million of outstanding borrowings at December 31, 2012, and $57 million of outstanding borrowings at December 31, 2011, under its revolving credit facility. The weighted average interest rate on the revolver was 1.96% at December 31, 2012, and 2.04% at December 31, 2011. We reflected the revolver borrowings in Long-Term Debt on the balance sheet as UNS Energy has the ability and the intent to have outstanding borrowings for the next twelve months. As of February 13, 2013, outstanding borrowings under the UNS Credit Agreement were $45 million.

Interest rates and fees under the UNS Energy Credit Agreement are based on a pricing grid tied to UNS Energy's credit ratings. The interest rate currently in effect on borrowings is LIBOR plus 1.75% for Eurodollar loans or Alternate Base Rate plus 0.75% for Alternate Base Rate loans.

The UNS Energy Credit Agreement contains a number of covenants which restrict UNS Energy and its subsidiaries, including restrictions on additional indebtedness, liens, mergers, and sales of assets. The UNS Energy Credit Agreement also requires UNS Energy to meet a minimum cash flow to interest coverage ratio determined on a UNS Energy standalone basis and not to exceed a maximum leverage ratio determined on a consolidated basis. Under the UNS Energy Credit Agreement, UNS Energy may pay dividends so long as it maintains compliance with the agreement.

TEP CREDIT AGREEMENT

In December 2011, TEP reduced its letter of credit facility from $341 million to $186 million, following the repurchase of $150 million of variable rate bonds and the cancellation of $155 million of LOCs supporting those bonds.

In November 2011, TEP amended its existing credit agreement to extend the expiration date from November 2014 to November 2016.

In November 2010, TEP amended and restated its existing credit agreement, consisting of a $200 million revolving credit, revolving LOC facility, and a $341 million LOC facility to support tax-exempt bonds.

The TEP credit facility is secured by $386 million of mortgage bonds issued under the 1992 Mortgage, which creates a lien on and security interest in most of TEP's utility plant assets.

TEP capitalized $1 million related to the 2011 credit agreement amendment and $4 million related to the 2010 credit agreement amendment and restatement, and will amortize these costs through November 2016.

Interest rates and fees under the TEP Credit Agreement are based on a pricing grid tied to TEP's credit ratings. The interest rate currently in effect on borrowings is LIBOR plus 1.125% for Eurodollar loans or Alternate Base Rate plus 0.125% for Alternate Base Rate loans. The margin rate currently in effect on the $186 million letter of credit facility is 1.125%.

The TEP Credit Agreement contains a number of covenants which restrict TEP and its subsidiaries, including restrictions on liens, mergers, and sale of assets. The TEP Credit Agreement also requires TEP not to exceed a maximum leverage ratio. Under the TEP Credit Agreement, TEP may pay dividends to UNS Energy so long as it maintains compliance with the agreement.

As of December 31, 2012, TEP had no borrowings outstanding and $1 million in LOCs issued under its revolving credit facility. As of December 31, 2011, TEP had $10 million in borrowings and $1 million outstanding in LOCs under its revolving credit facility. The revolving loan balance was included in Current Liabilities on UNS Energy's and TEP's balance sheets. The outstanding LOCs are off-balance sheet obligations of TEP. As of February 13, 2013, TEP had $30 million in borrowings and $1 million outstanding in LOCs under its revolving credit facility.

2010 TEP REIMBURSEMENT AGREEMENT

A $37 million letter of credit was issued pursuant to the 2010 TEP Reimbursement Agreement. The letter of credit supports $37 million aggregate principal amount of variable rate tax-exempt bonds that were issued on behalf of TEP in December 2010, see Variable Rate Tax-Exempt Bonds, above.

The 2010 TEP Reimbursement Agreement is secured by $37 million of mortgage bonds issued under TEP's 1992 Mortgage. Fees are payable on the aggregate outstanding amount of the letter of credit at a rate of 1.50% per annum.

The 2010 TEP Reimbursement Agreement contains substantially the same restrictive covenants as the TEP Credit Agreement described above.

UNS GAS/UNS ELECTRIC REVOLVER

In November 2011, UNS Gas and UNS Electric amended their existing unsecured credit agreement to extend the expiration date from November 2014 to November 2016.

In November 2010, UNS Gas and UNS Electric amended and restated their existing unsecured credit agreement. As amended, the UNS Gas/UNS Electric Revolver consists of a $100 million revolving credit and revolving letter of credit facility. The maximum borrowings outstanding at any one time for UNS Gas or UNS Electric under the agreement may not exceed $70 million. UNS Gas and UNS Electric each are liable for only their own individual borrowings under the UNS Gas/UNS Electric Revolver. UES guarantees the obligations of both UNS Gas and UNS Electric. The UNS Gas/UNS Electric Revolver may be used to issue LOCs, as well as for revolver borrowings. UNS Gas and UNS Electric issue LOCs, which are off-balance sheet obligations, to support power and gas purchases and hedges.

UNS Gas and UNS Electric capitalized less than $0.5 million of costs related to the 2011 credit agreement amendment and $1 million related to the 2010 credit agreement amendment and restatement, and will continue to amortize these costs through November 2016 to Interest Expense – Long-Term Debt in the income statements.

Interest rates and fees under the UNS Gas/UNS Electric Revolver are based on a pricing grid tied to their credit ratings. The interest rate currently in effect on borrowings is LIBOR plus 1.25% for Eurodollar loans or Alternate Base Rate plus 0.25% for Alternate Base Rate loans.

The UNS Gas/UNS Electric Revolver contains a number of covenants which impose restrictions on UNS Gas, UNS Electric, and UES, including restrictions on additional indebtedness, liens, and mergers. The UNS Gas/UNS Electric Revolver also stipulates a maximum leverage ratio. Under the terms of the UNS Gas/UNS Electric Revolver, UNS Gas and UNS Electric may pay dividends so long as they maintain compliance with the agreement.

UNS Electric had less than $0.5 million in outstanding LOCs under the UNS Gas/UNS Electric Revolver as of December 31, 2012, and $6 million outstanding as of December 31, 2011. These balances are not shown on the balance sheet.

OTHER

At December 31, 2012, UNS Energy and its subsidiaries were in compliance with the terms of their respective loan, note purchase, and credit agreements. No amounts of net income were subject to dividend restrictions.

DEBT MATURITIES

Long-term debt, including term loan payments, revolving credit facilities classified as long-term, and capital lease obligations mature on the following dates:

	TEP Variable Rate Bonds Supported by Letters of Credit[1]	TEP Scheduled Debt Retirements[2]	TEP Capital Lease Obligations	TEP Total	UNS Gas	UNS Electric	UNS Energy Parent Company	Total
			-Millions of Dollars-					
2013	$—	$ —	$121	$ 121	$—	$—	$—	$ 121
2014	37	—	194	231	—	—	—	231
2015	—	—	23	23	50	80	—	153
2016	178	—	17	195	—	—	45	240
2017	—	—	18	18	—	—	—	18
Total 2013 – 2017	215	—	373	588	50	80	45	763
Thereafter	—	1,009	42	1,051	50	50	—	1,151
Less: Imputed Interest	—	—	(62)	(62)	—	—	—	(62)
Total	$215	$1,009	$353	$1,577	$100	$130	$ 45	$1,852

(1) TEP's variable rate bonds are backed by $186 million in LOCs issued pursuant to TEP's Credit Agreement which expires in November 2016 and TEP's $37 million Reimbursement Agreement which expires in December 2014. Although the variable rate bonds mature between 2018 and 2032, the above table reflects a redemption or repurchase of such bonds in 2014 and 2016 as though the LOCs terminate without replacement upon expiration of the TEP Credit Agreement.

(2) The repayment of TEP Unsecured Notes is not reduced by the approximately $1 million discount.

NOTE 7. STOCKHOLDERS' EQUITY

DIVIDEND LIMITATIONS

UNS Energy

UNS Energy's ability to pay cash dividends on Common Stock outstanding depends, in part, upon cash flows from our subsidiaries: TEP, UES, Millennium, and UED, as well as compliance with various debt covenant requirements. UNS Energy and each of its subsidiaries were in compliance with debt covenants at December 31, 2012; therefore, TEP and the other subsidiaries were not restricted from paying dividends.

In February 2013, UNS Energy declared a first quarter dividend to shareholders of $0.435 per share of UNS Energy Common Stock. The dividend, totaling approximately $18 million, will be paid on March 25, 2013, to common shareholders of record as of March 13, 2013.

In the first half of 2012, $147 million of the Convertible Senior Notes outstanding were converted into approximately 4.3 million shares of UNS Energy Common Stock increasing common stock equity by $147 million.

TEP

The Federal Power Act states that an electric utility's dividends shall not be paid out of funds properly included in capital accounts. TEP has an accumulated deficit rather than positive retained earnings. Although the terms of the Federal Power Act are unclear, we believe that there is a reasonable basis for TEP to pay dividends from current year earnings. TEP paid dividends to UNS Energy of $30 million in 2012; no dividends were paid in 2011; and $60 million were paid in 2010.

UNS Energy did not contribute capital to TEP in 2012 but made capital contributions of $30 million in 2011 and $15 million in 2010.

NOTE 8. INCOME TAXES

A reconciliation of the federal statutory income tax rate to each company's effective income tax rate follows:

	UNS Energy			TEP		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Federal Income Tax Expense at Statutory Rate	$ 51	$ 62	$66	$ 37	$ 48	$ 58
State Income Tax Expense, Net of Federal Benefit	7	8	9	5	6	8
Deferred Tax Asset Valuation Allowance	—	—	8	—	—	—
Deferred Tax Asset Write-off Related to Unregulated Investment	—	—	3	—	—	—
AFUDC Equity	(1)	(1)	(1)	(1)	(1)	(1)
Domestic Production Deduction	—	—	(3)	—	—	(3)
Federal/State Tax Credits	(1)	(3)	(2)	(1)	(2)	(2)
Other	—	1	(3)	(1)	1	—
Total Federal and State Income Tax Expense	$ 56	$ 67	$77	$ 39	$ 52	$ 60
Effective Tax Rate	38%	38%	41%	37%	38%	36%

In 2010, UNS Energy recorded a $3 million out-of-period income tax expense. The out-of-period expense related to the write-off of a previously recorded deferred tax asset associated with the excess of tax over book basis difference in a consolidated unregulated investment. Management concluded that this out-of-period adjustment was not material to current and prior period financial statements.

Income tax expense included in the income statements consists of the following:

	UNS Energy			TEP		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Current Tax Expense (Benefit)						
Federal	$ (2)	$ (7)	$34	$ (4)	$ (5)	$ 28
State	(2)	(2)	7	(2)	(2)	7
Total	(4)	(9)	41	(6)	(7)	35
Deferred Tax Expense (Benefit)						
Federal	51	64	32	38	50	24
Federal Investment Tax Credits	—	(1)	(1)	—	(1)	(1)
State	9	13	5	7	10	2
Total	60	76	36	45	59	25
Total Federal and State Income Tax Expense	$ 56	$ 67	$77	$ 39	$ 52	$ 60

The significant components of deferred income tax assets and liabilities consist of the following:

	UNS Energy		TEP	
	December 31,		December 31,	
	2012	2011	2012	2011
	-Millions of Dollars-			
Gross Deferred Income Tax Assets				
Capital Lease Obligations	$ 141	$ 169	$ 141	$ 169
Net Operating Loss Carryforwards	72	81	85	76
Customer Advances and Contributions in Aid of Construction	34	30	19	17
Alternative Minimum Tax Credit	43	43	24	25
Accrued Postretirement Benefits	23	23	23	23
Renewable Energy Credit Up-Front Incentive Payments	26	22	20	18
Emission Allowance Inventory	10	10	10	10
Unregulated Investment Losses	9	9	—	—
Other	44	34	43	29
Gross Deferred Income Tax Assets	402	421	365	367
Deferred Tax Assets Valuation Allowance	(7)	(7)	—	—
Gross Deferred Income Tax Liabilities				
Plant – Net	(648)	(585)	(571)	(516)
Capital Lease Assets – Net	(34)	(41)	(34)	(41)
Pensions	(23)	(17)	(24)	(18)
PPFAC	(6)	(19)	(3)	(16)
Other	(15)	(29)	(15)	(17)
Gross Deferred Income Tax Liabilities	(726)	(691)	(647)	(608)
Net Deferred Income Tax Liabilities	$(331)	$(277)	$(282)	$(241)

The net deferred income tax liability on the balance sheet is as follows:

	UNS Energy		TEP	
	December 31,		December 31,	
	2012	2011	2012	2011
	-Millions of Dollars-			
Deferred Income Taxes – Current Assets	$ 34	$ 23	$ 37	$ 22
Deferred Income Taxes – Noncurrent Liabilities	(365)	(300)	(319)	(263)
Net Deferred Income Tax Liability	$(331)	$(277)	$(282)	$(241)

The $9 million unregulated investment loss deferred tax asset includes $7 million of capital loss at December 31, 2012, and December 31, 2011. The deferred tax asset can only be used if the company has capital gains to offset the losses. Management believes that it is more likely than not that the company will not be able to generate future capital gains. As a result, UNS Energy recorded a $7 million valuation allowance against the deferred tax asset as of December 31, 2012, and December 31, 2011. Management believes that based on its historical pattern of taxable income, UNS Energy will produce sufficient income in the future to realize all other deferred income tax assets.

Income Tax Position

As of December 31, 2012, UNS Energy and TEP had the following carryforward amounts:

	UNS Energy		TEP	
	Amount	Expiring Year	Amount	Expiring Year
	-Amounts in Millions of Dollars-			
Capital Loss	$ 8	2015	$—	—
Federal Net Operating Loss	202	2031-32	233	2031-32
State Net Operating Loss	14	2032	57	2016-32
State Credits	2	2016-17	4	2016-17
AMT Credit	43	None	24	None

State Tax Rate Change

In the first quarter of 2011, the Arizona legislature passed a bill reducing the corporate income tax rate from the current rate of 6.968%. The tax rate reduction will be phased in beginning in 2014, with a reduction of approximately 0.5% per year until the income tax rate reaches 4.9% for 2017 and later years. As a result of these tax rate reductions, we reduced the net deferred tax liabilities at UNS Energy and TEP by $13 million, offset entirely by adjustments to regulatory assets and liabilities. The income tax rate change did not have an impact on UNS Energy's and TEP's effective tax rate for 2012 or 2011.

Excess Tax Benefit Realized from Share-Based Compensation Plans

UNS Energy records excess tax benefits as an increase to Common Stock when tax deductions for share-based compensation exceed the expense recorded in the financial statements and they result in a reduction to income taxes payable. As of December 31, 2012, UNS Energy had $2 million of excess tax benefits that were not recorded in Common Stock. The excess benefits will be recorded in Common Stock when the Federal net operating loss carryforwards of $202 million are used.

Uncertain Tax Positions

In accordance with accounting rules related to uncertain tax positions, we are required to determine whether it is more likely than not that we will sustain an income tax position under examination. Each income tax position is measured to determine the amount of benefit to recognize in the financial statements. The following table shows the changes in unrecognized tax benefits of UNS Energy and TEP:

	UNS Energy		TEP	
	December 31,		December 31,	
	2012	2011	2012	2011
	-Millions of Dollars-			
Unrecognized Tax Benefits, Beginning of Year	$ 29	$ 41	$ 24	$ 35
Additions Based on Tax Positions Taken in the Current Year	5	9	3	8
Reductions Based on Settlements with Tax Authorities	(4)	(22)	(4)	(19)
Additions Based on Tax Positions Taken in the Prior Year	—	1	—	—
Unrecognized Tax Benefits, End of Year	$ 30	$ 29	$ 23	$ 24

Unrecognized tax benefits of $1 million, if recognized, would reduce the effective tax rate at December 31, 2012, and December 31, 2011, for both UNS Energy and TEP. The balance in unrecognized tax benefits could change in the next 12 months as a result of ongoing IRS audits, but we are unable to determine the amount of the change.

UNS Energy and TEP recognize interest accrued related to unrecognized tax benefits in Other Interest Expense in the income statements. UNS Energy and TEP did not recognize a reduction to interest expense in 2012. A reduction to Other Interest Expense of $1 million was recorded in 2011. The balance of interest payable for UNS Energy and TEP was $1 million at both December 31, 2012 and December 31, 2011. We have no penalties accrued in the years presented.

UNS Energy and TEP have been audited by the IRS through tax year 2008 and are currently under audit by the IRS for 2009 and 2010. We are unable to determine when the audits will be completed. UNS Energy and TEP are not currently under audit by any state tax agencies.

NOTE 9. EMPLOYEE BENEFIT PLANS

PENSION BENEFIT PLANS

Pension Contributions

The Pension Protection Act of 2006 (The Pension Act) established minimum funding targets for pension plans. A plan's funding target is the present value of all benefits accrued or earned as of the beginning of the plan year. While the annual targets are not legally required, benefit payment options are limited for plans that do not meet the targets, and a funding deficiency notice must be sent to all plan participants. Our plans are in compliance with The Pension Act.

In 2013, UNS Energy expects to contribute $24 million to the pension plans, including $22 million in contributions by TEP.

OTHER RETIREE BENEFIT PLANS

TEP provides limited health care and life insurance benefits for retirees. Active TEP employees may become eligible for these benefits if they reach retirement age while working for TEP or an affiliate. UNS Gas and UNS Electric provide retiree medical benefits for current retirees. UNS Gas and UNS Electric active employees are not eligible for retiree medical benefits.

TEP has a Voluntary Employee Beneficiary Association (VEBA) to fund its other retiree benefit plan related to classified employees. TEP contributed $3 million in 2012, and $2 million in each of 2011 and 2010 to the VEBA. We record changes in other retiree obligation, not yet reflected in net periodic benefit cost, as a regulatory asset, as such amounts are probable of future recovery in the rates charged to retail customers. Other retiree benefits for unclassified employees are funded on a year-by-year basis.

TEP's retiree medical plan was amended effective December 31, 2011, to increase the participant contributions for unclassified employees who retire on or after July 1, 2012. TEP's retiree medical plan was amended in 2012, to increase the participant contributions for classified employees who retire after February 1, 2014.

The pension and other retiree benefit related amounts (excluding tax balances) included on the UNS Energy balance sheet are:

	Pension Benefits		Other Retiree Benefits	
	Years Ended December 31,			
	2012	2011	2012	2011
	-Millions of Dollars-			
Regulatory Pension Asset Included in Other Regulatory Assets	$129	$106	$ 10	$ 8
Accrued Benefit Liability Included in Accrued Employee Expenses	(1)	(1)	(2)	(2)
Accrued Benefit Liability Included in Pension and Other Retiree Benefits	(90)	(72)	(69)	(66)
Accumulated Other Comprehensive Loss (related to SERP)	4	2	—	—
Net Amount Recognized	$ 42	$ 35	$ (61)	$ (60)

The table above includes accrued pension benefit liabilities for UNS Gas and UNS Electric of approximately $9 million at December 31, 2012, and $8 million at December 31, 2011. The table also includes a retiree benefit liability of $1 million for UNS Gas and UNS Electric for each period presented.

OBLIGATIONS AND FUNDED STATUS

We measured the actuarial present values of all pension benefit obligations and other retiree benefit plans at December 31, 2012, and December 31, 2011. The table below includes TEP's, UNS Gas', and UNS Electric's plans. The change in projected benefit obligation and plan assets and reconciliation of the funded status are as follows:

	Pension Benefits		Other Retiree Benefits	
	Years Ended December 31,			
	2012	2011	2012	2011
	-Millions of Dollars-			
Change in Projected Benefit Obligation				
Benefit Obligation at Beginning of Year	$319	$283	$ 73	$ 73
Actuarial (Gain) Loss	51	22	3	—
Interest Cost	15	16	3	4
Service Cost	10	10	3	3
Amendments	—	—	—	(2)
Benefits Paid	(15)	(12)	(4)	(5)
Projected Benefit Obligation at End of Year	380	319	78	73
Change in Plan Assets				
Fair Value of Plan Assets at Beginning of Year	245	220	5	4
Actual Return on Plan Assets	36	14	1	—
Benefits Paid	(15)	(12)	(4)	(5)
Employer Contributions (1)	23	23	5	6
Fair Value of Plan Assets at End of Year	289	245	7	5
Funded Status at End of Year	$ (91)	$ (74)	$ (71)	$ (68)

(1) TEP made $20 million in pension contributions and $5 million of other retiree benefits contributions in 2012 and 2011.

The table above includes the following for UNS Gas and UNS Electric:

- Pension benefit obligations of $23 million at December 31, 2012, and $18 million at December 31, 2011;

• Plan assets of $14 million at December 31, 2012, and $10 million at December 31, 2011; and

• A retiree benefit obligation of $1 million at December 31, 2012, and at December 31, 2011.

The following table provides the components of UNS Energy's regulatory assets and accumulated other comprehensive loss that have not been recognized as components of net periodic benefit cost as of the dates presented:

	Pension Benefits		Other Retiree Benefits	
	Years Ended December 31,			
	2012	2011	2012	2011
	-Millions of Dollars-			
Net Loss	$133	$108	$13	$11
Prior Service Cost (Benefit)	1	1	(3)	(3)

Information for pension plans with Accumulated Benefit Obligations in excess of pension plan assets follows:

	December 31,	
	2012	2011
	-Millions of Dollars-	
Projected Benefit Obligation at End of Year	$380	$319
Accumulated Benefit Obligation at End of Year	334	281
Fair Value of Plan Assets at End of Year	289	245

At December 31, 2012, and December 31, 2011, all UNS Energy defined benefit pension plans had accumulated benefit obligations in excess of pension plan assets.

The components of net periodic benefit costs are as follows:

	Pension Benefits			Other Retiree Benefits		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Service Cost	$ 10	$ 10	$ 8	$ 3	$ 3	$ 3
Interest Cost	16	15	15	3	4	4
Expected Return on Plan Assets	(17)	(16)	(14)	—	—	—
Prior Service Cost Amortization	—	—	—	—	(1)	(2)
Recognized Actuarial Loss	7	6	5	—	—	—
Net Periodic Benefit Cost	$ 16	$ 15	$ 14	$ 6	$ 6	$ 5

Approximately 20% of the net periodic benefit cost was capitalized as a cost of construction and the remainder was included in current year earnings.

The changes in plan assets and benefit obligations recognized as regulatory assets or in AOCI are as follows:

	Pension Benefits					
	2012		2011		2010	
	Regulatory Asset	AOCI	Regulatory Asset	AOCI	Regulatory Asset	AOCI
	-Millions of Dollars-					
Current Year Actuarial (Gain) Loss	$30	$ 1	$25	$ (2)	$16	$ 1
Amortization of Actuarial Gain (Loss)	(7)	—	(5)	—	(5)	—
Total Recognized (Gain) Loss	$23	$ 1	$20	$ (2)	$11	$ 1

	Other Retiree Benefits		
	2012	2011	2010
	Regulatory Asset	Regulatory Asset	Regulatory Asset
	-Millions of Dollars-		
Prior Service Cost (Credit)	$ —	$ (2)	$—
Current Year Actuarial (Gain) Loss	2	—	(1)
Amortization of Actuarial (Gain) Loss	—	—	(1)
Amortization of Prior Service (Cost) Credit	—	1	2
Total Recognized (Gain) Loss	$ 2	$ (1)	$—

For all pension plans, we amortize prior service costs on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan. We will amortize $9 million estimated net loss from other regulatory assets and less than $0.5 million prior service cost from AOCI into net periodic benefit cost in 2013. The estimated net loss for the defined benefit postretirement plans that will be amortized from other regulatory assets into net periodic benefit cost in 2013 is less than $1 million. The estimated prior service benefit that will be amortized is less than $1 million.

	Pension Benefits		Other Retiree Benefits	
	2012	2011	2012	2011
Weighted-Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount Rate	4.1%-4.3%	4.9%-5.0%	3.8%	4.7%
Rate of Compensation Increase	3.0%	3.0%	N/A	N/A

	Pension Benefits			Other Retiree Benefits		
	2012	2011	2010	2012	2011	2010
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31,						
Discount Rate	4.9% - 5.0%	5.5% - 5.6%	6.3%	4.7%	5.2%	6.0%
Rate of Compensation Increase	3.0%	3.0% - 5.0%	3.0% - 5.0%	N/A	N/A	N/A
Expected Return on Plan Assets	7.0%	7.0%	7.5%	7.0%	5.1%	5.6%

Net periodic benefit cost is subject to various assumptions and determinations, such as the discount rate, the rate of compensation increase, and the expected return on plan assets.

We use a combination of sources in selecting the expected long-term rate-of-return-on-assets assumption, including an investment return model. The model used provides a "best-estimate" range over 20 years from the 25th percentile to the 75th percentile. The model, used as a guideline for selecting the overall rate-of-return-on-assets assumption, is based on forward looking return expectations only. The above method is used for all asset classes.

Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as net periodic benefit cost. The assumed health care cost trend rates follow:

	December 31,	
	2012	2011
Health Care Cost Trend Rate Assumed for Next Year	6.9%	6.9%
Ultimate Health Care Cost Trend Rate Assumed	4.5%	4.5%
Year that the Rate Reaches the Ultimate Trend Rate	2027	2027

Assumed health care cost trend rates significantly affect the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the December 31, 2012, amounts:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
	-Millions of Dollars-	
Effect on Total Service and Interest Cost Components	$1	$(1)
Effect on Retiree Benefit Obligation	6	(5)

PENSION PLAN AND OTHER RETIREE BENEFIT ASSETS

Pension Assets

We calculate the fair value of plan assets on December 31, the measurement date. Pension plan asset allocations, by asset category, on the measurement date were as follows:

	TEP Plan Assets		UNS Gas and UNS Electric Plan Assets	
	2012	2011	2012	2011
Asset Category				
Equity Securities	50%	49%	56%	55%
Fixed Income Securities	41	42	33	34
Real Estate	7	7	11	11
Other	2	2	—	—
Total	100%	100%	100%	100%

The following tables set forth the fair value measurements of pension plan assets by level within the fair value hierarchy:

	Fair Value Measurements of Pension Assets December 31, 2012			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	- Millions of Dollars -			
Asset Category				
Cash Equivalents	$ 1	$—	$—	$ 1
Equity Securities:				
United States Large Cap	—	71	—	71
United States Small Cap	—	15	—	15
Non-United States	—	59	—	59
Fixed Income	—	116	—	116
Real Estate	—	8	13	21
Private Equity	—	—	6	6
Total	$ 1	$269	$ 19	$289

	Fair Value Measurements of Pension Assets December 31, 2011			
	Level 1	Level 2	Level 3	Total
	- Millions of Dollars -			
Asset Category				
Cash Equivalents	$ 1	$—	$—	$ 1
Equity Securities:				
United States Large Cap	—	61	—	61
United States Small Cap	—	13	—	13
Non-United States	—	47	—	47
Fixed Income	—	101	—	101
Real Estate	—	7	11	18
Private Equity	—	—	4	4
Total	$ 1	$229	$ 15	$245

Level 1 cash equivalents are based on observable market prices and are comprised of the fair value of commercial paper, money market funds, and certificates of deposit.

Level 2 investments comprise amounts held in commingled equity funds, United States bond funds, and real estate funds. Valuations are based on active market quoted prices for assets held by each respective fund.

Level 3 real estate investments were valued using a real estate index value. The real estate index value was developed based on appraisals comprising 87% of real estate assets tracked by the index in 2012 and comprising 85% in 2011.

Level 3 private equity funds are classified as funds-of-funds. They are valued based on individual fund manager valuation models.

The tables above reflecting the fair value measurements of pension plan assets include Level 2 assets for the UES pension plan of $14 million at December 31, 2012, and $10 million at December 31, 2011.

The following tables set forth a reconciliation of changes in the fair value of pension assets classified as Level 3 in the fair value hierarchy. There were no transfers in or out of Level 3.

	Year Ended December 31, 2012		
	Private Equity	**Real Estate**	**Total**
Beginning Balance at January 1, 2012	$4	$ 11	$15
Actual Return on Plan Assets:			
Assets Held at Reporting Date	1	2	3
Purchases, Sales, and Settlements	1	—	1
Ending Balance at December 31, 2012	$6	$ 13	$19

	Year Ended December 31, 2011		
	Private Equity	**Real Estate**	**Total**
Beginning Balance at January 1, 2011	$ 2	$ 10	$12
Actual Return on Plan Assets:			
Assets Held at Reporting Date	—	1	1
Purchases, Sales, and Settlements	2	—	2
Ending Balance at December 31, 2011	$ 4	$ 11	$15

UNS Gas and UNS Electric have no pension assets classified as Level 3 in the fair value hierarchy.

Pension Plan Investments

Investment Goals

Asset allocation is the principal method for achieving each pension plan's investment objectives, while maintaining an appropriate level of risk. We will consider the projected impact on benefit security of any proposed changes to the current asset allocation policy. The expected long-term returns and implications for pension plan sponsor funding will be reviewed in selecting policies to ensure that current asset pools are projected to be adequate to meet the expected liabilities of the pension plans. We expect to use asset allocation policies weighted most heavily to equity and fixed income funds, while maintaining some exposure to real estate and opportunistic funds. Within the fixed income allocation, long-duration funds may be used to partially hedge interest rate risk.

Risk Management

We recognize the difficulty of achieving investment objectives in light of the uncertainties and complexities of the investment markets. We also recognize some risk must be assumed to achieve a pension plan's long-term investment objectives. In establishing risk tolerances, the following factors affecting risk tolerance and risk objectives will be considered: plan status, plan sponsor financial status and profitability, plan features, and workforce characteristics. We have determined that the pension plans can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives. TEP tracks each pension plan's portfolio relative to the benchmark through quarterly investment reviews. The reviews consist of a performance and risk assessment of all investment categories and on the portfolio as a whole. Investment managers for the pension plan may use derivative financial instruments for risk management purposes or as part of their investment strategy. Currency hedges may also be used for defensive purposes.

Relationship between Plan Assets and Benefit Obligations

The overall health of each plan will be monitored by comparing the value of plan obligations (both Accumulated Benefit Obligation and Projected Benefit Obligation) against the fair value of assets and tracking the changes in each. The frequency of this monitoring will depend on the availability of plan data, but will be no less frequent than annually via annual actuarial valuation.

Target Allocation Percentages

The current target allocation percentages for the major asset categories of the plan as of December 31, 2012, follow. Each plan allows a variance of +/- 2% from these targets before funds are automatically rebalanced.

	TEP Plan	UES Plan	VEBA Trust
Fixed Income	41%	33%	35%
United States Large Cap	24	28	43
Non-United States Developed	15	17	13
Real Estate	8	11	—
United States Small Cap	5	6	2
Non-United States Emerging	5	5	5
Private Equity	2	—	—
Cash/Treasury Bills	—	—	2
Total	100%	100%	100%

Pension Fund Descriptions

For each type of asset category selected by the Pension Committee, our investment consultant assembles a group of third-party fund managers and allocates a portion of the total investment to each fund manager. In the case of the private equity fund, our investment consultant directs investments to a private equity manager that invests in third-parties' funds.

Other Retiree Benefit Assets

As of December 31, 2012, the fair value of VEBA trust assets was $7 million, of which $3 million were fixed income investments and $4 million were equities. As of December 31, 2011, the fair value of VEBA trust assets was $5 million, including $3 million of fixed income investments and approximately $2 million of equity and money market funds. The VEBA trust assets are primarily Level 2. There are no Level 3 assets in the VEBA trust.

ESTIMATED FUTURE BENEFIT PAYMENTS

TEP expects the following benefit payments to be made by the defined benefit pension plans and retiree plan, which reflect future service, as appropriate.

	Pension Benefits	Other Retiree Benefits
	-Millions of Dollars-	
2013	$ 15	$ 4
2014	16	5
2015	16	5
2016	18	5
2017	20	5
Years 2018-2022	110	30

TEP's union plan was amended in 2012 to allow terminated participants to elect early retirement benefits equal to the actuarial equivalent of the participant's termination retirement benefit. The impact of the amendment on estimated future benefit payments shown above was approximately $5 million in total. The pension benefit obligation was not materially affected by this amendment.

UNS Gas and UNS Electric expect annual benefit payments, made by the defined benefit pension and retiree plans, to be approximately $2 million in 2013 through 2017, and $9 million in 2018 through 2022.

DEFINED CONTRIBUTION PLAN

We offer a defined contribution savings plan to all eligible employees. The Internal Revenue Code identifies the plan as a qualified 401(k) plan. Participants direct the investment of contributions to certain funds in their account which may include a UNS Energy stock fund. We match part of a participant's contributions to the plan. TEP made matching contributions to the plan of $5 million in 2012, $5 million in 2011, and $4 million in 2010. UNS Gas and UNS Electric made matching contributions of less than $1 million in each of 2012, 2011, and 2010.

NOTE 10. SHARE-BASED COMPENSATION PLAN

Under the UNS Energy 2011 Omnibus Stock and Incentive Plan (2011 Plan), the Compensation Committee of the UNS Energy Board of Directors (Compensation Committee) may issue various types of share-based compensation, including stock options, restricted shares/units, and performance shares. The total number of shares which may be awarded under the 2011 Plan cannot exceed 1.2 million shares.

STOCK OPTIONS

Stock options are granted with an exercise price equal to the fair market value of the stock on the date of grant, vest over three years, become exercisable in one-third increments on each anniversary date of the grant, and expire on the tenth anniversary of the grant. Compensation expense is recorded on a straight-line basis over the service period for the total award based on the grant date fair value of the options less estimated forfeitures. For awards granted to retirement-eligible officers, compensation expense is recorded immediately.

See summary of the stock option activity in the table below:

(Shares in Thousands)	2012		2011		2010	
Stock Options	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding, Beginning of Year	581	$29.11	921	$27.96	1,598	$24.50
Granted	—	—	—	—	—	—
Exercised	(132)	26.54	(319)	25.60	(660)	19.33
Forfeited/Expired	(40)	37.88	(21)	31.92	(17)	37.88
Outstanding, End of Year	409	29.09	581	29.11	921	27.96
Exercisable, End of Year	409	$29.09	508	$29.53	654	$28.70
Aggregate Intrinsic Value of Options Exercised ($000s)		$1,878		$3,690		$9,124

	At December 31, 2012
Aggregate Intrinsic Value for Options Outstanding ($000s)	$ 5,450
Aggregate Intrinsic Value for Options Exercisable ($000s)	$ 5,450
Weighted Average Remaining Contractual Life of Outstanding Options	5.2 years
Weighted Average Remaining Contractual Life of Exercisable Options	5.2 years

See summary of stock options in the table below:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number of Shares (000s)**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number of Shares (000s)**	**Weighted Average Exercise Price**
$26.11—$37.88	409	5.2 years	$29.09	409	$29.09

RESTRICTED STOCK UNITS AND PERFORMANCE SHARE AWARDS

Restricted Stock Units

Restricted stock and stock units are generally granted to non-employee directors. Restricted stock is an award of Common Stock that is subject to forfeiture if the restrictions specified in the award are not satisfied. Stock units are a non-voting unit of measure that is equivalent to one share of Common Stock. The directors may elect to receive stock units in lieu of restricted stock. Restricted stock generally vests over periods ranging from one to three years and is payable in Common Stock. Stock units vest either immediately or over periods ranging from one to three years. The restricted stock units vest immediately upon death, disability, or retirement. In the January following the year the person is no longer a director, Common Stock shares will be issued for the vested stock units. Compensation expense equal to the fair market value on the grant date is recognized over the vesting period. Fully vested but undistributed stock unit awards accrue dividend equivalent stock units based on the fair market value of common shares on the date the dividend is paid.

Common Stock shares totaling 31,058 in 2012, 56,705 in 2011, and 14,866 in 2010 were issued with no additional increase in equity as the expense was previously recognized over the vesting period.

The Compensation Committee granted in total, the following stock units to non-employee directors:

- 2012—15,303 stock units at a weighted average fair value of $35.94 per share;
- 2011—14,655 stock units at a weighted average fair value of $37.53 per share; and
- 2010—15,620 stock units at a weighted average fair value of $31.69 per share.

Performance Share Awards

In 2012, 2011, and 2010, the Compensation Committee granted performance share awards to upper management. Half of the performance share awards will be paid out in Common Stock based on a comparison of UNS Energy's cumulative Total Shareholder Return to the Edison Electric Institute Index during the performance period. The grant date fair value of these awards with a market condition were derived based on a Monte Carlo simulation. Compensation expense equal to the fair value on the grant date is recognized over the vesting period if the requisite service period is fulfilled, whether or not the threshold is achieved. The remaining half will be paid out in Common Stock based on cumulative net income during the performance period. The grant date fair values of these awards with a performance condition were the closing Common Stock market prices on the dates of grant. Compensation expense equal to the fair value on the grant date is recognized over the requisite service period only for the awards that ultimately vest. The performance shares vest based on the achievement of these goals by the end of the performance period; any unearned awards are forfeited. Vested performance shares are eligible for dividend equivalents during the performance period.

			Grant Date Fair Value	
Award Year	Performance Period	Shares Granted	Market Condition	Performance Condition
2012	January 1, 2012 to December 31, 2014	80,140	$32.71	$36.40
2011	January 1, 2011 to December 31, 2013	80,440	33.73	36.58
2010	January 1, 2010 to December 31, 2012	93,720	31.26	30.52

At December 31, 2012, upon completion of the three-year performance period, 76,478 shares were earned and vested; 17,242 shares were unearned and forfeited. The vested performance shares also earned 10,516 in dividend equivalent shares.

	Performance Shares		Restricted Stock Units	
	Shares (000s)	Weighted Average Grant Date Fair Value	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2012	153	$32.85	15	$37.53
Granted	80	34.56	15	35.94
Vested	(77)	31.08	(15)	37.53
Forfeited	(11)	31.42	—	—
Non-vested at December 31, 2012	145	34.83	15	35.94

SHARE-BASED COMPENSATION EXPENSE (Stock Options, Restricted Stock Units, and Performance Shares)

Annually during 2010 through 2012, UNS Energy recorded share-based compensation expense of $3 million, $2 million of which related to TEP. No share-based compensation was capitalized as part of the cost of an asset. The actual tax deduction realized from the exercise of share-based payment arrangements totaled less than $1 million in 2012 and $3 million in 2010. UNS Energy did not realize a tax deduction from the exercise of share-based payment arrangements in 2011.

At December 31, 2012, the total unrecognized compensation cost related to non-vested share-based compensation was $2 million, which will be recorded as compensation expense over the remaining vesting periods through December 2014. The total number of shares awarded but not yet issued, including target performance based shares, under the share-based compensation plans at December 31, 2012, was 1 million.

NOTE 11. FAIR VALUE MEASUREMENTS

We categorize our assets and liabilities at fair value into the three-level hierarchy based on inputs used to determine the fair value measurement. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in an active market. Level 2 inputs include quoted prices for similar assets or liabilities, quoted prices in non-active markets, and pricing models whose inputs are observable. Level 3 inputs are unobservable and supported by little or no market activity.

The following tables present, by level within the fair value hierarchy, UNS Energy's and TEP's assets and liabilities accounted for at fair value on a recurring basis. These assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. There were no transfers between Levels 1, 2, or 3 for either reporting period.

	UNS Energy			
	Level 1	Level 2	Level 3	Total
	December 31, 2012 - Millions of Dollars -			
Assets				
Cash Equivalents[1]	$ 20	$—	$—	$ 20
Rabbi Trust Investments to Support the Deferred Compensation and SERP Plans[2]	—	19	—	19
Energy Contracts[3]	—	2	5	7
Total Assets	20	21	5	46
Liabilities				
Energy Contracts[3]	—	(7)	(10)	(17)
Interest Rate Swaps[4]	—	(10)	—	(10)
Total Liabilities	—	(17)	(10)	(27)
Net Total Assets and (Liabilities)	$ 20	$ 4	$ (5)	$ 19

	UNS Energy			
	Level 1	Level 2	Level 3	Total
	December 31, 2011 - Millions of Dollars -			
Assets				
Cash Equivalents[1]	$ 23	$—	$—	$ 23
Rabbi Trust Investments to Support the Deferred Compensation and SERP Plans[2]	—	16	—	16
Energy Contracts[3]	—	—	14	14
Total Assets	23	16	14	53
Liabilities				
Energy Contracts[3]	—	(21)	(24)	(45)
Interest Rate Swaps[4]	—	(12)	—	(12)
Total Liabilities	—	(33)	(24)	(57)
Net Total Assets and (Liabilities)	$ 23	$ (17)	$ (10)	$ (4)

	TEP			
	Level 1	Level 2	Level 3	Total
	December 31, 2012 - Millions of Dollars -			
Assets				
Cash Equivalents[1]	$ 7	$—	$—	$ 7
Rabbi Trust Investments to Support the Deferred Compensation and SERP Plans[2]	—	19	—	19
Energy Contracts[3]	—	1	2	3
Total Assets	7	20	2	29
Liabilities				
Energy Contracts[3]	—	(3)	(2)	(5)
Interest Rate Swaps[4]	—	(10)	—	(10)
Total Liabilities	—	(13)	(2)	(15)
Net Total Assets and (Liabilities)	$ 7	$ 7	$—	$ 14

	TEP			
	Level 1	Level 2	Level 3	Total
	December 31, 2011 - Millions of Dollars -			
Assets				
Cash Equivalents[1]	$ 8	$—	$—	$ 8
Rabbi Trust Investments to Support the Deferred Compensation and SERP Plans[2]	—	16	—	16
Energy Contracts[3]	—	—	3	3
Total Assets	8	16	3	27
Liabilities				
Energy Contracts[3]	—	(9)	(3)	(12)
Interest Rate Swaps[4]	—	(11)	—	(11)
Total Liabilities	—	(20)	(3)	(23)
Net Total Assets and (Liabilities)	$ 8	$ (4)	$—	$ 4

(1) Cash Equivalents are based on observable market prices and include the fair value of money market funds and certificates of deposit. These amounts are included in Cash and Cash Equivalents and in Investments and Other Property—Other on the balance sheets.

(2) Rabbi Trust Investments include amounts held in mutual and money market funds related to deferred compensation and SERP benefits. The valuation is based on quoted prices traded in active markets. These investments are included in Investments and Other Property – Other on the balance sheets.

(3) Energy Contracts include gas swap agreements (Level 2), gas and power options (Level 3), forward power purchase and sales contracts (Level 3), and forward power purchase contracts indexed to gas (Level 3), entered into to reduce exposure to energy price risk. These contracts are included in Other Assets and Derivative Instruments on the balance sheets. The valuation techniques are described below. See Note 16.

(4) Interest Rate Swaps are valued based on the 3-month or 6-month LIBOR index or the Securities Industry and Financial Markets Association municipal swap index. These interest rate swaps are included in Derivative Instruments on the balance sheets.

Energy Contracts

We primarily apply the market approach for recurring fair value measurements. When we have observable inputs for substantially the full term of the asset or liability, such as gas swap derivatives valued using New York Mercantile Exchange pricing adjusted for basis differences, we categorize the instrument in Level 2. We categorize derivatives in Level 3 when we use an aggregate pricing service or published prices that represent a consensus reporting of multiple brokers.

For both power and gas prices, we obtain quotes from brokers, major market participants, exchanges, or industry publications, and rely on our own price experience from active transactions in the market. We primarily use one set of quotations each for power and for gas and then validate those prices using other sources. We believe that the market information provided is reflective of market conditions as of the time and date indicated.

Published prices for energy derivative contracts may not be available due to the nature of contract delivery terms such as non-standard time blocks and non-standard delivery points. In these cases, we apply adjustments based on historical price curve relationships, transmission, and line losses.

We estimate the fair value of our options using the Black-Scholes-Merton option pricing model which includes inputs such as implied volatility, correlations, interest rates, and forward price curves.

We also consider the impact of counterparty credit risk using current and historical default and recovery rates, as well as our own credit risk using credit default swap data.

Our assessments of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. We review the assumptions underlying our contracts monthly.

The following table provides quantitative information regarding significant unobservable inputs in UNS Energy's Level 3 fair value measurements:

	Fair Value at December 31, 2012		Range of Unobservable Input
	Assets	Liabilities	
	-Millions of Dollars-		
Forward Contracts[(1)]	$4	$ (10)	
Valuation Technique: Market approach			
Unobservable Input:			
Market price per MWh			$19.50 - $ 56.24
Option Contracts[(2)]	1	—	
Valuation Technique: Option model			
Unobservable Inputs:			
Market Price per MWh			$29.50 - $ 46.00
Power Volatility			30.38% - 59.95%
Market Price per MMbtu			$3.22 - $ 3.84
Gas Volatility			29.32% -36.14%
Level 3 Energy Contracts	$5	$ (10)	

(1) TEP comprises $1 million of the forward contract assets and $2 million of the forward contract liabilities.
(2) The option contracts relate to TEP.

Our exposure to risk resulting from changes in the unobservable inputs identified above is mitigated as we report the change in fair value of energy contract derivatives as a regulatory asset or a regulatory liability. These are recoverable through the PPFAC or PGA mechanisms, or as a component of other comprehensive income, rather than in the income statements.

The following tables present a reconciliation of changes in the fair value of assets and liabilities classified as Level 3 in the fair value hierarchy:

	Year Ended December 31, 2012	
	UNS Energy	TEP
	Energy Contracts	
	-Millions of Dollars-	
Balance as of December 31, 2011	$(10)	$—
Realized/Unrealized Gains/(Losses)Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(5)	1
Settlements	10	(1)
Balance as of December 31, 2012	$ (5)	$—
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$ (1)	$—

	Year Ended December 31, 2011	
	UNS Energy	TEP
	Energy Contracts	
	-Millions of Dollars-	
Balance as of December 31, 2010	$(10)	$ 1
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(9)	2
Other Comprehensive Income	(1)	(1)
Settlements	10	(2)
Balance as of December 31, 2011	$(10)	$—
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$ (9)	$—

Financial Instruments Not Carried at Fair Value

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. We use the following methods and assumptions for estimating the fair value of our financial instruments:

- The carrying amounts of our current assets and liabilities, including current maturities of long-term debt, and amounts outstanding under our credit agreements, which approximate the fair values due to the short-term nature of these financial instruments. These items have been excluded from the table below.
- For Investment in Lease Debt, we calculate the present value of remaining cash flows using current market rates for instruments with similar characteristics such as credit rating and time-to-maturity. We also incorporate the impact of counterparty credit risk using market credit default swap data.
- For Investment in Lease Equity, we estimate the price at which an investor would realize a target internal rate of return. Our estimates include: the mix of debt and equity an investor would use to finance the purchase; the cost of debt; the required return on equity; and income tax rates. The estimate assumes a residual value based on an appraisal of Springerville Unit 1 in 2011.
- For Long-Term Debt, we use quoted market prices, where available, or calculate the present value of remaining cash flows at the balance sheet date. When calculating present value, we use current market rates for bonds with similar characteristics such as credit rating and time-to-maturity. We consider the principal amounts of variable rate debt outstanding to be reasonable estimates of the fair value. We also incorporate the impact of our own credit risk using a credit default swap rate.

The use of different estimation methods and/or market assumptions may yield different estimated fair value amounts. The carrying value recorded on the balance sheet and the estimated fair values of our financial instruments were as follows:

		December 31,			
		2012		2011	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
		-Millions of Dollars-			
Assets:					
TEP Investment in Lease Debt	Level 2	$ 9	$ 9	$ 29	$ 29
TEP Investment in Lease Equity	Level 3	36	23	37	21
Liabilities:					
Long-Term Debt					
UNS Energy	Level 2	1,498	1,583	1,517	1,543
TEP	Level 2	1,223	1,271	1,080	1,061

TEP held the Investment in Lease Debt to maturity in January 2013. This investment was stated at amortized cost, which means the purchase cost had been adjusted for the amortization of the premium and discount to maturity.

The fair value of TEP's Long-Term Debt increased from prior year because of a change in valuation methodology concerning the make-whole premium applied to the bonds if they are called early.

NOTE 12. UNS ENERGY EARNINGS PER SHARE

We compute basic Earnings Per Share (EPS) by dividing Net Income by the weighted average number of common shares outstanding during the period. Except when the effect would be anti-dilutive, the diluted EPS calculation includes the impact of shares that could be issued upon exercise of outstanding stock options; contingently issuable shares under equity-based awards, or common shares that would result from the conversion of Convertible Senior Notes. The numerator in calculating diluted EPS is Net Income adjusted for the interest on Convertible Senior Notes (net of tax) that would not be paid if the remaining notes, not yet converted, were converted to Common Stock.

The following table shows the effects of potentially dilutive common stock on the weighted average number of shares:

	Years Ended December 31, 2012	2011	2010
	-Thousands of Dollars-		
Numerator:			
Net Income	$90,919	$109,975	$112,984
Income from Assumed Conversion of Convertible Senior Notes	1,100	4,390	4,390
Adjusted Numerator	$92,019	$114,365	$117,374
	-Thousands of Shares-		
Denominator:			
Weighted Average Shares of Common Stock Outstanding:			
Common Shares Issued	40,212	36,780	36,200
Fully Vested Deferred Stock Units	150	129	123
Participating Securities	—	53	92
Total Weighted Average Shares of Common Stock Outstanding and Participating Securities—Basic	40,362	36,962	36,415
Effect of Diluted Securities:			
Convertible Senior Notes	1,062	4,281	4,178
Options and Stock Issuable Under Share-Based Compensation Plans	331	366	448
Total Shares—Diluted	41,755	41,609	41,041

The following table shows the number of stock options excluded from the diluted EPS computation because the stock option's exercise price was greater than the average market price of the Common Stock:

	Years Ended December 31, 2012	2011	2010
	-Thousands of Shares-		
Stock Options Excluded from the Diluted EPS Computation	50	153	212

In the first half of 2012, the entire balance of Convertible Senior Notes was converted to Common Shares or redeemed for cash. See Note 6.

NOTE 13. MILLENNIUM INVESTMENTS

In 2010, Millennium recorded impairment losses of $10 million reducing the book value of its unconsolidated equity and cost method investments to zero. Millennium received notification of valuation changes and ownership percentage reductions as projects lost viability and funding failed. In addition, Millennium sold a wholly-owned subsidiary and recorded a gain of less than $1 million. Gains and losses were included in Other Income or Other Expense in UNS Energy's income statements. Millennium also wrote off $3 million of Deferred Tax Assets related to its investments.

In 2009, Millennium sold an equity investment, receiving an upfront payment of $5 million in 2009 and a $15 million, 6% secured promissory note. Millennium received the remaining principal amount of $15 million in 2012.

NOTE 14. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The following recently issued accounting standards are not yet reflected in the financial statements:

- The Financial Accounting Standards Board (FASB) issued a pronouncement that will require entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position (balance sheet) or subject to an agreement similar to a master netting arrangement. In addition, the pronouncement requires disclosure of collateral received and posted in connection with master netting arrangements. We will be required to comply in the first quarter of 2013 and do not expect this pronouncement to have a material impact on our disclosures.
- The FASB issued a rule which amends the guidance for impairment testing of indefinite-lived intangible assets. An entity will have the option to perform qualitative analysis to determine whether an indefinite-lived intangible asset may be impaired. If the qualitative assessment does not result in likely impairment, an entity will not be required to perform the quantitative impairment test. We will be required to comply in the first quarter of 2013; however, we do not expect this pronouncement to have a material impact on our financial statements as our indefinite-lived intangible assets, RECs, are currently recoverable under the RES as we use RECs to comply with renewable resources requirements.

- The FASB decided in December 2012 to require new disclosures on items reclassified from AOCI. Companies will be required to disclose, in a single location, amounts reclassified from each component of AOCI based on its source and the income statement line items affected by the reclassification. We plan to present this information in a footnote. We will be required to comply in the first quarter of 2013 and do not expect this decision to have a material impact on our financial statements.

NOTE 15. SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of net income to net cash flows from operating activities follows:

	UNS Energy		
	Years Ended December 31,		
	2012	2011	2010
	-Thousands of Dollars-		
Net Income	$ 90,919	$109,975	$112,984
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities			
Depreciation Expense	141,303	133,832	128,215
Amortization Expense	35,784	30,983	28,094
Depreciation and Amortization Recorded to Fuel and O&M Expense	6,622	6,140	5,432
Amortization of Deferred Debt-Related Costs included in Interest Expense	3,000	3,985	3,753
Provision for Retail Customer Bad Debts	2,767	2,072	3,724
Use of Renewable Energy Credits for Compliance	5,935	5,695	4,745
Deferred Income Taxes	60,273	75,787	28,142
Deferred Tax Valuation Allowance	(9)	(272)	7,510
Pension and Retiree Expense	21,856	21,202	19,688
Pension and Retiree Funding	(29,058)	(28,775)	(27,742)
Share-Based Compensation Expense	2,573	2,599	2,751
Excess Tax Benefit from Stock Options Exercised	(145)	—	(3,338)
Allowance for Equity Funds Used During Construction	(3,464)	(4,496)	(4,232)
Increase (Decrease) to Reflect PPFAC/PGA Recovery	32,246	(4,932)	(29,622)
Competition Transition Charge Revenue Refunded	—	(35,958)	(10,095)
Partial Write-off of Tucson to Nogales Transmission Line	4,668	—	—
Liquidated Damages for Springerville Unit 3 Outage	2,050	—	—
Gain on Settlement of El Paso Electric Dispute	—	(7,391)	—
Loss on Millennium's Investments	—	—	9,936
Changes in Assets and Liabilities which Provided (Used)			
Cash Exclusive of Changes Shown Separately			
Accounts Receivable	3,369	2,743	(8,851)
Materials and Fuel Inventory	(39,429)	(20,864)	21,744
Accounts Payable	595	8,792	2,661
Income Taxes	(11,557)	(2,739)	24,470
Interest Accrued	6,922	14,344	14,354
Taxes Other Than Income Taxes	(58)	2,857	2,442
Current Regulatory Liabilities	(684)	2,644	2,788
Other	11,631	19,097	7,367
Net Cash Flows – Operating Activities	$348,109	$337,320	$346,920

	TEP		
	Years Ended December 31,		
	2012	2011	2010
	-Thousands of Dollars-		
Net Income	$ 65,470	$ 85,334	$108,260
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities			
Depreciation Expense	110,931	104,894	99,510
Amortization Expense	39,493	34,650	32,196
Depreciation and Amortization Recorded to Fuel and O&M Expense	5,384	4,509	3,855
Amortization of Deferred Debt-Related Costs included in Interest Expense	2,227	2,378	2,146
Provision for Retail Customer Bad Debts	1,871	1,447	2,506
Use of Renewable Energy Credits for Compliance	5,071	5,190	4,245
Deferred Income Taxes	45,232	59,309	24,897
Pension and Retiree Expense	19,289	18,816	17,454
Pension and Retiree Funding	(25,899)	(25,878)	(25,672)
Share-Based Compensation Expense	2,029	2,027	2,131
Allowance for Equity Funds Used During Construction	(2,840)	(3,842)	(3,567)
Increase (Decrease) to Reflect PPFAC Recovery	31,113	(6,165)	(21,541)
Competition Transition Charge Revenue Refunded	—	(35,958)	(10,095)
Partial Write-off of Tucson to Nogales Transmission Line	4,484	—	—
Liquidated Damages for Springerville Unit 3 Outage	2,050	—	—
Gain on Settlement of El Paso Electric Dispute	—	(7,391)	—
Changes in Assets and Liabilities which Provided (Used)			
Cash Exclusive of Changes Shown Separately			
Accounts Receivable	(871)	4,809	(5,156)
Materials and Fuel Inventory	(38,384)	(19,789)	20,920
Accounts Payable	1,115	14,561	(447)
Income Taxes	(11,421)	(5,582)	20,203
Interest Accrued	8,055	14,268	14,431
Taxes Other Than Income Taxes	905	2,282	1,469
Current Regulatory Liabilities	(3,040)	303	2,500
Other	5,655	18,122	12,238
Net Cash Flows – Operating Activities	$267,919	$268,294	$302,483

Non-Cash Transactions

In 2012, the following non-cash transactions occurred:

- UNS Energy converted $147 million of the previously outstanding $150 million Convertible Senior Notes into Common Shares. See Note 6; and
- TEP redeemed $193 million of tax-exempt bonds and reissued debt using a trustee. Since the cash flowed through trust accounts, the redemption and reissuance of debt resulted in a non-cash transaction at TEP. See Note 6.

In 2010, the following non-cash transactions occurred:

- TEP used a trustee to issue and redeem $37 million tax-exempt bonds. TEP had no cash receipts or payments as a result of this transaction. See Note 6; and
- TEP deposited proceeds from the issuance of $100 million Pima County tax-exempt IDBs in a construction fund with a trustee. TEP drew down funds as qualified expenditures were incurred. The $11 million remaining in the construction fund at December 31, 2010, affected recognized assets and liabilities but did not result in cash receipts or payments. TEP drew down the remaining funds in the construction fund by March 2011. See Note 6.

Other non-cash investing and financing activities that affected recognized assets and liabilities but did not result in cash receipts or payments were as follows:

	Years Ended December 31,		
	2012	2011	2010
	-Thousands of Dollars-		
(Decrease)/Increase to Utility Plant Accruals(1)	$ 4,813	$ (2,741)	$ 8,514
Net Cost of Removal of Interim Retirements(2)	35,983	31,626	4,592
Capital Lease Obligations(3)	11,967	15,162	16,630
Asset Retirement Obligations(4)	789	7,638	(1,872)
UED Secured Term Loan Prepayments(5)	—	—	3,188

(1) The non-cash additions to Utility Plant represent accruals for capital expenditures.

(2) The non-cash net cost of removal of interim retirements represents an accrual for future asset retirement obligations that does not impact earnings.

(3) The non-cash change in capital lease obligations represents interest accrued for accounting purposes in excess of interest payments.

(4) The non-cash additions to asset retirement obligations and related capitalized assets represent revision of estimated asset retirement cost due to changes in timing and amount of expected future asset retirement obligations.

(5) The non-cash UED Secured Term Loan prepayment represents deposits applied to $30 million of loan principal.

NOTE 16. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

See Note 1 for description of our related accounting policies and Note 11 for information related to the fair value of derivatives.

FINANCIAL IMPACT OF DERIVATIVES

Cash Flow Hedges

UNS Energy and TEP had liabilities related to cash flow hedges of $12 million as of December 31, 2012, and $14 million as of December 31, 2011. TEP's power purchase swap agreement under which these hedges are entered into expires in 2015.

The after-tax unrealized gains and losses on cash flow hedge activity and amounts reclassified to earnings are reported in the statements of other comprehensive income. The amounts reclassified to earnings are reported in Long Term Debt Interest Expense, Capital Leases Interest Expense, and Purchased Power Expense in the statements of income. The amounts expected to be reclassified to earnings within the next twelve months is estimated to be $2 million.

Regulatory Treatment of Commodity Derivatives

We disclose unrealized gains and losses on energy contracts that are recoverable through the PPFAC or PGA on the balance sheets as a regulatory asset or a regulatory liability rather than in the statements of other comprehensive income or in the income statements, as shown in the following table:

	UNS Energy			TEP		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Increase (Decrease) to Regulatory Assets /Liabilities	$(21)	$2	$—	$(6)	$2	$(4)

The fair values of derivative assets and liabilities were as follows:

	UNS Energy		TEP	
	Years Ended December 31,			
	2012	2011	2012	2011
	-Millions of Dollars-			
Assets	$ 7	$ 14	$ 4	$ 3
Liabilities	(15)	(43)	(4)	(9)
Net Assets (Liabilities)	$ (8)	$(29)	$—	$(6)

Derivative assets are included in Derivative Instruments and Other Non-Current Assets on the UNS Energy balance sheet and Other Current Assets and Other Non-Current Assets on the TEP balance sheet.

The realized losses on settled gas swaps that are fully recoverable through the PPFAC or PGA were as follows:

	UNS Energy			TEP		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Realized Losses on Gas Swaps	$(22)	$(19)	$(23)	$(10)	$(7)	$(9)

At December 31, 2012, UNS Energy and TEP had contracts that will settle through the fourth quarter of 2015.

Other Commodity Derivatives

The settlement of forward purchased power and sales contracts that do not result in physical delivery were reflected in the financial statements of UNS Energy and TEP as follows:

	UNS Energy			TEP		
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Recorded in Wholesale Sales [(1)]:						
Forward Power Sales	$ 22	$ 41	$ 53	$ 5	$ 14	$ 27
Forward Power Purchases	(20)	(46)	(62)	(6)	(15)	(34)
Total Sales and Purchases Not Resulting in Physical Delivery	$ 2	$ (5)	$ (9)	$(1)	$ (1)	$ (7)

(1) The amounts previously reported have been revised.

DERIVATIVE VOLUMES

At December 31, 2012, UNS Energy had gas swaps totaling 14,351 billion British thermal units (GBtu) and power contracts totaling 2,228 Gigawatt-hours (GWh), while TEP had gas swaps totaling 6,158 GBtu and power contracts totaling 820 GWh. At December 31, 2011, UNS Energy had gas swaps totaling 14,856 GBtu and power contracts totaling 3,147 GWh, while TEP had gas swaps totaling 6,855 GBtu and power contracts totaling 815 GWh.

CREDIT RISK ADJUSTMENT

When the fair value of our derivative contracts is reflected as an asset, the counterparty owes us and this creates credit risk. We also consider the impact of our own credit risk on instruments that are in a net liability position. The impact of counterparty credit risk and our own credit risk on the fair value of derivative asset contracts was less than $0.5 million at December 31, 2012 and December 31, 2011.

CONCENTRATION OF CREDIT RISK

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risk exposure resulting from the possibility of non-performance by counterparties pursuant to the terms of their contractual obligations. We enter into contracts for the physical delivery of energy and gas which contain remedies in the event of non-performance by the supply counterparties. In addition, volatile energy prices can create significant credit exposure from energy market receivables and subsequent measurement at fair value valuations.

We have contractual agreements for energy procurement and hedging activities that contain certain provisions requiring each company to post collateral under certain circumstances. These circumstances include: exposures in excess of unsecured credit limits provided to TEP, UNS Gas, or UNS Electric; credit rating downgrades; or a failure to meet certain financial ratios. In the event that such credit events were to occur, we would have to provide certain credit enhancements in the form of cash or LOCs to fully collateralize our exposure to these counterparties.

The following table shows the sum of the fair value of all derivative instruments under contracts with credit-risk related contingent features that are in a net liability position at December 31, 2012. It also shows LOCs posted and additional collateral to be posted if credit-risk related contingent features are triggered.

	UNS Energy	TEP
	December 31, 2012	
	-Millions of Dollars-	
Net Liability Position	$36	$10
LOCs	1	1
Additional Collateral to Post if Contingent Features Triggered	36	10

As of December 31, 2012, TEP had $15 million of credit exposure to other counterparties' creditworthiness related to its wholesale marketing and gas hedging activities, of which two counterparties individually composed greater than 10% of the total credit exposure. UNS Electric and UNS Gas had less than $1 million of such credit exposure related to its supply and hedging contracts.

NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Our quarterly financial information is unaudited but, in management's opinion, includes all adjustments necessary for a fair presentation. Our utility businesses are seasonal in nature. Peak sales periods for TEP and UNS Electric generally occur during the summer while UNS Gas' sales generally peak during the winter. Accordingly, comparisons among quarters of a year may not represent overall trends and changes in operations.

	UNS Energy			
	First	Second	Third	Fourth
	-Thousands of Dollars- (Except Per Share Amounts)			
2012				
Operating Revenue	$315,387	$363,997	$434,108	$348,274
Operating Income	34,403	68,065	106,409	42,918
Net Income	6,476	26,273	50,664	7,506
Basic EPS	0.17	0.65	1.22	0.18
Diluted EPS	0.17	0.64	1.21	0.18
2011				
Operating Revenue	$338,177	$365,141	$441,557	$333,827
Operating Income	44,820	71,290	123,760	41,837
Net Income	13,472	28,604	59,712	8,187
Basic EPS	0.37	0.77	1.61	0.22
Diluted EPS	0.35	0.71	1.46	0.22

EPS is computed independently for each of the quarters presented. Therefore, the sum of the quarterly EPS amounts may not equal the total for the year.

	TEP			
	First	Second	Third	Fourth
	-Thousands of Dollars-			
2012				
Operating Revenue	$223,978	$299,419	$366,910	$271,353
Operating Income	17,892	58,211	94,079	30,305
Net Income (Loss)	(1,461)	21,910	44,569	452
2011				
Operating Revenue	$239,588	$295,233	$369,845	$251,720
Operating Income	27,792	62,497	111,479	27,640
Net Income	4,704	25,158	53,912	1,560

The following tables reflect the quarterly impact of revisions on UNS Energy's statements of income recorded in the fourth quarter of 2012 (See Note 1):

	UNS Energy					
	2012 Three Months Ended					
	March 31,		June 30,		September 30,	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars-					
Income Statement						
Operating Revenue	$318,874	$315,387	$367,171	$363,997	$437,261	$434,108
Operating Income [(1)]	34,395	34,403	68,059	68,065	106,409	106,409

	2011 Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars-							
Income Statement								
Operating Revenue	$344,766	$338,177	$369,673	$365,141	$450,947	$441,557	$344,129	$333,827
Operating Income [(1)]	44,820	44,820	71,290	71,290	123,760	123,760	41,802	41,837

(1) Includes immaterial reclassifications from Operating Expense to Other Expense to conform with current year presentation.

Schedule II—Valuation and Qualifying Accounts – UNS Energy

Description	Beginning Balance	Additions-Charged to Income	Deductions	Ending Balance
		-Millions of Dollars-		
Year Ended December 31,				
Reserve for Uncollectible Accounts [1]				
2012	$ 16	$ 4	$ 13	$ 7
2011	$ 13	$ 5	$ 2	$16
2010	$ 13	$ 4	$ 4	$13
Deferred Tax Assets Valuation Allowance [2]				
2012	$ 7	$—	$—	$ 7
2011	$ 8	$—	$ 1	$ 7
2010	$—	$ 8	$—	$ 8
Other [3]				
2012	$ 6			$ 9
2011	$ 4			$ 6
2010	$ 2			$ 4

(1) TEP, UNS Gas, and UNS Electric record additions to the Reserve for Uncollectible Accounts based on historical experience and any specific customer collection issues identified. Deductions principally reflect amounts charged off as uncollectible, less amounts recovered. Amounts include reserves for trade receivables, wholesale sales, and in-kind transmission imbalances.

(2) Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred income tax asset will not be realized. Management believes that it is more likely than not that we will not be able to generate future capital gains to offset the capital losses related to an unregulated investment loss deferred tax asset. As a result, an $8 million valuation allowance was recorded against the deferred tax asset as of December 31, 2010.

(3) Principally reserves for sales tax audits, litigation matters, and damages billable to third parties. As the Other reserves are not individually significant, additions and deductions need not be disclosed.

Schedule II—Valuation and Qualifying Accounts—TEP

Description	Beginning Balance	Additions-Charged to Income	Deductions	Ending Balance
		-Millions of Dollars-		
Year Ended December 31,				
Reserve for Uncollectible Accounts [1]				
2012	$ 14	$3	$12	$ 5
2011	$ 11	$4	$ 1	$14
2010	$ 11	$3	$ 3	$11
Other [2]				
2012	$ 4			$ 8
2011	$ 3			$ 4
2010	$—			$ 3

(1) TEP records additions to the Reserve for Uncollectible Accounts based on historical experience and any specific customer collection issues identified. Deductions principally reflect amounts charged off as uncollectible, less amounts recovered. Amounts include reserves for trade receivables, wholesales sales, and in-kind transmission imbalances.

(2) Principally reserves for sales tax audits, litigation matters, and damages billable to third parties. As the Other reserves are not individually significant, additions and deductions need not be disclosed.

TEP had no deferred tax assets valuation allowance in the periods presented.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended September 30, 2013 (Unaudited)	Three Months Ended September 30, 2012 (Unaudited)		Nine Months Ended September 30, 2013 (Unaudited)	Nine Months Ended September 30, 2012 (Unaudited)
Thousands of Dollars (Except Per Share Amounts)			Thousands of Dollars (Except Per Share Amounts)	
		Operating Revenues		
$362,244	$353,473	Electric Retail Sales	**$ 868,523**	$ 850,975
27,529	29,341	Electric Wholesale Sales	**92,581**	88,469
15,430	15,407	Gas Retail Sales	**86,432**	85,621
31,838	35,887	Other Revenues	**86,863**	88,427
437,041	434,108	**Total Operating Revenues**	**1,134,399**	1,113,492
		Operating Expenses		
85,102	92,873	Fuel	**253,249**	245,933
67,429	57,085	Purchased Energy	**189,384**	165,078
8,061	4,500	Transmission and Other PPFAC Recoverable Costs	**15,768**	10,738
(3,521)	18,076	Increase (Decrease) to Reflect PPFAC/PGA Recovery Treatment	**(6,814)**	29,730
157,071	172,534	**Total Fuel and Purchased Energy**	**451,587**	451,479
93,202	98,346	Operations and Maintenance	**278,245**	283,587
38,204	35,145	Depreciation	**111,175**	105,319
5,193	9,069	Amortization	**21,600**	26,845
13,606	12,605	Taxes Other Than Income Taxes	**41,329**	37,385
307,276	327,699	**Total Operating Expenses**	**903,936**	904,615
129,765	106,409	**Operating Income**	**230,463**	208,877
		Other Income (Deductions)		
2	340	Interest Income	**31**	981
2,044	1,011	Other Income	**5,545**	3,855
(438)	(752)	Other Expense	**(1,817)**	(1,508)
731	581	Appreciation (Depreciation) in Fair Value of Investments	**1,864**	1,621
2,339	1,180	**Total Other Income (Deductions)**	**5,623**	4,949
		Interest Expense		
17,580	17,074	Long-Term Debt	**53,534**	53,811
6,323	8,507	Capital Leases	**18,821**	25,105
230	692	Other Interest Expense	**183**	1,712
(933)	(459)	Interest Capitalized	**(2,352)**	(1,646)
23,200	25,814	**Total Interest Expense**	**70,186**	78,982
108,904	81,775	**Income Before Income Taxes**	**165,900**	134,844
40,914	31,111	Income Tax Expense	**51,947**	51,430
$ 67,990	$ 50,664	**Net Income**	**$ 113,953**	$ 83,414
		Weighted-Average Shares of Common Stock Outstanding (000)		
41,650	41,446	Basic	**41,596**	39,983
42,028	41,863	Diluted	**41,941**	41,719
		Earnings Per Share		
$ 1.63	$ 1.22	Basic	**$ 2.74**	$ 2.09
$ 1.62	$ 1.21	Diluted	**$ 2.72**	$ 2.03
$ 0.435	$ 0.43	**Dividends Declared Per Share**	**$ 1.305**	$ 1.29

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three Months Ended September 30, 2013 (Unaudited)	2012		Nine Months Ended September 30, 2013 (Unaudited)	2012
Thousands of Dollars			Thousands of Dollars	
		Comprehensive Income		
$67,990	$50,664	Net Income	**$113,953**	$83,414
		Other Comprehensive Income		
		Net Changes in Fair Value of Cash Flow Hedges:		
685	370	net of income tax expense of $(448) and $(244)		
		net of income tax expense of $(1,459) and $(421)	**2,229**	641
		Supplemental Executive Retirement Plan (SERP) Benefit Amortization:		
68	55	net of income tax expense of $(42) and $(34)		
		net of income tax expense of $(127) and $(50)	**205**	219
753	425	**Total Other Comprehensive Income, Net of Income Tax Expense**	**2,434**	860
$68,743	$51,089	**Total Comprehensive Income**	**$116,387**	$84,274

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2013	2012
	(Unaudited)	
	Thousands of Dollars	
Cash Flows from Operating Activities		
Cash Receipts from Electric Retail Sales	**$ 912,098**	$ 894,195
Cash Receipts from Electric Wholesale Sales	**118,341**	107,854
Cash Receipts from Gas Retail Sales	**109,994**	114,055
Cash Receipts from Operating Springerville Units 3 & 4	**75,552**	75,715
Cash Receipts from Gas Wholesale Sales	**3,558**	565
Interest Received	**516**	2,884
Income Tax Refunds Received	**—**	307
Other Cash Receipts	**23,514**	18,810
Fuel Costs Paid	**(218,712)**	(239,397)
Purchased Energy Costs Paid	**(217,522)**	(189,927)
Payment of Operations and Maintenance Costs	**(199,939)**	(207,780)
Taxes Other Than Income Taxes Paid, Net of Amounts Capitalized	**(124,782)**	(128,513)
Wages Paid, Net of Amounts Capitalized	**(96,899)**	(94,815)
Interest Paid, Net of Amounts Capitalized	**(50,108)**	(52,593)
Capital Lease Interest Paid	**(21,698)**	(27,895)
Income Taxes Paid	**(316)**	—
Other Cash Payments	**(8,563)**	(5,327)
Net Cash Flows—Operating Activities	**305,034**	268,138
Cash Flows from Investing Activities		
Capital Expenditures	**(238,463)**	(232,036)
Purchase of Intangibles—Renewable Energy Credits	**(20,429)**	(7,554)
Deposit—San Juan Mine Reclamation Trust	**—**	(1,107)
Other Cash Payments	**—**	(232)
Return of Investments in Springerville Lease Debt	**9,104**	19,278
Restricted Cash Released	**4,500**	—
Proceeds from Note Receivable	**—**	12,500
Insurance Proceeds for Replacement Assets	**—**	2,875
Other Cash Receipts	**6,625**	14,484
Net Cash Flows—Investing Activities	**(238,663)**	(191,792)
Cash Flows from Financing Activities		
Proceeds from Borrowings Under Revolving Credit Facilities	**130,000**	342,000
Repayments of Borrowings Under Revolving Credit Facilities	**(100,000)**	(346,000)
Payments of Capital Lease Obligations	**(99,621)**	(89,452)
Common Stock Dividends Paid	**(54,146)**	(51,852)
Proceeds from Issuance of Long-Term Debt	**—**	149,513
Repayments of Long-Term Debt	**—**	(9,341)
Payment of Debt Issue/Retirement Costs	**(1,022)**	(3,349)
Proceeds from Stock Options Exercised	**2,724**	3,529
Proceeds from Common Stock Issuance	**408**	—
Other Cash Receipts	**4,721**	2,935
Other Cash Payments	**(962)**	(718)
Net Cash Flows—Financing Activities	**(117,898)**	(2,735)
Net Increase (Decrease) in Cash and Cash Equivalents	**(51,527)**	73,611
Cash and Cash Equivalents, Beginning of Year	**123,918**	76,390
Cash and Cash Equivalents, End of Period	**$ 72,391**	$ 150,001

See Note 10 for supplemental cash flow information.

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012
	Thousands of Dollars	
ASSETS		
Utility Plant		
Plant in Service	**$ 5,114,426**	$ 5,005,768
Utility Plant Under Capital Leases	**621,247**	582,669
Construction Work in Progress	**211,100**	128,621
Total Utility Plant	**5,946,773**	5,717,058
Less Accumulated Depreciation and Amortization	**(1,966,801)**	(1,921,733)
Less Accumulated Amortization of Capital Lease Assets	**(509,712)**	(494,962)
Total Utility Plant—Net	**3,470,260**	3,300,363
Investments and Other Property		
Investments in Lease Equity	**36,230**	36,339
Other	**33,441**	36,537
Total Investments and Other Property	**69,671**	72,876
Current Assets		
Cash and Cash Equivalents	**72,391**	123,918
Accounts Receivable—Customer	**127,316**	93,742
Unbilled Accounts Receivable	**55,730**	53,568
Allowance for Doubtful Accounts	**(7,215)**	(6,545)
Materials and Supplies	**89,302**	93,322
Fuel Inventory	**44,458**	62,019
Deferred Income Taxes—Current	**66,520**	34,260
Regulatory Assets—Current	**52,709**	51,619
Investments in Lease Debt	**—**	9,118
Derivative Instruments	**1,620**	3,165
Other	**26,882**	33,567
Total Current Assets	**529,713**	551,753
Regulatory and Other Assets		
Regulatory Assets—Noncurrent	**200,705**	191,077
Derivative Instruments	**752**	3,801
Other Assets	**22,704**	20,559
Total Regulatory and Other Assets	**224,161**	215,437
Total Assets	**$ 4,293,805**	$ 4,140,429

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS—(continued)

	September 30, 2013 (Unaudited)	December 31, 2012
	Thousands of Dollars	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	**$1,132,286**	$1,065,465
Capital Lease Obligations	**130,088**	262,138
Long-Term Debt	**1,505,536**	1,498,442
Total Capitalization	**2,767,910**	2,826,045
Current Liabilities		
Current Obligations Under Capital Leases	**169,060**	90,583
Borrowings Under Revolving Credit Facilities	**23,000**	—
Accounts Payable—Trade	**91,615**	107,740
Accrued Taxes Other than Income Taxes	**60,657**	41,939
Accrued Employee Expenses	**26,000**	24,094
Accrued Interest	**22,343**	31,950
Regulatory Liabilities—Current	**56,987**	43,516
Customer Deposits	**30,564**	34,048
Derivative Instruments	**12,988**	14,742
Other	**14,521**	10,517
Total Current Liabilities	**507,735**	399,129
Deferred Credits and Other Liabilities		
Deferred Income Taxes—Noncurrent	**482,516**	364,756
Regulatory Liabilities—Noncurrent	**297,699**	279,111
Pension and Other Retiree Benefits	**141,997**	159,401
Derivative Instruments	**7,183**	12,709
Other	**88,765**	99,278
Total Deferred Credits and Other Liabilities	**1,018,160**	915,255
Commitments, Contingencies, and Environmental Matters (Note 4)		
Total Capitalization and Other Liabilities	**$4,293,805**	$4,140,429

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares Outstanding*	Common Stock	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Thousands of Shares		(Unaudited) Thousands of Dollars		
Balances at December 31, 2012	**41,344**	**$882,138**	**$193,117**	**$(9,790)**	**$1,065,465**
Comprehensive Income					
2013 Year-to-Date Net Income			113,953		113,953
Other Comprehensive Income, net of $(1,586) income taxes				2,434	2,434
Total Comprehensive Income					116,387
Dividends, Including Non-Cash Dividend Equivalents			(54,733)		(54,733)
Shares Issued Under Dividend Reinvestment Plan	9	408			408
Shares Issued for Stock Options	85	2,724			2,724
Shares Issued Under Performance Share Awards	57	—			—
Other		2,035			2,035
Balances at September 30, 2013	**41,495**	**$887,305**	**$252,337**	**$(7,356)**	**$1,132,286**

* UNS Energy has 75 million authorized shares of Common Stock.

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended September 30, 2013 (Unaudited)	Three Months Ended September 30, 2012 (Unaudited)		Nine Months Ended September 30, 2013 (Unaudited)	Nine Months Ended September 30, 2012 (Unaudited)
Thousands of Dollars			Thousands of Dollars	
		Operating Revenues		
$310,632	$302,893	Electric Retail Sales	**$739,147**	$716,993
26,563	25,448	Electric Wholesale Sales	**90,503**	77,488
34,044	38,569	Other Revenues	**93,603**	95,826
371,239	366,910	**Total Operating Revenues**	**923,253**	890,307
		Operating Expenses		
82,065	88,402	Fuel	**247,417**	237,930
42,477	27,576	Purchased Power	**89,815**	62,064
4,940	1,914	Transmission and Other PPFAC Recoverable Costs	**7,535**	4,277
(7,992)	20,025	Increase (Decrease) to Reflect PPFAC Recovery Treatment	**(5,079)**	25,150
121,490	137,917	**Total Fuel and Purchased Energy**	**339,688**	329,421
79,335	86,942	Operations and Maintenance	**239,170**	248,092
30,311	27,644	Depreciation	**87,729**	82,656
6,118	10,001	Amortization	**24,393**	29,621
10,808	10,327	Taxes Other Than Income Taxes	**32,916**	30,325
248,062	272,831	**Total Operating Expenses**	**723,896**	720,115
123,177	94,079	**Operating Income**	**199,357**	170,192
		Other Income (Deductions)		
6	28	Interest Income	**14**	97
1,466	952	Other Income	**3,904**	3,041
(2,776)	(1,945)	Other Expense	**(7,493)**	(4,886)
731	581	Appreciation (Depreciation) in Fair Value of Investments	**1,864**	1,621
(573)	(384)	**Total Other Income (Deductions)**	**(1,711)**	(127)
		Interest Expense		
13,848	13,268	Long-Term Debt	**42,412**	40,562
6,323	8,507	Capital Leases	**18,821**	25,105
82	562	Other Interest Expense	**(86)**	1,338
(644)	(361)	Interest Capitalized	**(1,671)**	(1,381)
19,609	21,976	**Total Interest Expense**	**59,476**	65,624
102,995	71,719	**Income Before Income Taxes**	**138,170**	104,441
38,828	27,150	Income Tax Expense	**41,737**	39,423
$64,167	$ 44,569	**Net Income**	**$ 96,433**	$ 65,018

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three Months Ended September 30, 2013 (Unaudited) Thousands of Dollars	Three Months Ended September 30, 2012 (Unaudited) Thousands of Dollars		Nine Months Ended September 30, 2013 (Unaudited) Thousands of Dollars	Nine Months Ended September 30, 2012 (Unaudited) Thousands of Dollars
		Comprehensive Income		
$64,167	$44,569	Net Income	**$96,433**	$65,018
		Other Comprehensive Income		
		Net Changes in Fair Value of Cash Flow Hedges:		
700	465	net of income tax expense of $(458) and $(304)		
		net of income tax expense of $(1,412) and $(584)	**2,156**	891
		SERP Benefit Amortization:		
68	55	net of income tax expense of $(42) and $(34)		
		net of income tax expense of $(127) and $(50)	**205**	219
768	520	**Total Other Comprehensive Income, Net of Income Tax Expense**	**2,361**	1,110
$64,935	$45,089	**Total Comprehensive Income**	**$98,794**	$66,128

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2013	2012
	(Unaudited)	
	Thousands of Dollars	
Cash Flows from Operating Activities		
Cash Receipts from Electric Retail Sales	**$ 769,433**	$ 748,936
Cash Receipts from Electric Wholesale Sales	**107,997**	89,902
Cash Receipts from Operating Springerville Units 3 & 4	**75,552**	75,715
Reimbursement of Affiliate Charges	**17,639**	16,783
Cash Receipts from Gas Wholesale Sales	**3,209**	153
Interest Received	**509**	2,014
Income Tax Refunds Received	**77**	200
Other Cash Receipts	**18,240**	14,528
Fuel Costs Paid	**(214,722)**	(233,457)
Payment of Operations and Maintenance Costs	**(193,290)**	(200,569)
Taxes Other Than Income Taxes Paid, Net of Amounts Capitalized	**(97,419)**	(99,249)
Purchased Power Costs Paid	**(87,110)**	(60,684)
Wages Paid, Net of Amounts Capitalized	**(80,964)**	(77,820)
Interest Paid, Net of Amounts Capitalized	**(36,671)**	(35,728)
Capital Lease Interest Paid	**(21,698)**	(27,893)
Income Taxes Paid	**—**	(1,796)
Other Cash Payments	**(6,603)**	(3,884)
Net Cash Flows—Operating Activities	**254,179**	207,151
Cash Flows from Investing Activities		
Capital Expenditures	**(180,451)**	(196,429)
Purchase of Intangibles—Renewable Energy Credits	**(17,552)**	(6,436)
Deposit—San Juan Mine Reclamation Trust	**—**	(1,107)
Return of Investments in Springerville Lease Debt	**9,104**	19,278
Restricted Cash Released	**4,500**	—
Insurance Proceeds for Replacement Assets	**—**	2,875
Other Cash Receipts	**4,656**	9,207
Net Cash Flows—Investing Activities	**(179,743)**	(172,612)
Cash Flows from Financing Activities		
Proceeds from Borrowings Under Revolving Credit Facility	**78,000**	189,000
Repayments of Borrowings Under Revolving Credit Facility	**(78,000)**	(199,000)
Payments of Capital Lease Obligations	**(99,621)**	(89,452)
Dividends Paid to UNS Energy	**(20,000)**	—
Proceeds from Issuance of Long-Term Debt	**—**	149,513
Repayments of Long-Term Debt	**—**	(6,535)
Payment of Debt Issue/Retirement Costs	**(1,022)**	(3,349)
Other Cash Receipts	**1,976**	1,292
Other Cash Payments	**(726)**	(530)
Net Cash Flows—Financing Activities	**(119,393)**	40,939
Net Increase (Decrease) in Cash and Cash Equivalents	**(44,957)**	75,478
Cash and Cash Equivalents, Beginning of Year	**79,743**	27,718
Cash and Cash Equivalents, End of Period	**$ 34,786**	$ 103,196

See Note 10 for supplemental cash flow information.

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012
	Thousands of Dollars	
ASSETS		
Utility Plant		
Plant in Service	**$ 4,434,770**	$ 4,348,041
Utility Plant Under Capital Leases	**621,247**	582,669
Construction Work in Progress	**153,258**	98,460
Total Utility Plant	**5,209,275**	5,029,170
Less Accumulated Depreciation and Amortization	**(1,811,806)**	(1,783,787)
Less Accumulated Amortization of Capital Lease Assets	**(509,712)**	(494,962)
Total Utility Plant—Net	**2,887,757**	2,750,421
Investments and Other Property		
Investments in Lease Equity	**36,230**	36,339
Other	**32,009**	35,091
Total Investments and Other Property	**68,239**	71,430
Current Assets		
Cash and Cash Equivalents	**34,786**	79,743
Accounts Receivable—Customer	**105,646**	71,813
Unbilled Accounts Receivable	**46,240**	33,782
Allowance for Doubtful Accounts	**(5,238)**	(4,598)
Accounts Receivable—Due from Affiliates	**3,963**	5,720
Materials and Supplies	**76,255**	80,377
Fuel Inventory	**44,162**	61,737
Deferred Income Taxes—Current	**69,985**	37,212
Regulatory Assets—Current	**36,283**	34,345
Investments in Lease Debt	**—**	9,118
Derivative Instruments	**1,047**	2,230
Other	**20,605**	32,163
Total Current Assets	**433,734**	443,642
Regulatory and Other Assets		
Regulatory Assets—Noncurrent	**186,626**	178,330
Derivative Instruments	**259**	1,354
Other Assets	**17,525**	15,869
Total Regulatory and Other Assets	**204,410**	195,553
Total Assets	**$ 3,594,140**	$ 3,461,046

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS—(Continued)

	September 30, 2013 (Unaudited)	December 31, 2012
	Thousands of Dollars	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	**$ 939,721**	$ 860,927
Capital Lease Obligations	**130,088**	262,138
Long-Term Debt	**1,223,536**	1,223,442
Total Capitalization	**2,293,345**	2,346,507
Current Liabilities		
Current Obligations Under Capital Leases	**169,060**	90,583
Accounts Payable—Trade	**75,834**	82,122
Accounts Payable—Due to Affiliates	**2,981**	3,134
Accrued Taxes Other than Income Taxes	**50,465**	33,060
Accrued Employee Expenses	**22,937**	20,715
Accrued Interest	**20,503**	26,965
Regulatory Liabilities—Current	**26,440**	20,822
Customer Deposits	**21,251**	24,846
Derivative Instruments	**7,060**	4,899
Other	**9,336**	7,085
Total Current Liabilities	**405,867**	314,231
Deferred Credits and Other Liabilities		
Deferred Income Taxes—Noncurrent	**421,621**	319,216
Regulatory Liabilities—Noncurrent	**259,523**	241,189
Pension and Other Retiree Benefits	**132,491**	149,718
Derivative Instruments	**4,950**	10,565
Other	**76,343**	79,620
Total Deferred Credits and Other Liabilities	**894,928**	800,308
Commitments, Contingencies, and Environmental Matters (Note 4)		
Total Capitalization and Other Liabilities	**$3,594,140**	**$3,461,046**

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

	Common Stock	Capital Stock Expense	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholder's Equity
			(Unaudited) Thousands of Dollars		
Balances at December 31, 2012	**$888,971**	**$(6,357)**	**$(12,157)**	**$(9,530)**	**$860,927**
Comprehensive Income					
2013 Year-to-Date Net Income			96,433		96,433
Other Comprehensive Income, net of $(1,539) income taxes				2,361	2,361
Total Comprehensive Income					98,794
Dividends Paid			(20,000)		(20,000)
Balances at September 30, 2013	**$888,971**	**$(6,357)**	**$ 64,276**	**$(7,169)**	**$939,721**

See Notes to Condensed Consolidated Financial Statements.

NOTE 1. FINANCIAL STATEMENT PRESENTATION

UNS Energy Corporation (UNS Energy) is a holding company that conducts its business through three regulated public utilities: Tucson Electric Power Company (TEP); UNS Gas, Inc. (UNS Gas); and UNS Electric, Inc. (UNS Electric). References to "we" and "our" are to UNS Energy and its subsidiaries, collectively.

We prepared our condensed consolidated financial statements according to generally accepted accounting principles in the United States of America (GAAP) and the Securities and Exchange Commission's (SEC) interim reporting requirements. These condensed consolidated financial statements exclude some information and footnotes required by GAAP and the SEC for annual financial statement reporting. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes in our 2012 Annual Report on Form 10-K.

The condensed consolidated financial statements are unaudited, but, in management's opinion, include all recurring adjustments necessary for a fair presentation of the results for the interim periods presented. Because weather and other factors cause seasonal fluctuations in sales, our quarterly results are not indicative of annual operating results. UNS Energy and TEP reclassified certain amounts in the financial statements to conform to current year presentation.

REVISION OF PRIOR PERIOD UNS ENERGY INCOME STATEMENT

During the first three quarters of 2012, we incorrectly reported UNS Electric's sales and purchase contracts which did not result in the physical delivery of energy. The transactions were reported on a gross basis rather than on a net basis. This error resulted in an equal and offsetting overstatement of Electric Wholesale Sales and Purchased Energy in the income statements of $3 million for the three months ended and $10 million for the nine months ended September 30, 2012. This error had no impact on operating income, net income, accumulated earnings, or cash flows.

We assessed the impact of this error on prior period financial statements and concluded it was not material to any period. However, this error was significant to individual income statement line items. As a result, in accordance with GAAP, we revised our prior period income statement as follows:

	UNS Energy			
	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	As Reported	As Revised	As Reported	As Revised
	Thousands of Dollars		Thousands of Dollars	
Income Statement				
Electric Wholesale Sales	$ 32,494	$ 29,341	$ 98,282	$ 88,469
Purchased Energy	60,238	57,085	174,891	165,078
Total Fuel and Purchased Energy	175,687	172,534	461,292	451,479
Total Operating Expenses	330,852	327,699	914,428	904,615

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2013, we adopted authoritative guidance that:

- Requires disclosure related to offsetting derivative assets and derivative liabilities in accordance with GAAP. See Note 11.
- Requires additional disclosures for amounts reclassified out of Accumulated Other Comprehensive Income (AOCI) by component. See Note 12.
- Allows an entity to perform a qualitative analysis to determine if additional testing for impairment of indefinite-lived intangible assets is required. Based on our qualitative analysis, we had no impairment indicator as our only indefinite-lived intangible assets, Renewable Energy Credits (RECs), are currently recoverable under the Renewable Energy Standard (RES) as we use the RECs to comply with the standard's renewable resources requirements.

NOTE 2. REGULATORY MATTERS

RATES AND REGULATION

The Arizona Corporation Commission (ACC) and the Federal Energy Regulatory Commission (FERC) each regulate portions of the utility accounting practices and rates of TEP, UNS Gas, and UNS Electric. The ACC regulates rates charged to retail customers, the siting of generation and transmission facilities, the issuance of securities, and transactions with affiliated parties. The FERC regulates terms and prices of transmission services and wholesale electricity sales.

2013 TEP RATE ORDER

In June 2013, the ACC issued the 2013 TEP Rate Order that resolved the rate case filed by TEP in July 2012 which was based on a test year ended December 31, 2011. The 2013 TEP Rate Order approved new rates effective July 1, 2013.

The provisions of the 2013 TEP Rate Order include, but are not limited to:

- an increase in non-fuel retail Base Rates of approximately $76 million over adjusted test year revenues;
- an Original Cost Rate Base (OCRB) of approximately $1.5 billion and a Fair Value Rate Base (FVRB) of approximately $2.3 billion;
- a return on equity of 10.0%, a long-term cost of debt of 5.18%, and a short-term cost of debt of 1.42%, resulting in a weighted average cost of capital of 7.26%;
- a capital structure of approximately 43.5% equity, 56.0% long-term debt, and 0.5% short-term debt;
- a 0.68% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $800 million);
- a revision in depreciation rates from an average rate of 3.32% to 3.0% for generation and distribution plant, primarily due to revised estimates of asset removal costs, which will have the effect of reducing depreciation expense by approximately $11 million annually; and
- an agreement by TEP to seek recovery of costs related to the Nogales transmission line from the FERC before seeking rate recovery from the ACC.

The 2013 TEP Rate Order also includes the following cost recovery mechanisms:

- a new Purchased Power and Fuel Adjustment Clause (PPFAC) credit of $0.001388 per kWh effective July 1, 2013. The credit reflects the following:
  - a one-time reduction in the PPFAC bank balance, recorded in June 2013 as an increase to fuel expense, of $3 million related to prior Sulfur Credits; and
  - a transfer of $10 million, recorded in June 2013, from the PPFAC bank balance to a new regulatory asset to defer coal costs related to the San Juan mine fire. These costs will be eligible for recovery through the PPFAC upon final insurance settlement.
- a modification of the PPFAC mechanism to include recovery of generation-related lime costs offset by Sulfur Credits.
- a Lost Fixed Cost Recovery mechanism (LFCR) to recover certain non-fuel costs related to kWh sales lost due to energy efficiency programs and distributed generation, subject to ACC approval and a year-over-year cap of 1% of TEP's total retail revenues. TEP expects the LFCR rate, recovering 2013 costs, to be effective on July 1, 2014, upon approval of verified lost kWh sales by the ACC.
- an Environmental Compliance Adjustor (ECA) mechanism to recover certain capital carrying costs to comply with government-mandated environmental regulations between rate cases. The ECA rate is capped at $0.00025 per kWh, which approximates 0.25% of TEP's total retail revenues, and will be charged to customers beginning in May 2014 for any qualifying costs incurred between August 2013 and December 2013.
- an energy efficiency provision which includes a 2013 calendar year budget to fund programs that support the ACC's Electric Energy Efficiency Standards, as well as a performance incentive.

PENDING UNS ELECTRIC RATE CASE

In December 2012, UNS Electric filed a rate case application with the ACC as required by the ACC in UNS Electric's 2010 Rate Order. UNS Electric's rate filing was based on a test year ended June 30, 2012.

In September 2013, UNS Electric, the staff of the ACC, and certain other parties to UNS Electric's pending rate case proceeding entered into a settlement agreement (2013 UNS Electric Settlement Agreement). The 2013 UNS Electric Settlement Agreement requires the approval of the ACC before new rates can become effective.

The terms of the 2013 UNS Electric Settlement Agreement include, but are not limited to:

- an increase in non-fuel retail Base Rates of approximately $3 million;
- an OCRB of approximately $213 million and a FVRB of approximately $283 million;
- a return on equity of 9.50% and a long-term cost of debt of 5.97% resulting in a weighted average cost of capital of 7.83%;
- a 0.50% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $70 million); and
- a capital structure of 52.6% equity and 47.4% long-term debt.

The 2013 UNS Electric Settlement Agreement also includes the following cost recovery mechanisms:

- an LFCR mechanism to recover certain non-fuel costs related to kWh sales lost due to energy efficiency programs and distributed generation; and
- a Transmission Cost Adjustor (TCA). The TCA would allow more timely recovery of transmission costs associated with serving retail customers.

UNS GAS PURCHASED GAS ADJUSTOR

In October 2013, the ACC approved an increase to the existing Purchased Gas Adjustor (PGA) credit from 4.5 cents per therm to 10 cents per therm in order to reduce the over-collected PGA bank balance. The new PGA credit will be effective for the period November 1, 2013 through April 30, 2014. At September 30, 2013, the PGA bank balance was over-collected by $17 million on a billed-to-customer basis.

REGULATORY ASSETS AND LIABILITIES

The following table summarizes changes in regulatory assets and liabilities since December 31, 2012:

	September 30, 2013		December 31, 2012	
	UNS Energy	TEP	UNS Energy	TEP
	Millions of Dollars			
Regulatory Assets – Current	$ 53	$ 36	$ 52	$ 34
Regulatory Assets – Noncurrent [1]	201	187	191	178
Regulatory Liabilities – Current [2]	(57)	(26)	(44)	(21)
Regulatory Liabilities – Noncurrent [3]	(298)	(260)	(279)	(241)
Total Net Regulatory Assets (Liabilities)	$(101)	$ (63)	$ (80)	$ (50)

(1) Regulatory Assets – Noncurrent increased reflecting a newly created regulatory asset primarily for the investment tax credit basis adjustment. See Note 6. This regulatory asset does not earn a return and will be recovered through future rates. The increase is also related to the addition of deferred rate case costs that do not earn a return and will be recovered over a four year period.

(2) Regulatory Liabilities – Current increased because purchased energy costs are over recovered following deferral of coal costs related to the San Juan mine fire, as discussed above. The regulatory asset related to these deferred costs does not earn a return and will be recovered at the time of the final insurance settlement.

(3) Regulatory Liabilities – Noncurrent increased due to the collection of amounts in rates for future asset removal costs that have not yet been expended.

FUTURE IMPLICATIONS OF DISCONTINUING APPLICATION OF REGULATORY ACCOUNTING

If our regulated operations no longer met the requirements to apply regulatory accounting we would remove our regulatory assets and liabilities by:

- writing off the remaining regulatory assets as an expense and regulatory liabilities as income in the income statements; and
- reflecting regulatory pension assets as part of AOCI.

If we had stopped applying regulatory accounting at September 30, 2013:

- TEP would have recorded an extraordinary after-tax gain of $113 million and an after-tax loss in AOCI of $75 million;
- UNS Gas would have recorded an extraordinary after-tax gain of $26 million and an after-tax loss in AOCI of $2 million; and
- UNS Electric would have recorded an extraordinary after-tax gain of $3 million and an after-tax loss in AOCI of $3 million.

While future regulatory orders and market conditions may affect cash flows, our cash flows would not be affected if we stopped applying regulatory accounting to our regulated operations.

NOTE 3. BUSINESS SEGMENTS

We have three reportable segments regularly reviewed by our chief operating decision makers to evaluate performance and make operating decisions.

(1) TEP, a regulated electric utility and our largest subsidiary

(2) UNS Gas, a regulated gas distribution utility

(3) UNS Electric, a regulated electric utility

We disclose selected financial data for our reportable segments in the following table:

	Reportable Segments					
	TEP	UNS Gas	UNS Electric	Non-Reportable Segments	Reconciling Adjustments	UNS Energy Consolidated
	Millions of Dollars					
Income Statement						
Three Months Ended September 30, 2013						
Operating Revenues – External	$367	$ 16	$ 54	$—	$—	$437
Operating Revenues – Intersegment [1]	4	2	—	4	(10)	—
Net Income	64	(1)	5	—	—	68
Three Months Ended September 30, 2012						
Operating Revenues – External	$362	$ 16	$ 56	$—	$—	$434
Operating Revenues – Intersegment [1]	5	2	—	5	(12)	—
Net Income	45	—	6	—	—	51

	Reportable Segments					
	TEP	UNS Gas	UNS Electric	Non-Reportable Segments	Reconciling Adjustments	UNS Energy Consolidated
	Millions of Dollars					
Income Statement						
Nine Months Ended September 30, 2013						
Operating Revenues – External	$910	$90	$134	$—	$—	$1,134
Operating Revenues – Intersegment [1]	13	3	1	12	(29)	—
Net Income	96	6	11	1	—	114
Nine Months Ended September 30, 2012						
Operating Revenues – External	$877	$89	$147	$—	$—	$1,113
Operating Revenues – Intersegment [1]	13	4	1	14	(32)	—
Net Income	65	5	14	(1)	—	83

[1] Operating Revenues – Intersegment: TEP includes control area services provided to UNS Electric based on a FERC-approved tariff; common costs (systems, facilities, etc.) allocated to affiliates on a cost-causative basis; and sales of power to UNS Electric at third-party market prices. Other primarily includes meter reading services and supplemental workforce provided by an unregulated affiliate to the utilities.

NOTE 4. COMMITMENTS, CONTINGENCIES, AND ENVIRONMENTAL MATTERS

In addition those reported in our 2012 Annual Report on Form 10-K, we entered into the following new long-term commitments through September 30, 2013:

TEP COMMITMENTS

	Purchase Commitments						
	2013	2014	2015	2016	2017	Thereafter	Total
	Millions of Dollars						
Purchased Power, Including Renewable PPA [1]	$ 2	$ 18	$ 6	$ 4	$ 4	$ 58	$ 92
Capital Lease Obligations [2]	—	—	46	—	—	—	46
RES Performance-Based Incentives [3]	1	1	1	1	1	7	12
Fuel Transportation [4]	4	5	5	5	5	1	25
Total Purchase Commitments	$ 7	$ 24	$58	$ 10	$ 10	$ 66	$175

(1) Purchased Power costs are recoverable from customers through the PPFAC. A portion of the Renewable Power Purchase Agreement (PPA) is recoverable through the PPFAC, with the balance recoverable through the RES tariff.
(2) In the third and fourth quarters of 2013, TEP entered into agreements to purchase certain Springerville Unit 1 leased interests. See Note 5.
(3) The RES Performance-Based Incentive (PBI) costs are recoverable through the RES tariff.
(4) Fuel Transportation costs are recoverable from customers through the PPFAC.

UNS GAS COMMITMENTS

Forward Energy Contracts

UNS Gas entered into new forward energy commitments that settle through 2016 at fixed prices per million British thermal units (MMBtu). UNS Gas' minimum payment obligations for these purchases are $2 million in 2014, $3 million in 2015, and $2 million in 2016.

Fuel Transportation

UNS Gas entered into revised gas transportation agreements in August 2013. UNS Gas anticipates that its commitments will increase by $3 million in 2013, $9 million each year in 2014 through 2016, $10 million in 2017, and $56 million thereafter.

UNS ELECTRIC COMMITMENTS

Purchased Power Contracts

UNS Electric entered into new forward purchased power commitments that will settle through 2015 at fixed prices per MWh. UNS Electric's minimum payment obligations for these purchases are $1 million in 2014 and $4 million in 2015.

TEP CONTINGENCIES

Claim Related to San Juan Generating Station

San Juan Coal Company (SJCC) operates an underground coal mine in an area where certain gas producers have oil and gas leases with the federal government, the State of New Mexico, and private parties. These gas producers allege that SJCC's underground coal mine interferes with their operations, reducing the amount of natural gas they can recover. SJCC compensated certain gas producers for any remaining production from wells deemed close enough to the mine to warrant plugging and abandoning them. These settlements, however, do not resolve all potential claims by gas producers in the area. TEP owns 50% of Units 1 and 2 at San Juan Generating Station (San Juan), which represents approximately 20% of the total generation capacity at San Juan, and is responsible for its share of any settlements. TEP cannot estimate the impact of any future claims by these gas producers on the cost of coal at San Juan.

In August 2013, the Bureau of Land Management (BLM) proposed regulations that, among other things, redefine the term "underground mine" to exclude high-wall mining operations and impose a higher surface mine coal royalty on high-wall mining. SJCC utilized high-wall mining techniques at its surface mines prior to beginning underground mining operations in January 2003. If the proposed regulations become effective, SJCC may be subject to additional royalties on coal delivered to San Juan between August 2000 and January 2003 totaling approximately $5 million of which TEP's proportionate share would approximate $1 million. TEP cannot predict the final outcome of the BLM's proposed regulations.

Claims Related to Four Corners Generating Station

In October 2011, EarthJustice, on behalf of several environmental organizations, filed a lawsuit in the United States District Court for the District of New Mexico against Arizona Public Service Company (APS) and the other Four Corners Generating Station (Four Corners) participants alleging violations of the Prevention of Significant Deterioration (PSD) provisions of the Clean Air Act at Four Corners. In January 2012, EarthJustice amended their complaint alleging violations of New Source Performance Standards resulting from equipment replacements at Four Corners. Among other things, the plaintiffs seek to have the court issue an order to cease operations at Four Corners until any required PSD permits are issued and order the payment of civil penalties, including a beneficial mitigation project. In April 2012, APS filed motions to dismiss with the court for all claims asserted by EarthJustice in the amended complaint. All parties filed a joint motion to stay until December 1, 2013.

TEP owns 7% of Four Corners Units 4 and 5 and is liable for its share of any resulting liabilities. TEP cannot predict the final outcome of the claims relating to Four Corners, and, due to the general and non-specific nature of the claims and the indeterminate scope and nature of the injunctive relief sought for this claim, TEP cannot determine estimates of the range of loss at this time. TEP accrued estimated losses of less than $1 million in 2011 for this claim based on its share of a settlement offer to resolve the claim.

In May 2013, the New Mexico Taxation and Revenue Department issued a notice of assessment for coal severance tax, penalties, and interest totaling $30 million to the coal supplier at Four Corners. The coal supplier and Four Corners' operating agent intend to contest the validity of the assessment on behalf of the participants in Four Corners, who will be liable for their share of any resulting liabilities. TEP's share of the assessment based on its ownership of Four Corners is approximately $1 million. TEP cannot predict the outcome or timing of resolution of this claim.

Mine Closure Reclamation at Generating Stations Not Operated by TEP

TEP pays ongoing reclamation costs related to coal mines that supply generating stations in which TEP has an ownership interest but does not operate. TEP is liable for a portion of final reclamation costs upon closure of the mines servicing Navajo, San Juan, and Four Corners. TEP's share of reclamation costs is expected to be $27 million upon expiration of the coal supply agreements, which expire between 2016 and 2019. The reclamation liability (present value of future liability) recorded was $18 million at September 30, 2013 and $16 million at December 31, 2012.

Amounts recorded for final reclamation are subject to various assumptions, such as estimations of reclamation costs, the dates when final reclamation will occur, and the credit-adjusted risk-free interest rate to be used to discount future liabilities. As these assumptions change, TEP will prospectively adjust the expense amounts for final reclamation over the remaining coal supply agreements' terms. TEP does not believe that recognition of its final reclamation obligations will be material to TEP in any single year because recognition will occur over the remaining terms of its coal supply agreements.

TEP's PPFAC allows us to pass through most fuel costs, including final reclamation costs, to customers. Therefore, TEP classifies these costs as a regulatory asset by increasing the regulatory asset and the reclamation liability over the remaining life of the coal supply agreements on an accrual basis and recovering the regulatory asset through the PPFAC as final mine reclamation costs are paid to the coal suppliers.

Tucson to Nogales Transmission Line

TEP and UNS Electric are parties to a project development agreement for the joint construction of a 60-mile transmission line from Tucson, Arizona to Nogales, Arizona. This project was initiated in response to an order by the ACC to UNS Electric to improve the reliability of electric service in Nogales. TEP and UNS Electric expect to abandon the project based on the cost of the proposed 345-kV line, the difficulty in reaching agreement with the Forest Service on a path for the line, and concurrence by the ACC of recent transmission plans filed by TEP and UNS Electric supporting elimination of this project. As part of the 2013 TEP Rate Order, TEP agreed to seek recovery of the project costs from FERC before seeking rate recovery from the ACC. See Note 2. In 2012, TEP recorded a regulatory asset of $5 million and UNS Electric recorded a regulatory asset of $0.2 million for the balance deemed probable of recovery.

RESOLUTION OF TEP CONTINGENCIES

Springerville Generating Station Unit 3 Outage

TEP paid Tri-State Generating and Transmission Association, Inc. (Tri-State) $2 million in March 2013 as a result of an outage at Springerville Unit 3 in 2012. TEP accrued the pre-tax loss in July 2012 as a result of not meeting certain availability requirements under the terms of TEP's operating agreement with Tri-State.

ENVIRONMENTAL MATTERS

Environmental Regulation

The Environmental Protection Agency (EPA) limits the amount of sulfur dioxide (SO_2), nitrogen oxide (NOx), particulate matter, mercury and other emissions released into the atmosphere by power plants. TEP may incur added costs to comply with future changes in federal and state environmental laws, regulations, and permit requirements at its power plants. Complying with these changes may reduce operating efficiency. TEP expects to recover the cost of environmental compliance from its ratepayers.

Hazardous Air Pollutant Requirements

The Clean Air Act requires the EPA to develop emission limit standards for hazardous air pollutants that reflect the maximum achievable control technology. In February 2012, the EPA issued final rules to set the standards for the control of mercury emissions and other hazardous air pollutants from power plants.

Navajo

Based on the EPA's standards, Navajo may require mercury and particulate matter emission control equipment by 2015. TEP's share of the estimated capital cost of this equipment is less than $1 million for mercury control and about $43 million if the installation of baghouses to control particulates is necessary. The operator of Navajo is currently analyzing the need for baghouses under various regulatory scenarios, which will be affected by final Best Available Retrofit Technology (BART) rules when issued. TEP expects its share of the annual operating costs for mercury control and baghouses to be less than $1 million each.

San Juan

TEP expects San Juan's current emission controls to be adequate to comply with the EPA's final standards.

Four Corners

Based on the EPA's final standards, Four Corners may require mercury emission control equipment by 2015. TEP's share of the estimated capital cost of this equipment is less than $1 million. TEP expects its share of the annual operating cost of the mercury emission control equipment to be less than $1 million.

Springerville Generating Station

Based on the EPA's final standards, Springerville Generating Station (Springerville) may require mercury emission control equipment by 2015. The estimated capital cost of this equipment for Springerville Units 1 and 2 is about $5 million. TEP expects the annual operating cost of the mercury emission control equipment to be about $3 million.

Sundt Generating Station

TEP expects the final EPA standards will have little effect on capital expenditures at Sundt Generating Station (Sundt).

Regional Haze Rules

The EPA's Regional Haze Rules require emission controls known as BART for certain industrial facilities emitting air pollutants that reduce visibility. The rules call for all states to establish goals and emission reduction strategies for improving visibility in national parks and wilderness areas. States must submit these goals and strategies to the EPA for approval. Because Navajo and Four Corners are located on the Navajo Indian Reservation, they are not subject to state oversight. The EPA oversees regional haze planning for these power plants.

Complying with the EPA's BART findings, and with other future environmental rules, may make it economically impractical to continue operating the Navajo, San Juan, and Four Corners power plants or for individual owners to continue to participate in these power plants. TEP cannot predict the ultimate outcome of these matters.

Navajo

In January 2013, the EPA proposed a BART determination that would require the installation of Selective Catalytic Reduction (SCR) technology on all three units at Navajo by 2023. In July 2013, SRP, along with other stakeholders including impacted government agencies, environmental organizations, and tribal representatives, submitted an agreement to the EPA that would achieve greater NOx emission reductions than the EPA's proposed BART rule. In September 2013, EPA issued a supplemental proposal incorporating the provisions of the agreement as a better-than-BART alternative.

Among other things, the agreement calls for the shut down of one unit or an equivalent reduction in emissions by 2020. The shutdown of one unit will not impact the total amount of energy delivered to TEP from Navajo. Additionally, the remaining Navajo participants would be required to install SCR or an equivalent technology on the remaining two units by 2030. As part of the agreement, the current owners have committed to cease their operation of conventional coal-fired generation at Navajo no later than December 2044. The Navajo Nation can continue operation after 2044 at its election. If SCR technology is ultimately implemented at Navajo, TEP estimates its share of the capital cost will be $42 million. Also, the installation of SCR technology at Navajo could increase the power plant's particulate emissions which may require that baghouses be installed. TEP estimates that its share of the capital expenditure for baghouses would be about $43 million. TEP's share of annual operating costs for SCR and baghouses is estimated at less than $1 million each.

San Juan

In August 2011, the EPA issued a Federal Implementation Plan (FIP) establishing new emission limits for air pollutants at San Juan. These requirements are more stringent than those proposed by the State of New Mexico. The FIP requires the installation of SCR technology with sorbent injection on all four units to reduce NOx and control sulfuric acid emissions by September 2016. TEP estimates its share of the cost to install SCR technology with sorbent injection to be between $180 millionand $200 million. TEP expects its share of the annual operating costs for SCR technology to be approximately $6 million.

In 2011, Public Service Company of New Mexico (PNM) filed a petition for review of, and a motion to stay, the FIP with the United States Court of Appeals for the Tenth Circuit (Tenth Circuit). In addition, the operator filed a request for reconsideration of the rule with the EPA and a request to stay the effectiveness of the rule pending the EPA's reconsideration and review by the Tenth Circuit. The State of New Mexico filed similar motions with the Tenth Circuit and the EPA. Several environmental groups were granted permission to join in opposition to PNM's petition to review in the Tenth Circuit. In addition, WildEarth Guardians filed a separate appeal against the EPA challenging the FIP's five-year implementation schedule. PNM was granted permission to join in opposition to that appeal. In March 2012, the Tenth Circuit denied PNM's and the State of New Mexico's motion for stay. Oral argument on the appeal was heard in October 2012 and the parties are currently awaiting the court's decision. In February 2013, the Tenth Circuit referred the litigation to the Tenth Circuit Mediation Office, which has authority to require the parties to attend mediation conferences to informally resolve issues in the pending appeals.

In February 2013, the State of New Mexico, the EPA, and PNM signed a non-binding agreement that outlines an alternative to the FIP. The terms of the agreement include: the retirement of San Juan Units 2 and 3 by December 31, 2017; the replacement by PNM of those units with non-coal generation sources; and the installation of Selective Non-Catalytic Reduction technology (SNCR) on San Juan Units 1 and 4 by January 2016 or later depending on the timing of EPA approvals. The New Mexico Environmental Department (NMED) prepared a revision to the regional haze SIP incorporating the provisions of the agreement, and in September 2013, the New Mexico Environmental Improvement Board approved the SIP revision. The SIP revision now awaits final EPA approval.

TEP estimates its share of the cost to install SNCR technology on San Juan Unit 1 would be approximately $35 million. TEP's share of incremental annual operating costs for SNCR is estimated at $1 million. TEP owns 340 MW, or 50%, of San Juan Units 1 and 2. At September 30, 2013, the book value of TEP's share of San Juan Unit 2 was $114 million. If Unit 2 is retired early, we expect to request ACC approval to recover, over a reasonable time period, all costs associated with the early closure of the unit. We are evaluating various replacement resources. Any decision regarding early closure and replacement resources will require various actions by third parties as well as UNS Energy board and regulatory approvals. TEP cannot predict the ultimate outcome of this matter.

Four Corners

In August 2012, the EPA finalized the regional haze FIP for Four Corners. The final FIP requires SCR technology to be installed on all five units by 2017. However, the FIP also includes an alternative plan that allows APS to close their wholly-owned Units 1, 2, and 3 and install SCR technology on Units 4 and 5. This option allows the installation of SCR technology to be delayed until July 2018. APS must select which FIP alternative to implement by December 31, 2013. In either case, TEP's estimated share of the capital costs to install SCR technology on Units 4 and 5 is approximately $35 million. TEP's share of incremental annual operating costs for SCR is estimated at $2 million.

Springerville

The BART provisions of the Regional Haze Rules requiring emission control upgrades do not apply to Springerville. Other provisions of the Regional Haze Rule requiring further emission reduction are not likely to impact Springerville operations until after 2018.

Sundt

In July 2013, the EPA rejected the Arizona state implementation plan determination that Sundt Unit 4 is not subject to the BART provisions of the Regional Haze Rule. Under the Regional Haze Rule, Sundt Unit 4 will be required to reduce certain emissions within five years of the final EPA BART determination. The EPA postponed its expected release of a proposed BART requirement for Sundt Unit 4 until December 2013, with a final determination expected in May 2014. While TEP does not agree that Sundt Unit 4 is BART eligible, in anticipation of EPA's proposed BART requirements, TEP has submitted a plan for EPA approval proposing to eliminate coal as a fuel after December 2017.

Greenhouse Gas Regulation

In June 2013, President Obama directed the EPA to move forward with carbon emission regulations for both new and existing fossil-fueled power plants.

In September 2013, the EPA issued a re-proposed rule for new power plants. UNS Energy does not anticipate that a final rule related to new fossil-fueled power plant sources will have a significant impact on operations.

For existing power plants, the President ordered the EPA to:

- propose carbon emission standards by June 1, 2014;
- finalize those standards by June 1, 2015; and
- require states to submit their implementation plans to meet the standards by June 30, 2016.

UNS Energy will continue to work with federal and state regulatory agencies to promote compliance flexibility in the rules impacting existing fossil-fuel fired power plants. We cannot predict the ultimate outcome of these matters.

NOTE 5. DEBT, CREDIT FACILITIES, AND CAPITAL LEASE OBLIGATIONS

We summarize below the significant changes to our debt and capital lease obligations from those reported in our 2012 Annual Report on Form 10-K.

TEP SPRINGERVILLE UNIT 1 CAPITAL LEASE PURCHASE COMMITMENTS

In 2011, TEP and the owner participants of Springerville Unit 1 completed a formal appraisal procedure to determine the fair market value purchase price of Springerville Unit 1 in accordance with the Springerville Unit 1 Leases. The purchase price was determined to be $478 per kW of capacity based on a continuous capacity rating of 387 MW. The appraisal price was challenged, and TEP initiated a proceeding in 2012 seeking judicial confirmation of the results of the appraisal process.

In August 2013, TEP elected to purchase leased interests comprising 24.8% of Springerville Unit 1, representing 96 MW of continuous operating capability, for an aggregate purchase price of $46 million, the appraised value, upon the expiration of the lease term in January 2015.

In October 2013, TEP elected to purchase an additional 10.6% leased interest in Springerville Unit 1, representing 41 MW of continuous operating capability, for $20 million, the appraised value, with the purchase scheduled to occur in December 2014.

Upon close of these lease option purchases, TEP will own 49.5% of Springerville Unit 1, or 192 MW of continuous operating capability. Due to TEP's purchase commitment, TEP and UNS Energy expect to record an increase of approximately $55 millionto both Utility Plant Under Capital Leases and Capital Lease Obligations on their balance sheets, of which $39 million is reflected as of September 30, 2013.

Because the owner participants whose leased interests TEP elected to purchase have agreed to sell their interests for amounts equal to the appraised value, TEP dismissed the legal action associated with the appraisal.

TEP TAX-EXEMPT BONDS ISSUED

In March 2013, the Industrial Development Authority of Pima County, Arizona issued approximately $91 million aggregate principal amount of unsecured tax-exempt industrial development bonds on behalf of TEP. The bonds bear interest at a fixed rate of 4.0%, mature in September 2029, and may be redeemed at par on or after March 1, 2023. The proceeds from the sale of the bonds, together with $0.5 million accrued interest provided by TEP, were deposited with a trustee to retire approximately $91million of 6.375% unsecured tax-exempt bonds in April 2013. TEP's payment of accrued interest was the only cash flow activity since proceeds from the newly-issued bonds were not received nor disbursed by TEP. TEP capitalized approximately $1million in costs related to the issuance of the bonds and will amortize the costs to Interest Expense – Long-Term Debt in the income statement through September 2029, the term of the bonds.

UNS ENERGY'S AND TEP'S CREDIT RATING UPGRADES

In June 2013, the pricing under certain debt agreements improved as a result of an upgrade in the credit ratings of UNS Energy and TEP.

- Under the UNS Energy Credit Agreement, the interest rate decreased from London Interbank Offered Rate (LIBOR) plus 1.75% to LIBOR plus 1.5%;
- Under the TEP Credit Agreement, the interest rate decreased from LIBOR plus 1.125% to LIBOR plus 1.0% ; and the margin rate on the $186 million letter of credit facility decreased from 1.125% to 1.0% ; and
- Under the 2010 TEP Reimbursement Agreement, fees payable on outstanding letters of credit decreased from 1.5% to 1.25% per annum.

TEP MORTGAGE INDENTURE

Prior to November 2013, the TEP Credit Agreement and the 2010 TEP Reimbursement Agreement were secured by $423 million in mortgage bonds issued under the 1992 Mortgage. As a result of TEP's credit rating upgrade, in October 2013, TEP (i) requested $423 million in mortgage bonds be returned to TEP for cancellation, and (ii) discharged the 1992 Mortgage, which had created a lien on and security interest in substantially all of TEP's utility plant assets. TEP's obligations under the TEP Credit Agreement and the 2010 TEP Reimbursement Agreement are now unsecured, which changed the pricing of the following agreements, with pricing tied to credit ratings for short-term borrowings:

- Under the TEP Credit Agreement, the interest rate increased from LIBOR plus 1.0% to LIBOR plus 1.25%; and the margin rate on the $186 million letter of credit facility increased from 1.0% to 1.25%; and
- Under the 2010 TEP Reimbursement Agreement, fees payable on outstanding letters of credit increased from 1.25% to 1.75% per annum.

COVENANT COMPLIANCE

At September 30, 2013, we were in compliance with the terms of our credit agreements, the 2010 TEP Reimbursement Agreement, and UNS Electric's term loan.

NOTE 6. INCOME TAXES

Income tax expense differs from the amount of income tax determined by applying the United States statutory federal income tax rate of 35% to pre-tax income due to the following:

	UNS Energy		TEP	
	Three Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Federal Income Tax Expense at Statutory Rate	$38	$ 29	$36	$ 25
State Income Tax Expense, Net of Federal Deduction	5	3	5	3
Federal/State Tax Credits	(1)	(1)	(1)	(1)
Other	(1)	—	(1)	—
Total Federal and State Income Tax Expense	41	$ 31	$39	$ 27

	UNS Energy		TEP	
	Nine Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Federal Income Tax Expense at Statutory Rate	$ 58	$ 47	$ 48	$ 37
State Income Tax Expense, Net of Federal Deduction	8	6	6	4
Federal/State Tax Credits	(2)	(1)	(2)	(1)
Investment Tax Credit Basis Adjustment – Creation of Regulatory Asset	(11)	—	(11)	—
Other	(1)	(1)	1	(1)
Total Federal and State Income Tax Expense	$ 52	$ 51	$ 42	$ 39

Investment Tax Credit Basis Difference Adjustment

Renewable energy assets are eligible for investment tax credits. We reduce the income tax basis of those qualifying assets by half of the related investment tax credit. Historically, the difference between the income tax basis of the asset and the book basis under GAAP was recorded as a deferred tax liability with an offsetting charge to income tax expense in the year the qualifying asset was placed in service. In June 2013, we recorded a regulatory asset and corresponding reduction of income tax expense of $11 million to recover previously recorded income tax expense through future rates as a result of the 2013 TEP Rate Order. The regulatory asset will be amortized as income tax expense as the qualifying assets are depreciated.

Uncertain Tax Positions

We recognize tax benefits from uncertain tax positions if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Each uncertain tax position is recognized up to the amount most likely to be sustained on examination and adjusted with changes in facts and circumstances. A reconciliation of the beginning and ending balances of unrecognized tax benefits follows:

	UNS Energy	TEP
	Millions of Dollars	
Unrecognized Tax Benefits at December 31, 2012	$ 30	$ 23
Additions Based on Tax Positions Taken in the Current Year	1	1
Reduction of Positions from Prior Year Based on Tax Authority Ruling	(27)	(22)
Unrecognized Tax Benefits at September 30, 2013	$ 4	$ 2

In February 2013, we received a favorable ruling from the Internal Revenue Service (IRS) allowing us to deduct up-front incentive payments to customers who install renewable energy resources. These customers transfer environmental attributes or RECs associated with their renewable installations to us over the expected life of the contract for an up-front incentive payment based on the generating capacity of their installation. As a result of the IRS ruling in the first quarter of 2013, UNS Energy reduced unrecognized tax benefits by $28 million, and TEP reduced unrecognized tax benefits by $22 million. The changes in tax benefits primarily affected the balance sheets.

The IRS completed its audit of the 2009 and 2010 tax returns in March 2013 resulting in no change to the financial statements.

In April 2013, the IRS provided notice of intent to audit the 2011 tax returns.

Tangible Repairs Regulation

In September 2013, the U.S. Treasury Department released final income tax regulations on the deduction and capitalization of expenditures related to tangible property. These final regulations apply to tax years beginning on or after January 1, 2014. Several of the provisions within the regulations will require a tax accounting method change to be filed with the IRS resulting in a cumulative effect adjustment. Management believes that adoption of these regulations will not result in a material change to plant-related deferred tax liabilities.

NOTE 7. EMPLOYEE BENEFIT PLANS

UNS Energy's net periodic benefit plan cost, comprised primarily of TEP's cost, includes the following components:

	Pension Benefits		Other Retiree Benefits	
	Three Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Service Cost	$ 4	$ 2	$ 1	$ 1
Interest Cost	4	4	—	1
Expected Return on Plan Assets	(5)	(4)	—	—
Actuarial Loss Amortization	2	2	—	—
Net Periodic Benefit Cost	$ 5	$ 4	$ 1	$ 2

	Pension Benefits		Other Retiree Benefits	
	Nine Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Service Cost	$ 10	$ 8	$ 3	$ 2
Interest Cost	11	12	2	2
Expected Return on Plan Assets	(15)	(13)	(1)	—
Actuarial Loss Amortization	7	5	—	—
Net Periodic Benefit Cost	$ 13	$ 12	$ 4	$ 4

NOTE 8. SHARE-BASED COMPENSATION PLANS

RESTRICTED STOCK UNITS

In May 2013, the UNS Energy Compensation Committee granted 8,870 restricted stock units to non-employee directors at a grant date fair value of $48.99 per share. We recognize compensation expense equal to the fair value on the grant date over the one-year vesting period. The grant date fair value was calculated by reducing the grant date share price by the present value of the dividends expected to be paid on the shares during the vesting period. Fully vested but undistributed non-employee director stock unit awards accrue dividend equivalent stock units based on the fair market value of common shares on the date the dividend is paid. We issue UNS Energy Common Stock (Common Stock) for the vested stock units in the January following the year the person is no longer a director.

In February 2013, the UNS Energy Compensation Committee granted 21,560 restricted stock units to certain management employees at a grant date fair value, based on the grant date share price, of $46.23 per share. The restricted stock units vest on the third anniversary of grant and are distributed in shares of Common Stock upon vesting. We recognize compensation expense equal to the fair value on the grant date over the vesting period. These restricted stock units accrue dividend equivalents during the vesting period, which are distributed in shares of Common Stock upon vesting.

PERFORMANCE SHARES

In February 2013, the UNS Energy Compensation Committee granted 43,120 performance share awards to certain management employees. Half of the performance share awards had a grant date fair value, based on a Monte Carlo simulation, of $45.54per share. Those awards will be paid out in Common Stock based on a comparison of UNS Energy's cumulative Total Shareholder Return to the companies included in the Edison Electric Institute Index during the performance period of January 1, 2013 through December 31, 2015. We recognize compensation expense equal to the fair value on the grant date over the vesting period if the requisite service period is fulfilled, whether or not the threshold is achieved. The remaining half had a grant date fair value, based on the grant date share price, of $46.23 per share and will be paid out in Common Stock based on cumulative net income for the three-year period ended December 31, 2015. We recognize compensation expense equal to the fair value on the grant date over the requisite service period only for the awards that ultimately vest. The performance shares vest based on the achievement of these goals by the end of the performance period; any unearned awards are forfeited. Performance shares accrue dividend equivalents during the performance period, which are paid upon vesting.

SHARE-BASED COMPENSATION EXPENSE

UNS Energy and TEP recorded $1 million of share-based compensation expense for the three months ended September 30, 2013 and September 30, 2012. For the nine months ended September 30, 2013, UNS Energy recorded share-based compensation expense of $3 million, $2 million of which related to TEP. For the nine months ended September 30, 2012, UNS Energy and TEP recorded share-based compensation expense of $2 million.

At September 30, 2013, the total unrecognized compensation cost related to non-vested share-based compensation was $4 million, which will be recorded as compensation expense over the remaining vesting periods through February 2016. AtSeptember 30, 2013, 1 million shares were awarded but not yet issued, including performance shares, under the share-based compensation plans.

NOTE 9. UNS ENERGY EARNINGS PER SHARE

We compute basic Earnings Per Share (EPS) by dividing Net Income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could result if outstanding stock options, share-based compensation awards, or UNS Energy's Convertible Senior Notes were exercised or converted into Common Stock. We excluded anti-dilutive stock options and contingently issuable shares from the calculation of diluted EPS. The numerator in calculating diluted EPS is Net Income adjusted for the interest on Convertible Senior Notes (net of tax) that would not be paid if the remaining notes, not yet converted, were converted to Common Stock.

The following table illustrates the effect of dilutive securities on net income and weighted average Common Stock outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	Thousands of Dollars			
Numerator:				
Net Income	$67,990	$50,664	$113,953	$83,414
Income from Assumed Conversion of Convertible Senior Notes (1)	—	—	—	1,100
Adjusted Net Income Available for Diluted Common Stock Outstanding	$67,990	$50,664	$113,953	$84,514
	Thousands of Shares			
Denominator:				
Weighted Average Shares of Common Stock Outstanding:				
Common Shares Issued	41,472	41,290	41,427	39,835
Fully Vested Deferred Stock Units	178	156	169	148
Total Weighted Average Common Stock Outstanding – Basic	41,650	41,446	41,596	39,983
Effect of Dilutive Securities:				
Convertible Senior Notes (1)	—	—	—	1,417
Options and Stock Issuable Under Share-Based Compensation Plans	378	417	345	319
Total Weighted Average Common Stock Outstanding – Diluted	42,028	41,863	41,941	41,719

(1) In 2012, the Convertible Senior Notes were converted to Common Stock or redeemed for cash.

We excluded the following outstanding stock options, with an exercise price above market, and contingently issuable shares from our diluted EPS computation as their effect would be anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	Thousands of Shares			
Stock Options	—	—	—	67
Restricted Stock Units	—	—	8	—
Total Anti-Dilutive Shares Excluded from the Diluted EPS Computation	—	—	8	67

NOTE 10. SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of Net Income to Net Cash Flows from Operating Activities follows:

	UNS Energy	
	Nine Months Ended September 30,	
	2013	2012
	Thousands of Dollars	
Net Income	$113,953	$ 83,414
Adjustments to Reconcile Net Income		
To Net Cash Flows from Operating Activities		
Depreciation Expense	111,175	105,319
Amortization Expense	21,600	26,845
Depreciation and Amortization Recorded to Fuel and Operations and Maintenance Expense	5,399	4,911
Amortization of Deferred Debt-Related Costs Included in Interest Expense	2,280	2,250
Provision for Retail Customer Bad Debts	1,703	2,017
Use of RECs for Compliance	12,999	4,017
Deferred Income Taxes	77,962	63,057
Investment Tax Credit Basis Adjustment – Creation of Regulatory Asset	(11,039)	—
Pension and Retiree Expense	17,087	16,391
Pension and Retiree Funding	(27,602)	(23,649)
Share-Based Compensation Expense	2,810	1,952
Allowance for Equity Funds Used During Construction	(4,145)	(2,708)
Increase (Decrease) to Reflect PPFAC/PGA Recovery	(6,814)	29,730
PPFAC Reduction – 2013 TEP Rate Order	3,000	—
Liquidated Damages for Springerville Unit 3 Outage	—	1,921
Changes in Assets and Liabilities which Provided (Used)		
Cash Exclusive of Changes Shown Separately		
Accounts Receivable	(32,883)	(28,686)
Materials and Fuel Inventory	14,839	(33,038)
Accounts Payable	(18,497)	(5,220)
Income Taxes	(15,847)	(11,738)
Interest Accrued	(2,137)	(1,551)
Taxes Other Than Income Taxes	18,718	16,478
Other	20,473	16,426
Net Cash Flows – Operating Activities	$305,034	$268,138

	TEP	
	Nine Months Ended September 30,	
	2013	2012
	Thousands of Dollars	
Net Income	$ 96,433	$ 65,018
Adjustments to Reconcile Net Income		
To Net Cash Flows from Operating Activities		
Depreciation Expense	87,729	82,656
Amortization Expense	24,393	29,621
Depreciation and Amortization Recorded to Fuel and Operations and Maintenance Expense	4,602	3,922
Amortization of Deferred Debt-Related Costs Included in Interest Expense	1,831	1,628
Provision for Retail Customer Bad Debts	1,315	1,348
Use of RECs for Compliance	11,766	3,324
Deferred Income Taxes	64,132	51,638
Investment Tax Credit Basis Adjustment – Creation of Regulatory Asset	(10,751)	—
Pension and Retiree Expense	14,909	14,466
Pension and Retiree Funding	(26,118)	(20,989)
Share-Based Compensation Expense	2,239	1,540
Allowance for Equity Funds Used During Construction	(2,923)	(2,265)
Increase (Decrease) to Reflect PPFAC Recovery	(5,079)	25,150
PPFAC Reduction – 2013 TEP Rate Order	3,000	—
Liquidated Damages for Springerville Unit 3 Outage	—	1,921
Changes in Assets and Liabilities which Provided (Used)		
Cash Exclusive of Changes Shown Separately		
Accounts Receivable	(42,542)	(44,269)
Materials and Fuel Inventory	14,955	(32,448)
Accounts Payable	(8,678)	4,977
Income Taxes	(10,681)	(11,424)
Interest Accrued	1,008	2,729
Taxes Other Than Income Taxes	17,405	16,710
Other	15,234	11,898
Net Cash Flows – Operating Activities	$254,179	$207,151

Non-Cash Transactions

In August 2013, TEP recorded an increase of $39 million to both Utility Plant Under Capital Leases and Capital Lease Obligations due to TEP's commitment to purchase leased interests in January 2015. See Note 5.

In March 2013, TEP issued $91 million of tax-exempt bonds and used the proceeds to redeem debt using a trustee. Since the cash flowed through a trust account, the issuance and redemption of debt resulted in a non-cash transaction. See Note 5.

In September 2012, TEP declared a $30 million dividend to UNS Energy which was paid in October 2012.

In the first nine months of 2012, UNS Energy converted $147 million of the previously outstanding $150 million Convertible Senior Notes into Common Stock, resulting in non-cash transactions.

In the first nine months of 2012, TEP's redemption of $193 million of tax-exempt bonds resulted in a non-cash transaction.

NOTE 11. FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS

We categorize our assets and liabilities accounted for at fair value into the three-level hierarchy based on inputs used to determine the fair value. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in an active market. Level 2 inputs include quoted prices for similar assets or liabilities, quoted prices in non-active markets, and pricing models whose inputs are observable, directly or indirectly. Level 3 inputs are unobservable and supported by little or no market activity.

FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. We use the following methods and assumptions for estimating the fair value of our financial instruments:

- The carrying amounts of our current assets, current liabilities, including current maturities of long-term debt, and amounts outstanding under our credit agreements approximate the fair values due to the short-term nature of these financial instruments. These items have been excluded from the table below.
- For Investment in Lease Debt, we calculated the present value of remaining cash flows using current market rates for instruments with similar characteristics such as credit rating and time-to-maturity. We also incorporated the impact of counterparty credit risk using market credit default swap data. TEP's Investment in Lease Debt matured in January 2013.
- For Investment in Lease Equity, we estimate the price at which an investor would realize a target internal rate of return. Our estimates include: the mix of debt and equity an investor would use to finance the purchase; the cost of debt; the required return on equity; and income tax rates. The estimate assumes a residual value based on an appraisal of Springerville Unit 1 conducted in 2011.
- For Long-Term Debt, we use quoted market prices, when available, or calculate the present value of remaining cash flows at the balance sheet date. When calculating present value, we use current market rates for bonds with similar characteristics such as credit rating and time-to-maturity. We consider the principal amounts of variable rate debt outstanding to be reasonable estimates of the fair value. We also incorporate the impact of our own credit risk using a credit default swap rate.

The use of different estimation methods and/or market assumptions may yield different estimated fair value amounts. The carrying values recorded on the balance sheets and the estimated fair values of our financial instruments include the following:

		September 30, 2013		December 31, 2012	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
		Millions of Dollars			
Assets:					
TEP Investment in Lease Debt	Level 2	$ —	$ —	$ 9	$ 9
TEP Investment in Lease Equity	Level 3	36	24	36	23
Liabilities:					
Long-Term Debt					
UNS Energy	Level 2	1,506	1,522	1,498	1,583
TEP	Level 2	1,224	1,215	1,223	1,271

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following tables present, by level within the fair value hierarchy, UNS Energy's and TEP's assets and liabilities accounted for at fair value on a recurring basis. These assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	UNS Energy					
	Total	Level 1	Level 2	Level 3	Counterparty Netting of Energy Contracts Not Offset on the Balance Sheets (5)	Net Amount
	September 30, 2013 Millions of Dollars					
Assets						
Cash Equivalents (1)	$ 31	$ 31	$—	$—	$—	$ 31
Restricted Cash (1)	2	2	—	—	—	2
Rabbi Trust Investments (2)	21	—	21	—	—	21
Energy Contracts – Regulatory Recovery (3)	2	—	1	1	(2)	—
Total Assets	56	33	22	1	(2)	54
Liabilities						
Energy Contracts – Regulatory Recovery (3)	(11)	—	(5)	(6)	2	(9)
Energy Contracts – Cash Flow Hedge (3)	(1)	—	—	(1)	—	(1)
Interest Rate Swaps (4)	(8)	—	(8)	—	—	(8)
Total Liabilities	(20)	—	(13)	(7)	2	(18)
Net Total Assets (Liabilities)	$ 36	$ 33	$ 9	$ (6)	$—	$ 36

	UNS Energy					
	Total	Level 1	Level 2	Level 3	Counterparty Netting of Energy Contracts Not Offset on the Balance Sheets [5]	Net Amount
	December 31, 2012 Millions of Dollars					
Assets						
Cash Equivalents [1]	$ 20	$ 20	$—	$—	$—	$ 20
Restricted Cash [1]	7	7	—	—	—	7
Rabbi Trust Investments [2]	19	—	19	—	—	19
Energy Contracts – Regulatory Recovery [3]	7	—	2	5	(5)	2
Total Assets	53	27	21	5	(5)	48
Liabilities						
Energy Contracts – Regulatory Recovery [3]	(15)	—	(7)	(8)	5	(10)
Energy Contracts – Cash Flow Hedge [3]	(2)	—	—	(2)	—	(2)
Interest Rate Swaps [4]	(10)	—	(10)	—	—	(10)
Total Liabilities	(27)	—	(17)	(10)	5	(22)
Net Total Assets (Liabilities)	$ 26	$ 27	$ 4	$ (5)	$—	$ 26

	TEP					
	Total	Level 1	Level 2	Level 3	Counterparty Netting of Energy Contracts Not Offset on the Balance Sheets [5]	Net Amount
	September 30, 2013 Millions of Dollars					
Assets						
Cash Equivalents [1]	$ 15	$ 15	$—	$—	$—	$ 15
Restricted Cash [1]	2	2	—	—	—	2
Rabbi Trust Investments [2]	21	—	21	—	—	21
Energy Contracts – Regulatory Recovery [3]	1	—	1	—	(1)	—
Total Assets	39	17	22	—	(1)	38
Liabilities						
Energy Contracts – Regulatory Recovery [3]	(3)	—	(2)	(1)	1	(2)
Energy Contracts – Cash Flow Hedge [3]	(1)	—	—	(1)	—	(1)
Interest Rate Swaps [4]	(8)	—	(8)	—	—	(8)
Total Liabilities	(12)	—	(10)	(2)	1	(11)
Net Total Assets (Liabilities)	$ 27	$ 17	$ 12	$ (2)	$—	$ 27

	TEP					
	Total	Level 1	Level 2	Level 3	Counterparty Netting of Energy Contracts Not Offset on the Balance Sheets (5)	Net Amount
	December 31, 2012 Millions of Dollars					
Assets						
Cash Equivalents (1)	$ 1	$ 1	$—	$—	$—	$ 1
Restricted Cash (1)	7	7	—	—	—	7
Rabbi Trust Investments (2)	19	—	19	—	—	19
Energy Contracts – Regulatory Recovery (3)	3	—	1	2	(1)	2
Total Assets	30	8	20	2	(1)	29
Liabilities						
Energy Contracts – Regulatory Recovery (3)	(3)	—	(3)	—	1	(2)
Energy Contracts – Cash Flow Hedge (3)	(2)	—	—	(2)	—	(2)
Interest Rate Swaps (4)	(10)	—	(10)	—	—	(10)
Total Liabilities	(15)	—	(13)	(2)	1	(14)
Net Total Assets (Liabilities)	$ 15	$ 8	$ 7	$—	$—	$ 15

(1) Cash Equivalents and Restricted Cash represent amounts held in money market funds and certificates of deposit valued at cost, including interest. Cash Equivalents are included in Cash and Cash Equivalents on the balance sheets. Restricted Cash is included in Investments and Other Property – Other on the balance sheets.

(2) Rabbi Trust Investments include amounts related to deferred compensation and Supplement Executive Retirement Plan (SERP) benefits held in mutual and money market funds valued at quoted prices traded in active markets. These investments are included in Investments and Other Property – Other on the balance sheets.

(3) Energy Contracts include gas swap agreements (Level 2), power options (Level 2), gas options (Level 3), forward power purchase and sales contracts (Level 3), and forward power purchase contracts indexed to gas (Level 3), entered into to reduce exposure to energy price risk. These contracts are included in Derivative Instruments on the UNS Energy and TEP balance sheets. The valuation techniques are described below.

(4) Interest Rate Swaps are valued based on the 3-month or 6-month LIBOR index or the Securities Industry and Financial Markets Association municipal swap index. These interest rate swaps are included in Derivative Instruments on the balance sheets.

(5) All energy contracts are subject to legally enforceable master netting arrangements to mitigate credit risk. We have presented the effect of offset by counterparty; however, we present derivatives on a gross basis on the balance sheets.

DERIVATIVE INSTRUMENTS

Regulatory Recovery

We are exposed to energy price risk associated with our gas and purchased power requirements. We reduce our energy price risk through a variety of derivative and non-derivative instruments. The objectives for entering into such contracts include: creating price stability; meeting load and reserve requirements; and reducing exposure to price volatility that may result from delayed recovery under the PPFAC or PGA. See Note 2.

We primarily apply the market approach for recurring fair value measurements. When we have observable inputs for substantially the full term of the asset or liability or use quoted prices in an inactive market, we categorize the instrument in Level 2. We categorize derivatives in Level 3 when we use an aggregate pricing service or published prices that represent a consensus reporting of multiple brokers.

For both power and gas prices we obtain quotes from brokers, major market participants, exchanges, or industry publications and rely on our own price experience from active transactions in the market. We primarily use one set of quotations each for power and for gas and then validate those prices using other sources. We believe that the market information provided is reflective of market conditions as of the time and date indicated.

Published prices for energy derivative contracts may not be available due to the nature of contract delivery terms such as non-standard time blocks and non-standard delivery points. In these cases, we apply adjustments based on historical price curve relationships, transmission, and line losses.

We estimate the fair value of our gas options using a Black-Scholes-Merton option pricing model which includes inputs such as implied volatility, interest rates, and forward price curves. Beginning in the third quarter of 2013, the fair value of our power options is based on contractually specified option premiums instead of the Black-Scholes-Merton option pricing model because the needed inputs are no longer available. Based on the change, we transferred the power options out of Level 3 and in to Level 2 at the end of third quarter of 2013. The amount transferred was less than $0.5 million. We record transfers between levels in the fair value hierarchy at the end of the reporting period. There were no other transfers between levels in the periods presented.

We also consider the impact of counterparty credit risk using current and historical default and recovery rates, as well as our own credit risk using credit default swap data.

Our assessments of the significance of a particular input to the fair value measurements require judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. We review the assumptions underlying our contracts monthly.

Cash Flow Hedges

We enter into interest rate swaps to mitigate the exposure to volatility in variable interest rates on debt. These swap agreements expire through January 2020. We also have a power purchase swap to hedge the cash flow risk associated with a long-term power supply agreement. This swap agreement expires in September 2015. The after-tax unrealized gains and losses on cash flow hedge activities and amounts reclassified to earnings are reported in the statements of other comprehensive income and Note 12. The loss expected to be reclassified to earnings within the next twelve months is estimated to be $4 million.

Financial Impact of Energy Contracts

We record unrealized gains and losses on energy contracts that are recoverable through the PPFAC or PGA on the balance sheets as a regulatory asset or a regulatory liability rather than reporting the transaction in the income statements or in the statements of other comprehensive income, as shown in following tables:

	UNS Energy		TEP	
	Three Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Increase (Decrease) to Regulatory Assets/Liabilities	$1	$(12)	$1	$(6)

	UNS Energy		TEP	
	Nine Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Increase (Decrease) to Regulatory Assets/Liabilities	$—	$(20)	$2	$(7)

Realized gains and losses on settled contracts are fully recoverable through the PPFAC or PGA. At September 30, 2013, UNS Energy and TEP have energy contracts that will settle through the third quarter of 2016.

Derivative Volumes

The volumes associated with our energy contracts were as follows:

	UNS Energy		TEP	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Power Contracts GWh	1,819	2,228	856	820
Gas Contracts GBtu	29,022	17,851	8,504	7,958

Level 3 Fair Value Measurements

The following table provides quantitative information regarding significant unobservable inputs in UNS Energy's Level 3 fair value measurements:

		Fair Value at September 30, 2013			
	Valuation Approach	Assets	Liabilities	Unobservable Inputs	Range of Unobservable Input
		Millions of Dollars			
Forward Contracts (1)	Market approach	$1	$(7)	Market price per MWh	$23.00 – $48.00

(1) TEP comprises $2 million of the forward contract liabilities.

Our exposure to risk resulting from changes in the unobservable inputs identified above is mitigated as we report the change in fair value of energy contract derivatives as a regulatory asset or a regulatory liability recoverable through the PPFAC or PGA mechanisms, or as a component of other comprehensive income, rather than in the income statement.

The following tables present a reconciliation of changes in the fair value of assets and liabilities classified as Level 3 in the fair value hierarchy:

	Three Months Ended September 30, 2013	
	UNS Energy	TEP
	Millions of Dollars	
Balances at June 30, 2013	$(5)	$ (1)
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(3)	(1)
Settlements	2	—
Balances at September 30, 2013	$(6)	$ (2)
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$(2)	$—

	Nine Months Ended September 30, 2013	
	UNS Energy	TEP
	Millions of Dollars	
Balances at December 31, 2012	$(5)	$—
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(4)	(2)
Settlements	3	—
Balances at September 30, 2013	$(6)	$ (2)
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$(5)	$ (1)

	Three Months Ended September 30, 2012	
	UNS Energy	TEP
	Millions of Dollars	
Balances at June 30, 2012	$ (7)	$ (1)
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	—	1
Settlements	1	—
Balances at September 30, 2012	$ (6)	$—
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$—	$—

	Nine Months Ended September 30, 2012	
	UNS Energy	TEP
	Millions of Dollars	
Balances at December 31, 2011	$(10)	$—
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(4)	—
Settlements	8	—
Balances at September 30, 2012	$ (6)	$—
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$ (1)	$—

CREDIT RISK

We consider the effect of counterparty credit risk in determining the fair value of derivative instruments that are in a net asset position after incorporating collateral posted by counterparties and allocate the credit risk adjustment to individual contracts. We also consider the impact of our own credit risk after considering collateral posted on instruments that are in a net liability position and allocate the credit risk adjustment to all individual contracts. The impact of counterparty credit risk and our own credit risk on the fair value of derivative contracts was less than $0.5 million at September 30, 2013 and at December 31, 2012.

Material adverse changes could trigger credit risk-related contingent features. At September 30, 2013, the fair value of derivative instruments in a net liability position under contracts with credit risk-related contingent features was $35 million for UNS Energy and $13 million for TEP. The additional collateral to be posted if credit-risk contingent features were triggered would be $35 million for UNS Energy and $13 million for TEP.

NOTE 12. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT

The realized changes in AOCI by component are as follows:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Other Comprehensive Income		Affected Line Item in the Income Statement
	UNS Energy	TEP	
	Three Months Ended September 30, 2013		
	Thousands of Dollars		
Realized Losses on Cash Flow Hedges			
Interest Rate Swaps – Debt	$(350)	$(296)	Interest Expense Long-Term Debt
Interest Rate Swaps – Capital Leases	(612)	(612)	Interest Expense Capital Leases
Commodity Contracts	(556)	(556)	Purchased Energy/Purchased Power
Tax Benefit	601	579	
Realized Losses on Cash Flow Hedges, Net of Taxes	(917)	(885)	
Amortization of SERP and Defined Benefit Plans			
Prior Service Costs	(110)	(110)	Other Expense
Tax Benefit	42	42	
Amortization, Net of Taxes	(68)	(68)	
Total Reclassifications from Other Comprehensive Income for the Period	$(985)	$(953)	

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Other Comprehensive Income		Affected Line Item in the Income Statement
	UNS Energy	TEP	
	Nine Months Ended September 30, 2013		
	Thousands of Dollars		
Realized Losses on Cash Flow Hedges			
Interest Rate Swaps – Debt	$(1,026)	$ (871)	Interest Expense Long-Term Debt
Interest Rate Swaps – Capital Leases	(1,820)	(1,820)	Interest Expense Capital Leases
Commodity Contracts	(747)	(747)	Purchased Energy/Purchased Power
Tax Benefit	1,420	1,360	
Realized Losses on Cash Flow Hedges, Net of Taxes	(2,173)	(2,078)	
Amortization of SERP and Defined Benefit Plans			
Prior Service Costs	(332)	(332)	Other Expense
Tax Benefit	127	127	
Amortization, Net of Taxes	(205)	(205)	
Total Reclassifications from Other Comprehensive Income for the Period	$(2,378)	$(2,283)	

NOTE 13. POTENTIAL PURCHASE OF GAS-FIRED GENERATION FACILITY

In August 2013, TEP entered into exclusive negotiations with Entegra Power Group LLC (Entegra) to purchase Unit 3 of the Gila River Generating Station (Gila River Unit 3) located in Gila Bend, Arizona. Gila River Unit 3 is a gas-fired combined cycle unit with a nominal capacity rating of 550 MW. Although there can be no assurance that TEP and Entegra will reach agreement on TEP's purchase of Gila River Unit 3, TEP anticipates that, if such an agreement is reached, definitive purchase and sale agreements would be executed prior to year-end 2013. TEP further anticipates any such purchase would close by year-end 2014 and would be subject to, among other things, the receipt of required regulatory approvals. UNS Electric may purchase up to 150 MW of Gila River Unit 3, while TEP would purchase the remaining capacity.

NOTE 14. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) issued guidance for the recognition, measurement, and disclosure of certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. On adoption, an entity would recognize and disclose in the financial statements its obligation from a joint and several liability arrangement as the sum of the amount the entity agreed with its co-obligors that it will pay, and any additional amount the entity expects to pay on behalf of its co-obligors. This guidance will be effective in the first quarter of 2014. We do not expect the adoption of this guidance to have a material impact on our financial condition, results of operations, or cash flows.

The FASB issued guidance which permits an entity to designate the Federal Funds Rate (the interest rate at which depository institutions lend balances to each other overnight) as a benchmark interest rate for fair value and cash flow hedges. Prior to this guidance, only interest rates on direct treasury obligations of the U.S. Government and the LIBOR were considered benchmark interest rates in the U.S. This guidance is effective immediately, and can be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We have not entered into any new cash flow or fair value hedges since the effective date of this guidance. We do not expect this guidance to have a material impact on our financial condition, results of operations, or cash flows.

The FASB issued new guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. We will be required to comply with the guidance on a prospective basis beginning in the first quarter of 2014. Although adoption of this new guidance may impact how such items are classified on our balance sheets, we do not expect such change to be material. In addition, there will be no changes in the presentations of our other financial statements.

Unaudited Pro forma Consolidated
Financial Statements

Fortis Inc.

As at and for the nine months ended September 30, 2013 and for the year ended December 31, 2012

FOREWORD

UNAUDITED *PRO FORMA* CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited *pro forma* consolidated financial statements give effect to the proposed acquisition (the "Proposed Acquisition") by Fortis Inc. of UNS Energy Corporation and its subsidiaries (collectively, "UNS Energy") under the purchase method of accounting. The unaudited *pro forma* consolidated balance sheet gives effect to the Proposed Acquisition as if it had closed on September 30, 2013. The unaudited *pro forma* consolidated statements of earnings for the nine-months ended September 30, 2013 and for the year ended December 31, 2012 give effect to the Proposed Acquisition as if it had closed on January 1, 2012.

The unaudited *pro forma* consolidated financial statements are presented for illustrative purposes only. The *pro forma* adjustments are based upon available information and certain assumptions that we believe are reasonable in the circumstances, as described in the notes to the unaudited *pro forma* consolidated financial statements.

UNS Energy, formerly UniSource Energy Corporation, is a utility services holding company engaged, through its subsidiaries, in the electric generation and energy delivery business. The unaudited *pro forma* consolidated financial statements are based on UNS Energy's consolidated financial statements as at and for the nine-months ended September 30, 2013 and for the year ended December 31, 2012.

The *pro forma* information presented, including allocation of purchase price, is based on preliminary estimates of fair values of assets acquired and liabilities assumed, available information and assumptions and may be revised as additional information becomes available. The actual adjustments to the consolidated financial statements upon the closing of the Proposed Acquisition will depend on a number of factors, including additional information available and the net assets of UNS Energy on the closing date of the Proposed Acquisition. Therefore, the actual adjustments will differ from the *pro forma* adjustments, and the differences may be material. For example, the final purchase price allocation is dependent on, among other things, the finalization of asset and liability valuations. A final determination of these fair values will reflect an independent third-party valuation. This final valuation will be based on the actual net tangible and intangible assets and liabilities of UNS Energy that exist as of the closing date of the Proposed Acquisition. Any final adjustment may change the allocation of purchase price, which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited *pro forma* consolidated financial statements, including a change to goodwill.

FORTIS INC.

PRO FORMA CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 2013

(Unaudited)
(In millions of Canadian dollars)

	Fortis Inc.	UNS Energy	*Note*	*Pro forma* adjustments	*Pro forma* consolidated balance sheet
ASSETS					
Current assets					
Cash and cash equivalents	$ 155	$ 75	3[b]	$(2,606)	**$ 230**
			3[c]	1,800	
			3[c]	(72)	
			3[d]	922	
			3[d]	(14)	
			3[e]	(30)	
Accounts receivable	523	183		—	**706**
Prepaid expenses	53	28		—	**81**
Inventories	172	138		—	**310**
Regulatory assets	146	54		—	**200**
Deferred income taxes	34	69		—	**103**
	1,083	547		—	**1,630**
Other assets	233	96	3[d]	14	**343**
Regulatory assets	1,825	207		—	**2,032**
Deferred income taxes	4	—	3[c]	21	**26**
			3[e]	1	
Utility capital assets	11,350	3,573		—	**14,923**
Non-utility capital assets	655	—		—	**655**
Intangibles assets	356	—		—	**356**
Goodwill	2,064	—	3[b]	1,439	**3,503**
	$17,570	$4,423		$ 1,475	**$23,468**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	$ 111	$ 24		$ —	**$ 135**
Accounts payable and other current liabilities	847	265	3[e]	(5)	**1,107**
Regulatory liabilities	108	59		—	**167**
Current installments of long-term debt	369	—		—	**369**
Current installments of capital lease and finance obligations	7	174		—	**181**
Deferred income taxes	9	—		—	**9**
	1,451	522		(5)	**1,968**
Other Liabilities	808	244		—	**1,052**
Regulatory liabilities	804	307		—	**1,111**
Deferred income taxes	1,064	497		—	**1,561**
Long-term debt	6,750	1,552	3[d]	922	**9,224**
Capital lease and finance obligations	421	134		—	**555**
	11,298	3,256		917	**15,471**
Shareholders' equity					
Common shares	3,760	915	3[g]	(915)	**5,509**
			3[c]	1,800	
			3[c]	(72)	
			3[c]	21	
Preference shares	1,229	—		—	**1,229**
Additional paid-in capital	16	—		—	**16**
Accumulated other comprehensive loss	(101)	(8)	3[g]	8	**(101)**
Retained earnings	1,013	260	3[g]	(260)	**989**
			3[e]	(30)	
			3[e]	6	
	5,917	1,167		558	**7,642**
Non-controlling interests	355	—		—	**355**
	6,272	1,167		558	**7,997**
	$17,570	$4,423		$ 1,475	**$23,468**

See the accompanying notes to the unaudited pro forma consolidated financial statements, which are integral part of these statements.

FORTIS INC.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2013

(Unaudited)

(In millions of Canadian dollars, except for per share amounts)

	Fortis Inc.	UNS Energy	*Note*	*Pro forma* adjustments	*Pro forma* consolidated statement of earnings
Revenue	$2,874	$1,161		$ —	**$4,035**
Expenses					
Energy supply costs	1,143	462		—	**1,605**
Operating	726	327		—	**1,053**
Depreciation and amortization	400	136		—	**536**
	2,269	925		—	**3,194**
Operating income	605	236		—	**841**
Other income (expenses)	(36)	6		—	**(30)**
Finance charges	284	72	3[d]	41	**398**
			3[d]	1	
Earnings before income taxes and extraordinary item	285	170		(42)	**413**
Income tax expense	3	53	3[d]	(12)	**36**
			3[f]	(8)	
Net earnings before extraordinary item	282	117		(22)	**377**
Extraordinary gain net of tax	22	—		—	**22**
Net earnings	$ 304	$ 117		$ (22)	**$ 399**
Net earnings attributable to:					
Non-controlling interests	$ 7	$ —		$ —	**$ 7**
Preference equity shareholders	44	—		—	**44**
Common equity shareholders	253	117		(22)	**348**
	$ 304	$ 117		$ (22)	**$ 399**
Earnings attributable to common equity shareholders, basic	$ 253				**$ 348**
Effect of potential dilutive securities: preference shares	11				**11**
Anti-dilutive impact: preference shares	(11)				**(11)**
Earnings attributable to common equity shareholders, diluted	$ 253				**$ 348**
Weighted average common shares outstanding (#, millions)					
Basic	199.1		3[h]	58.6	**257.7**
Diluted	199.8		3[h]	58.6	**258.4**
Earnings per common share before extraordinary item					
Basic	$ 1.16				**$ 1.26**
Diluted	$ 1.16				**$ 1.26**
Earnings per common share					
Basic	$ 1.27				**$ 1.35**
Diluted	$ 1.27				**$ 1.35**

See the accompanying notes to the unaudited pro forma consolidated financial statements, which are integral part of these statements.

FORTIS INC.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

(Unaudited)

(In millions of Canadian dollars, except for per share amounts)

	Fortis Inc.	UNS Energy	*Note*	*Pro forma* adjustments	*Pro forma* consolidated statement of earnings
Revenue	$3,654	$1,461		$ —	**$5,115**
Expenses					
Energy supply costs	1,522	599		—	**2,121**
Operating	868	434		—	**1,302**
Depreciation and amortization	470	177		—	**647**
	2,860	1,210		—	**4,070**
Operating income	794	251		—	**1,045**
Other income	4	—		—	**4**
Finance charges	366	105	3[d]	55	**527**
			3[d]	1	
Earnings before income taxes	432	146		(56)	**522**
Income tax expense	61	56	3[d]	(16)	**90**
			3[f]	(11)	
Net earnings	$ 371	$ 90		$ (29)	**$ 432**
Net earnings attributable to:					
Non-controlling interests	$ 9	$ —		$ —	**$ 9**
Preference equity shareholders	47	—		—	**47**
Common equity shareholders	315	90		(29)	**376**
	$ 371	$ 90		$ (29)	**$ 432**
Earnings attributable to common equity shareholders, basic	$ 315				**$ 376**
Effect of potential dilutive securities: preference shares	17				**17**
Anti-dilutive impact: preference shares	(7)				**(7)**
Earnings attributable to common equity shareholders, diluted	$ 325				**$ 386**
Weighted average common shares outstanding (#, millions)					
Basic	190.0		3[h]	58.6	**248.6**
Diluted	197.2		3[h]	58.6	**255.8**
Earnings per common share					
Basic	$ 1.66				**$ 1.51**
Diluted	$ 1.65				**$ 1.51**

See the accompanying notes to the unaudited pro forma consolidated financial statements, which are integral part of these statements.

FORTIS INC.

Notes to Unaudited *Pro Forma* Consolidated Financial Statements
As at and for the nine-months ended September 30, 2013 and for the year ended December 31, 2012
(in millions of Canadian dollars, unless otherwise stated)

1. BASIS OF PRESENTATION

The accompanying unaudited *pro forma* consolidated financial statements give effect to the proposed acquisition ("Proposed Acquisition") by Fortis Inc. ("Fortis" or the "Corporation") of UNS Energy Corporation and its subsidiaries (collectively, "UNS Energy") as described in the short form prospectus dated December 13, 2013 (the "Prospectus"). The accompanying unaudited *pro forma* consolidated financial statements have been prepared by management of Fortis and are derived from the unaudited and audited consolidated financial statements of Fortis as at and for the nine-months ended September 30, 2013 and for the year ended December 31, 2012, respectively, and the unaudited and audited consolidated financial statements of UNS Energy as at and for the nine-months ended September 30, 2013 and for the year ended December 31, 2012, respectively.

The accompanying unaudited *pro forma* consolidated financial statements utilize accounting policies that are consistent with those disclosed in the Corporation's audited consolidated financial statements and were prepared in accordance with accounting principles generally accepted in the United States.

The Proposed Acquisition has been accounted for using the purchase method. The purchase price is primarily based upon the regulated assets at the date of closing. Based on the purchase price calculation as detailed in the merger agreement dated December 11, 2013, the estimated net purchase price for the equity of UNS Energy is approximately $2.6 billion (Note 3[a]).

The accompanying unaudited *pro forma* consolidated balance sheet and unaudited *pro forma* consolidated statements of earnings reflect the Proposed Acquisition effected on September 30, 2013 and January 1, 2012, respectively. The accompanying unaudited *pro forma* consolidated financial statements are not necessarily indicative of the results that would have been achieved if the transactions reflected therein had been completed on the dates indicated or the results which may be obtained in the future. For instance, the actual purchase price allocation will reflect the fair value, at the purchase date, of the assets acquired and liabilities assumed based upon the Corporation's evaluation of such assets and liabilities following the closing of the Proposed Acquisition and, accordingly, the final purchase price allocation, as it relates principally to goodwill, may differ materially from the preliminary allocation reflected herein.

The accompanying unaudited *pro forma* consolidated financial statements should be read in conjunction with the description of the Proposed Acquisition and the financing thereof provided in the Prospectus; the audited and unaudited consolidated financial statements of UNS Energy, including the notes thereto, included in the Prospectus; and the audited and unaudited consolidated financial statements of Fortis, including the notes thereto, incorporated by reference in the Prospectus.

The underlying assumptions for the *pro forma* adjustments provide a reasonable basis for presenting the significant financial effect directly attributable to the Proposed Acquisition. These *pro forma* adjustments are tentative and are based on currently available financial information and certain estimates and assumptions. The actual adjustments to the consolidated financial statements will depend on a number of factors. Therefore, it is expected that the actual adjustments will differ from the *pro forma* adjustments, and the differences may be material.

2. DESCRIPTION OF TRANSACTION

Pursuant to an agreement and plan of a merger between Fortis, certain Fortis subsidiaries and UNS Energy, the Corporation will indirectly purchase all of the outstanding common shares of UNS Energy for US$60.25 per share. The net purchase price, including (i) payment for unexercised stock options and performance shares and restricted stock units; and (ii) estimated acquisition costs of $30 million, will be approximately $2.6 billion. The Corporation will also assume UNS Energy debt, which was approximately $1.9 billion as at September 30, 2013.

The accompanying unaudited *pro forma* consolidated financial statements assume that the Proposed Acquisition will be financed through the proceeds from a $1.8 billion common share issuance (as further described below) with the balance initially funded through debt.

The common equity is assumed to be issued through the 4% convertible unsecured subordinated debentures ("Convertible Debentures") represented by instalment receipts offered on a public offering and concurrent private placement basis, all as described in the Prospectus. The Corporation has also arranged a $2.0 billion committed bridge facility which together with the Convertible Debentures represented by installments receipts contemplated in the Prospectus will fully fund the net purchase price and thereby ensure ample liquidity to close the Proposed Acquisition. The accompanying unaudited *pro forma* consolidated financial statements: (i) reflect the estimated costs of arranging the Convertible Debentures and bridge facility in acquisition costs (Note 3[e]); and (ii) assume that the Convertible Debentures will be issued and immediately fully converted into Fortis common shares at the assumed closing dates of the Proposed Acquisition. Therefore, the accompanying unaudited *pro forma* consolidated financial statements do not recognize interest costs associated with the Convertible Debentures. The Corporation anticipates that the closing period will be approximately 12 months but could span up to approximately 18 months, which would result in interest expense on the Convertible Debentures of up to approximately $108 million, or approximately $77 million net of income tax. Due to many factors, including the timing of regulatory approval, the estimated closing period is subject to change along with the estimated amount of interest expense on the Convertible Debentures and the related income tax recovery. Interest costs associated with the Convertible Debentures are expected to be funded through operating cash flows and/or the Corporation's existing credit facilities.

3. *PRO FORMA* ASSUMPTIONS AND ADJUSTMENTS

[a] Purchase Price and Financing Structure

The following is the estimated purchase price and assumed financing structure for the Proposed Acquisition. These estimates have been reflected in the accompanying unaudited *pro forma* consolidated financial statements.

Estimated Net Purchase Price

Unadjusted purchase price	$ 4,490
Estimated acquisition costs (Note 3[e])	30
Estimated net purchase price, before assumed debt	4,520
Assumed long-term debt of UNS Energy (Note 2)	(1,884)
Estimated net purchase price	$ 2,636

Estimated Net Funding Requirements

Estimated net purchase price	$2,636
Assumed long-term debt of UNS Energy (Note 2)	1,884
Common share issuance costs (Note 3[c])	72
Incremental long-term debt issuance costs (Note 3[d])	14
Estimated net funding requirements	$4,606

Assumed Financing Structure

Assumed long-term debt of UNS Energy	$1,884
Common share issuance (Note 3[c])	1,800
Incremental long-term debt (Note 3[d])	922
	$4,606

[b] Allocation of estimated net purchase price

The estimated net purchase price has been allocated to the estimated fair values of UNS Energy net assets and liabilities as at September 30, 2013 in accordance with the purchase method, as follows:

	UNS Energy	Fair Value and Other Adjustments	Net Total
Assets acquired:			
Cash and cash equivalents	$ 75	$—	$ 75
Accounts receivable	183	—	183
Prepaid expenses	28	—	28
Inventories	138	—	138
Regulatory assets	54	—	54
Deferred income taxes	69	—	69
Total current assets	547	—	547
Other assets	96	—	96
Regulatory assets	207	—	207
Utility capital assets	3,573	—	3,573
	$4,423	$—	$4,423
Liabilities assumed:			
Short-term borrowings	$ 24	—	$ 24
Accounts payable and other current liabilities	265	—	265
Regulatory liabilities	59	—	59
Current installments of capital lease and finance obligations	174	—	174
Total current liabilities	522	—	522
Other liabilities	244	—	244
Regulatory liabilities	307	—	307
Deferred income taxes	497	—	497
Long-term debt	1,552	—	1,552
Capital lease and finance obligations	134	—	134
	$3,256	$—	$3,256
Net assets at fair value, as at September 30, 2013			$1,167
Estimated net purchase price, before assumed debt and acquisition costs			2,606
Goodwill			$1,439

UNS Energy is a rate-regulated entity. The determination of revenues and earnings is based on regulated rates of return that are applied to historic values and does not change with a change of ownership. Therefore, no fair market value adjustments have been recognized as part of the purchase price on UNS Energy's assets and liabilities to be acquired because all of the economic benefits and obligations associated with them beyond regulated thresholds accrue to UNS Energy's customers. Consequently, the fair value of UNS Energy's assets and liabilities is assumed to be equal to their carrying amounts.

The excess of the estimated net purchase price of the Proposed Acquisition, before assumed debt and acquisition costs, over the assumed fair value of net assets acquired from UNS Energy is classified as goodwill on the accompanying unaudited *pro forma* consolidated balance sheet.

[c] Common share issuance

Assumed financing for the Proposed Acquisition contemplates the issuance, through the exercise of conversion rights under the Convertible Debentures, of approximately 58.6 million Fortis common shares at $30.72 per share for gross proceeds of approximately $1.8 billion. Underwriting and agency costs as well as private placement commitment fees are estimated at 4% of gross proceeds in the aggregate or approximately $72 million and will result in a corresponding deferred income tax asset of approximately $21 million based on the Corporation's statutory income tax rate of 29%.

[d] Incremental long-term debt

Assumed financing for the Proposed Acquisition contemplates the issuance of approximately $922 million of debt. Estimated debt issuance costs of approximately $14 million have been recognized as an other asset with a corresponding amortization expense of approximately $1 million recognized for the year ended December 31, 2012 and for the nine-months ended September 30, 2013 based on an estimated term of 10 years. The interest rate is estimated at 6%, which would result in incremental interest expense for the year ended December 31, 2012 and for the nine-months ended September 30, 2013 of $55 million and $41 million, respectively. Incremental interest expense would result in corresponding deferred income tax benefits of $16 million and $12 million, respectively, based on the Corporation's statutory income tax rate of 29%.

[e] Acquisition costs

Acquisition costs are estimated at approximately $30 million, or approximately $24 million net of income tax. The acquisition costs will create a deferred income tax asset of approximately $1 million and a reduction of $5 million to current income taxes payable. Acquisition costs are composed of estimated investment banking, accounting, tax, legal and other costs associated with the completion of the Proposed Acquisition. These costs have been included as a *pro forma* adjustment to retained earnings as opposed to being reflected in the unaudited *pro forma* consolidated statements of earnings of the Corporation on the basis that these expenses are directly incremental to the acquisition of UNS Energy and are non-recurring in nature.

[f] Income taxes

Income taxes applicable to the *pro forma* adjustments are calculated at Fortis' average tax rates of 29% (CDN rate) and 38% (US rate) for the year ended December 31, 2012 and for the nine-months ended September 30, 2013. To reflect an income tax benefit related to intercompany financing, a reduction in income tax expense of $11 million and $8 million has been recorded in the accompanying unaudited *pro forma* consolidated statement of earnings for the year ended December 31, 2012 and for the nine-months ended September 30, 2013, respectively.

The deferred income tax asset and liability is the cumulative amount of tax applicable to temporary differences between the accounting and tax values of assets and liabilities. Deferred income tax assets and liabilities are measured at the tax rates expected to apply when these differences reverse. For the purpose of the accompanying unaudited *pro forma* consolidated financial statements, deferred income tax rates of 29% (CDN rate) and 38% (US rate) have been used.

[g] UNS Energy historical shareholders' equity

The historical shareholders' equity of UNS Energy, which includes retained earnings, accumulated other comprehensive income and common shares, has been eliminated on consolidation.

[h] Earnings per common share

The calculation of the *pro forma* earnings per common share for the year ended December 31, 2012, and for the nine-months ended September 30, 2013 reflects the assumed issuance of approximately 58.6 million Fortis common shares as if the issuance had taken place as at January 1, 2012.

[i] Foreign exchange translation

The assets and liabilities of UNS Energy, which has a US dollar functional currency, are translated at the exchange rate in effect as at the unaudited *pro forma* consolidated balance sheet date. Revenue and expenses of UNS Energy's operations are translated at the average exchange rate in effect during the reporting period. The following exchange rates were utilized for the unaudited *pro-forma* consolidated financial statements:

Balance Sheet (US$ to C$)	
Spot rate — September 30, 2013	1.03
Income Statement (US$ to C$)	
Average rate — January 1, 2012 to December 31, 2012	1.00
Average rate — January 1, 2013 to September 30, 2013	1.02

CERTIFICATE OF FORTIS INC.

Dated: December 13, 2013

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL President and Chief Executive Officer	(Signed) BARRY V. PERRY Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

CERTIFICATE OF THE UNDERWRITERS

Dated: December 13, 2013

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

SCOTIA CAPITAL INC.	RBC DOMINION SECURITIES INC.	TD SECURITIES INC.	CIBC WORLD MARKETS INC.
(Signed) Stuart Lochray	(Signed) David Dal Bello	(Signed) Harold Holloway	(Signed) David H. Williams

BMO NESBITT BURNS INC.

(Signed) Aaron Engen

NATIONAL BANK FINANCIAL INC.

(Signed) Iain Watson

DESJARDINS SECURITIES INC.

(Signed) A. Thomas Little

RR DONNELLEY
Printed in Canada

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the 1933 Act) unless the securities are registered under the 1933 Act or an exemption from the registration requirements of the 1933 Act and applicable U.S. state securities laws is available. See "Plan of Distribution".*

Secondary Offering **December 20, 2013**

SHORT FORM PROSPECTUS

FORTIS INC.

FORTIS

$1,594,000,000
4.00% Convertible Unsecured Subordinated Debentures represented by Instalment Receipts

The 4.00% convertible unsecured subordinated debentures (the "Debentures") of Fortis Inc. ("Fortis" or the "Corporation") offered hereby (the "Offering") will be sold by FortisUS Holdings Nova Scotia Limited (the "Selling Debentureholder"), a direct wholly owned subsidiary of Fortis, on an instalment basis at a price of $1,000 per Debenture. See "Details of the Offering — The Selling Debentureholder". Prior to full payment, beneficial ownership of the Debentures will be represented by instalment receipts (the "Instalment Receipts"). The first instalment of $333 is payable on the closing of this Offering. The final instalment of $667 is payable following notification to holders (the "Final Instalment Notice") that: (i) the Corporation has received all regulatory and governmental approvals required to finalize the acquisition (the "Acquisition") by an indirect wholly owned subsidiary of the Corporation of all of the issued and outstanding shares of UNS Energy Corporation ("UNS Energy"), an Arizona regulated utilities holding company whose common stock is listed on the New York Stock Exchange ("NYSE"); and (ii) the Corporation and UNS Energy have fulfilled or waived all other outstanding conditions precedent to closing the Acquisition, other than those which by their nature cannot be satisfied until the closing of the Acquisition (collectively, the "Approval Conditions"), as itemized in the agreement and plan of merger dated December 11, 2013 among Fortis, certain subsidiaries of Fortis and UNS Energy (the "Acquisition Agreement"). See "The Acquisition" and "The Acquisition Agreement". The Final Instalment Notice will set a date for payment of the final instalment (the "Final Instalment Date"), which shall not be less than 15 days nor more than 90 days following the date of such notice. **If a holder of an Instalment Receipt does not pay the final instalment on or before the Final Instalment Date, the Debentures represented by such Instalment Receipt may, at the option of the Selling Debentureholder, upon compliance with applicable law and the terms of the Instalment Receipt Agreement (as defined under "Details of the Offering — Instalment Receipts"), be forfeited to the Selling Debentureholder in full satisfaction of the holder's obligations or such Debentures may be sold and the holder will remain liable for any deficiency in the proceeds of such sale.** See "Details of the Offering".

The Corporation and the Selling Debentureholder have entered into subscription agreements dated December 11, 2013 pursuant to which certain institutional investors (each a "Private Placement Subscriber") will purchase on an instalment and private placement basis, in the aggregate, $206,000,000 principal amount of Debentures represented by Instalment Receipts (the "Private Placement Debentures") at a price of $1,000 per $1,000 principal amount of Private Placement Debentures for aggregate gross proceeds to the Selling Debentureholder of $206,000,000 (the "Concurrent Private Placement"). The closing of the Concurrent Private Placement is scheduled to occur on the Closing Date and is subject to the concurrent closing of the Offering. See "Financing the Acquisition — Concurrent Private Placement".

The holders of Debentures will be entitled to interest at an annual rate of 4.00% per $1,000 principal amount of Debentures, payable quarterly in arrears in equal instalments on the first business day of March, June, September and December of each year to and including the Final Instalment Date. The first interest payment will be made on March 3, 2014 in the amount of $5.5890 per $1,000 principal amount of Debentures and will include interest payable from and including the closing date of the Offering, which is expected to take place on or about January 9, 2014 (the "Closing Date"). Subsequently, quarterly interest payments will be made in the amount of $10.00 per $1,000 principal amount of Debentures. **On the day following the Final Instalment Date, the interest rate payable on the Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Debentures.** Based on a first instalment of $333 per $1,000 principal amount of Debentures, the effective annual yield to and including the Final Instalment Date is 12.00%, and the effective annual yield thereafter is 0%.

If the Final Instalment Date occurs on a day that is prior to the first anniversary of the Closing Date, holders of Debentures who have paid the final instalment on or before the Final Instalment Date will be entitled to receive, on the business day following the Final Instalment Date, in addition to the payment of accrued and unpaid interest to and including the Final Instalment Date, an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the Closing Date had the Debentures remained outstanding and continued to accrue interest until such date (the "Make-Whole Payment"). No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the Closing Date.

Conversion Privilege

At the option of the holder and provided that payment of the final instalment has been made, each Debenture will be convertible into common shares of Fortis ("Common Shares") on or at any time after the Final Instalment Date, but prior to the earlier of the date that the Corporation redeems the Debentures or the Maturity Date (as defined below). The conversion price will be $30.72 per Common Share (the "Conversion Price"), being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Debentures, subject to adjustment in certain events. **A holder of Debentures who does not exercise its conversion privilege concurrently with the payment of the final instalment in order to convert its Debentures to Common Shares on the Final Instalment Date will hold a Debenture that pays 0% interest and may be redeemed by the Corporation in whole or in part on any trading day following the Final Instalment Date at a price equal to its principal amount plus any unpaid interest which accrued prior to the Final Instalment Date.** See "Details of the Offering".

The Debentures may not be redeemed by the Corporation except that the Debentures will be redeemed by the Corporation at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the Approval Conditions will not be satisfied; (ii) termination of the Acquisition Agreement; and (iii) July 2, 2015 if the Final Instalment Notice has not been given on or before June 30, 2015. Upon any such redemption, the Corporation will pay for each Debenture: (i) $333 plus accrued and unpaid interest to the holder of the Instalment Receipt; and (ii) $667 to the Selling Debentureholder on behalf of the holder of the Instalment Receipt in satisfaction of the final instalment. Under the terms of the Instalment Receipt Agreement, Fortis has agreed that until such time as the Debentures have been redeemed in accordance with the foregoing or the Final Instalment Date has occurred, the Corporation will at all times maintain availability under its revolving credit facility of not less than $600,000,000 to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption. See "Details of the Offering — Debentures — Redemption".

After the Final Instalment Date, any Debentures not converted to Common Shares may be redeemed at the option of the Corporation at a price equal to their principal amount plus any unpaid interest which accrued prior to the Final Instalment Date. See "Details of the Offering — Debentures — Redemption".

On January 9, 2024 (the "Maturity Date"), the Corporation will repay the principal amount of any Debentures not converted and remaining outstanding, in cash. The Corporation may, at its option and without prior notice, satisfy the obligation to pay the principal amount of such Debentures on maturity by delivery of that number of freely tradable Common Shares obtained by dividing the principal amount of the Debentures by 95% of the weighted average trading price of the Common Shares on the Toronto Stock Exchange (the "TSX") for the 20 consecutive trading days ending five trading days preceding the Maturity Date.

Price: $1,000 per Debenture to yield 4.00% per annum

(each Debenture is convertible into Common Shares at a Conversion Price of $30.72)

	Price to the Public	Underwriters' Fee (1)	Net Proceeds to Selling Debentureholder (2)
Per Debenture			
First Instalment	$333.00	$20.00	$313.00
Final Instalment	$667.00	$20.00	$647.00
Total Per Debenture	$1,000.00	$40.00	$960.00
Total (3)	$1,594,000,000	$63,760,000	$1,530,240,000

(1) The Underwriters' fee is equal to 4.00% of the gross proceeds of the Offering, one-half of which is payable on the Closing Date and the remaining one-half of which is payable on the Final Instalment Date.

(2) Net proceeds to the Selling Debentureholder are calculated before deducting the expenses of the Offering, estimated at $2,000,000, which, together with the Underwriters' fee, will be paid out of the general funds of Fortis. See "Plan of Distribution".

(3) The Selling Debentureholder has granted to the Underwriters an option (the "Over-Allotment Option") to purchase additional Debentures represented by Instalment Receipts equal to up to 15% of the aggregate principal amount of Debentures represented by Instalment Receipts sold on the Closing Date, at a price of $1,000 per Debenture payable on an instalment basis and on the same terms and conditions of the Offering to cover over-allotments, if any. The Over-Allotment Option is exercisable in whole or in part at the Underwriters' sole discretion and without obligation, on or prior to the 30th day following the closing of the Offering. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to Selling Debentureholder" will be $1,833,100,000, $73,324,000 and $1,759,776,000, respectively. This short form prospectus qualifies the grant of the Over-Allotment Option and the sale of Debentures represented by Instalment Receipts pursuant to this short form prospectus on the exercise of such option. A purchaser who acquires Debentures represented by Instalment Receipts forming part of the Underwriters' over-allocation position acquires those securities under this short form prospectus, regardless of whether the position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. Unless otherwise indicated, the disclosure in this short form prospectus assumes that the Over-Allotment Option has not been exercised. See "Plan of Distribution".

Underwriters' Position	Maximum size or number of securities held	Exercise Period	Exercise Price
Over-Allotment Option	Option to sell up to $239,100,000 aggregate principal amount of Debentures (on an instalment basis)	At any time within 30 days following the closing of the Offering	$1,000 per Debenture payable on an instalment basis of which $333 is payable on the closing of the Over-Allotment Option and $667 is payable by or before the Final Instalment Date

There is currently no market through which the Debentures represented by Instalment Receipts may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See "Risk Factors".

This short form prospectus qualifies for distribution the Debentures represented by the Instalment Receipts. The TSX has conditionally approved the listing of the Instalment Receipts (representing the Debentures and the Private Placement Debentures) and the Common Shares issuable on the conversion of the Debentures and Private Placement Debentures on the TSX, subject to Fortis fulfilling all of the requirements of the TSX on or before March 11, 2014. **The Corporation has no current intention to list the Debentures or the Private Placement Debentures for trading on any exchange as it currently anticipates all Debentures and Private Placement Debentures will be converted to Common Shares on the Final Instalment Date.** The Corporation's outstanding Common Shares are listed on the TSX under the symbol "FTS". On December 11, 2013, the last trading day prior to the announcement of the Acquisition, the Offering and the Concurrent Private Placement, the closing price of the Common Shares on the TSX was $31.19. On December 19, 2013, the closing price of the Common Shares on the TSX was $30.11.

The Debentures will be sold by the Selling Debentureholder to the Underwriters (as defined below) on an instalment basis for a total of $1,000 per Debenture, which price and other terms of the Offering were determined by negotiation between the Corporation, the Selling Debentureholder and the Underwriters. After a reasonable effort has been made to sell all of the Debentures at the price specified above, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Debentures remaining unsold. Any such reduction will not affect the proceeds received by the Selling Debentureholder. **See "Plan of Distribution".**

An investment in the Debentures represented by Instalment Receipts, and the Common Shares issuable upon the conversion of Debentures, involves certain risks that should be considered by a prospective purchaser. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

Each of Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBC"), TD Securities Inc. ("TDSI"), CIBC World Markets Inc. ("CIBC"), BMO Nesbitt Burns Inc., National Bank Financial Inc. and Desjardins Securities Inc. are acting as underwriters (collectively, the "Underwriters") of the Offering. The Underwriters, as principals, conditionally offer the Debentures represented by Instalment Receipts, subject to prior sale, if, as and when issued, sold and delivered by the Selling Debentureholder to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation and the Selling Debentureholder by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's, and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Instalment Receipts representing the Debentures or the Common Shares at levels above those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Each of the Underwriters is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended (or will extend) credit facilities to, or holds (or will hold) other indebtedness of, the Corporation and/or its subsidiaries. In addition, Scotia Capital, RBC, TDSI and CIBC are acting as agents in the Concurrent Private Placement and will receive an agency fee in connection with such role. See "Financing the Acquisition". **Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Relationship between Fortis, the Selling Debentureholder and Certain Underwriters".**

Subscriptions for the Debentures represented by Instalment Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the Closing Date will take place on or about January 9, 2014, or such other date as may be agreed upon by the Corporation, the Selling Debentureholder and the Underwriters, but not later than January 20, 2014. The Debentures represented by Instalment Receipts offered hereby are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for the final short form prospectus relating to the Offering.

A book-entry only certificate representing the Instalment Receipts (representing the Debentures) distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or its nominee and will be deposited with CDS on the Closing Date. Subject to compliance with the provisions of the Instalment Receipt Agreement, as soon as practicable on or after the Final Instalment Date provided that payment of the final instalment has been made, the global certificate representing the Instalment Receipts will be cancelled and the global certificate representing the Debentures distributed hereunder, pledged to the Selling Debentureholder and held by Computershare Trust Company of Canada, as security agent, will be discharged, released and delivered to CDS and registered in the name of CDS or its nominee (as adjusted for Debentures that have been converted into Common Shares on the Final Instalment Date). The Corporation understands that a purchaser of Debentures represented by Instalment Receipts will receive only a customer confirmation from the registered dealer (who is a CDS participant) from or through whom the Debentures represented by Instalment Receipts are purchased. Except as otherwise stated herein, neither the holders of Instalment Receipts representing Debentures nor the holders of Debentures on or following the Final Instalment Date will be entitled to receive physical certificates representing their ownership thereof, as applicable. See "Details of the Offering".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Please refer to the "Glossary of Terms" beginning on page 95 of this short form prospectus (the "Prospectus") for a list of defined terms used herein.

This Prospectus, including the documents incorporated herein by reference, contain forward-looking information which reflects management's current expectations regarding: (i) the future growth, results of operations, performance, business prospects and opportunities of the Corporation; (ii) the Acquisition of UNS Energy; (iii) the impact of the Acquisition, this Offering, the Concurrent Private Placement and the Acquisition Credit Facilities on the financial position of the Corporation; and (iv) the future performance, business prospects and opportunities of UNS Energy and the integration of its electric and gas utility businesses with the existing operations of Fortis. These expectations may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the principal business of Fortis remaining the ownership and operation of regulated electric and gas utilities; the Corporation's primary focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030 to maintain system reliability; forecasted rate base for the Corporation's largest regulated utilities; the Corporation's consolidated forecasted gross capital expenditures for 2013 and in total over the six years from 2013 through 2018; the expectation that the CH Energy Acquisition will be accretive to earnings per Common Share in the first full year following its completion, excluding one-time Acquisition-Related Expenses; the expected timing and completion of the Tilbury LNG Facility expansion and the increased liquefaction and storage capacity of such facility following the expansion; the expected combined CAGR of utility rate base and hydroelectric generation investment over the next six years; the expectation that FortisAlberta's load and rate base will be positively impacted as a result of continuing economic growth in Alberta; various natural gas and electricity distribution or transmission investment opportunities that may be available to the Corporation; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's capital expenditure program will support continuing growth in earnings and dividends; the expectation that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source (or otherwise finance) the cash required to fund their capital expenditure programs; the expected consolidated long-term debt maturities and repayments on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2013; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2013; the expected impact on 2013 earnings for FortisAlberta and FortisBC of changes in the allowed ROE and common equity component of total capital structure; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties' Hospitality Division would have on annual basic earnings per Common Share; no expected material adverse credit rating actions in the near term; the expected impact of a change in the U.S. dollar-to-Canadian dollar foreign exchange rate on basic earnings per Common Share in 2013; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that consolidated defined benefit net pension cost for 2013 will be comparable to that in 2012 and that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future.

The forward-looking information contained herein pertaining to the Acquisition and the financing thereof, the future performance, business prospects and opportunities of UNS Energy and the integration of its electric and gas utility businesses with the existing operations of Fortis includes, but is not limited to, statements regarding: the terms and conditions of the Acquisition; the completion of the Acquisition; the realization of the anticipated benefits of the Acquisition by Fortis, including that the Acquisition will be accretive to the Corporation's earnings per Common Share in the first full year following its completion, excluding one-time Acquisition-Related Expenses; the accuracy of the *pro forma* combined financial information, which does not purport to be indicative of the financial information that will result from the operations of Fortis on a consolidated basis following the Acquisition; the completion of the Offering and the Concurrent Private Placement and the use of the proceeds therefrom; the conversion of the Debentures and the Private Placement Debentures into Common Shares and the impact of such conversion on the consolidated capitalization of Fortis; the receipt by the Selling Debentureholder of the aggregate amount of the final instalment payable in respect of the Debentures; the utilization by Fortis of the Acquisition Credit Facilities; the entering into by Fortis and the Selling Debentureholder of the Instalment Receipt Agreement and the Indenture; the rights of holders of Instalment Receipts to receive Debentures and Common Shares on the occurrence of certain events; the listing of the Instalment Receipts and Common Shares issuable on the exercise of the Debentures on the TSX; the rate of return and payment of interest on the Debentures; the impact of the Acquisition on a consolidated basis on the Corporation's operations, infrastructure, opportunities, financial condition, access to capital and overall strategy; the ability of Fortis to satisfy its liabilities and meet its debt service obligations following completion of the Acquisition; the potential for the credit rating of Fortis to change as a result of the Acquisition and the financing thereof; the expectation that Fortis will retain key employees of UNS Energy and its subsidiaries; the performance, business prospects and opportunities of UNS Energy and its subsidiaries; the regulatory environment in the State of Arizona; the projected growth in jobs, retail sales and personal income in the State of Arizona for the six years from 2013 through 2018 and the projected growth in jobs for the 30 years ending in 2043; the expectation that there will be a material decrease in the use of coal by TEP in its generating stations and the expected ratio of generating fuels to be used by TEP in 2020; the anticipated impact of current and future environmental regulations on the business and operations of the UNS Utilities; the impact on the UNS Utilities of regulatory requirements relating to energy efficiency and renewable energy; the continued operation by TEP of its current generating stations; the expectation that labour relations with unionized employees of UNS Energy and its subsidiaries will continue to be good; the nature, timing and amount of certain capital projects; and expectations in respect of the operations, inventory, supply and generating capacity of the assets of UNS Energy and its subsidiaries.

The forecasts and projections that make up the forward-looking information included in this Prospectus are based on assumptions which include, but are not limited to: the completion of the Acquisition; the receipt of applicable regulatory approvals and requested rate orders; the receipt of UNS Energy shareholder approval and regulatory approvals relating to the Acquisition on terms acceptable to Fortis; the payment to the Selling Debentureholder of the aggregate amount of the final instalment; the conversion of all of the Debentures distributed pursuant to this Prospectus and in the Concurrent Private Placement into Common Shares; the realization of the anticipated benefits of the Acquisition; the ability of Fortis to successfully integrate the business and operations of UNS Energy into the Fortis group of companies; the ability of Fortis to retain key employees of UNS Energy and the UNS Utilities; the rate of growth in jobs, retail sales and personal income in the State of Arizona for the six years from 2013 through 2018 and the rate of growth in jobs for the 30 years ending in 2043; the amount of borrowings to be drawn down under the Acquisition Credit Facilities; the ability of Fortis to access the capital markets following the Acquisition to effect the repayment of the Acquisition Credit Facilities in accordance with their terms; the aggregate amount of the Acquisition-Related Expenses; the accuracy and completeness of the UNS Energy public and other disclosure incorporated in this Prospectus; the absence of undisclosed liabilities of UNS Energy; no material adverse regulatory decisions being received and the expectation of regulatory stability; FortisAlberta continuing to recover its cost of service and earn its allowed ROE under the PBR setting, which commenced for a five-year term effective January 1, 2013; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta Expansion; sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the GOB for fair value of the Corporation's investment in Belize Electricity that was expropriated by the GOB; the expectation that BECOL will not be expropriated by the GOB; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates at Fortis and UNS Energy and their respective subsidiaries and environmental costs at UNS Energy and its subsidiaries in customer rates; the ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices, electricity prices, coal prices and other fuel prices; the price obtainable from time to time for wholesale electricity and gas sales in the southwestern United States; continued favourable relations with co-owners or operators at generating plants in which TEP has an interest; the cost at which replacement sources of power could be obtained by TEP; the rate of decline in power consumption resulting from energy efficiency programs and customer-oriented generation; the continuation of observed weather patterns and trends; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel, coal and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to generate electricity using coal in the State of Arizona and the State of New Mexico; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; the absence of significant changes in government energy plans and environmental laws that may materially negatively affect the operations and cash flows of the Corporation and its subsidiaries; the ability of TEP to continue to receive electricity on a cost-effective basis from the generating stations in which it currently has an interest; the amount of capital expenditures which will be required to bring the generation assets of TEP and UNS Electric into compliance with current and future environmental regulations; no material change in public policies and directions by governments that could materially negatively affect the Corporation, UNS Energy and their respective subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of IFRS after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk, including risks relating to pending and future changes in environmental regulations and increased risk at FortisAlberta associated with the adoption of PBR for a five-year term commencing in 2013; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on the ROE of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas; natural gas, fuel, coal and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; risks relating to the inability to complete the Acquisition; risks relating to the realization of the anticipated benefits of the Acquisition; risks associated with a material decrease in the price of the Common Shares, and the impact this would have on the amount of Debentures ultimately required to be purchased or repaid at maturity by the Corporation; risks associated with the economic viability of bringing certain of the generating assets of TEP into compliance with current and future environmental regulations; risks associated with the co-ownership or lease of certain generating assets of TEP; risks associated with the cost of purchasing TEP's leased assets and the cost of procuring alternate sources of generation or purchased power; risks associated with TEP not being the operator of certain of the generating stations in which it has an interest; risks associated with defined benefit pension plan performance and funding requirements; risks related to FEVI; environmental risks; insurance coverage risk; risk of loss of licences and permits; risk of loss of service area; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure and cyber-attack; risk of not being able to access First Nations lands; labour relations risk; human resources risk; and risk of unexpected outcomes of legal proceedings currently against the Corporation or UNS Energy. For additional information with respect to the Corporation's risk factors and risk factors relating to the post-Acquisition business of Fortis, the operations of Fortis and UNS Energy, the Acquisition, the Debentures, the Instalment Receipts and Common Shares, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference and to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(i) the AIF;

(ii) audited comparative consolidated financial statements as at December 31, 2012 and December 31, 2011 and for the years ended December 31, 2012 and 2011, together with the notes thereto and the auditors' report thereon dated March 20, 2013, as contained in the Corporation's 2012 Annual Report, prepared in accordance with US GAAP;

(iii) the Annual MD&A;

(iv) the Management Information Circular;

(v) unaudited comparative interim consolidated financial statements as at September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012, together with the notes thereon, prepared in accordance with US GAAP;

(vi) Management Discussion and Analysis of financial condition and results of operations for the three and nine months ended September 30, 2013;

(vii) the template version of the term sheet dated December 11, 2013 and the template version of the investor presentation dated December 11, 2013, each filed on SEDAR in connection with the Offering (collectively, the "Marketing Materials"); and

(viii) the material change report dated December 12, 2013 announcing the Acquisition and the financing thereof, including this Offering and the Concurrent Private Placement.

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on SEDAR which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into this Prospectus and is not, and should not be considered to be, a part of this Prospectus, unless it is explicitly so incorporated.

MARKETING MATERIALS

The Marketing Materials are not part of this Prospectus to the extent that the contents of the Marketing Materials have been modified or superseded by a statement contained in this Prospectus. Any template version of "marketing materials" (as defined in National Instrument 41-101 — *General Prospectus Requirements*) filed after the date of this Prospectus and before the termination of the distribution under the Offering (including any amendments to, or an amended version of, the Marketing Materials) are deemed to be incorporated into this Prospectus.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis and the Selling Debentureholder, and Stikeman Elliott LLP, counsel to the Underwriters, provided that the Common Shares are listed on a "designated stock exchange" (which includes the TSX) for the purposes of the Tax Act and subject to the provisions of any particular Exempt Plan (as defined below), the Debentures represented by Instalment Receipts and the Common Shares issuable on the conversion or maturity of the Debentures, if issued on the date hereof, would be qualified investments under the Tax Act as of the date hereof for a trust governed by a RRSP, a RRIF, a registered education savings plan, a DPSP, a registered disability savings plan and a TFSA (collectively, "Exempt Plans"), except, in the case of the Debentures, a DPSP to which Fortis, or an employer that does not deal at arm's length with Fortis, has made a contribution.

Notwithstanding the foregoing, if the Debentures or the Common Shares are a "prohibited investment" (as defined in the Tax Act) for a trust governed by a TFSA, RRSP or RRIF, the holder or annuitant thereof, as the case may be, will be subject to a penalty tax as set out in the Tax Act. The Debentures and Common Shares will not be a prohibited investment for a TFSA, RRSP or RRIF provided the holder or annuitant of such Exempt Plan, as the case may be, (i) deals at arm's length with Fortis, for purposes of the Tax Act and (ii) does not have a "significant interest" (as defined in the prohibited investment rules in the Tax Act) in Fortis. In addition, Common Shares will not be a "prohibited investment" if the Common Shares are "excluded property" as defined in the Tax Act for this purpose for trusts governed by a TFSA, RRSP and RRIF. Prospective purchasers who intend to hold Debentures or Common Shares in a TFSA, RRSP or RRIF are advised to consult their personal tax advisors.

PRESENTATION OF FINANCIAL INFORMATION

The financial statements of the Corporation included in this Prospectus are reported in Canadian dollars and have been prepared in accordance with US GAAP. All other financial information of UNS Energy and the audited historical financial statements of UNS Energy included in this Prospectus are reported in U.S. dollars and have been prepared in accordance with US GAAP. The assets and liabilities of UNS Energy shown in the unaudited *pro forma* consolidated balance sheet of the Corporation as at September 30, 2013 are reported in Canadian dollars and reflect the U.S.-to-Canadian dollar period-end closing exchange rate. The revenues and expenses of UNS Energy shown in the unaudited *pro forma* consolidated statements of earnings of the Corporation for the nine month period ended September 30, 2013 and for the year ended December 31, 2012 are reported in Canadian dollars and reflect the average U.S.-to-Canadian dollar exchange rates for such periods. Financial information in this Prospectus that has been derived from the unaudited *pro forma* consolidated financial statements has been translated to Canadian dollars on the same basis. Certain tables in the Prospectus may not add due to rounding.

CAUTION REGARDING UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

This Prospectus contains the unaudited *pro forma* consolidated balance sheet as at September 30, 2013 and consolidated statements of earnings of the Corporation as at and for the nine month period ended September 30, 2013 and for the year ended December 31, 2012, giving effect to: (i) the Offering, assuming no exercise of the Over-Allotment Option; (ii) the Concurrent Private Placement; (iii) the issuance of Common Shares upon the conversion of the Debentures and the Private Placement Debentures on the Final Instalment Date; (iv) the Acquisition Credit Facilities; and (v) the Acquisition. Such unaudited *pro forma* consolidated financial statements have been prepared using certain of the Corporation's and UNS Energy's respective financial statements as more particularly described in the notes to such unaudited *pro forma* consolidated financial statements. In preparing such unaudited *pro forma* consolidated financial statements, Fortis has had limited access to the non-public books and records of UNS Energy and makes no representation or warranty as to the accuracy or completeness of such information provided by

UNS Energy, including the financial statements of UNS Energy that were used to prepare the unaudited *pro forma* consolidated financial statements. Such unaudited *pro forma* consolidated financial statements are not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated. Actual amounts recorded upon the finalization of the purchase price allocation under the Acquisition may differ from such unaudited *pro forma* consolidated financial statements. Since the unaudited *pro forma* consolidated financial statements have been developed to retroactively show the effect of a transaction that has or is expected to occur at a later date (even though this was accomplished by following generally accepted practice using reasonable assumptions), there are limitations inherent in the very nature of *pro forma* data. The data contained in the unaudited *pro forma* consolidated financial statements represents only a simulation of the potential impact of the Corporation's acquisition of UNS Energy. Undue reliance should not be placed on such unaudited *pro forma* consolidated financial statements. See "Special Note Regarding Forward-Looking Statements" and "Risk Factors".

CURRENCY

In this Prospectus, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars", "$" or "Cdn$" are to lawful currency of Canada. References to "U.S. dollars" or "US$" are to lawful currency of the United States of America.

The following table sets forth, for each of the periods indicated, the period-end closing exchange rate, the average noon exchange rate and the high and low noon exchange rates of one U.S. dollar in exchange for Canadian dollars as reported by the Bank of Canada.

	Year ended December 31,			Nine months ended September 30,	
	2012	**2011**	**2010**	**2013**	**2012**
High	1.0418	1.0604	1.0778	1.0576	1.0418
Low	0.9710	0.9449	0.9946	0.9839	0.9710
Average	0.9996	0.9891	1.0299	1.0235	1.0022
Period End	0.9949	1.0170	0.9946	1.0303	0.9832

On December 19, 2013, the closing exchange rate as reported by the Bank of Canada was US$1.00 = Cdn$1.0666

DEFINED TERMS

For an explanation of certain terms and abbreviations used in, and conversions applicable to, this Prospectus, reference is made to the "Glossary of Terms" beginning on page 95 of this Prospectus.

THIRD PARTY SOURCES AND INDUSTRY DATA

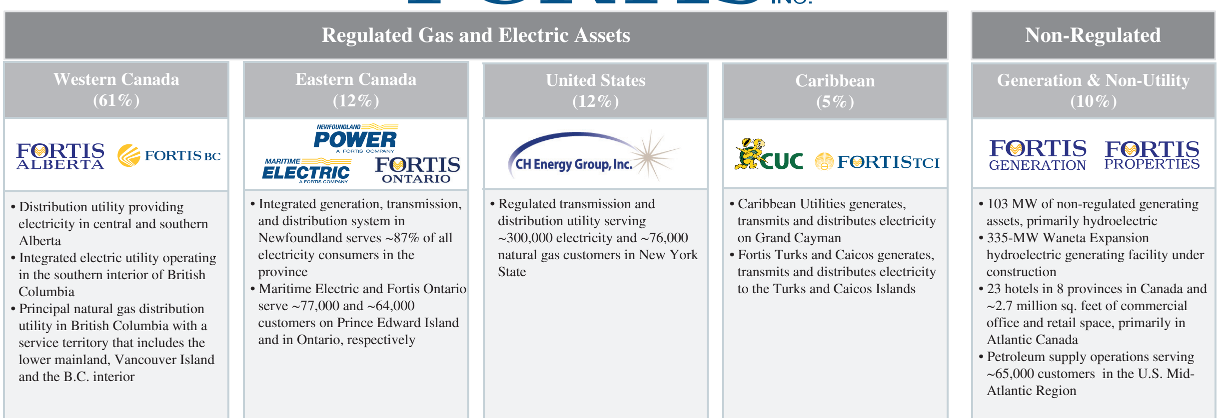
This Prospectus contains information from publicly available third party sources as well as industry data prepared by management on the basis of its knowledge of the regulated utility industry in which Fortis operates (including management's estimates and assumptions relating to the industry based on that knowledge). Management's knowledge of the regulated utility industry has been developed through its experience and participation in the industry. Management believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third-party sources, which include the University of Arizona Economic and Business Research Center and DBRS, generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although management believes it to be reliable, none of Fortis, the Selling Debentureholder or the Underwriters have independently verified any of the data from third-party sources referred to in this Prospectus or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic assumptions relied upon or referred to by such sources.

PROSPECTUS SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information and financial data and statements appearing elsewhere in this Prospectus and in the documents incorporated by reference herein. Please refer to the "Glossary of Terms" beginning on page 95 of this Prospectus for a list of defined terms used herein.

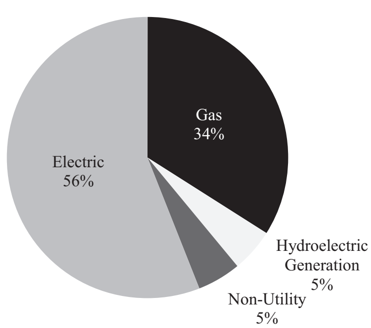
FORTIS

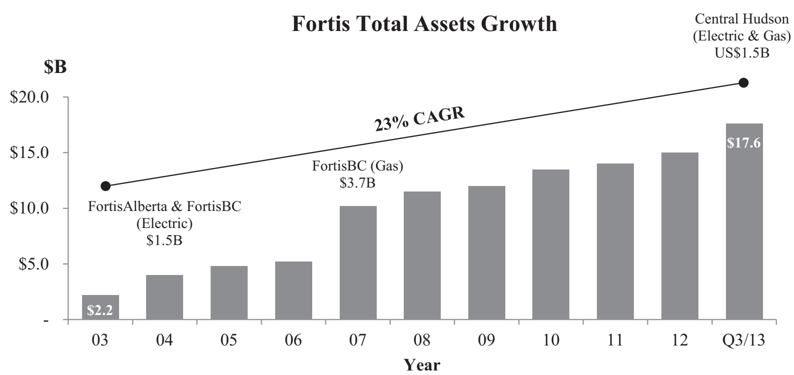
Fortis is the largest investor-owned gas and electric distribution utility in Canada with total assets of approximately $17.6 billion as at September 30, 2013 and fiscal 2012 revenue (which excludes the June 2013 acquisition of CH Energy Group) totalling approximately $3.7 billion. The Corporation serves more than 2,400,000 customers across Canada and in New York State and the Caribbean. Its regulated holdings include electric distribution utilities in five Canadian provinces, New York State and two Caribbean countries and natural gas utilities in British Columbia, Canada and New York State. See "Fortis".



As at September 30, 2013, regulated utility assets comprised approximately 90% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space, hotels and petroleum supply operations. Over the last decade, total assets of Fortis have grown at a CAGR of 23%.

90% Regulated Assets

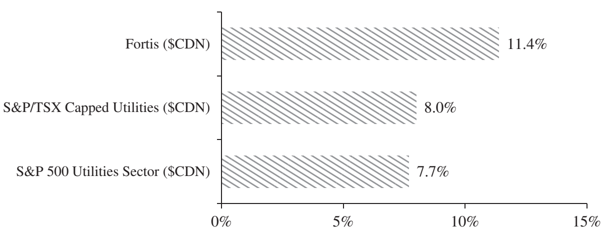




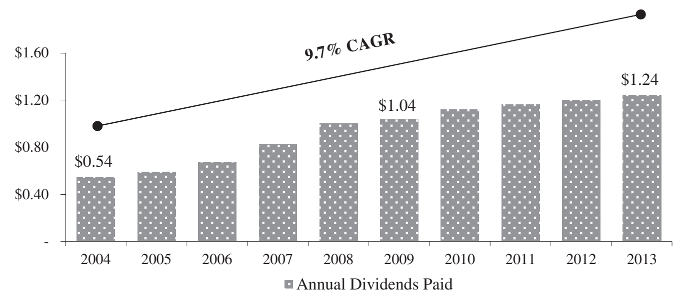
Earnings and dividend growth at Fortis have resulted in annualized total shareholder returns of 11.4% over the past 10 years. Over the same period, Fortis has maintained average annual dividend growth of 9.7%.

10-Year Average Annualized Total Return

as at November 30, 2013

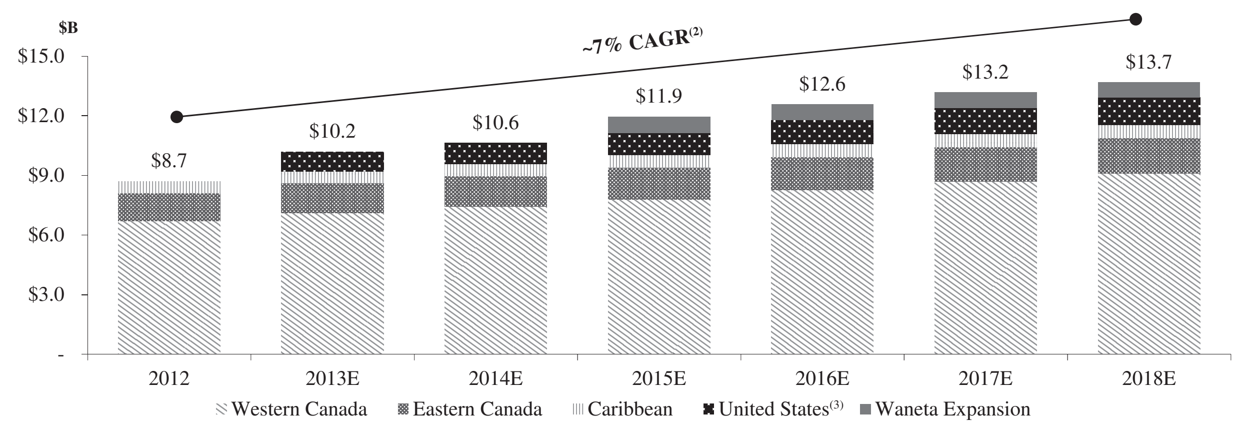


Annual Dividend Growth



Over the six years from 2013 through 2018, the Corporation's consolidated capital expenditure program, which is mostly funded at the individual subsidiary level and includes expenditures at Central Hudson, the Waneta Expansion and the Tilbury LNG Facility expansion, is expected to approximate $7.5 billion. Capital investment should allow the Corporation's consolidated regulated mid-year rate base, including incremental investment in rate base by Central Hudson and investment in the non-regulated Waneta Expansion, to increase at a combined CAGR of approximately 7% through 2018. Investment in energy infrastructure (rate base) to provide safe, reliable and cost-effective energy service to customers is expected to be the primary driver of earnings growth.

Mid-Year Rate Base including Waneta Expansion Investment (1)



(1) Rate base includes 100% of the Waneta Expansion Project investment (51% ownership) to be completed by Spring 2015 and Caribbean Utilities (~60% ownership).

(2) CAGR excludes the initial ~$1B rate base addition in 2013 related to the Central Hudson acquisition.

(3) Assumes C$/US$ FX rate of 1.03.

THE ACQUISITION

On December 11, 2013, Fortis and certain subsidiaries of Fortis entered into the Acquisition Agreement with UNS Energy which provides for, among other things, the Acquisition by an indirect wholly owned subsidiary of Fortis of all of the issued and outstanding common shares of UNS Energy and the merger of the acquiring subsidiary of Fortis into UNS Energy. The aggregate purchase price for the Acquisition is approximately US$4.3 billion, comprised of approximately US$2.5 billion in cash on closing and the assumption of approximately US$1.8 billion of debt. The Acquisition is subject to receipt of UNS Energy common shareholder approval and certain regulatory and governmental approvals, including approval by each of the ACC and FERC and the satisfaction of customary closing conditions. The closing of the Acquisition is currently expected to occur by the end of 2014.

UNS Energy, formerly UniSource Energy Corporation, is a utility services holding company headquartered in Tucson, Arizona engaged through its subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona. UNS Energy's fiscal 2012 operating revenue totalled approximately US$1.5 billion and, as at September 30, 2013, UNS Energy had total assets of approximately US$4.3 billion. Based on *pro forma* financial information as at September 30, 2013, following the Acquisition, the Corporation's total assets will increase by approximately 33.5% to approximately $23.5 billion. The Acquisition of UNS Energy is expected to increase the Corporation's consolidated rate base by approximately US$3.0 billion by 2015 and its total customers by approximately 654,000. Following the Acquisition, the regulated utility subsidiaries of Fortis will serve more than 3,000,000 customers. See "The Acquisition".

UNS Energy Overview

UNS Energy has three direct and indirect subsidiaries which are regulated utilities: TEP, UNS Gas and UNS Electric. UNS Energy's utility operations are vertically integrated with generation, transmission and distribution being regulated by either the ACC or FERC.

TEP is a vertically integrated regulated electric utility and is UNS Energy's largest and principal operating subsidiary, representing approximately 84% of the total assets as at September 30, 2013 and approximately 81% of the operating revenues of UNS Energy for the nine months ended September 30, 2013. TEP was incorporated in the State of Arizona in 1963 and currently generates, transmits and distributes electricity to approximately 412,000 retail electric customers in southern Arizona. TEP's service territory covers 1,155 square miles (2,991 square kilometres) and includes a population of approximately 1,000,000 people in the greater Tucson metropolitan area in Pima County, as well as parts of Cochise County. TEP also sells electricity to other entities in the western United States.

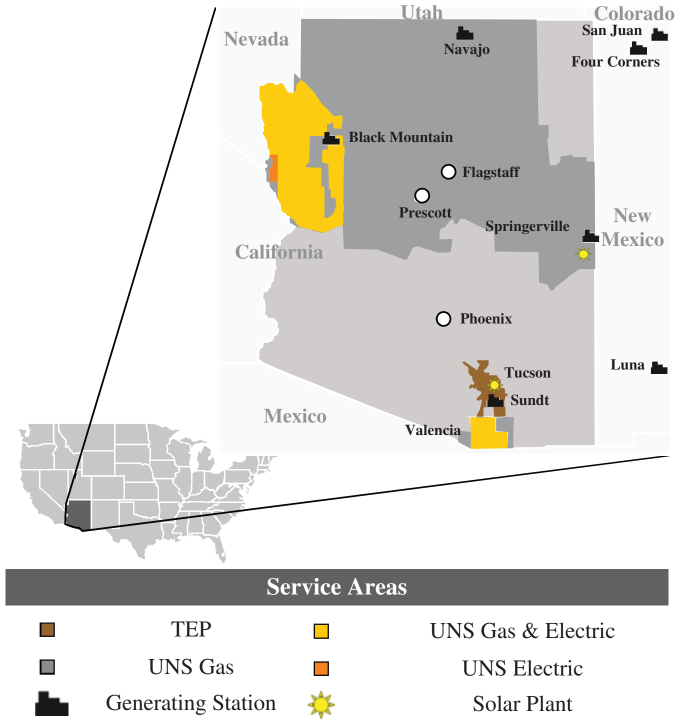
UNS Gas is a regulated gas distribution company serving approximately 149,000 retail customers in northern Arizona's Mohave, Yavapai, Coconino and Navajo counties, as well as Santa Cruz County in southern Arizona. These counties, with a combined population of approximately 700,000, comprise approximately 50% of the territory in the State of Arizona. UNS Gas represented approximately 7% of the total assets of UNS Energy as at September 30, 2013 and approximately 8% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

UNS Electric is a vertically integrated regulated electric utility company serving approximately 93,000 retail customers in Arizona's Mohave and Santa Cruz counties. These counties have a combined population of approximately 250,000. UNS Electric represented approximately 9% of the total assets of UNS Energy as at September 30, 2013 and approximately 11% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

The non-regulated business of UNS Energy, which comprises less than 1% of UNS Energy's total assets, includes the operations of Millennium and UniSource Energy Development Company. SES, a wholly owned subsidiary of Millennium, provides electrical contracting and meter reading services in Arizona, as well as other services at Springerville.

The following map depicts the service territories and generating stations of UNS Energy and its regulated utility subsidiaries. See “The Acquired Business”.

UNS Energy Utility Service Areas



ACQUISITION HIGHLIGHTS

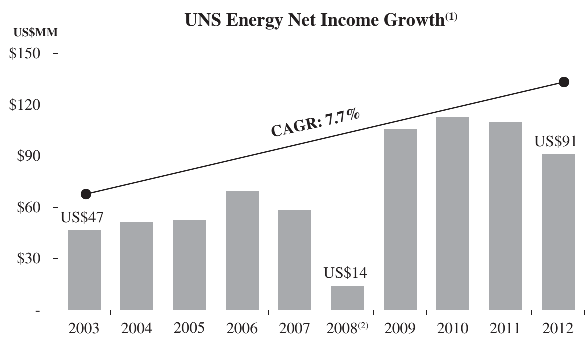
The business operated by UNS Energy is attractive to Fortis for the following reasons:

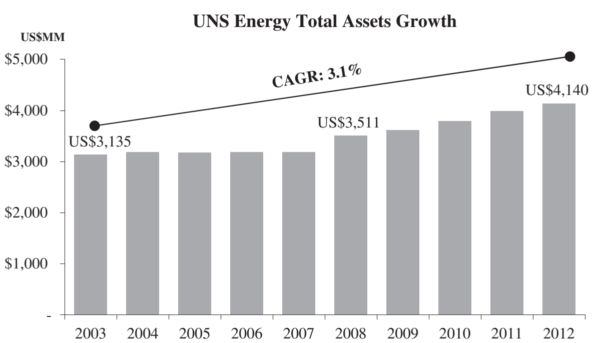
Accretive to Earnings per Common Share in the First Full Year

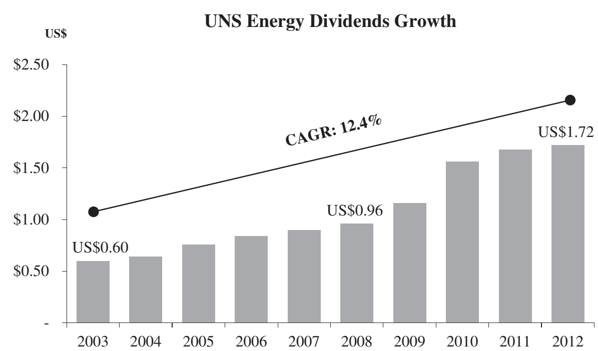
Management expects that the Acquisition will be accretive to the Corporation's earnings per Common Share in the first full year following its completion, excluding one-time Acquisition-Related Expenses. See "The Acquisition Agreement" and "The Acquired Business".

Acquisition of a Well-Run Utility

Over the past 10 years (through 2012), UNS Energy has (i) increased net income by a CAGR of 7.7%, (ii) increased total assets by a CAGR of 3.1% and (iii) increased annual dividends per common share from US$0.60 to US$1.72. Key drivers of earnings growth include the 2013 TEP Rate Order, which is primarily related to prior infrastructure investment, and the expiration and buyout of the Springerville Unit 1 Leases.





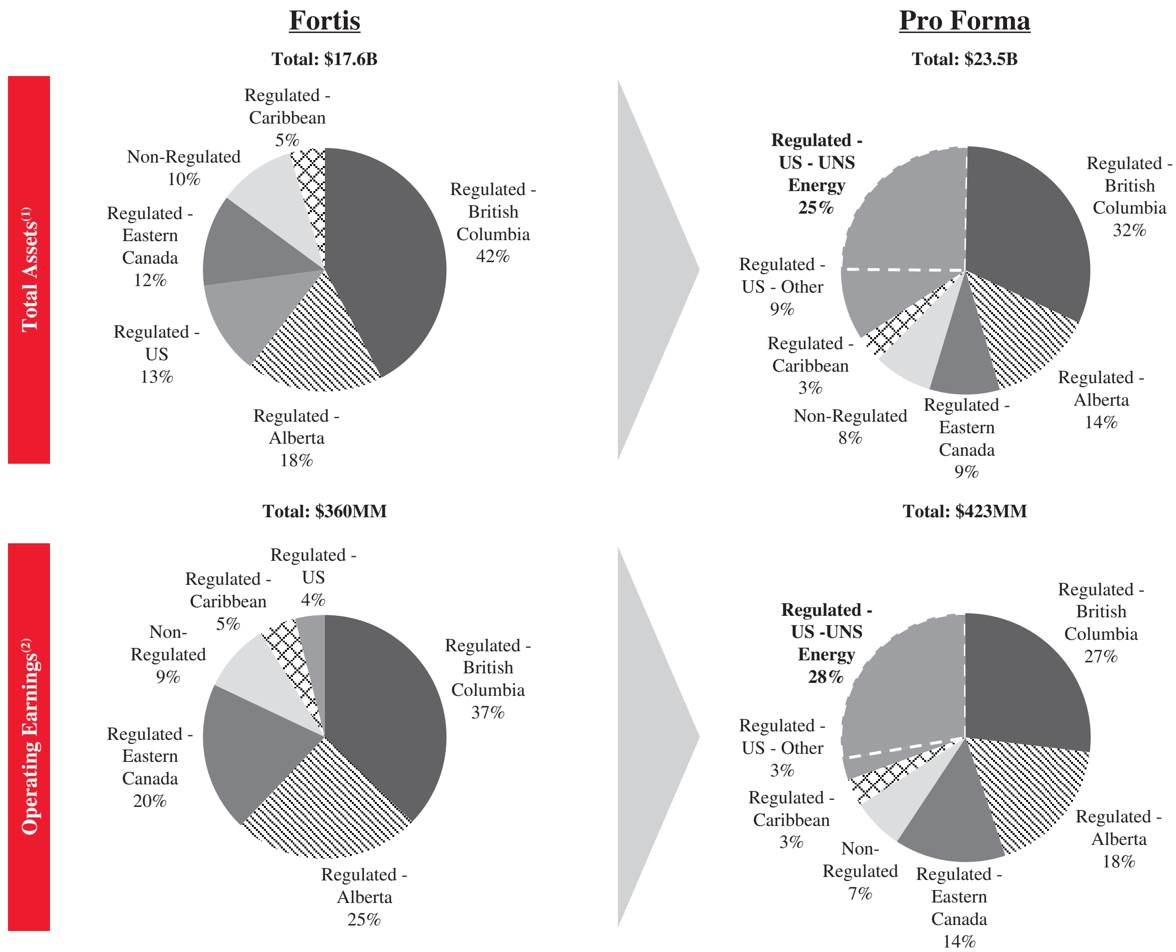


(1) Net income excludes the effect of extraordinary accounting changes and earnings from discontinued operations.

(2) UNS Energy's 2008 net income was reduced due to a US$58 million deduction of revenue for an over-collection of competitive transition charges, which the ACC ordered to be returned to customers, as well as higher fuel and purchased power costs, which prior to January 1, 2009 had not been collected from customers through a flow-through mechanism.

Diversification of Regulated Earnings Base

UNS Energy represents a significant opportunity for Fortis to further diversify its regulated assets, earnings base and cash flows and improve the risk profile of Fortis by diversifying its geographic reach and providing Fortis with a more economically diverse portfolio of assets. The increased diversification to, and growth in, the Corporation's regulated assets, earnings and cash flows is consistent with the Corporation's strategy of pursuing accretive acquisition opportunities both in the United States and Canada.



(1) As at September 30, 2013.

(2) For the nine-month period ended September 30, 2013. Operating earnings of Fortis excludes the $22 million extraordinary gain on settlement of expropriation matters associated with the Exploits River Hydro Partnership.

Supportive Regulatory Environment

UNS Energy operates within a supportive regulatory environment. The regulated utility rates for retail electric and natural gas service are determined by the ACC on a "cost of service" basis with rate design structures that pass through costs related to fuel, purchased power, environmental compliance, energy efficiency and distributed generation. Most of the ACC's regulatory components were recently ranked as "Excellent" or "Very Good" by DBRS.[1] The 2013 TEP Rate Order allows for 10.0% ROE on 43.5% common equity.

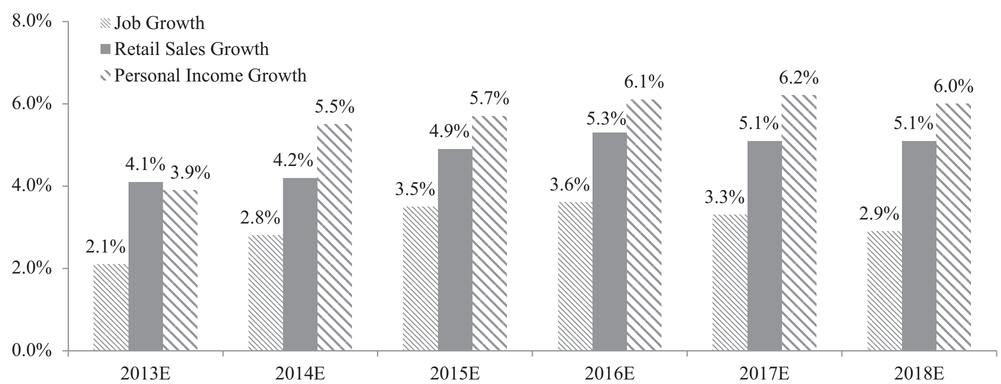
[1] Source: DBRS — The Regulatory Framework for Utilities, October 2013.

Favourable Arizona Economic Drivers

Arizona is a state in the southwestern region of the United States with a population of approximately 6.5 million, making it the 15th most populous of the 50 states of the United States. The largest employer in the State is the public service, with copper mining being the State's largest single industry. Copper mined in the state of Arizona accounts for two-thirds of the copper output of the United States.

Additionally, the Arizona economy continues to generate solid economic growth, with job growth at 2.0% over the past year, above the national rate of 1.6%. According to the University of Arizona Economic and Business Research Centre, growth in jobs, retail sales and personal income is expected to reach 2.9%, 5.1% and 6.0%, respectively, by 2018, providing a base of support for future utility earnings. Job growth in Arizona is expected to continue at an annual rate of 1.8% over the next 30 years, reaching 4.3 million jobs by 2043.

Arizona Economic Forecast (1)

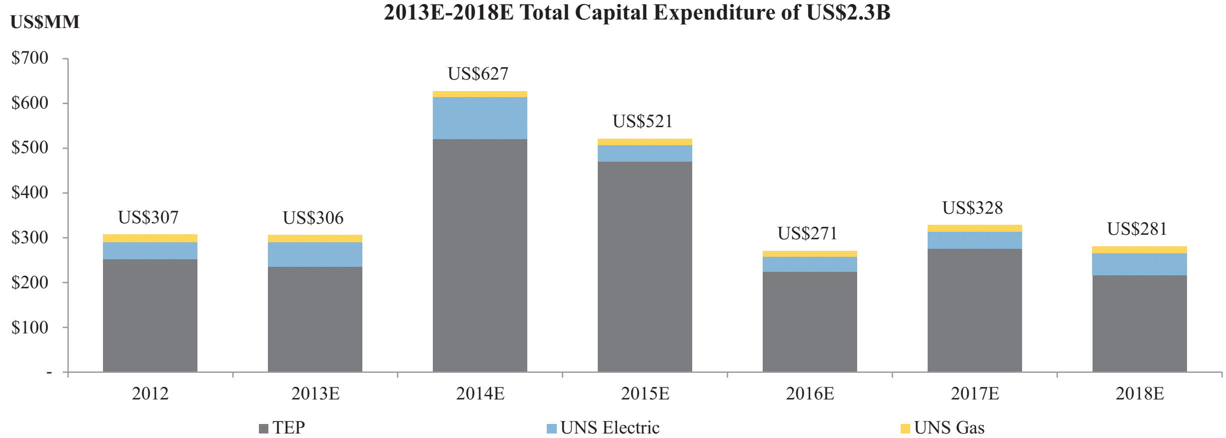


(1) Source: University of Arizona Economic and Business Research Centre, October 2013.

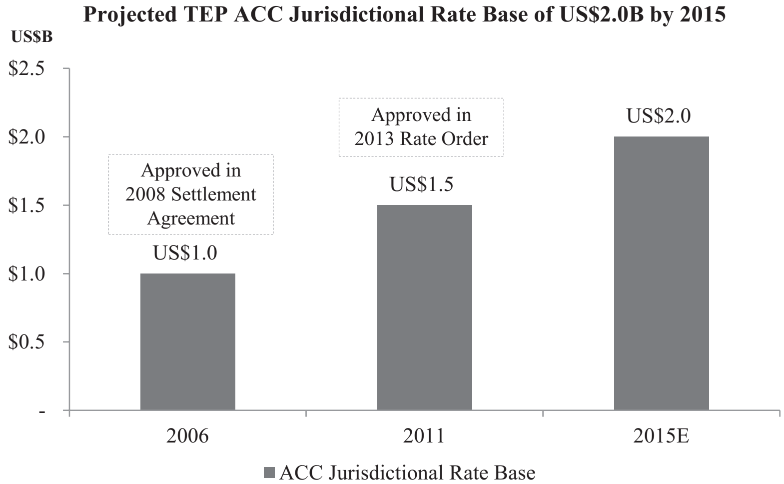
Rate Base Growth

UNS Energy's continued investment in its electric and gas businesses to provide safe, reliable and cost-efficient energy service to its customers is expected to result in attractive rate base growth. UNS Energy has forecasted that capital investment will total approximately US$2.3 billion over the period from 2013 to 2018. UNS Energy's rate base is expected to reach US$3.0 billion by 2015 and to grow at a CAGR of approximately 7% through 2018.

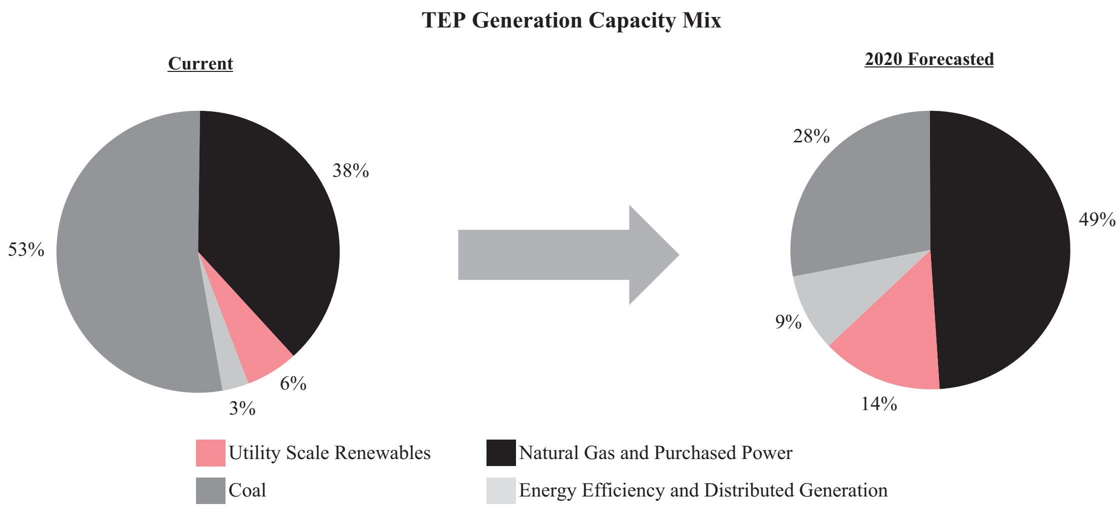
2013E-2018E Total Capital Expenditure of US$2.3B



TEP projects that its ACC jurisdictional rate base will increase to approximately US$2.0 billion by 2015 (from an ACC approved 2011 rate base of US$1.5 billion). This is expected to increase UNS Energy's total rate base to approximately US$3.0 billion by 2015.



TEP expects to invest significant capital into diversifying its generation fleet, including through the anticipated purchase of the natural gas-fired combined-cycle Gila River Unit 3 generation plant (with a capacity of 550 MW) and utility scale renewables generation. Renewables investments will diversify TEP's generation resources, as well as assist TEP in the mitigation of environmental impact.



Experienced Management Team

UNS Energy is a well-run utility with an experienced management team committed to providing customers with safe, reliable and cost-effective energy service. Over the last five years, UNS Energy customers have experienced, on average, approximately one outage for a duration of 1.5 hours per year. Management has decreased debt-to-capitalization of UNS Energy from 84% in 2000 to 62% as at September 30, 2013, resulting in a four notch upgrade to TEP's credit rating over the period to Baa2 (Moody's). Management has also demonstrated strong regulatory expertise, completing each of the past three rate cases in approximately one year on average.

FINANCING THE ACQUISITION

Acquisition Credit Facilities

For purposes of financing the Acquisition, on December 11, 2013, Fortis obtained a commitment letter from The Bank of Nova Scotia providing for an aggregate of $2.0 billion non-revolving term credit facilities in favour of Fortis consisting of a $1.7 billion short-term bridge facility (the "Short-Term Bridge Facility"), repayable in full nine months following its advance, and a $300 million medium-term bridge facility (the "Medium-Term Bridge Facility", and together with the Short-Term Bridge Facility, the "Acquisition Credit Facilities"), repayable in full on the second anniversary of its advance. The Acquisition Credit Facilities, together with the $600 million the Corporation has agreed to maintain under its existing Revolving Facility to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption (as described under "Details of the Offering — Debentures — Redemption"), would be sufficient, if necessary, to fund the full cash portion of the purchase price for the Acquisition.

Fortis is required to make prepayments of the Acquisition Credit Facilities in an amount equal to the net cash proceeds from any common or preferred equity or bond or other debt offerings by Fortis. Net proceeds from any equity offering will be applied firstly to repay the Short-Term Bridge Facility and secondly to repay the Medium-Term Bridge Facility. Net proceeds from any bond or other debt offerings, including the aggregate amount of the final instalment payable under this Offering and the Concurrent Private Placement, will be applied firstly to repay the Medium-Term Bridge Facility and secondly to repay the Short-Term Bridge Facility. Fortis expects that the remainder of borrowings under the Acquisition Credit Facilities will be reduced or repaid from the proceeds of one or more offerings of Common Shares, long-term debt securities, first preference shares or second preference shares or from amounts extended under other debt financings in order to restore the current consolidated capitalization structure of Fortis following the Acquisition. See "Use of Proceeds" and "Financing the Acquisition — Acquisition Credit Facilities".

As at December 19, 2013, the Corporation and its subsidiaries had consolidated credit facilities of approximately $2.7 billion (not including the Acquisition Credit Facilities), of which $2.2 billion was unused, including an unused amount of approximately $820 million under the Corporation's $1 billion committed revolving corporate credit facility (the "Revolving Facility"). Fortis (on a consolidated basis) intends to use the net proceeds of the first instalment under the Offering and the Concurrent Private Placement which are expected to be $563,400,000 in the aggregate (assuming no exercise of the Over-Allotment Option) to repay borrowings under the Revolving Facility and for other general corporate purposes, including financing equity requirements of the Corporation's subsidiaries. Fortis (on a consolidated basis) intends to use the net proceeds of the final instalment under the Offering and the Concurrent Private Placement which are expected to be $1,164,600,000 in the aggregate (assuming no exercise of the Over-Allotment Option) to repay borrowings under the Acquisition Credit Facilities following the closing of the Acquisition and for other Acquisition-Related Expenses. See "Use of Proceeds".

Concurrent Private Placement

The Corporation and the Selling Debentureholder have entered into subscription agreements dated December 11, 2013 pursuant to which Private Placement Subscribers will purchase on an instalment and private placement basis, Private Placement Debentures at a price of $1,000 per $1,000 principal amount of Private Placement Debentures for aggregate gross proceeds to the Selling Debentureholder of $206,000,000. The closing of the Concurrent Private Placement is scheduled to occur on the Closing Date and is subject to the concurrent closing of the Offering. Each Private Placement Subscriber will be paid a commitment fee in cash equal to $20.00 per $1,000 aggregate principal amount of Private Placement Debentures subscribed for by such Private Placement Subscriber payable on the Closing Date. In addition, Scotia Capital, RBC, TDSI and CIBC, the agents in the Concurrent Private Placement, will collectively receive an agency fee of $20.00 per $1,000 aggregate principal amount of Private Placement Debentures, payable on the Final Instalment Date, for Private Placement Debentures in respect of which the final instalment has been paid. See "Financing the Acquisition — Concurrent Private Placement".

THE OFFERING

Issuer:	Fortis Inc.
Selling Debentureholder:	FortisUS Holdings Nova Scotia Limited, a direct wholly owned subsidiary of the Corporation. See "Details of the Offering — The Selling Debentureholder".
Offering:	4.00% convertible unsecured subordinated debentures, due January 9, 2024, represented by Instalment Receipts and convertible into Common Shares at a Conversion Price of $30.72 per Common Share.
Amount:	$1,594,000,000 ($1,833,100,000 if the Over-Allotment Option is exercised in full) payable on an instalment basis.
Price:	$1,000 per $1,000 principal amount of Debentures payable on an instalment basis as follows: $333 per $1,000 principal amount of Debentures on the closing of this Offering; and $667 per $1,000 principal amount of Debentures on or before the Final Instalment Date.
Closing Date:	On or about January 9, 2014 or such other date as may be agreed upon by the Corporation, the Selling Debentureholder and the Underwriters, but not later than January 20, 2014.
Over-Allotment Option	The Selling Debentureholder has granted to the Underwriters an option, exercisable in whole or in part at any time on or prior to the 30th day following the Closing Date, to purchase additional Debentures represented by Instalment Receipts equal to up to 15% of the aggregate principal amount of Debentures represented by Instalment Receipts sold on the Closing Date, to cover over-allotments, if any. See "Plan of Distribution".
Concurrent Private Placement:	The Corporation and the Selling Debentureholder have entered into subscription agreements dated December 11, 2013 pursuant to which Private Placement Subscribers will purchase on an instalment and private placement basis, Private Placement Debentures represented by Instalment Receipts at a price of $1,000 per $1,000 principal amount of Private Placement Debentures for aggregate gross proceeds to the Selling Debentureholder of $206,000,000. The closing of the Concurrent Private Placement is scheduled to occur on the Closing Date and is subject to the concurrent closing of the Offering. Each Private Placement Subscriber will be paid a commitment fee in cash equal to $20.00 per $1,000 aggregate principal amount of Private Placement Debentures subscribed for by such Private Placement Subscriber payable on the Closing Date. In addition, Scotia Capital, RBC, TDSI and CIBC, the agents in the Concurrent Private Placement, will collectively receive an agency fee of $20.00 per $1,000 aggregate principal amount of Private Placement Debentures, payable on the Final Instalment Date, for Private Placement Debentures in respect of which the final instalment has been paid. See "Financing the Acquisition — Concurrent Private Placement".
Use of Proceeds:	The net proceeds from the Offering will be, in the aggregate, $1,528,240,000, determined after deducting the Underwriters' fee and the expenses of the Offering. In the event that the Over-Allotment Option is exercised in full, the net proceeds to be received by the Selling Debentureholder (and Fortis, on a consolidated basis) will be, in the aggregate, $1,757,776,000.

	The Selling Debentureholder intends to use the net proceeds of the Offering and of the Concurrent Private Placement to make distributions in the amounts of $1,528,240,000 (assuming no exercise of the Over-Allotment Option) and $197,760,000, respectively, to the Corporation. Fortis (on a consolidated basis) intends to use the net proceeds of the first instalment under the Offering and the net proceeds of the first instalment under the Concurrent Private Placement, which are expected to be $498,922,000 (assuming no exercise of the Over-Allotment Option) and $64,478,000, respectively, as follows: (i) to repay borrowings under the Revolving Facility, which borrowings have been incurred primarily in connection with the construction of the Waneta Expansion and financing of certain of the Corporation's subsidiaries; and (ii) for other general corporate purposes, including providing financing to the Corporation's regulated utility subsidiaries for capital expenditures. Fortis (on a consolidated basis) intends to use the net proceeds of the final instalment under the Offering and the net proceeds of the final instalment under the Concurrent Private Placement, which are expected to be $1,031,318,000 (assuming no exercise of the Over-Allotment Option) and $133,282,000, respectively, as follows: (a) to repay borrowings under the Acquisition Credit Facilities following the closing of the Acquisition; and (b) for other Acquisition-Related Expenses.
Listing and Trading:	The TSX has conditionally approved the listing of the Instalment Receipts (representing the Debentures and the Private Placement Debentures) and the Common Shares issuable on the conversion of the Debentures and Private Placement Debentures on the TSX, subject to Fortis fulfilling all of the requirements of the TSX on or before March 11, 2014. **The Corporation has no current intention to list the Debentures or the Private Placement Debentures for trading on any exchange as it currently anticipates all Debentures and Private Placement Debentures will be converted to Common Shares on the Final Instalment Date.**
Interest:	Interest on Debentures at an annual rate of 4.00% per $1,000 principal amount of Debentures will be payable quarterly in arrears in equal instalments on the first business day of March, June, September and December of each year to and including the Final Instalment Date. The first interest payment will be made on March 3, 2014 in the amount of $5.5890 per $1,000 principal amount of Debentures and will include interest payable from and including the Closing Date. Subsequently, quarterly interest payments will be made in the amount of $10.00 per $1,000 principal amount of Debentures. A final interest payment will be made on the Final Instalment Date and will be equal to the unpaid interest accrued from the date of the last quarterly interest payment to and including the Final Instalment Date. On the day following the Final Instalment Date, the interest rate payable on the Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Debentures. Based on a first instalment of $333 per $1,000 principal amount of Debentures, the effective annual yield to and including the Final Instalment Date is 12.00%, and the effective annual yield thereafter is 0%. If the Final Instalment Date occurs on a day that is prior to the first anniversary of the Closing Date, holders of Debentures who have paid the final instalment on or before the Final Instalment Date will be entitled to receive, on the business day following the Final Instalment Date, in addition

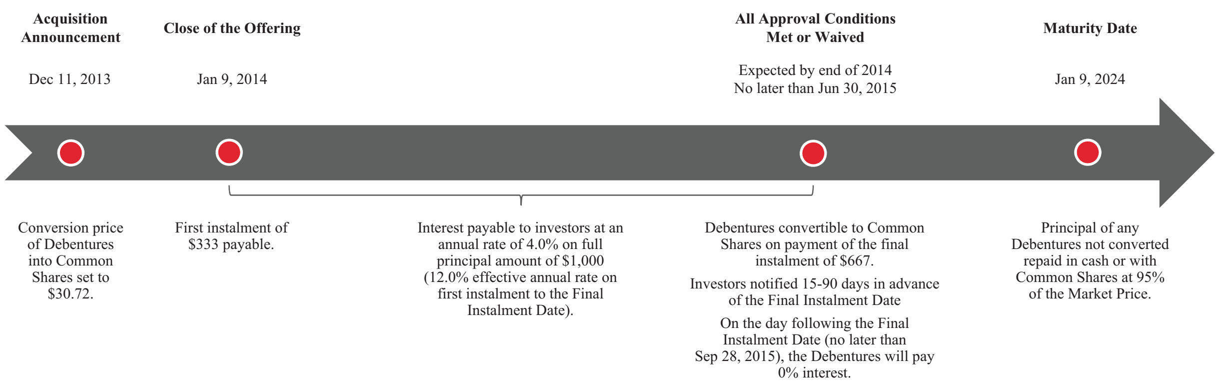
	to the payment of accrued and unpaid interest to and including the Final Instalment Date, the Make-Whole Payment, being an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the Closing Date had the Debentures remained outstanding and continued to accrue interest until such date. No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the Closing Date. See "Details of the Offering — Debentures".
Conversion:	At the option of the holder, provided that payment of the final instalment has been made, each Debenture will be convertible into Common Shares on or at any time after the Final Instalment Date, but prior to the earlier of the date that the Corporation redeems the Debentures or the Maturity Date. The Conversion Price will be $30.72 per Common Share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Debentures, subject to adjustment in certain events. No fractional Common Shares will be issued on any conversion but in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the fractional interest multiplied by the Conversion Price; provided, however, the Corporation shall not be required to make any payment of less than $10.00. A holder of Debentures who does not exercise its conversion privilege concurrently with its payment of the final instalment in order to convert its Debentures to Common Shares on the Final Instalment Date will hold a Debenture that pays 0% interest and may be redeemed by the Corporation in whole or in part on any trading day following the Final Instalment Date at a price equal to its principal amount plus any unpaid interest which accrued prior to the Final Instalment Date. See "Details of the Offering — Debentures — Conversion Right".
Instalment Payment Arrangements:	The price of $1,000 per $1,000 principal amount of Debentures is payable on an instalment basis. Prior to full payment, beneficial ownership of the Debentures will be represented by Instalment Receipts. The first instalment of $333 per $1,000 principal amount of Debentures is payable on the Closing Date. The final instalment of $667 per $1,000 principal amount of Debentures is payable on or before the Final Instalment Date. The Final Instalment Notice will set the Final Instalment Date, which shall not be less than 15 days nor more than 90 days following the date of such notice. The Final Instalment Notice shall not be provided to holders until the Approval Conditions have been satisfied. See "The Acquisition" and "The Acquisition Agreement". Each Debenture represented by an Instalment Receipt will be pledged to the Selling Debentureholder to secure the obligation of the beneficial holder to pay the final instalment in respect of such Debenture on or before the Final Instalment Date. After payment of the final instalment, the Corporation understands that each beneficial holder of Instalment Receipts will receive a customer confirmation from the registered dealer (who is a CDS participant) from or through whom it purchased the Debentures, indicating that the Debentures are no longer pledged to the Selling Debentureholder. See "Details of the Offering — Instalment Receipts — Book-Entry Only System". **If a holder of an Instalment Receipt does not pay the final instalment on or before the Final Instalment Date, the Debentures represented by such Instalment Receipt may, at the option of the Selling Debentureholder, upon compliance with applicable law and the terms of the Instalment Receipt Agreement, be forfeited to the Selling**

	Debentureholder in full satisfaction of the holder's obligations or such Debentures may be sold and the holder will remain liable for any deficiency in the proceeds of such sale. See "Details of the Offering — Instalment Receipts".
Rights of Instalment Receipt Holders:	Holders of Instalment Receipts will be entitled, in the manner set forth in the Instalment Receipt Agreement described herein, to fully receive payments of accrued interest and to exercise the rights of ownership attached to the Debentures represented by such Instalment Receipts unless they fail to pay the final instalment on or before the Final Instalment Date. See "Details of the Offering — Instalment Receipts — Rights and Privileges".
Redemption:	The Debentures may not be redeemed by the Corporation except that the Debentures will be redeemed by the Corporation at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the Approval Conditions will not be satisfied; (ii) termination of the Acquisition Agreement; and (iii) July 2, 2015 if the Final Instalment Notice has not been given on or before June 30, 2015. Upon any such redemption, the redemption proceeds will be paid by the Corporation to the Custodian on behalf of the holders. The Custodian will pay the following for each Debenture: (i) $333 plus accrued and unpaid interest to the holder of the Instalment Receipt; and (ii) $667 to the Selling Debentureholder on behalf of the holder of the Instalment Receipt in satisfaction of the final instalment. Under the terms of the Instalment Receipt Agreement, Fortis has agreed that until such time as the Debentures have been redeemed in accordance with the foregoing or the Final Instalment Date has occurred, the Corporation will at all times maintain availability under its Revolving Facility of not less than $600,000,000 to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption. After the Final Instalment Date, any Debentures not converted to Common Shares may be redeemed by the Corporation at a price equal to their principal amount plus any unpaid interest which accrued prior to the Final Instalment Date. See "Details of the Offering — Debentures — Redemption".
Maturity Date:	January 9, 2024.
Payment upon Maturity:	On the Maturity Date, the Corporation will repay the principal amount of any Debentures not converted and remaining outstanding, in cash. The Corporation may, at its option and without prior notice, satisfy the obligation to pay the principal amount of such Debentures on maturity by delivery of that number of freely tradable Common Shares obtained by dividing the principal amount of the Debentures by 95% of the Market Price. See "Details of the Offering — Debentures — Payment Upon Maturity".
Subordination	The Debentures will be direct unsecured obligations of Fortis. Payment of the principal of, interest on, any Make-Whole Payments and other amounts owing in respect of each Debenture will (i) be subordinated in right of payment to all present and future Senior Indebtedness (as defined under "Details of the Offering — Debentures — Subordination") of Fortis and (ii) rank *pari passu* with each other Debenture of the same series, including the Private Placement Debentures, (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with

	all other present and future subordinated and unsecured indebtedness of Fortis. The trust indenture pursuant to which the Debentures and the Private Placement Debentures will be issued does not limit the ability of the Corporation to incur additional indebtedness, including indebtedness that ranks senior to the Debentures and the Private Placement Debentures, or from mortgaging, pledging, charging, hypothecating, granting a security interest in or otherwise encumbering any or all of its properties to secure any indebtedness. See "Details of the Offering — Debentures — Subordination".
Risk Factors:	An investment in the Debentures represented by Instalment Receipts and the Common Shares issuable upon conversion thereof involves certain risks which should be carefully considered by prospective investors, including risks in respect of the Acquisition, the Instalment Receipts, the Debentures, the Common Shares and the post-Acquisition business and operations of the Corporation and UNS Energy. See "Risk Factors".

SUMMARY OF IMPORTANT DATES

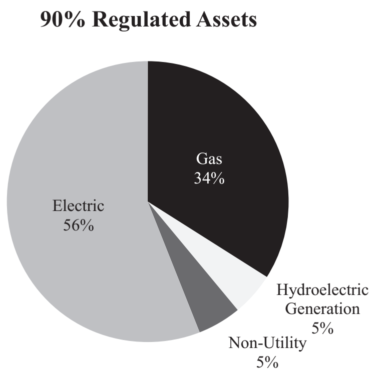
The timeline set out below outlines the important dates in respect of the Offering and the Acquisition. This timeline is for illustrative purposes only and is subject to change.

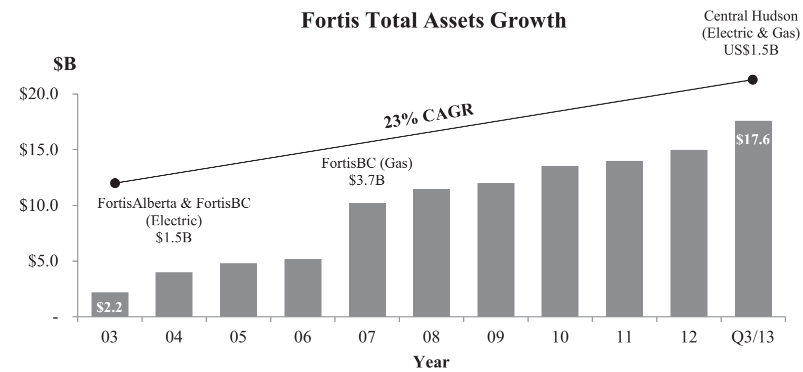


FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned gas and electric distribution utility in Canada with total assets of approximately $17.6 billion as at September 30, 2013 and fiscal 2012 revenue (which excludes the June 2013 acquisition of CH Energy Group) totalling approximately $3.7 billion. The Corporation serves more than 2,400,000 customers across Canada and in New York State and the Caribbean. Its regulated holdings include electric distribution utilities in five Canadian provinces, New York State and two Caribbean countries and natural gas utilities in British Columbia, Canada and New York State. As at September 30, 2013, regulated utility assets comprised approximately 90% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space, hotels and petroleum supply operations. Over the last decade, total assets of Fortis have grown at a CAGR of 23%.





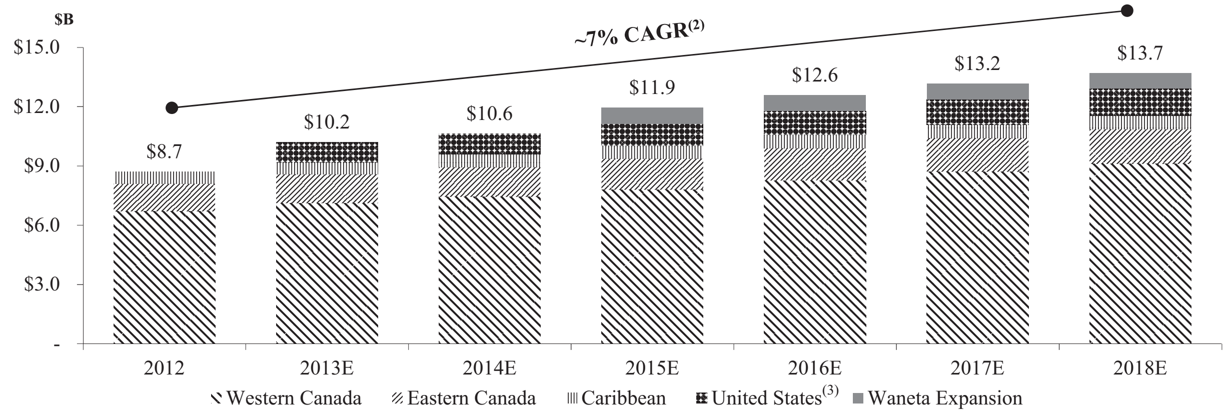
Fortis is the direct owner of all of the common shares of FortisBC Holdings, a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC, a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; Central Hudson, a regulated transmission and distribution utility serving electricity and natural gas customers in eight counties of New York State's Mid-Hudson River Valley; and Maritime Electric, the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power, the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario and its subsidiaries, CNPI, Cornwall Electric and Algoma Power, Fortis provides an integrated electric utility service in Ontario to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne and distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities, an integrated electric utility and the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, Fortis Turks and Caicos, which is the principal distributor of electricity in the Turks and Caicos Islands.

The Corporation's non-regulated generation operations consist of its 100% interest in each of BECOL, FortisOntario and FortisUS Energy, as well as non-regulated generation assets owned either directly or indirectly by FortisBC and by Fortis through its 51% controlling ownership interest in the Waneta Partnership. Fortis Generation East LLP, a limited liability partnership directly held by Fortis, owns six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Over the six years from 2013 through 2018, the Corporation's consolidated capital expenditure program, which is mostly funded at the individual subsidiary level and includes expenditures at Central Hudson, the Waneta Expansion and the Tilbury LNG Facility expansion, is expected to approximate $7.5 billion. Capital investment should allow the Corporation's consolidated regulated mid-year rate base, including incremental investment in rate base by Central Hudson and investment in the non-regulated Waneta Expansion, to increase at a combined CAGR of approximately 7% through 2018. Investment in energy infrastructure (rate base) to provide safe, reliable and cost-effective energy service to customers is expected to be the primary driver of earnings growth.

Mid-Year Rate Base including Waneta Expansion Investment(1)



(1) Rate base includes 100% of the Waneta Expansion Project investment (51% ownership) to be completed by Spring 2015 and Caribbean Utilities (~60% ownership).

(2) CAGR excludes the initial ~$1B rate base addition in 2013 related to the Central Hudson acquisition.

(3) Assumes C$/US$ FX rate of 1.03.

Non-utility operations are conducted through Fortis Properties and CH Energy Group. Through Fortis Properties, the Corporation owns and operates 23 hotels in eight Canadian provinces and owns approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada. Non-regulated operations of CH Energy primarily consist of Griffith Energy Services, which mainly supplies petroleum products and related services to approximately 65,000 customers in the Mid-Atlantic Region of the United States.

Regulated Gas Utilities — Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 947,000 customers as at September 30, 2013, FortisBC Holdings' subsidiaries provide service to over 96% of gas users in British Columbia. FEI is the largest of these subsidiaries, serving approximately 842,000 customers as at September 30, 2013. FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 102,000 customers as at September 30, 2013. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FEWI owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 3,000 residential and commercial customers as at September 30, 2013. Collectively, FEI, FEVI and FEWI own and operate approximately 47,000 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,336 TJ in 2012.

Regulated Gas & Electric Utility — United States

Central Hudson

Central Hudson, the main business of CH Energy Group, is a regulated transmission and distribution utility serving approximately 300,000 electricity and 76,000 natural gas customers in eight counties of New York State's

Mid-Hudson River Valley, as at September 30, 2013. Central Hudson's electric assets comprised approximately 78% of its total assets as at September 30, 2013 and include approximately 14,000 kilometres of distribution lines and 1,000 kilometres of transmission lines. The electric business met a peak demand of 1,168 MW in 2012. Central Hudson's natural gas assets comprised the remaining 22% of its total assets and include approximately 1,900 kilometres of distribution pipelines and more than 264 kilometres of transmission pipelines. The gas business met a peak day demand of 115 TJ in 2012. Central Hudson is subject to regulation by the New York State Public Service Commission under a traditional cost of service model.

Central Hudson primarily relies on electricity purchases from third-party providers and the New York Independent System Operator -administered energy and capacity markets to meet the demands of its full-service electricity customers. It also generates a small portion of its electricity requirements. Central Hudson purchases its gas supply requirements at various pipeline receipt points from a number of suppliers with whom it has contracted for firm transport capacity.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 514,000 customers in Alberta as at September 30, 2013, using approximately 116,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,652 MW in 2012. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 163,000 customers as at September 30, 2013, with residential customers representing the largest customer segment, and met a peak demand of 737 MW in 2012. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and BC Hydro, the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by CPC/CBT.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 254,000 customers as at September 30, 2013, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,241 MW in 2012. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. Newfoundland Power operates 29 small generating facilities, which generate the remaining 7% of the electricity it sells. Newfoundland Power's hydroelectric generating plants have a total capacity of 97 MW. The diesel plants and gas turbines have a total capacity of approximately 7 MW and 37 MW, respectively.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplies approximately 77,000 customers as at September 30, 2013, or 90% of electricity consumers on the Island, and met a peak demand of 230 MW in 2012. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations serve approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario as at September 30, 2013, and met a combined peak demand of 253 MW in 2012. FortisOntario's operations are comprised of CNPI, Cornwall Electric and Algoma Power. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, serve approximately 38,000 customers as at September 30, 2013.

Regulated Electric Utilities — Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008. Caribbean Utilities serves approximately 27,000 customers as at September 30, 2013, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 96 MW in 2012. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the TSX under the symbol CUP.U.

Fortis Turks and Caicos

Both of the Fortis Turks and Caicos utilities are integrated electric utilities, which collectively serve approximately 12,000 customers, or approximately 98% of electricity consumers on the Turks and Caicos Islands as at September 30, 2013. The utilities met a combined peak demand of approximately 35 MW in 2012. Fortis Turks and Caicos owns and operates approximately 600 kilometres of transmission and distribution lines. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to 50-year licences that expire in 2036 and 2037.

Expropriated Assets — Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the GOB enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at September 30, 2013, the long-term other asset, including foreign exchange impacts, totalled $105 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation and the book value of Belize Electricity.

In July 2012 the Belize Supreme Court dismissed the Corporation's claim of October 2011. Also in July 2012, Fortis filed its appeal of the above-noted trial judgment in the Belize Court of Appeal. The appeal was heard in October 2012 and a decision is pending. Any decision of the Belize Court of Appeal may be appealed to the Caribbean Court of Justice, the highest court of appeal available for judicial matters in Belize. There can be no assurances that a settlement with the GOB will be reached or that any appeal will be successful. Fortis believes it has a strong, well-positioned case before the Belize courts supporting the unconstitutionality of the expropriation. There exists, however, a reasonable possibility that the outcome of the litigation may be unfavourable to the Corporation and the amount of compensation otherwise to be paid to Fortis under the legislation expropriating Belize Electricity could be lower than the book value of the Corporation's expropriated investment in Belize Electricity.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 GWh. BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL, but there can be no assurance that it will not change its intentions. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation operations of FortisOntario are comprised of the operation of a 5-MW gas-powered cogeneration plant in Cornwall. All thermal energy output of this plant is sold to external third parties, while the electricity output is sold to Cornwall Electric. Fortis Generation East LLP owns and operates six small hydroelectric generating facilities in eastern Ontario with a combined capacity of 8 MW. The electricity produced from these facilities is sold to the Ontario Power Authority, via the Hydroelectric Contract Initiative, under fixed-price contracts.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet that sells its entire output to BC Hydro under a contract set to expire in the fourth quarter of 2013. Accordingly, FortisBC is exposed to the risk that it will not be able to sell the power from this facility beyond 2013 on similar terms.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is currently expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $534 million have been incurred on this capital project through September 30, 2013. Key construction activities for year-to-date 2013 include the ongoing civil construction of the powerhouse and intake, installation of the turbine components, installation of ancillary mechanical and electrical powerhouse services, and most notably, the encapsulating of the scrollcase in concrete. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the BCUC. The form of the agreement was originally accepted for filing by the BCUC in September 2010. In May 2012, the BCUC determined that the executed agreement was in the public interest and a hearing was not required. The agreement has been accepted for filing as an energy supply contract and FortisBC has been directed by the BCUC to develop a rate-smoothing proposal. A rate-smoothing deferral mechanism has been included as part of FortisBC's 2014-2018 PBR revenue requirements application, which was filed on July 5, 2013 and updated on October 18, 2013, and is currently subject to review by the BCUC.

Upstate New York

Non-regulated generation assets in Upstate New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from FERC. All four hydroelectric generating facilities sell energy at market rates through purchase agreements with Niagara Mohawk Power Corporation.

Non-Regulated — Non-Utility

Through Fortis Properties, the Corporation owns and operates 23 hotels, comprised of more than 4,400 rooms, in eight Canadian provinces and owns approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada. Non-regulated operations of CH Energy Group primarily consist of Griffith Energy Services, which mainly supplies petroleum products and related services to approximately 65,000 customers in the Mid-Atlantic Region of the United States.

RECENT DEVELOPMENTS

Completion of the Acquisition of CH Energy Group

On February 20, 2012, Fortis entered into an agreement to acquire all of the outstanding common shares of CH Energy Group for US$65.00 per share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of US$518 million of debt on closing. On June 27, 2013, Fortis completed the acquisition of CH Energy Group. The net purchase price of the acquisition of CH Energy Group (the "CH Energy Acquisition") of approximately $1,019 million (US$972 million) was financed through the issuance of 18,500,000 Common Shares, pursuant to the conversion of Subscription Receipts concurrently with the closing of the CH Energy Acquisition for net proceeds of approximately $567 million after tax, with the balance of the purchase price being initially funded through drawings under the Revolving Facility.

Issuance of First Preference Shares, Series K

On July 18, 2013, Fortis issued 10,000,000 4.00% Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series K for gross proceeds of $250,000,000. The proceeds were used to redeem all of the Corporation's 5.45% First Preference Shares, Series C on July 10, 2013 for $125 million, to repay a portion of credit facility borrowings and for other general corporate purposes.

Long-Term Debt Offerings

On September 13, 2013, FortisAlberta issued 30-year $150,000,000 unsecured debentures at 4.85%. The proceeds of the debt offering are being used to repay credit facility borrowings, to fund future capital expenditures and for general corporate purposes.

On November 8, 2013, Newfoundland Power issued 30-year $70,000,000 first mortgage bonds at 4.805%. The proceeds of the debt offering were used to repay credit facility borrowings incurred primarily to fund capital expenditures and for general corporate purposes.

Debt Offering by Fortis

On October 1, 2013, Fortis issued US$285,000,000 3.84% senior unsecured notes, series C due October 1, 2023 and US$40,000,000 5.08% senior unsecured notes, series D due October 1, 2043. The proceeds of the debt offering were used to repay a portion of the Corporation's U.S. dollar-denominated borrowings under the Revolving Facility, which borrowings were used to fund the CH Energy Acquisition and for general corporate purposes.

Tilbury LNG Facility Expansion

On November 28, 2013, the Government of British Columbia announced its approval of an investment of up to $400 million by FEI to expand its LNG plant on Tilbury Island in Delta, British Columbia (the "Tilbury LNG Facility") to provide LNG to transportation customers as a cleaner alternative to diesel. The expansion is expected to include a second storage tank and new liquefier, both of which are expected to be in service by mid-2016. The current Tilbury LNG Facility can liquefy 130,000 cubic metres of natural gas per day. Following the expansion that capacity is expected to increase to as much as 1.69 million cubic metres a day. The storage capacity at Tilbury will also increase from the current equivalent of 17 million cubic metres of natural gas to more than 40 million cubic metres.

The Government of British Columbia has exempted the Tilbury LNG facility expansion from the requirement to obtain a certificate of public convenience and a necessity review by the BCUC. The commencement of construction of the expansion remains subject to approval of the FEI board and the B.C. Oil and Gas Commission, but the required zoning approval for the expansion has already been obtained.

FortisAlberta Capital Tracker Application

On December 6, 2013 the AUC released its decision in response to a 2013 capital tracker application (the "Capital Tracker Application") filed by, among others, FortisAlberta in connection with the PBR of utility companies in the Province of Alberta.

While the AUC's decision provides that the Capital Tracker Application meets certain of the criteria established under the PBR, the Capital Tracker Application requires that detailed capital-tracking calculations on a project-by-project basis and additional forecast information for certain projects be submitted. FortisAlberta will re-submit its Capital Tracker Application by May 15, 2014 including the required calculations, and until such time as the AUC releases its decision on the basis of the re-submitted calculations, FortisAlberta is entitled to the existing capital tracking recovery approved by the AUC on March 4, 2013.

Credit Rating Reviews

On December 11, 2013, following the announcement of the Acquisition, DBRS placed the Corporation's issuer rating, unsecured debt rating and preferred share ratings of A (low) 'under review with developing implications'. This action reflects DBRS' view that the proposed Acquisition would have a modestly negative impact on the Corporation's business risk profile, while the impact on the financial risk profile is uncertain since the financing plan for the Acquisition has not been finalized. DBRS will further review the Corporation's financing plan when it is finalized.

In addition, on December 12, 2013, S&P revised its outlook on the Corporation to negative from stable following the announcement of the Acquisition on the basis of its expectation that the Acquisition would be financed primarily using the Debentures and the Private Placement Debentures, which will depress key credit metrics of the Corporation until the conversion thereof to Common Shares. S&P has also revised from stable to negative its outlook on the credit ratings of the Corporation's subsidiaries FortisAlberta, Maritime Electric and Caribbean Utilities using its group rating methodology. S&P has revised from stable to positive its outlook on TEP and has confirmed the long-term 'A-' credit rating of Fortis and the 'BBB' long-term credit rating of TEP.

Labour Relations Matters

On December 16, 2013, the IBEW Local 213 accepted the binding interest arbitration offer of FortisBC. As a result, FortisBC employees that are members of the IBEW Local 213 returned to work. The collective agreement between FortisBC and the IBEW Local 213 expired on January 31, 2013 and negotiations between the parties had been ongoing since January 2013. The IBEW Local 213 served the company 72 hours' strike notice on March 13, 2013 and commenced partial job action on May 16, 2013. Prior to December 16, 2013, FortisBC had been operating under the most recent essential services order issued by the Labour Relations Board of British Columbia in September 2013. Binding interest arbitration is an established labour practice which empowers a neutral, third-party arbitrator to resolve the outstanding issues between the parties. The binding interest arbitration process between FortisBC and the IBEW Local 213 will begin at a later date and will result in a new collective agreement. Approximately 200 of FortisBC's employees are members of the IBEW Local 213.

THE ACQUISITION

Overview

On December 11, 2013, Fortis and certain subsidiaries of Fortis entered into the Acquisition Agreement with UNS Energy which provides for, among other things, the Acquisition by an indirect wholly owned subsidiary of Fortis of all of the issued and outstanding common shares of UNS Energy and the merger of the acquiring subsidiary of Fortis into UNS Energy. The aggregate purchase price for the Acquisition is approximately US$4.3 billion, comprised of approximately US$2.5 billion in cash on closing and the assumption of approximately US$1.8 billion of debt. The

Acquisition is subject to receipt of UNS Energy common shareholder approval and certain regulatory and governmental approvals, including approval by each of the ACC and FERC and the satisfaction of customary closing conditions. The closing of the Acquisition is currently expected to occur by the end of 2014.

UNS Energy, formerly UniSource Energy Corporation, is a utility services holding company headquartered in Tucson, Arizona engaged through its subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona. UNS Energy's fiscal 2012 operating revenue totalled approximately US$1.5 billion and, as at September 30, 2013, UNS Energy had total assets of approximately US$4.3 billion. Based on *pro forma* financial information as at September 30, 2013, following the Acquisition, the Corporation's total assets will increase by approximately 33.5% to approximately $23.5 billion. The Acquisition of UNS Energy is expected to increase the Corporation's consolidated rate base by approximately US$3.0 billion by 2015 and its total customers by approximately 654,000. Following the Acquisition, the regulated utility subsidiaries of Fortis will serve more than 3,000,000 customers.

UNS Energy Overview

UNS Energy has three direct and indirect subsidiaries which are regulated utilities: TEP, UNS Gas and UNS Electric. UNS Energy's utility operations are vertically integrated with generation, transmission and distribution being regulated by either the ACC or FERC.

TEP is a vertically integrated regulated electric utility and is UNS Energy's largest and principal operating subsidiary, representing approximately 84% of the total assets as at September 30, 2013 and approximately 81% of the operating revenues of UNS Energy for the nine months ended September 30, 2013. TEP was incorporated in the State of Arizona in 1963 and currently generates, transmits and distributes electricity to approximately 412,000 retail electric customers in southern Arizona. TEP's service territory covers 1,155 square miles (2,991 square kilometres) and includes a population of approximately 1,000,000 people in the greater Tucson metropolitan area in Pima County, as well as parts of Cochise County. TEP also sells electricity to other entities in the western United States.

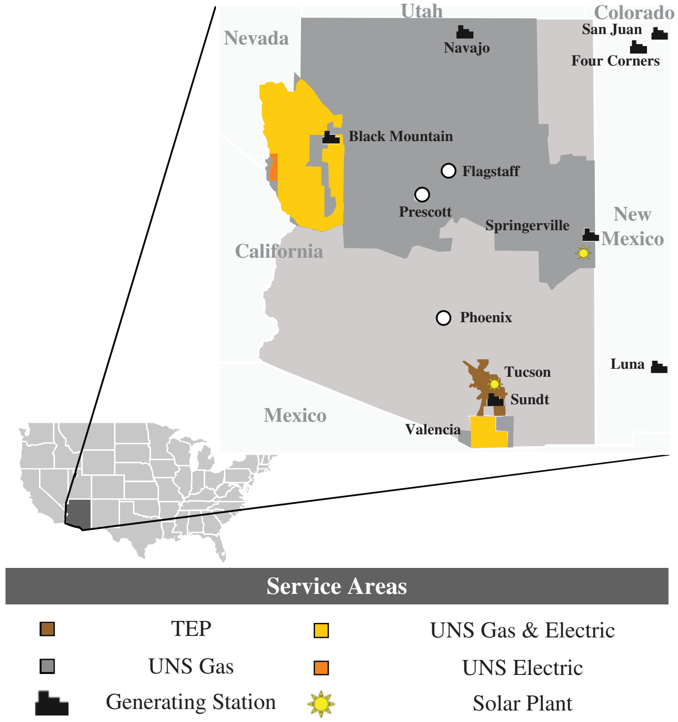
UNS Gas is a regulated gas distribution company serving approximately 149,000 retail customers in northern Arizona's Mohave, Yavapai, Coconino and Navajo counties, as well as Santa Cruz County in southern Arizona. These counties, with a combined population of approximately 700,000, comprise approximately 50% of the territory in the State of Arizona. UNS Gas represented approximately 7% of the total assets of UNS Energy as at September 30, 2013 and approximately 8% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

UNS Electric is a vertically integrated regulated electric utility company serving approximately 93,000 retail customers in Arizona's Mohave and Santa Cruz counties. These counties have a combined population of approximately 250,000. UNS Electric represented approximately 9% of the total assets of UNS Energy as at September 30, 2013 and approximately 11% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

The non-regulated business of UNS Energy, which comprises less than 1% of UNS Energy's total assets, includes the operations of Millennium and UniSource Energy Development Company. SES, a wholly owned subsidiary of Millennium, provides electrical contracting and meter reading services in Arizona, as well as other services at Springerville.

The following map depicts the service territories and generating stations of UNS Energy and its regulated utility subsidiaries. See “The Acquired Business”.

UNS Energy Utility Service Areas



Acquisition Rationale

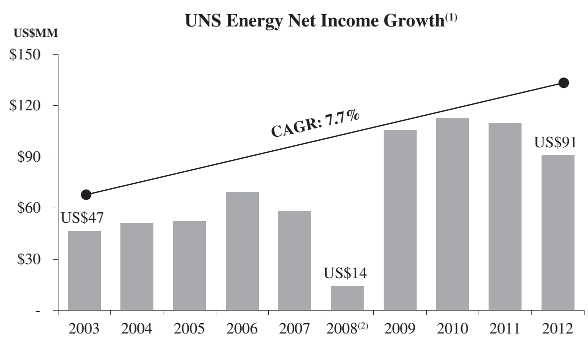
The business operated by UNS Energy is attractive to Fortis for the following reasons:

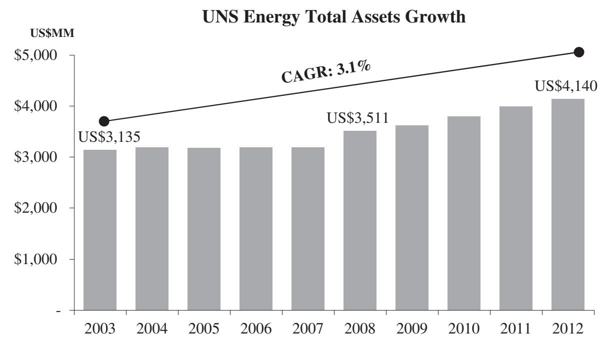
Accretive to Earnings per Common Share in the First Full Year

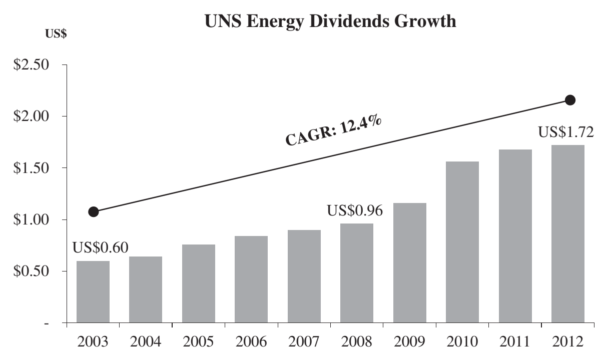
Management expects that the Acquisition will be accretive to the Corporation’s earnings per Common Share in the first full year following its completion, excluding one-time Acquisition-Related Expenses. See “The Acquisition Agreement” and “The Acquired Business”.

Acquisition of a Well-Run Utility

Over the past 10 years (through 2012), UNS Energy has (i) increased net income by a CAGR of 7.7%, (ii) increased total assets by a CAGR of 3.1% and (iii) increased annual dividends per common share from US$0.60 to US$1.72. Key drivers of earnings growth include the 2013 TEP Rate Order, which is primarily related to prior infrastructure investment, and the expiration and buyout of the Springerville Unit 1 Leases.





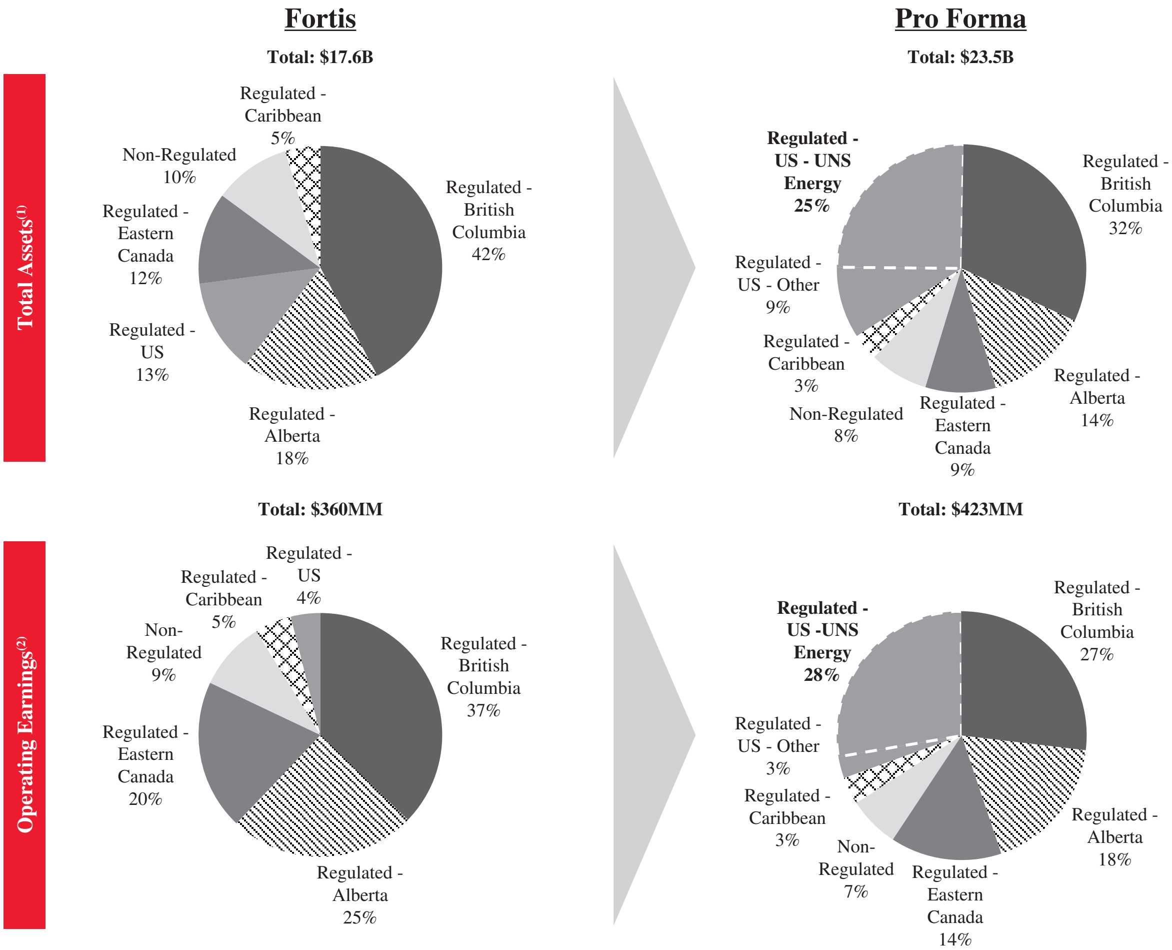


(1) Net income excludes the effect of extraordinary accounting changes and earnings from discontinued operations.

(2) UNS Energy's 2008 net income was reduced due to a US$58 million deduction of revenue for an over-collection of competitive transition charges, which the ACC ordered to be returned to customers, as well as higher fuel and purchased power costs, which prior to January 1, 2009 had not been collected from customers through a flow-through mechanism.

Diversification of Regulated Earnings Base

UNS Energy represents a significant opportunity for Fortis to further diversify its regulated assets, earnings base and cash flows and improve the risk profile of Fortis by diversifying its geographic reach and providing Fortis with a more economically diverse portfolio of assets. The increased diversification to, and growth in, the Corporation's regulated assets, earnings and cash flows is consistent with the Corporation's strategy of pursuing accretive acquisition opportunities both in the United States and Canada.



(1) As at September 30, 2013.

(2) For the 9-month period ended September 30, 2013. Operating earnings of Fortis excludes the $22 million extraordinary gain on settlement of expropriation matters associated with the Exploits River Hydro Partnership.

Supportive Regulatory Environment

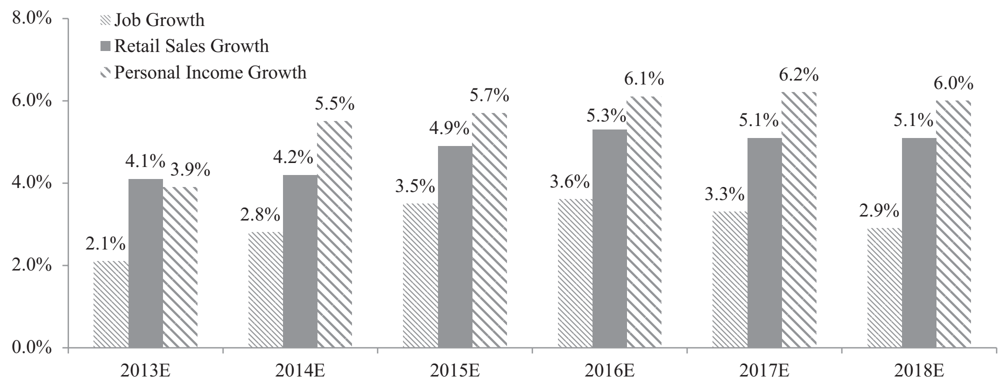
UNS Energy operates within a supportive regulatory environment. The regulated utility rates for retail electric and natural gas service are determined by the ACC on a "cost of service" basis with rate design structures that pass through costs related to fuel, purchased power, environmental compliance, energy efficiency and distributed generation. Most of the ACC's regulatory components were recently ranked as "Excellent" or "Very Good" by DBRS in its Regulatory Framework for Utilities report dated October 2013. The 2013 TEP Rate Order allows for 10.0% ROE on 43.5% common equity.

Favourable Arizona Economic Drivers

Arizona is a state in the southwestern region of the United States with a population of approximately 6.5 million, making it the 15th most populous of the 50 states of the United States. The largest employer in the State is the public service, with copper mining being the State's largest single industry. Copper mined in the state of Arizona accounts for two-thirds of the copper output of the United States.

Additionally, the Arizona economy continues to generate solid economic growth, with job growth at 2.0% over the past year, above the national rate of 1.6%. According to the University of Arizona Economic and Business Research Centre, growth in jobs, retail sales and personal income is expected to reach 2.9%, 5.1% and 6.0%, respectively, by 2018, providing a base of support for future utility earnings. Job growth in Arizona is expected to continue at an annual rate of 1.8% over the next 30 years, reaching 4.3 million jobs by 2043.

Arizona Economic Forecast (1)

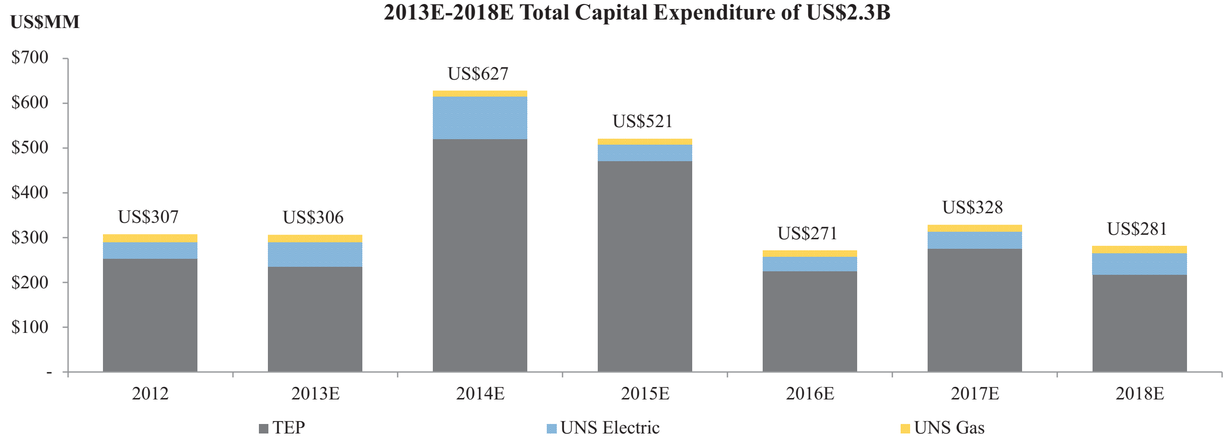


(1) Source: University of Arizona Economic and Business Research Centre, October 2013.

Rate Base Growth

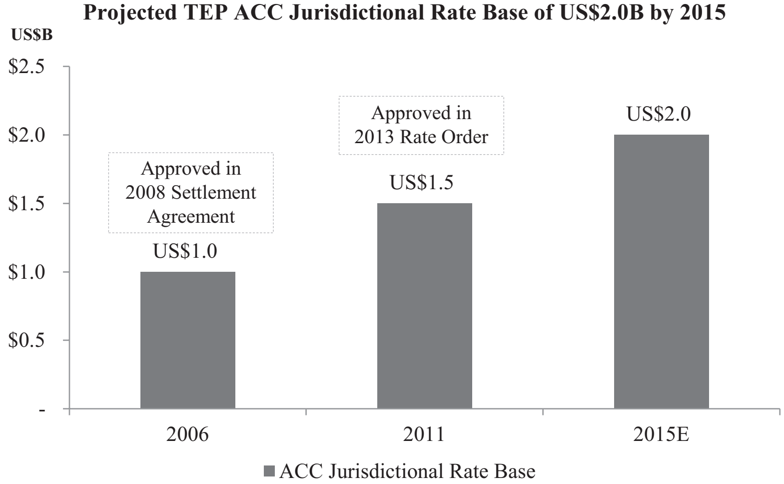
UNS Energy's continued investment in its electric and gas businesses to provide safe, reliable and cost-efficient energy service to its customers is expected to result in attractive rate base growth. UNS Energy has forecasted that capital investment will total approximately US$2.3 billion over the period from 2013 to 2018. UNS Energy's rate base is expected to reach US$3.0 billion by 2015 and to grow at a CAGR of approximately 7% through 2018.

2013E-2018E Total Capital Expenditure of US$2.3B



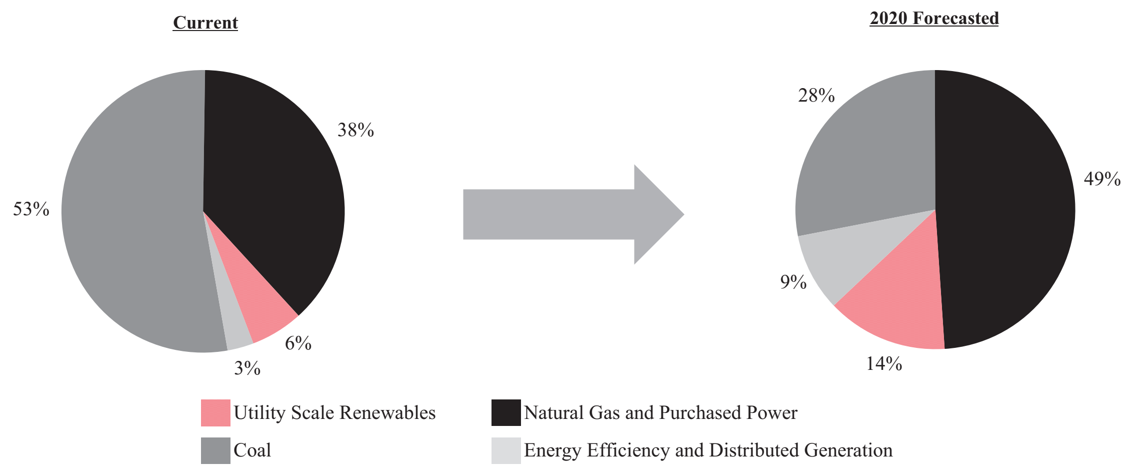
TEP projects that its ACC jurisdictional rate base will increase to approximately US$2.0 billion by 2015 (from an ACC approved 2011 rate base of US$1.5 billion). This is expected to increase UNS Energy's total rate base to approximately US$3.0 billion by 2015.

Projected TEP ACC Jurisdictional Rate Base of US$2.0B by 2015



TEP expects to invest significant capital into diversifying its generation fleet, including through the anticipated purchase of the natural gas-fired combined-cycle Gila River Unit 3 generation plant (with a capacity of 550 MW) and utility scale renewables generation. Renewables investments will diversify TEP's generation resources, as well as assist TEP in the mitigation of environmental impact.

TEP Generation Capacity Mix



Experienced Management Team

UNS Energy is a well-run utility with an experienced management team committed to providing customers with safe, reliable and cost-effective energy service. Over the last five years, UNS Energy customers have experienced, on average, approximately one outage for a duration of 1.5 hours per year. Management has decreased debt-to-capitalization of UNS Energy from 84% in 2000 to 62% as at September 30, 2013, resulting in a four notch upgrade to TEP's credit rating over the period to Baa2 (Moody's). Management has also demonstrated strong regulatory expertise, completing each of the past three rate cases in approximately one year on average.

Paul J. Bonavia was appointed Chairman and Chief Executive Officer of UNS Energy, TEP and UniSource Energy Services by UNS Energy's board of directors on January 1, 2009. Prior to joining UNS Energy, Mr. Bonavia served as the President of Xcel Energy's Commercial Enterprises business unit and the President of its Energy Markets unit. David Hutchens was named President and Chief Operating Officer of UNS Energy, TEP and UniSource Energy Services in December 2011 after serving as an Executive Vice President since March 2011 and was appointed to UNS

Energy's board of directors in December 2013. Mr. Hutchens joined TEP in July 1995 and has held various management positions overseeing wholesale energy sales. Mr. Hutchens graduated from the University of Arizona with a bachelor's degree in aerospace engineering and a master's degree in business administration with an emphasis in finance.

See "The Acquired Business", "The Acquisition Agreement", "Risk Factors — Risk Factors Relating to the Acquisition" and "Special Note Regarding Forward-Looking Statements".

Utility Management Approach of Fortis

The Corporation's approach to utility management is based on creating value for customers that ultimately translates into long-term value for shareholders. Fortis structures its operations as separate operating companies in each jurisdiction. Focused local management teams have the benefit of access to the utility management experience and expertise of Fortis. The senior management team of UNS Energy, which Fortis expects to retain, will add valuable operational expertise in electric generation and distribution and natural gas distribution to the existing expertise of Fortis in such areas. This approach allows local managers to build relationships with, and be responsive to, both customers and regulators. Fortis recognizes that regulation is a key aspect of its core business and has developed a disciplined, cost-conscious asset investment and operating philosophy which is responsive to regulation.

The management of Fortis has substantial experience in integrating newly acquired enterprises into the Fortis group. In 2013, Fortis acquired CH Energy Group and has successfully integrated its businesses into the Fortis group. In 2007, Fortis acquired FortisBC Holdings (formerly Terasen Inc.) and has successfully integrated the natural gas distribution business of the FortisBC Energy companies into the Fortis group. Fortis also successfully integrated FortisBC (formerly, Aquila Networks Canada (British Columbia) Ltd.) and FortisAlberta (formerly, Aquila Networks Canada (Alberta) Ltd.) into the Fortis group following their acquisition in 2004.

THE ACQUIRED BUSINESS

UNS Energy

UNS Energy, formerly UniSource Energy Corporation, is a utility services holding company headquartered in Tucson, Arizona engaged through its subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona. The common stock of UNS Energy trades on the NYSE under the symbol "UNS".

UNS Energy has three direct and indirect subsidiaries which are regulated utilities, TEP, UNS Gas and UNS Electric. The percentage of UNS Energy's total assets, operating revenues and net income by regulated utility subsidiary for the nine months ended September 30, 2013 was as follows:

Percentage of UNS Energy
(Nine Months Ended September 30, 2013)

Subsidiary	Total Assets	Operating Revenues	Net Income
TEP	84%	81%	85%
UNS Electric	9%	11%	10%
UNS Gas	7%	8%	5%

Revenues of each of TEP and UNS Electric include revenues from retail electricity sales and wholesale electricity sales made primarily from power generated at facilities owned or leased by TEP or UNS Electric, as applicable. In addition, TEP receives income from its transmission assets and its operation of Springerville Units 3 and 4 for Tri-State and SRP, respectively. UNS Gas' revenues primarily arise from retail and wholesale gas sales. The following table sets forth the total operating revenue of UNS Energy by source, for each of 2011, 2012 and the nine month period ended September 30, 2013.

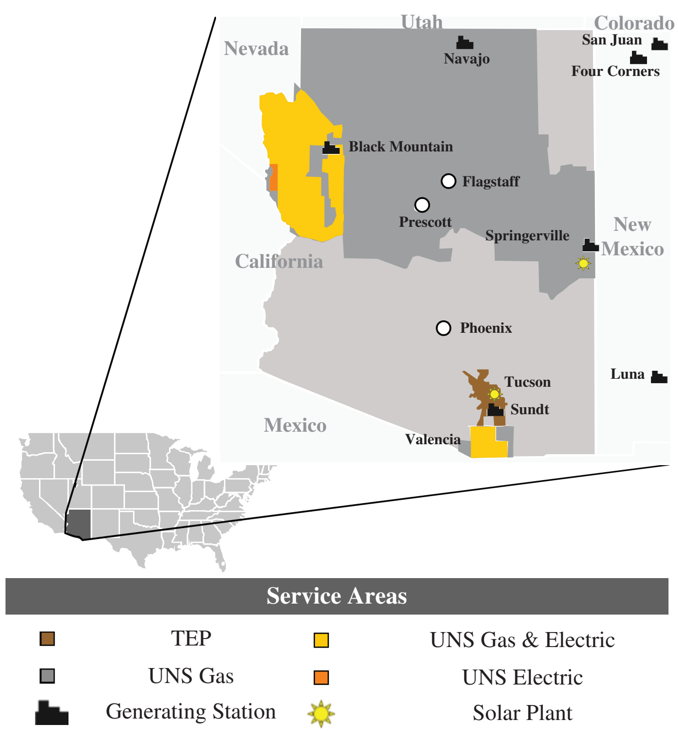
	Nine Months ended September 30, 2013	Years ended December 31,	
		2012	2011
	(thousands of U.S. dollars)	(thousands of U.S. dollars)	
Operating Revenues			
Electric Retail Sales	$ 868,523	$1,087,279	$1,085,822
Electric Wholesale Sales	92,581	125,414	132,346
Gas Revenue	86,432	123,133	145,053
Other Revenues	86,863	125,940	115,481
Total Operating Revenues	$1,134,399	$1,461,766	$1,478,702

For further information on the financial condition and results of UNS Energy, reference is made to the audited consolidated financial statements of UNS Energy as of December 31, 2012 and 2011, including the consolidated statements of income and cash flows for each of the years ended December 31, 2012, 2011 and 2010, and the unaudited consolidated financial statements of UNS Energy for the three and nine months ended September 30, 2013, each of which is included in this Prospectus.

UNS Energy Service Territory

UNS Energy's regulated utility subsidiaries service approximately 654,000 retail customers in Arizona. The following map depicts the service territories and generating stations of UNS Energy and its regulated utility subsidiaries.

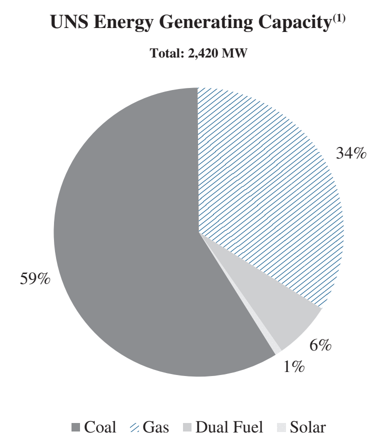
UNS Energy Utility Service Areas

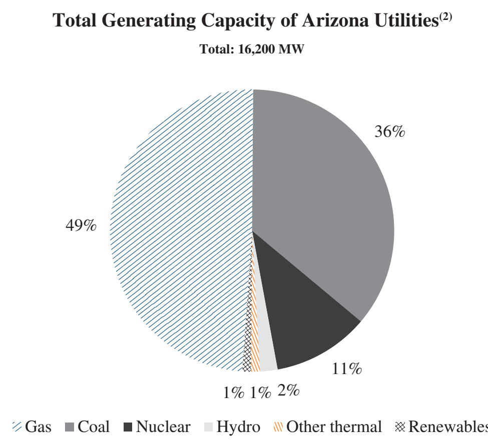


UNS Energy Generation Profile

UNS Energy currently owns or leases generation resources with an aggregate capacity of 2,420 MW, including 19 MW of solar capacity. As shown in the chart which follows, 59% of UNS Energy's generating capacity is fueled by coal. The aggregate generating capacity of Arizona's utilities is 16,200 MW, 36% of which is fueled by coal.

UNS Energy and Arizona Generation Capacity Mix





(1) Owns 2,074 MW, including TEP's 14% ownership of the 401-MW Springerville Unit 1 Plant, and leases an additional 346 MW.

(2) Source: Energy Information Association. Arizona utilities include UNS Energy, Salt River Power Project, Arizona Electric Power Cooperative and Arizona Public Service.

TEP

TEP is a vertically integrated, regulated electric utility and UNS Energy's largest and principal operating subsidiary, representing approximately 84% of the total assets as at September 30, 2013 and approximately 81% of the operating revenues of UNS Energy for the nine months ended September 30, 2013. TEP was incorporated in the State of Arizona in 1963 and currently generates, transmits and distributes electricity to approximately 412,000 retail electric customers in southern Arizona. TEP's service territory covers 1,155 square miles (2,991 square kilometres) and includes a population of approximately 1,000,000 people in the greater Tucson metropolitan area in Pima County, as well as parts of Cochise County. TEP has sufficient generating capacity which, together with existing power purchase agreements and expected generation plant additions, should satisfy the requirements of its customer base and meet expected future peak demand requirements. In addition, TEP sells electricity to other entities in the western United States.

Peak Demand

Peak demand occurs during the summer months due to the cooling requirements of TEP's retail customers. Retail peak demand varies from year-to-year due to weather, economic conditions, and other factors. TEP's retail peak demand declined over the period of 2008 to 2012 due primarily to weak economic conditions and the implementation of energy efficiency programs. TEP experienced peak demand of 2,290 MW in 2012. TEP believes its existing generation capacity, together with power purchase agreements and expected generation plant additions will be sufficient to meet future demand.

Retail Customers

TEP provides electric utility service to a diverse group of residential, commercial, industrial and public sector customers. Retail sales accounted for 78.8% of TEP's operating revenues in 2012. In 2012, 41% of TEP's energy sales were to residential customers, 21% were to commercial customers, 23% were to non-mining industrial customers, 12% were to mining customers and 3% were to public entities. In 2013, the retail energy consumption by customer class is expected to be similar to the historical customer distribution. Major industries served include copper mining, cement manufacturing, defense, health care, education, military bases and other governmental entities. Two of TEP's largest single customers are in the copper mining industry. Sales to these two customers increased by 0.9% in 2012 and 0.3% in 2011 as a result of increased production due to high copper prices, but are not expected to materially increase in 2013 or 2014. TEP's retail sales are influenced by several factors, including economic conditions, seasonal weather patterns, DSM initiatives and the increasing use of energy efficient products and opportunities for customers to generate their own electricity.

Local, regional and national economic factors have impacted the growth in the number of customers in TEP's service territory. In 2012, 2011 and 2010, TEP's average number of retail customers increased by less than 1% year over year. During the past three years, economic conditions in the State of Arizona and state requirements for energy efficiency and distributed generation have negatively affected TEP's retail electricity sales. TEP's retail sales volumes in 2012 were approximately 9,265 GWh or 1.1% below 2009 sales volumes.

Although the Retail Electric Competition Rules established in 1999 ("Rules") by the ACC, which regulates portions of TEP's utility accounting practices and energy rates, contemplated that TEP's retail customers may be eligible to choose an alternative energy service provider ("ESP"), portions of those Rules have been invalidated by the Arizona courts and there are currently no ESPs authorized to provide alternative retail electric service to TEP's customers. See "The Acquired Business — Regulation — Retail Electric Competition Rules".

Wholesale Business

TEP's electric utility operations include the wholesale marketing of electricity to other utilities and power marketers in the southwestern United States. Wholesale sales transactions are made on both a firm and interruptible basis and accounted for 8.3% of TEP's total 2012 operating revenues. A firm contract requires TEP to supply power on demand (except under limited emergency circumstances), while an interruptible contract allows TEP to stop supplying power in specific circumstances. See "The Acquired Business — TEP — Generating and Other Resources".

Generally, TEP commits to future sales with third parties based on expected excess generating capability, forward prices and generation costs, using a diversified portfolio approach to provide a balance between long-term, mid-term and spot energy sales. TEP's wholesale sales consist primarily of long-term or short term sales.

Long-Term Sales

Long-term wholesale sales contracts cover periods of more than one year. TEP typically uses its own generation to serve the requirements of its long-term wholesale customers. In 2012, 26% of TEP's wholesale revenues, or approximately 2% of TEP's total 2012 operating revenues, were attributable to long-term wholesale sales contracts. TEP's material long-term wholesale power supply contracts are described below:

- Through May 2016, SRP is required to purchase 500,000 MWh of on-peak energy per year from TEP.
- TEP has a contract with the NTUA which expires in December 2022. TEP serves the portion of NTUA's load that is not served by the authority's allocation of federal hydroelectric power. Over the last three years, sales to NTUA averaged 225,000 MWh per year.

Short-Term Sales

Short-term forward contracts commit TEP to sell a specified amount of capacity or energy at a specified price over a given period of time, typically for one-month, three-month or one-year periods. TEP also engages in short-term sales by selling energy in the daily or hourly markets at fluctuating spot market prices and making other non-firm energy sales. In 2012, 74% of TEP's operating revenues from wholesale sales, or approximately 6% of TEP's total 2012 operating revenues, were attributable to short-term sales. All revenues from short-term wholesale sales offset fuel and purchased power costs and are passed through to TEP's retail customers. TEP uses short-term wholesale sales as part of its hedging strategy to reduce customer exposure to fluctuating power prices. In addition, 10% of profits from wholesale trading activity is passed through to TEP's retail customers.

Generating and Other Resources

At December 31, 2012, TEP had owned electrical generating capacity of 1,921 MW and leased electrical generating capacity of 346 MW, for total net generating capacity of 2,267 MW, as set forth in the table below. Several of the generating assets in which TEP has an interest are jointly owned. In the United States large power generation facilities are often developed by partnerships or joint ventures of different utilities to assist with financing the large capital expenditures required in connection with the construction of such facilities. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy — Jointly-owned generating plants and generating plants operated by third parties".

TEP Sources of Net Generating Capacity

Generating Source	Unit No.	Location	Date In Service	Resource Type	Net Capability MW	Operating Agent	TEP's Share %	TEP's Share MW
Springerville Station (1)	1	Springerville, AZ	1985	Coal	401	TEP	100.0	401
Springerville Station	2	Springerville, AZ	1990	Coal	403	TEP	100.0	403
Springerville Station (2)	3	Springerville, AZ	2005	Coal	400	TEP	0.0	0
Springerville Station (2)	4	Springerville, AZ	2009	Coal	400	TEP	0.0	0
San Juan Station	1	Farmington, NM	1976	Coal	340	PNM	50.0	170
San Juan Station	2	Farmington, NM	1973	Coal	340	PNM	50.0	170
Navajo Station	1	Page, AZ	1974	Coal	750	SRP	7.5	56
Navajo Station	2	Page, AZ	1975	Coal	750	SRP	7.5	56
Navajo Station	3	Page, AZ	1976	Coal	750	SRP	7.5	56
Four Corners Station	4	Farmington, NM	1969	Coal	784	APS	7.0	55
Four Corners Station	5	Farmington, NM	1970	Coal	784	APS	7.0	55
Luna Generating Station	1	Deming, NM	2006	Gas	555	PNM	33.3	185
Sundt Station	1	Tucson, AZ	1958	Gas/Oil	81	TEP	100.0	81
Sundt Station	2	Tucson, AZ	1960	Gas/Oil	81	TEP	100.0	81
Sundt Station	3	Tucson, AZ	1962	Gas/Oil	104	TEP	100.0	104
Sundt Station	4	Tucson, AZ	1967	Coal/Gas	156	TEP	100.0	156
Sundt Internal Combustion Turbines		Tucson, AZ	1972-1973	Gas/Oil	50	TEP	100.0	50
DeMoss Petrie		Tucson, AZ	1972	Gas/Oil	75	TEP	100.0	75
North Loop		Tucson, AZ	2001	Gas	95	TEP	100.0	95
Springerville Solar Station		Springerville, AZ	2002-2010	Solar	6	TEP	100.0	6
Tucson Solar Projects		Tucson, AZ	2010-2012	Solar	12	TEP	100.0	12
Total TEP Capacity (3)								2,267

(1) 14.1% owned and 85.9% of generating capacity under lease as of September 30, 2013. As of January 2015 the capacity received by TEP from Springerville Unit 1 will be reduced to 49.5% of its continuous operating capability. See "The Acquired Business — TEP —Generating and Other Resources — Springerville Generating Station".

(2) Springerville Units 3 and 4 are operated by TEP, but are owned by Tri-State and SRP, respectively. These facilities are located at the same site as Springerville Units 1 and 2. The owners of Springerville Units 3 and 4 compensate TEP for operating the facilities and pay an allocated portion of the fixed costs related to the Springerville Common Facilities and the Springerville Coal Handling Facilities. TEP is not entitled to any net generating capacity from Springerville Units 3 and 4.

(3) Excludes 683 MW of additional resources, which consist of certain capacity purchases and interruptible retail load.

Springerville Generating Station

TEP currently owns a 14.1% undivided interest in Unit 1 of the coal-fired Springerville and leases the remaining 85.9%. Springerville Unit 2 is owned by San Carlos Resources, Inc. ("San Carlos"), a wholly owned subsidiary of TEP. Springerville Units 3 and 4 are owned by Tri-State and SRP, respectively. TEP operates all four Springerville generating units, and Tri-State and SPR compensate TEP for operating the facilities. TEP is not entitled to any net generating capacity from Springerville Units 3 and 4.

TEP's other interests in Springerville include leasehold interests in the Springerville Coal Handling Facilities and the facilities at Springerville used in common by all four Springerville units ("Springerville Common Facilities"). In

1984, TEP sold and leased back the Springerville Coal Handling Facilities and has since purchased a 13% ownership interest therein. The terms of the Springerville Coal Handling Facilities leases ("Springerville Coal Handling Facilities Leases") expire in April 2015 but have fixed-rate renewal options if certain conditions are satisfied, as well as a fixed-price purchase provision of US$120 million. TEP has agreed with Tri-State, the lessee of Springerville Unit 3, and SRP, the owner of Springerville Unit 4, that if the Springerville Coal Handling Facilities Leases are not renewed, TEP will exercise the purchase options under these contracts. Upon such purchase, SRP will be obligated to buy a portion of the Springerville Common Facilities and Tri-State will be obligated to either buy a portion of the Springerville Common Facilities or continue making payments to TEP for the use of its facilities.

TEP's lease arrangement relating to Springerville Unit 1 and an undivided one-half interest in certain Springerville Common Facilities ("Springerville Unit 1 Leases"), expire in 2015 but contain optional fair market value renewal and purchase provisions. In August and October 2013, TEP exercised purchase options with respect to an additional aggregate 35.4% undivided interest in Springerville Unit 1 from the owner participants at an aggregate purchase price of approximately US$65.5 million, with the closing of the lease purchase options scheduled to occur in December 2014 and January 2015. In 2015, following TEP's acquisition of the additional 35.4% interest in Springerville Unit 1 and the expiry of the Springerville Unit 1 Leases, TEP's share of the continuous operating capability of Springerville Unit 1 will be reduced to 49.5%. TEP has indicated that it does not intend to acquire an ownership interest in Springerville Unit 1 that is greater than 50% due to its intention to reduce its exposure to coal generation.

TEP's lease arrangements relating to an undivided one-half interest in certain Springerville Common Facilities ("Springerville Common Facilities Leases"), which expire in 2017 and 2021, have optional fair market value renewal options as well as a fixed-price purchase provision. The fixed prices to acquire the interest in the Springerville Common Facilities currently leased by TEP are US$38 million in 2017 and US$68 million in 2021.

Sundt Station and Sundt Internal Combustion Turbines

TEP owns and operates the Sundt Internal Combustion Turbines and all four units of the Sundt Generating Station (the "Sundt Station") located near Tucson, Arizona. The Sundt Internal Combustion Turbines have a net generating capacity of 50 MW. Sundt Station Units 1, 2 and 3 can be operated on either natural gas or diesel oil and have a net generating capacity of 81 MW, 81 MW and 104 MW, respectively. Sundt Station Unit 4 can be operated on either natural gas or coal and has a net generating capacity of 156 MW. The Sundt Station and the Sundt Internal Combustion Turbines are designated as "must-run generation" facilities. Must-run generation units are required to run in certain circumstances to maintain distribution system reliability and to meet local load requirements. See "The Acquired Business — Environmental Regulation — Regional Haze Rules — Sundt".

Purchases and Interconnections

To supplement its leased and owned net generating capacity, TEP purchases power from other utilities and power marketers. TEP may enter into contracts: (a) to purchase energy under long-term contract to serve retail load and long-term wholesale contracts; (b) to purchase capacity or energy during periods of planned outages or for peak summer load conditions; and (c) to purchase energy for resale to certain wholesale customers under load and resource management agreements.

TEP typically uses generation from its gas-fired units, supplemented by power purchases, to meet the summer peak demands of its retail customers. Some of these power purchase agreements ("PPAs") are price-indexed to natural gas prices. Due to its increasingly seasonal gas and purchased power usage, TEP hedges a portion of its total natural gas exposure with fixed price contracts for a maximum of three years. TEP also purchases energy in the daily and hourly markets to meet higher than anticipated demands, to cover unplanned generation outages or when doing so is more economical than running owned generation.

TEP is a member of a regional reserve-sharing organization and has reliability and power sharing relationships with other utilities. These relationships allow TEP to call upon other utilities during emergencies, such as plant outages and system disturbances, and reduce the amount of power reserves TEP is required to carry.

As a result of the *Energy Policy Act of 2005*, owners and operators of bulk power transmission systems, including TEP, are subject to mandatory reliability standards that are developed and enforced by NERC and subject to the oversight of FERC. TEP periodically reviews its operating policies and procedures to ensure continued compliance with these standards.

Renewable Energy Resources

As of December 31, 2012, TEP owned 18 MW of photovoltaic ("PV") solar generating capacity. The Springerville solar system, which is located near Springerville, has a total capacity of 6 MW. TEP's remaining 12 MW of PV solar generating capacity is located in the City of Tucson.

In order to meet the ACC's renewable energy requirements which, among other things, require TEP, UNS Electric and other affected utilities to increase their use of renewable energy each year until it represents at least 15% of their total annual retail energy requirements in 2025, TEP has PPAs for 125 MW of capacity from solar resources, 50 MW of capacity from wind resources and 2 MW of capacity from a landfill gas generation plant. As of December 31, 2012, approximately 74 MW of solar resources and 50 MW of wind resources contracted by TEP were operational. The remaining resources contracted by TEP are expected to be developed over the next several years. The solar PPAs contain options that would allow TEP to purchase all or part of the related project at a future period. See "The Acquired Business — Regulation — Renewable Energy Standard and Tariff".

Future Generating Resources

TEP is evaluating several energy resource options, including coal, natural gas and renewables for future use to satisfy its power requirements. The focus of TEP's long-term energy resource diversification strategy is to provide long-term rate stability for customers, mitigate environmental impacts, comply with regulatory requirements and leverage existing utility infrastructure. TEP is gradually reducing its reliance on coal generation over time by increasing the capacity of efficient combined-cycle gas turbines and renewables, particularly by adding solar generating capacity, and expects coal to represent less than 50% of generating capacity by 2020. TEP will add generating resources and/or transmission import capability to meet forecasted retail and firm wholesale load demands. TEP's ACC approved 2013 RES implementation plan includes an investment of US$28 million for company-owned solar projects. TEP is emerging as an industry leader in the development and support of renewable energy and was named 2012 Investor Owned Utility of the Year by the Solar Electric Power Association. In addition, in August 2013, TEP entered into exclusive negotiations with Entegra to purchase the Gila River, Unit 3 Generating Station ("Gila River") in Gila Bend, Arizona. Gila River is a natural gas-fired combined-cycle unit with a capacity rating of 550 MW, which went into service in 2003. UNS Electric may purchase up to 150 MW of Gila River Unit 3, while TEP would purchase the remaining capacity. The anticipated purchase of Gila River is consistent with TEP's strategy to diversify its generation fuel mix and gradually reduce its reliance on coal. See "The Acquired Business — TEP — Fuel Supply".

Gila River will replace foregone coal-fired leased capacity following expiry of the Springerville Unit 1 Leases and the expected reduction of coal-fired generating capacity from San Juan Unit 2, which may be retired on or before December 31, 2017. See "The Acquired Business — Environmental Regulation — Regional Haze Rules — San Juan". TEP expects to execute a definitive purchase agreement with Entegra by the end of 2013 and close the purchase transaction in late 2014 subject to final agreement on terms and, among other things, receipt of required regulatory approvals. TEP expects to finance the anticipated acquisition of Gila River using its revolving credit facility and bridge financing and expects to ultimately refinance such indebtedness with equity injections and the issuance of long-term debentures.

Fuel Supply

TEP's fuel cost and usage information for the three most recently completed calendar years are:

	Average Cost per MMBtu Consumed by TEP			Percentage of Total Btu Consumed by TEP		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Coal	$2.44	$2.42	$2.23	88%	92%	90%
Gas	$3.92	$5.20	$4.69	12%	8%	10%
All Fuels	$2.63	$2.65	$2.47	100%	100%	100%

Coal

TEP's principal fuel for electric generation is low-sulfur, bituminous or sub-bituminous coal from mines in Arizona, New Mexico and Colorado. In 2012, 88% of the energy sold or used by TEP was generated from coal, down from 92% in 2011 and 90% in 2010. In 2012, 72% of the total power generated by TEP was generated from coal. More than 90% of TEP's coal supply is purchased under long-term contracts, which results in more predictable prices. TEP's average cost per tonne of coal, including transportation, was US$45.84 in 2012, US$46.64 in 2011 and US$41.99 in 2010. The following table sets forth the supplier, the contract expiration date and the amount of coal consumed in 2012 for TEP's coal generating stations in respect of which coal was purchased under a long-term supply contract:

Generating Station	Coal Supplier	2012 Coal Consumption (thousands of tonnes)	Contract Expiration
Springerville	Peabody Coalsales	3,287	2020
Four Corners	BHP Billiton	400	2016
San Juan	San Juan Coal Co.	1,098	2017
Navajo	Peabody Coalsales	475	2019

TEP is the operator and sole owner (or lessee) of the Springerville Units 1 and 2 (see "The Acquired Business — TEP — Generating and Other Resources — Springerville Generating Station") and Sundt Unit 4 coal-fired generation plants. The coal supplies for Springerville Units 1 and 2 are transported approximately 200 miles by railroad from northwestern New Mexico. TEP expects its contracted coal reserves to be sufficient to supply the estimated requirements for Springerville Units 1 and 2 for their presently estimated remaining lives.

The coal supplies for Sundt Unit 4 are transported approximately 1,300 miles by railroad from Colorado. Prior to 2010, Sundt Unit 4 was predominantly fueled by coal; however, the generating station can also be operated using natural gas. Both fuels are combined with methane, a renewable energy resource, piped in from a nearby landfill. Since 2010, TEP has fueled Sundt Unit 4 with both coal and natural gas depending on which resource is most economic. In 2013, TEP has fueled Sundt Unit 4 with coal from inventory. TEP does not expect to encounter any issues in sourcing coal for use in Sundt Unit 4 in the future, to the extent that coal is used as the fuel for this generator.

TEP also participates in jointly-owned coal-fired generating facilities at the Four Corners Generating Station ("Four Corners"), the Navajo Generating Station ("Navajo") and the San Juan Generating Station ("San Juan"). Four Corners, which is operated by Arizona Public Service ("APS") and San Juan, which is operated by Public Service Company of New Mexico ("PNM") are mine-mouth generating stations located adjacent to the coal reserves used in those generating plants. Navajo, which is operated by SRP, obtains its coal supply from a nearby coal mine with a dedicated rail delivery system. The coal supplies used at Four Corners, Navajo and San Juan are under long-term contracts administered by the operating agents. TEP expects coal reserves available to these three jointly-owned generating facilities to be sufficient for the remaining presently estimated lives of the generating stations. See also "The Acquired Business — Environmental Regulation — Regional Haze Rules" and "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Natural Gas Supply

TEP typically uses generation from its natural gas-fueled facilities, in addition to energy from its coal-fired facilities and purchased power, to meet the summer peak demands of its retail customers and local reliability needs. TEP purchases gas from Southwest Gas Corporation under a retail tariff for its North Loop generating station's 95 MW of internal combustion turbines and receives distribution service under a transportation agreement for its DeMoss Petrie generating station, a 75 MW internal combustion turbine. TEP purchases capacity from EPNG for transportation from the San Juan and Permian Basins to its Sundt plant under a contract effective through 2018. TEP also buys gas from third-party suppliers for the Sundt and DeMoss Petrie generating stations.

TEP purchases gas transportation for the Luna Generating Station ("Luna") from EPNG from the Permian Basin to the plant site under an agreement effective through January 2017, with right-of-first-refusal for continuation thereafter. TEP purchases gas for its share of Luna from various suppliers in the Permian Basin region.

Transmission Access

TEP has transmission access and power transaction arrangements with over 120 electric systems or suppliers. TEP also has various ongoing projects that are designed to increase access to the regional wholesale energy market and improve the reliability, capacity and efficiency of its existing transmission and distribution systems. In 2012, 1.4% of TEP's operating revenue was derived from TEP's transmission assets.

Employees

On September 30, 2013, TEP had 1,398 employees, of which approximately 49% are represented by the IBEW Local No. 1116. A new collective bargaining agreement between the IBEW Local No. 1116 and TEP was entered into in January 2013 and expires in January 2016.

UNS Gas

UNS Gas is a regulated, gas distribution company serving approximately 149,000 retail customers in northern Arizona's Mohave, Yavapai, Coconino and Navajo counties, as well as Santa Cruz County in southern Arizona. These counties, with a combined population of approximately 700,000, comprise approximately 50% of the territory in the State of Arizona. UNS Gas represented approximately 7% of the total assets of UNS Energy as at September 30, 2013 and approximately 8% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

The customer base of UNS Gas is primarily residential with sales to residential customers providing approximately 58% of the total revenues of UNS Gas in 2012. UNS Gas' annual retail customer growth rate was less than 1% from 2010 through 2012. UNS Gas typically records peak demand during the winter months when cooler weather leads to heating demand. Accordingly, UNS Gas typically records the majority of its net income during the first and fourth quarters.

Gas Supply and Transmission

UNS Gas directly manages its gas supply and transportation contracts. The market price for gas varies based upon the period during which the commodity is purchased and is affected by weather, supply issues, the economy and other factors. UNS Gas hedges its gas supply prices by entering into fixed price forward contracts and financial swaps at various times during the year to ensure more stable prices for its customers. These purchases and hedges are made up to three years in advance with the goal of hedging at least 45% of the expected monthly gas consumption with fixed prices prior to the beginning of each month.

UNS Gas buys most of the gas it distributes from the San Juan Basin. The gas is delivered on the EPNG and Transwestern Pipeline Company ("Transwestern") interstate pipeline systems under firm transportation agreements with combined capacity sufficient to meet the demands of the customers of UNS Gas.

With EPNG, the average daily capacity right of UNS Gas is approximately 655,000 therms per day, with an average of 1,095,000 therms per day in the winter season (November through March) to serve its northern and southern Arizona service territories. UNS Gas has capacity rights of 250,000 therms per day on the San Juan Lateral and Mainline of the Transwestern pipeline. The Transwestern pipeline principally delivers gas to the portion of the UNS Gas distribution system serving customers in Flagstaff and Kingman and also the Griffith Power Plant in Mohave County.

UNS Gas signed a separate agreement with Transwestern for transportation capacity rights on the Phoenix Lateral Extension Line that expires in 2024. The average daily capacity right of UNS Gas on such line is 126,100 therms per day, with an average of 221,900 therms per day in the winter season.

Employees

On September 30, 2013, UNS Gas had 183 employees, of which 107 employees were represented by IBEW Local No. 1116 and 5 employees were represented by IBEW Local No. 387. The agreements with the IBEW Local No. 1116 and No. 387 expire in June 2015 and February 2014, respectively. Negotiations for a new collective bargaining agreement with IBEW Local No. 387 are scheduled to begin in January 2014.

UNS Electric

UNS Electric is a regulated, vertically integrated electric utility company serving approximately 93,000 retail customers in Arizona's Mohave and Santa Cruz counties as at September 30, 2013. These counties have a combined population of approximately 250,000. UNS Electric represented approximately 9% of the total assets of UNS Energy as of September 30, 2013 and approximately 11% of the operating revenues of UNS Energy for the nine months ended September 30, 2013.

UNS Electric's customer base is primarily residential, with some commercial and industrial customers. Peak demand met by UNS Electric for 2012 was 437 MW. UNS Electric's annual retail customer growth rate was less than 1% from 2010 through 2012. UNS Electric typically records the majority of its net income during the second and third quarters when hot weather contributes to higher energy consumption.

Power Supply and Transmission

UNS Electric relies on a portfolio of long, intermediate and short-term purchases to meet customer load requirements. In addition, UNS Electric has generating resources which in 2012 met 152 MW or 35% of its 2012 peak demand.

Generating Resources

UNS Electric owns and operates the Black Mountain Generating Station ("BMGS"), a 90 MW gas-fired facility located near Kingman, Arizona. In July 2011, UNS Electric purchased BMGS from UNS Energy's subsidiary UniSource Energy Development Company. UNS Gas purchases and transports natural gas to BMGS for UNS Electric under long-term natural gas transportation and sales agreements.

UNS Electric also owns and operates the Valencia Power Plant ("Valencia"), located in Nogales, Arizona. Valencia consists of four gas and diesel-fueled combustion turbine units and provides approximately 62 MW of peaking resources. The Valencia facility is directly interconnected with the distribution system serving the city of Nogales and the surrounding areas.

In addition, if the Gila River purchase is successfully completed, UNS Electric will receive its proportionate share of the power generated annually at such facility.

Renewable Energy Resources

UNS Electric has agreed to purchase the output of a combined wind farm and solar generating facility located near Kingman, which is comprised of 10 MW of wind and 0.5 MW of solar. The above-market cost of energy purchased through the 20-year PPA will be recovered through the Renewable Energy Standard ("RES") surcharge. See "The Acquired Business — Regulation — Renewable Energy Standard and Tariff". UNS Electric also invested US$6 million in 2012 in company-owned solar PV capacity and expects to make similar annual solar energy investments in the near future.

Transmission

UNS Electric imports the power generated at BMGS into its Mohave County and Santa Cruz County service territories over Western Area Power Administration's ("WAPA") transmission lines. UNS Electric has transmission service agreements with WAPA for its transmission capacity that expire in June 2016. UNS Electric is upgrading its existing 115 kV transmission line serving Santa Cruz County to 138 kV to improve service reliability. This upgrade is expected to be completed by October 2014 and is included in UNS Electric's current capital expenditures forecast.

Employees

On September 30, 2013, UNS Electric had 145 employees, of which 27 were represented by IBEW Local No. 387 and 88 were represented by IBEW Local No. 769. The existing agreement with IBEW Local No. 387 expires in February 2014, with negotiations for a new collective bargaining agreement scheduled to begin in January 2014. The existing agreement with IBEW Local No. 769 expires in June 2016.

Other Non-Regulated Segments

The non-regulated businesses of UNS Energy, which comprises less than 1% of UNS Energy's total assets, include the operations of Millennium and UniSource Energy Development Company. SES, a wholly owned subsidiary of Millennium, provides electrical contracting and meter reading services in Arizona, as well as other services at Springerville. On September 30, 2013, SES had 266 employees, of which 233 are represented by IBEW Local No. 1116 and 20 by IBEW Local No. 570. The collective bargaining agreement with IBEW Local No. 1116 expires in December 2014. The collective bargaining agreement with IBEW Local No. 570 expires in May 2016.

Regulation

The ACC is a regulatory body governed by the Arizona state constitution and is composed of five elected commissioners. Commissioners are elected state-wide for staggered four-year terms and are limited to serving a total of two terms.

The ACC regulates portions of TEP, UNS Gas and UNS Electric's utility accounting practices and energy rates. The ACC has authority over rates charged to retail customers, the siting of generation and transmission facilities, the issuance of securities and transactions with affiliated parties. The regulated utility rates for retail electric and natural gas service are determined by the ACC on a cost of service basis. Retail rates as set by the ACC are designed to provide recovery of allowable operating expenses and an opportunity to earn a reasonable return on rate base. Rate base is generally determined by reference to the original cost (net of depreciation) of utility plant in service, and to various adjustments for deferred taxes and other items, plus a working capital component. Over time, additions to utility plant in service increase rate base while depreciation of utility plant reduces rate base. The rates charged to retail customers by TEP, UNS Gas and UNS Electric also include pass-through mechanisms that allow each utility to recover the actual prudently incurred costs of its fuel, transmission and energy purchases to serve retail customers. FERC regulates the terms and prices of transmission services and wholesale electricity sales, wholesale transport and purchases of natural gas and portions of the accounting practices of TEP, UNS Gas and UNS Electric. As generators of electricity, each of TEP and UNS Electric have FERC tariffs to sell power at market-based rates.

Renewable Energy Standard and Tariff

The ACC's RES requires TEP, UNS Electric and other affected utilities to increase their use of renewable energy each year until it represents at least 15% of their total annual retail energy requirements in 2025. Affected utilities must file annual RES implementation plans for review and approval by the ACC. The approved cost of carrying out those plans is recovered from retail customers through the RES surcharge. Any RES surcharge collections above or below the costs incurred to implement the plans are deferred and reflected in the financial statements of the utility as a regulatory asset or liability. Both TEP and UNS Electric have complied with the RES implementation plans filed by each such utility with the ACC to date. TEP and UNS Electric expect to meet the 2013 renewable energy target of 4% of retail kWh sales.

Electric Energy Efficiency Standards and Decoupling

In August 2010, the ACC approved new Electric Energy Efficiency Standards ("Electric EE Standards") designed to require TEP, UNS Electric and other affected electric utilities to implement cost-effective programs to reduce customers' energy consumption. In 2012, the Electric EE Standards targeted total kWh savings of 3% of 2011 retail kWh sales; in 2013, the Electric EE Standards target total kWh savings of 5% of 2012 retail kWh sales. The Electric EE Standards increase annually thereafter up to a targeted cumulative annual reduction in retail kWh sales of 22% by 2020. The programs adopted by TEP and UNS Electric in 2011 and 2012 to comply with Electric EE Standards saved cumulative energy as of December 31, 2012 equal to approximately 2.5% of their respective 2011 retail kWh sales.

New and existing DSM programs, direct load control programs and energy efficient building codes are acceptable means to meet the Electric EE Standards as set forth by the ACC. The Electric EE Standards provide for the recovery of costs incurred to implement DSM programs. DSM programs, and the rates charged to customers for such programs, are subject to annual review and approval by the ACC.

In 2010, the ACC issued a policy statement recognizing the need to adopt rate decoupling or another mechanism to make Arizona's Electric EE Standards viable. A decoupling mechanism is designed to encourage energy conservation by restructuring utility rates to separate the recovery of fixed costs from the level of energy consumed. The 2013 TEP Rate Order and the September 2013 UNS Electric settlement agreement with ACC staff, which was approved by the ACC on December 17, 2013, include rate decoupling mechanisms. See "The Acquired Business — Rates — TEP" and "The Acquired Business — Rates — UNS Electric".

Gas Energy Efficiency Standards and Decoupling

In 2010, the ACC approved Gas Energy Efficiency Standards ("Gas EE Standards") which are designed to require UNS Gas and other affected utilities to implement cost-effective DSM programs. In 2012, the Gas EE Standards targeted total retail therm savings equal to 1.2% of 2011 sales; in 2013, the Gas EE Standards target total therm savings of 1.8% of 2012 retail therm sales. Targeted savings increase annually in subsequent years until they reach a cumulative annual reduction in retail therm sales of 6% by 2020. UNS Gas' programs, during 2011 and 2012, saved cumulative energy equal to approximately 0.35% of its 2011 retail therm sales.

New and existing DSM programs, renewable energy technology that displaces gas, and certain energy efficient building codes are acceptable means to meet the Gas EE Standards. The Gas EE Standards provide for the recovery of costs incurred to implement DSM programs. UNS Gas' DSM programs and rates charged to retail customers for these programs are subject to ACC approval.

Retail Electric Competition Rules

In 1999, the ACC approved the Rules which provided a framework for the introduction of retail electric competition in Arizona. Certain portions of the ACC Rules that enabled ESPs to compete in the retail market were invalidated by an Arizona Court of Appeals decision in 2004. In 2008, the ACC opened an administrative proceeding to address the Rules, and in 2012, a small number of companies filed applications for a Certificate of Convenience and Necessity ("CC&N") with the ACC to provide competitive retail electric services in TEP's service territory as an ESP.

In May 2013, the ACC voted to commence a process to consider the possibility of opening Arizona to retail electric competition. The first step in the process was to solicit comments on questions raised by the ACC on the potential benefits and risks to Arizona electric customers associated with retail electric competition. In July 2013, various parties, including TEP and UNS Electric, filed comments. TEP and UNS Electric oppose opening Arizona to retail electric competition. Responsive comments from the parties were filed in August 2013. In September 2013, the ACC voted to close the proceeding on retail competition, citing legal and constitutional challenges to which retail competition would be subject. The ACC decision to end its exploration into the deregulation of Arizona's electricity market signals improved coordination between the ACC, State utilities and industrial and commercial customers, and supports the improved views and ratings of Arizona's regulatory environment. UNS Energy cannot predict if the ACC will consider retail electric competition in the future. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Rates

TEP

In June 2013 the ACC issued the 2013 TEP rate order (the "2013 TEP Rate Order") that resolved the rate case filed by TEP in July 2012. The 2013 TEP Rate Order approved new rates for TEP effective July 1, 2013. The 2013 TEP Rate Order approved a non-fuel base rate increase of US$76 million over adjusted 2011 revenues, with an Original Cost Rate Base ("OCRB") of approximately US$1.5 billion and a Fair Value Rate Base ("FVRB") of approximately US$2.3 billion. In addition, the 2013 TEP Rate Order included a Lost Fixed Cost Recovery ("LFCR") mechanism to enable TEP to recover lost non-fuel costs due to lost kWh sales attributed to energy efficiency programs and distributed generation and an Environmental Compliance Adjustor ("ECA") mechanism that allows TEP to recover costs of complying with environmental standards required by federal or other governmental agencies between rate cases. The 2013 TEP Rate Order also approved adjustments and modifications to TEP's Purchased Power and Fuel Adjustment Clause mechanism, which permits TEP to pass through most fuel costs, including final reclamation costs, to customers.

The 2013 TEP Rate Order approved a 10.0% return on equity, a long-term cost of debt of 5.18% and a short-term cost of debt of 1.42%, resulting in a weighted average cost of capital of 7.26%. TEP's capital structure is permitted to be 43.5% equity, 56.0% long-term debt and 0.5% short-term debt. The provisions of the 2013 TEP Rate Order also give consideration to the fair value of TEP's rate base by approving a 0.68% return on the incremental difference of approximately US$800 million between TEP's OCRB and its FVRB.

UNS Gas

In April 2012, the ACC approved a base rate increase of US$2.7 million with an OCRB of US$183 million, as well as a LFCR mechanism to enable UNS Gas to recover lost fixed cost revenues as a result of implementing the Gas EE Standards. The LFCR mechanism is expected to recover lost fixed cost revenues of less than US$0.1 million in 2013, based on estimated lost retail therm sales from May through December 2012. The rate order approved by the ACC is based on an ROE of 9.75%, a common equity of 50.8% and long-term debt of 49.2%. The new rates became effective on May 1, 2012.

In October 2013, the ACC approved an increase to the existing Purchased Gas Adjustor ("PGA") credit from 4.5 cents per therm to 10 cents per therm in order to reduce the US$17 million over-collected PGA balance as of September 30, 2013. The new PGA credit will be effective for the period of November 1, 2013 through April 30, 2014.

UNS Electric

In December 2012, UNS Electric filed a general rate case with the ACC which was settled with ACC staff in September 2013. The settlement agreement provides for a non-fuel retail base rate increase of approximately US$3 million on an OCRB of approximately US$213 million and an FVRB of approximately US$283 million. The terms of the settlement agreement provide UNS Electric with a return on equity of 9.50% and a long-term cost of debt of 5.97% resulting in a weighted average cost of capital of 7.83%, with a capital structure of 52.6% equity and 47.4% long-term debt. In addition, the terms of the settlement agreement provide for (i) an LFCR mechanism to recover certain non-fuel costs relating to kWh sales lost due to energy efficiency programs and distributed generation and (ii) a transmission cost adjustor, which allows for more timely recovery of transmission costs associated with serving retail customers. The settlement agreement was approved by the ACC on December 17, 2013 and new rates will become effective on January 1, 2014.

Environmental Regulation

UNS Energy and its operations are subject to environmental regulation by federal, state and local bodies. The generating facilities of TEP and UNS Electric are primarily regulated by the EPA. Applicable environmental rules and regulations in the United States have changed significantly in the last five years and are expected to continue to evolve in ways that may limit, impair or add expense to the operations of UNS Energy and its regulated utility subsidiaries.

Clean Air Act Requirements

The EPA limits the amount of sulfur dioxide ("SO_2"), nitrogen oxide ("NO_X"), particulate matter, mercury and other emissions released into the atmosphere by power plants in the United States. As a result, TEP was required to spend US$2 million in 2012, US$8 million in 2011 and US$18 million in 2010 in construction costs to perform upgrades on its generating facilities to comply with environmental requirements, including costs associated with TEP's share of new pollution control equipment installed at San Juan.

TEP will continue to incur costs relating to environmental compliance and may incur added costs to comply with future changes in federal and state environmental laws, regulations and permit requirements at its power plants. Complying with these changes may reduce operating efficiency. TEP expects to recover the cost of environmental compliance from its retail customers. TEP currently has sufficient emission allowances to comply with acid rain SO_2 regulations.

The Clean Air Act requires the EPA to develop emission limit standards for hazardous air pollutants that reflect the maximum achievable control technology. In February 2012, the EPA issued final rules called the Mercury and Air Toxics Standards ("MATS") setting limits for mercury emissions and other hazardous air pollutants from power plants. The Navajo, Four Corners and Springerville power generation stations are currently expected to be affected by MATS, with TEP's portion of total capital expenditures required to bring the plants into compliance with MATS currently expected to be approximately US$50 million. TEP's portion of total required annual operating costs for the required equipment upgrades at Navajo, Four Corners and Springerville is currently expected to be less than US$6 million.

Climate Change

In 2007, the Supreme Court ruled in Commonwealth of *Massachusetts, et al. v. EPA* that carbon dioxide and other Greenhouse Gases ("GHG") are air pollutants under the Clean Air Act. In 2009, the EPA issued a final endangerment finding stating that GHGs endanger public health and welfare. The EPA issued final GHG regulations for new motor vehicles in 2010 triggering GHG permitting requirements for power plants under the Clean Air Act. As of January 2011, air quality permits for new sources, including power plants, and modifications of existing sources such as power plants must include an analysis for GHG controls. In the near term, based on current construction plans, UNS Energy does not currently expect the new permitting requirements to impact TEP or UNS Electric. In March 2012, the EPA released its proposed new source performance standard for GHGs. TEP does not currently anticipate this standard will have any material impact on its existing facilities.

In June 2013, U.S. President Barack Obama directed the EPA to move forward with carbon emission regulations for both new and existing fossil-fueled power plants. In September 2013, the EPA issued a re-proposed rule for new power plants. UNS Energy does not anticipate that a final rule related to new fossil-fueled power plant sources will have a significant impact on operations. For existing power plants, the President ordered the EPA to propose carbon emission standards by June 1, 2014, to finalize those standards by June 1, 2015 and to require states to submit their implementation plans to meet the standards by June 30, 2016. UNS Energy is working with federal and state regulatory agencies to promote compliance flexibility in the rules impacting existing fossil-fuel fired power plants. UNS Energy cannot predict the ultimate outcome of these matters.

Regional Haze Rules

The EPA's regional haze rules require emission controls known as Best Available Retrofit Technology ("BART") for certain industrial facilities emitting air pollutants that reduce visibility. The BART rules call for all states to establish goals and emission reduction strategies for improving visibility in national parks and wilderness areas. States must submit these goals and strategies to the EPA for approval. Because Navajo and Four Corners are located on the Navajo Indian Reservation, they are not subject to state oversight. The EPA directly oversees Regional Haze planning for these power plants.

Complying with the EPA's BART findings, and with other future environmental rules, may make it economically impractical to continue operating the Navajo, San Juan and Four Corners power plants or for individual owners to continue to participate in these power plants. TEP cannot predict the ultimate outcome of these matters. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Navajo

In January 2013, the EPA proposed an alternative BART determination for the Navajo generating facility that would require the installation of Selective Catalytic Reduction ("SCR") technology on all three units at Navajo by 2023. In July 2013, SRP, along with other stakeholders including impacted government agencies, environmental organizations and tribal representatives submitted an agreement to the EPA that would achieve greater NO_X emission reductions than the EPA's proposed BART rule. In September 2013, EPA issued a supplemental proposal incorporating the provisions of the agreement as a better-than-BART alternative.

Among other things, the agreement calls for the shutdown of one unit at Navajo or an equivalent reduction in emissions by 2020. The shutdown of one unit will not impact the total amount of energy delivered to TEP from Navajo. Additionally, the remaining Navajo participants would be required to install SCR or an equivalent technology on the remaining two units by 2030. As part of the agreement, the current owners have committed to cease their operation of conventional coal-fired generation at Navajo no later than December 2044. The Navajo Nation can continue operation after 2044 at its election.

If SCR technology is ultimately required at Navajo, TEP estimates its share of the capital cost relating to the required modifications will be approximately US$42 million. Also, the installation of SCR technology at Navajo could increase the power plant's particulate emissions which may require that baghouses be installed. TEP estimates that its share of the capital expenditure for baghouse installation would be approximately US$43 million. TEP's share of annual operating costs relating to the modifications is estimated at less than US$1 million for each of the control technologies (SCR and baghouses).

San Juan

In August 2011, the EPA issued a Federal Implementation Plan ("FIP") establishing new emission limits for air pollutants at San Juan. These requirements are more stringent than those proposed by the State of New Mexico. The FIP requires the installation of SCR technology with sorbent injection on all four units within five years to reduce NO_X and control sulfuric acid emissions by September 2016. TEP estimates its share of the cost to install SCR technology with sorbent injection at San Juan to be between US$180 million and US$200 million. TEP expects its share of the annual operating costs for SCR technology to be approximately US$6 million.

In 2011, PNM filed a petition for review of and a motion to stay the FIP with the Tenth Circuit United States Court of Appeals ("Circuit Court"). In addition, PNM filed a request for reconsideration of the rule with the EPA and a request to stay the effectiveness of the rule pending the EPA's reconsideration and the review by the Circuit Court. The State of New Mexico filed similar motions with the Circuit Court and the EPA. Several environmental groups were granted permission to join in opposition to PNM's petition to review in the Circuit Court. In addition, WildEarth Guardians filed a separate appeal against the EPA challenging the FIP's five-year implementation schedule. PNM was granted permission to join in opposition to that appeal. In March 2012, the Circuit Court denied PNM's and the State of New Mexico's motion for stay. Oral argument on the appeal was heard in October 2012 and the parties are currently awaiting the Circuit Court's decision.

In February 2013, the State of New Mexico, the EPA and PNM signed a non-binding agreement that outlines an alternative to the FIP. The terms of the agreement include: the retirement of San Juan Units 2 and 3 by December 31, 2017; the replacement by PNM of those units with non-coal generation sources; and the installation of Selective Non-Catalytic Reduction technology ("SNCR") on San Juan Units 1 and 4 by January 2016 or later depending on the timing of EPA approvals. The New Mexico Environmental Department prepared a revision to the regional haze State Implementation Plan ("SIP") incorporating the provisions of the agreement, and in September 2013, the New Mexico Environmental Improvement Board approved the SIP revision. The SIP revision now awaits final EPA approval.

TEP estimates its share of the cost to install SNCR technology on San Juan Unit 1 would be approximately US$35 million. TEP's share of incremental annual operating costs for SNCR is estimated at $1 million. TEP owns 340 MW or 50% of San Juan Units 1 and 2. At September 30, 2013, the book value of TEP's share of San Juan Unit 2 was US$114 million. If Unit 2 is retired early, TEP expects to request ACC approval to recover, over a reasonable time period, all costs associated with the early closure of the unit. TEP is evaluating various sources to replace the generation capacity that would be lost if Unit 2 is retired early. Any decision regarding early closure and replacement resources will require various actions by third parties as well as UNS Energy board and regulatory approvals. UNS Energy cannot predict the ultimate outcome of this matter. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

If the State of New Mexico's proposed plan is not accepted by the EPA, TEP may begin making capital expenditures to install SCRs on San Juan Units 1 and 2 to meet the FIP compliance deadline.

Four Corners

In August 2012, the EPA finalized the Regional Haze FIP for Four Corners. The final FIP requires SCR technology to be installed on all five units by 2017. However, the FIP also includes an alternative plan that allows APS to close their wholly owned Units 1, 2 and 3 and install SCR technology on Units 4 and 5. This option allows the installation of SCR technology to be delayed until July 2018. In either case, TEP's estimated share of the capital costs to install SCR technology at Four Corners is approximately US$35 million. TEP's share of annual operating costs for SCR at Four Corners is estimated at US$2 million.

Springerville

Regional haze regulations requiring emission control upgrades do not apply to Springerville currently and are not likely to impact Springerville operations until after 2018.

Sundt

In July 2013, the EPA determined that Sundt Unit 4 is subject to BART requirements. The EPA postponed its expected release of a proposed BART requirement for Sundt Unit 4 until December 2013, with a final determination expected in May 2014. While TEP does not agree that Sundt Unit 4 is BART eligible, in anticipation of EPA's proposed BART requirements, TEP has submitted a plan for EPA approval proposing to eliminate coal as a fuel after December 2017.

Coal Combustion Residuals

In 2010, the EPA proposed a rule to regulate the handling and disposal of coal ash and other Coal Combustion Residuals ("CCRs"). The EPA has proposed regulating CCRs as either non-hazardous solid waste or hazardous waste. The hazardous waste alternative would require additional capital investments and operational costs for both storage and handling at plants and transportation to disposal locations. Both the hazardous waste and non-hazardous solid waste alternatives would require liners for new ash landfills or expansions to existing ash landfills. The rules will apply to

CCRs produced by all of TEP's coal-fired generating assets. San Juan may also be subject to separate regulations being drafted by the Office of Surface Mining Reclamation and Enforcement because it disposes of CCRs in surface mine pits.

The EPA has not yet indicated a preference for an alternative. Each option would allow CCRs to be beneficially reused or recycled as components of other products. TEP currently expects the EPA to issue a final rule relating to the disposal of CCRs in 2014.

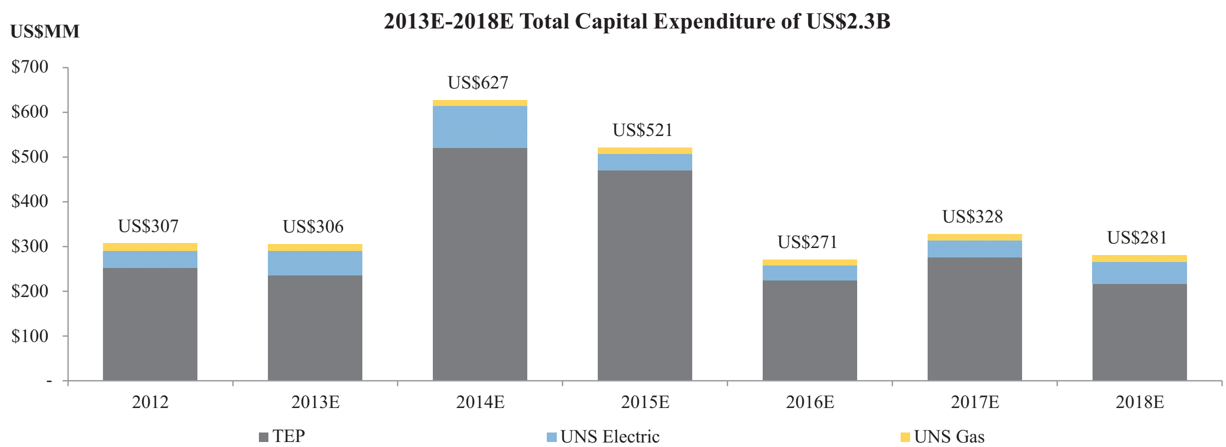
TEP also is contractually obligated to pay a portion of the environmental reclamation costs incurred at generating stations in which it has a minority interest and is obligated to pay similar costs at the coal mines that supply these generating stations. While TEP has recorded the portion of its obligations for such reclamation costs that can be determined at this time, the total costs for final reclamation at these sites are unknown and could be substantial. Costs associated with mine reclamation are flowed through to TEP's retail customers as incurred.

UNS Gas and UNS Electric

UNS Gas and UNS Electric are each subject to environmental regulation of air and water quality, resource extraction, waste disposal and land use by federal, state and local authorities. The facilities and operations of UNS Gas and UNS Electric are in substantial compliance with existing regulations.

Capital Expenditures

Capital expenditures for the UNS Energy utility subsidiaries over the period from 2013 through 2018 are projected to total approximately US$2.3 billion. The estimated capital expenditures include the capital required to finance the anticipated acquisition of Gila River in 2014 and the capital required to exercise the Springerville Unit 1 lease purchase options in December 2014 and January 2015. See "The Acquired Businesses — TEP — Generating and Other Resources" and "The Acquired Business — TEP — Future Generating Resources".



Strong operating cash flows are expected to provide flexibility in the financing of capital expenditure projects. The majority of UNS Energy's capital investments are expected to be funded largely through internally generated operating cash flow and long-term debt issued by the UNS Utilities.

The rate base of UNS Energy is expected to grow by a CAGR of approximately 7% through 2018 as a result of capital expenditures related to UNS Energy's generation diversification, including increased generation from renewable resources, and meeting mandated emission reductions applicable to the regulated utility subsidiaries. See "The Acquired Business — Environmental Regulation".

Operating and Maintenance Expense

Base O&M expenses, including the cost of generating plant maintenance, represent the fundamental level of expenses related to maintaining UNS Energy's core business. UNS Energy management has maintained a focus on the control of base O&M. As a result, base O&M has remained flat at approximately US$270 million annually for 2009 through 2012. Base O&M expenses are estimated to be in the range of US$280 to US$290 million annually for 2013 through 2015, which equates to an average annual growth rate of 1.2% since 2009.

Outstanding Indebtedness

For information on the financial condition and results of UNS Energy, reference is made to the audited consolidated financial statements of UNS Energy as of December 31, 2012 and 2011, including the consolidated statements of income and cash flows for each of the years ended December 31, 2012, 2011 and 2010, and the unaudited consolidated financial statements of UNS Energy for the three and nine months ended September 30, 2013, each of which is included in this Prospectus.

Long-Term Debt and Capital Lease Obligations

UNS Energy's long-term debt and capital lease obligations as of September 30, 2013 are described in the chart below. Fortis expects all such debt will remain in place following the Acquisition:

Long-Term Debt	Maturity	Interest Rate	As of September 30, 2013 (millions of U.S. dollars)
UNS Energy:			
Credit Agreement [1]	2016	Variable	52
TEP:			
Variable Rate Tax-Exempt Bonds [2]	2014-2016	Variable	215
Unsecured Fixed Rate Bonds	2020-2040	4.50%-6.38%	609
Unsecured Notes	2021-2023	3.85%-5.15%	400
UNS Gas and UNS Electric:			
Senior Unsecured Notes	2015-2026	5.39%-7.10%	200
UNS Electric:			
Unsecured Term Loan	2015	Variable	30
Total Long-Term Debt			1,506
Capital Lease Obligations [3]			299
Total Long-Term Debt and Capital Lease Obligations			1,805

(1) UNS Energy reflects borrowings under its revolving credit facility as long-term debt, as it has the ability and intention to leave the balance of its borrowings outstanding for at least the next twelve months.

(2) TEP also holds in treasury an aggregate of US$150 million of bonds issued by the Industrial Development Authority of the County of Apache which it may reissue or refund in the future. Subsequent to September 30, 2013, TEP acquired an additional US$100 million of bonds issued by the Industrial Development Authority of the County of Apache, which bonds are subject to a mandatory tender for purchase in 2018 and mature in 2032. TEP will use the proceeds of such bonds to redeem an existing series of outstanding bonds in the amount of US$100 million.

(3) Includes the long-term and current capital lease obligations with respect to TEP's leased interests in Springerville Unit 1, the Springerville Coal Handling Facilities and the Springerville Common Facilities. In August 2013, TEP recorded an increase of US$39 million due to TEP's commitment to purchase lease interests in January 2015.

Credit Facilities

UNS Energy maintains a US$125 million stand-alone revolving credit facility (the "UNS Energy Credit Facility"), expiring in November 2016, to provide committed liquidity beyond its cash balance. The facility is secured by a pledge of the common stock of Millennium, UniSource Energy Services and UniSource Energy Development Company. At September 30, 2013, UNS had approximately US$73 million available under its revolver and US$3 million in cash and cash equivalents.

TEP currently maintains a US$200 million revolving credit facility (the "TEP Credit Facility"), which expires in November 2016. As of September 30, 2013, TEP had US$1 million in borrowings under its revolver and US$35 million in cash and cash equivalents. TEP's credit agreements also provide for a US$186 million letter of credit facility, which also expires in November 2016 and a US$37 million letter of credit facility that expires in 2014 (together, the "TEP LOC Facilities"). The TEP LOC Facilities are used to support TEP's tax-exempt variable rate bonds.

UNS Gas and UNS Electric share a US$100 million revolving credit facility (the "UNS Electric/UNS Gas Credit Facility") that also expires in November 2016. Each utility's maximum draw under the facility is US$70 million but the total combined borrowed amount cannot exceed US$100 million and each utility is only liable for its own borrowings. As at September 30, 2013, UNS Gas had no borrowings under the revolver and US$27 million in cash and cash equivalents, while UNS Electric had US$23 million drawn on the revolver and US$4 million in cash and cash equivalents.

In August 2011, UNS Electric entered into a four-year $30 million variable rate term loan credit agreement (the "UNS Electric Term Loan"). The interest rate currently in effect under this facility is three-month London Interbank Offer Rate ("LIBOR") plus 1.125%. At the same time, UNS Electric entered into a fixed-for-floating interest rate swap in which UNS Electric will pay a fixed rate of 0.97% and receive a three-month LIBOR rate on a US$30 million notional amount over a four-year period ending August 2015. The UNS Electric Term Loan is guaranteed by UNS Electric's immediate shareholder UniSource Energy Services.

The UNS Energy Credit Facility, TEP Credit Facility, UNS Electric/UNS Gas Credit Facility and UNS Electric Term Loan contain restrictive covenants including restrictions on liens, mergers and sales of assets. These agreements also require that a certain maximum leverage ratio not be exceeded. Concurrently with the issuance of 2013 Series A Industrial Development Revenue Bonds on November 1, 2013, TEP entered into a covenants agreement with the purchaser of such bonds, STI Institutional & Government Inc., which contains covenants and events of default that are the same, in all material respects, as those in the TEP Credit Facilities and include restrictions on mergers and sales of assets, in addition to mandating that TEP not exceed a maximum leverage ratio. At September 30, 2013, UNS Energy and its subsidiaries were in compliance in all material respects with the terms of their respective credit agreements, the TEP LOC Facilities and the UNS Electric Term Loan.

THE ACQUISITION AGREEMENT

Set forth below is a description of the material terms of the Acquisition Agreement. The description is a summary only and is qualified in its entirety by the full text of the Acquisition Agreement. A copy of the Acquisition Agreement has been filed on the Corporation's SEDAR profile at www.sedar.com. This summary is not intended to be, and should not be relied upon as, disclosure of any facts and circumstances relating to Fortis or UNS Energy.

Purchase Price

Pursuant to the terms of the Acquisition Agreement, Fortis and certain subsidiaries of Fortis (collectively, the "Purchaser") have agreed to acquire UNS Energy for an aggregate purchase price of approximately US$4.3 billion, comprised of approximately US$2.5 billion in cash (the "Cash Purchase Price") for all of the issued and outstanding shares of UNS Energy and the assumption of approximately US$1.8 billion of debt on closing of the Acquisition.

Representations and Warranties

Under the Acquisition Agreement, the Purchaser and UNS Energy have made various representations and warranties. UNS Energy's representations and warranties relate to, among other things: organization and qualification of UNS Energy and its subsidiaries; capitalization; authority to enter into the Acquisition Agreement and to effect the Acquisition; no conflict; required filings, consents and approvals; possession of permits and compliance with all applicable laws; securities regulatory filings; reports and financial statements; sufficiency of internal control and disclosure controls; absence of undisclosed liabilities; absence of certain material changes or events since December 31, 2012; accuracy and completeness of information to be included in the UNS Energy proxy statement; pension and employee benefits; labour and employment matters; disclosure of material contracts; existence and status of litigation; real and personal property; environmental matters; intellectual property; tax matters; fairness opinion of financial advisor; adequacy of insurance; required shareholder vote; broker engagement and involvement; regulation as a utility; regulatory filings; non-applicability of takeover laws; disclosure of forward contracts and derivatives trading; regulatory proceedings and absence of dissenter's rights. The representations and warranties of the subsidiaries of the Corporation that are party to the Acquisition Agreement relate to, among other things: organization and qualification of such subsidiaries; authority to enter into the Acquisition Agreement and to effect the Acquisition; no conflict; required filings, consents and approvals; accuracy and completeness of information supplied to UNS Energy for inclusion in its proxy statement; existence and status of litigation; no ownership of UNS Energy capital stock by the Corporation or any of its subsidiaries; availability of funds to consummate the Acquisition; ownership of the merger subsidiary and prior activities of such subsidiary; absence of management agreement; and brokerage fees.

Covenants

UNS Energy and the Purchaser have made covenants relating to the closing of the Acquisition and related matters. UNS Energy and the Purchaser have agreed, among other things, to use their reasonable best efforts to take all appropriate action and to do all things necessary to complete and otherwise give effect to the Acquisition, including to satisfy the conditions described below under "— Closing Conditions" and to obtain the regulatory consents and approvals described below under "— Closing Conditions — Governmental Consents and Approvals", including to make all necessary filings with the relevant government authorities; provided that Purchaser shall not be required to, and UNS Energy shall not, take any action other than actions as are expressly agreed by the Purchaser and UNS Energy, that individually or in the aggregate would reasonably be expected to have a material adverse effect on UNS Energy or Fortis, in each case following the Acquisition. In addition, UNS Energy and the Purchaser have agreed not to take any action (including through their respective affiliates), including acquiring or making any investment in any corporation, partnership, limited liability company or other business organization or any division or assets thereof, that would reasonably be expected to cause a material delay in the satisfaction of the closing conditions contained in the Acquisition Agreement or the consummation of the Acquisition. The Purchaser has also covenanted in the Acquisition Agreement to indemnify all past and present directors, officers and employees of UNS Energy and its subsidiaries for a period of six years following closing of the Acquisition to the same extent as such persons are indemnified on the date of the Acquisition Agreement and to maintain certain employee benefits at pre-Acquisition levels for a period of two years following closing of the Acquisition.

During the period from the date of the Acquisition Agreement until the closing of the Acquisition, UNS Energy will, and UNS Energy will cause its subsidiaries to: (i) conduct their operations only in the ordinary course of business; (ii) comply in all material respects with applicable laws, orders and permits; and (iii) use their commercially reasonable best efforts (A) to maintain satisfactory relationships with third parties and governmental entities and (B) to preserve their business organization, key officers and employees, except as permitted or required by the Acquisition Agreement, or as required by law, government authority or the NYSE.

The Acquisition Agreement also contains specific restrictive covenants with respect to certain non-permissible activities of UNS Energy and its subsidiaries during the period from the date of the Acquisition Agreement until the closing of the Acquisition. These restrictive covenants provide that, subject to certain exceptions (including as permitted or required by the Acquisition Agreement), UNS Energy and its subsidiaries will respectively not take certain actions without the prior written approval of the Purchaser (such approval not to be unreasonably withheld, delayed or conditioned), including the following: (i) amend its articles, by-laws or equivalent organizational documents; (ii) issue equity securities other than pursuant to existing security-based compensation arrangements; (iii) sell, pledge, transfer or dispose of material assets; (iv) declare or pay dividends or make other distributions (other than the payment of regular quarterly cash dividends at the times and in the manner paid in the past and in an amount per share of UNS Energy common stock of not more than US$0.435 to holders of UNS Energy common stock on or before December 31, 2013 and US$0.48 after such date, inter-company dividends between the UNS Energy companies and dividend equivalent rights under security-based compensation arrangements and a stub period dividend to holders of record at the effective time of the Acquisition, if applicable); (v) acquire, redeem or amend the terms of its equity securities; (vi) merge or consolidate with another entity, or liquidate, dissolve, restructure, recapitalize or otherwise reorganize (or adopt any plan or resolution related thereto); (vii) acquire (including by exercising any right to acquire) or obtain any right to acquire (including by merger, consolidation or acquisition of stock or assets) any interest in any entity or any assets, other than acquisitions of inventory in the ordinary course of business, acquisition set out in the capital expenditure plan disclosed to the Purchaser or any assets the consideration for which does not exceed a specified threshold; (viii) incur any indebtedness except in connection with refinancings of existing indebtedness as such indebtedness matures upon market terms and conditions, draw-downs of existing credit facilities, or for borrowings in accordance with the financing plan of UNS Energy disclosed to the Purchaser; (ix) make loans, advances or capital contributions to, or investments in, any person (other than a wholly owned subsidiary) in excess of a specified threshold; (x) increase the compensation payable to directors, officers or employees other than otherwise required by law or in the ordinary course of business consistent with past practice or establish or amend any employee compensation plan or collective bargaining agreement other than in the ordinary course of business; (xi) make or revise a material tax election that is inconsistent with past practices; (xii) make any material change in accounting policies or procedures other than as required by US GAAP; (xiii) make or commit to capital expenditures in excess of the capital expenditures budget, other than as required by a governmental entity or as a result of an emergency; (xiv) terminate or allow a material permit to lapse; (xv) enter into, amend or terminate early a material contract or enter into any transaction with an affiliate or waive, release, assign, pay, discharge, settle or satisfy any material claims, liabilities or obligations other than in the ordinary course of business consistent with past practice or as otherwise required by their terms; (xvi) terminate employees or introduce a program or effort concerning the termination of employment of employees (other than employee terminations in the ordinary course); (xvii) hire any officer-level employee other than to replace any officer (not including UNS Energy's chief executive officer, chief financial officer or chief operating officer) that voluntarily terminates his or her employment or whose employment is terminated for cause, or terminate any officer-level employee, other than for cause; (xviii) settle or agree to settle any litigation, investigation, proceeding or other claim in excess of specified threshold amounts; (xix) redeem, repurchase, defease, cancel or otherwise acquire any indebtedness except pursuant to inter-company transactions or as otherwise permitted by the Acquisition Agreement; (xx) change energy price risk management policies or marketing of energy or enter into physical commodity transactions, futures options and derivatives not permitted by existing UNS Energy policy; (xxi) make any material change to the terms of insurance policies; (xxii) lower pricing for energy or capacity sold wholesale other than in the ordinary course; (xxiii) assign or license any material intellectual property; or (xxiv) authorize or enter into any contract to do any of the foregoing. In addition, from the date of the Acquisition Agreement until the time of closing, UNS Energy and its subsidiaries must obtain the Purchaser's consent prior to initiating any general rate case and must consult with the Purchaser prior to making any material change to its rates or charges.

Closing Conditions

The Acquisition Agreement provides that the obligation of the Purchaser or UNS Energy to consummate the Acquisition is subject to the fulfillment of a number of conditions, each of which may be waived by joint action of the contracting parties, including the following:

(i) Shareholder Approval. UNS Energy must have obtained approval of the Acquisition Agreement and the transactions contemplated thereby, including the Acquisition, from the holders of UNS Energy's common shares representing a majority of the votes of all outstanding common shares entitled to vote at a duly convened meeting of UNS Energy's common shareholders ("UNS Energy Shareholder Approval").

(ii) Accuracy of Representations and Warranties. The representations and warranties made by UNS Energy (other than as described below), without regard to materiality or Company Material Adverse Effect qualifiers, must be true and correct as of the date of the Acquisition Agreement and as of the closing date of the Acquisition, except where the failure of such representations and warranties to be true and correct, individually or in the aggregate, have not had and would not be reasonably likely to have a Company Material Adverse Effect. The representations and warranties made by UNS Energy with respect to its capitalization must be true and correct in all respects (except for *de minimis* inaccuracies) as of the date of the Acquisition Agreement and as of the closing date of the Acquisition. The representations and warranties made by UNS Energy with respect to authority to enter into and perform its obligations under the Acquisition Agreement and absence of conflict with organizational documents, without regard to materiality or Company Material Adverse Effect qualifiers, must be true and correct in all material respects as of the date of the Acquisition Agreement and as of the closing date of the Acquisition. The representations and warranties made by the Purchaser (other than those with respect to authority), without regard to materiality qualifiers, must be true and correct as of the date of the Acquisition Agreement and as of the closing date of the Acquisition, except where the failure of such representations and warranties to be true and correct, individually or in the aggregate, would not reasonably be expected to prevent or materially delay or materially impair the ability of the Purchaser to consummate the Acquisition. The representations and warranties made by the Purchaser with respect to authority to enter into and perform its obligations under the Acquisition Agreement must be true and correct in all respects as of the Acquisition Agreement and as of the closing date of the Acquisition.

"Company Material Adverse Effect" is defined in the Acquisition Agreement to mean any fact, change, event, circumstance, occurrence, effect or development that is materially adverse to: (i) the business, assets, liabilities, financial condition or results of operations of UNS Energy or its subsidiaries, taken as a whole; or (ii) the ability of UNS Energy to consummate the Acquisition or to perform its obligations under the Acquisition Agreement on a timely basis in accordance with the Acquisition Agreement, provided that certain external events will not constitute a Company Material Adverse Effect unless they specifically relate to or have a materially disproportionate effect on UNS Energy and its subsidiaries, taken as a whole, compared with other entities operating in the natural gas and electric utility industry.

(iii) Material Adverse Effect. There must not have occurred any Company Material Adverse Effect or any change, event, occurrence, effect or development that, individually or in the aggregate, has had or would reasonably be expected to result in a Company Material Adverse Effect.

(iv) Performance of Covenants. The other party has performed or complied in all material respects with all agreements and covenants required by the Acquisition Agreement to be performed or complied with on or prior to the closing date of the Acquisition.

(v) Legal Proceedings. There must not be any order, decree, judgment, injunction or other ruling or law that has the effect of making the merger of an indirect wholly owned subsidiary of Fortis into UNS Energy illegal or would otherwise prohibit consummation of the Acquisition.

(vi) Governmental Consents and Approvals. Each party has received the governmental and regulatory consents and approvals required to be obtained by it under the Acquisition Agreement. The regulatory approvals that must be obtained prior to the closing of the Acquisition include:

(a) the issuance by the ACC of an order approving the Acquisition under Arizona Administrative Code R14-2-801 et seq., which shall not contain any term which has the effect of reducing the consideration received by holders of UNS Energy common stock;

(b) the approval of the Acquisition by FERC;

(c) pre-approvals of license transfers with the Federal Communications Commission;

(d) the expiration or termination of any applicable waiting period, together with any extensions thereof, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and

(e) written confirmation from the Committee on Foreign Investment in the United States ("CFIUS") that CFIUS has reviewed the information provided to it regarding the Acquisition and based on its review and, where applicable, investigation, has determined that there are no unresolved national security concerns with respect to the Acquisition.

Superior Proposal

Pursuant to the terms of the Acquisition Agreement, UNS Energy and its subsidiaries, officers, directors, employees and representatives are not permitted to, directly or indirectly, encourage or facilitate another acquisition proposal, or any inquiry or proposal by another person that could reasonably be expected to lead to another acquisition proposal. However, if at any time prior to receipt of UNS Energy Shareholder Approval, UNS Energy receives a bona fide written acquisition proposal from a third party that its board of directors determines in good faith constitutes or is reasonably likely to lead to an acquisition proposal more favourable to UNS Energy than the terms of the Acquisition (a "Superior Proposal"), UNS Energy may (i) furnish information with respect to UNS Energy to the third party making the acquisition proposal and/ or (ii) participate in discussions or negotiations with such third party; provided that the third party enters into an acceptable confidentiality agreement and UNS Energy provides to the Purchaser any information made available to the third party which was not previously provided or made available to the Purchaser. Under the terms of the Acquisition Agreement, UNS Energy is obligated to keep the Purchaser informed, in all material respects, on a reasonably prompt basis of the status and details of any acquisition proposal, and to provide to the Purchaser as soon as reasonably practicable copies of all written material specifying the material terms and conditions of such acquisition proposal.

UNS Energy's board of directors may not withdraw or take any action inconsistent with its recommendation that its common shareholders approve and adopt the Acquisition (which for greater certainty includes taking a neutral position with respect to a third party acquisition proposal), unless, after receiving a Superior Proposal and before such Superior Proposal is withdrawn, UNS Energy has first provided written notice to the Purchaser specifying the reasons for UNS Energy board's change of recommendation, including the material terms and conditions of such Superior Proposal and attaching a copy of the most current draft of any written agreement relating thereto, has negotiated in good faith with the Purchaser to amend the terms of the Acquisition Agreement and has determined that UNS Energy board's failure to change its recommendation would be a breach of its fiduciary duties under applicable law and such Superior Proposal continues to be Superior Proposal taking into account any changes to the terms of the Acquisition Agreement committed to by the Purchaser.

In addition, if there occurs any change, event, occurrence, effect or development that (i) is material to UNS Energy and its subsidiaries taken as a whole, (ii) does not relate to a third party acquisition proposal and (iii) is not known to UNS Energy's board of directors as of the date of the Acquisition Agreement, then UNS Energy's board of directors may make a change to its recommendation that its common shareholders approve and adopt the Acquisition, if (and only if) UNS Energy's board of directors determines in good faith that the failure to do so would be a breach of its fiduciary duties under applicable law; provided, however, that UNS Energy's board of directors has provided prior written notice to the Purchaser specifying the reasons therefor, has negotiated in good faith with the Purchaser to amend the terms of the Acquisition Agreement and taking into account any changes to the terms of the Acquisition Agreement committed to by the Purchaser, UNS Energy's board of directors has determined in good faith that its failure to make a change of recommendation would be a breach of its fiduciary duties under applicable law.

Termination

The Acquisition Agreement may be terminated by the Purchaser or UNS Energy at any time prior to closing in certain circumstances, whether before or after receipt of the UNS Energy Shareholder Approval, including:

(i) the mutual written consent of the Purchaser and UNS Energy;

(ii) if the Acquisition has not closed by December 11, 2014 provided, however, that if the only unsatisfied conditions to closing is obtaining the required regulatory approvals, then such date shall automatically be extended without any further action to June 11, 2015 (subject to any waiting period imposed by law);

(iii) the UNS Energy Shareholder Approval is not obtained upon a vote by holders of UNS Energy's outstanding common shares entitled to vote at a duly convened meeting of UNS Energy's shareholders;

(iv) if a court of competent jurisdiction or a government authority issues a final order or injunction permanently enjoining, restraining or prohibiting the Acquisition;

(v) prior to receipt of UNS Energy Shareholder Approval, by (a) UNS Energy upon receipt of an acquisition proposal which is determined, by the board of directors of UNS Energy, to be a Superior Proposal, provided that, among other things, UNS Energy has subsequently negotiated in good faith with the Purchaser to amend the terms of the Acquisition Agreement; or (b) Purchaser in the event that (I) the board of directors of UNS Energy changes its prior recommendation that its common shareholders approve and adopt the Acquisition or (II) UNS Energy enters into a definitive agreement with respect to a Superior Proposal; or

(vi) if the other party fails to comply with any of its covenants and agreements or breaches its representations and warranties, and such failure to comply is not cured within 30 days of receiving written notice of such breach and results in a failure to satisfy the conditions to closing.

In the event that the Acquisition Agreement is terminated by the Purchaser or UNS Energy pursuant to paragraph (v), UNS Energy will be required to pay to the Purchaser a termination fee of US$63,900,000 (the "Termination Fee").

In the event that the Acquisition Agreement is terminated: (a) by the Purchaser or UNS Energy pursuant to paragraphs (ii) or (iii) or by the Purchaser pursuant to paragraph (vi); (b) prior to the termination pursuant to paragraph (ii), the UNS Energy shareholder meeting or a breach or failure giving rise to the Purchaser's right to terminate pursuant to paragraph (vi), as applicable, where an acquisition proposal by a third party has been made to UNS Energy or its board of directors or publicly disclosed and not withdrawn prior to the termination; and (c) UNS Energy enters into a definitive agreement with respect to, or consummates, an acquisition proposal by a third party within 12 months after such termination, UNS Energy will be required to pay to the Purchaser the Termination Fee less any fees and expenses previously paid to the Purchaser on termination.

UNS Energy will be required to reimburse the Purchaser for all fees and expenses incurred or paid for in connection with the Acquisition, including fees and expenses in connection with the Purchaser's equity and debt financing, not in excess of US$12,500,000 in the aggregate where the Acquisition Agreement is terminated: (a) by the

Purchaser or UNS Energy pursuant to paragraphs (ii) or (iii) or by the Purchaser pursuant to paragraph (vi); and (b) prior to the termination pursuant to paragraph (ii), the UNS Energy shareholder meeting or a breach or failure giving rise to the Purchaser's right to terminate pursuant to paragraph (vi), as applicable, where an acquisition proposal by a third party has been made to UNS Energy or its board of directors or publicly disclosed and not withdrawn prior to the termination.

FINANCING THE ACQUISITION

The Acquisition will be financed with the proceeds of the Acquisition Credit Facilities. The amount outstanding under the Acquisition Credit Facilities following the closing of the Acquisition will be reduced with the net proceeds of the final instalment under the Offering and the Concurrent Private Placement. See "Use of Proceeds".

Acquisition Credit Facilities

For purposes of financing the Acquisition, on December 11, 2013, Fortis obtained a commitment letter from The Bank of Nova Scotia providing for an aggregate of $2.0 billion non-revolving term credit facilities in favour of Fortis consisting of a $1.7 billion Short-Term Bridge Facility, repayable in full nine months following its advance, and a $300 million Medium-Term Bridge Facility, repayable in full on the second anniversary of its advance. The Acquisition Credit Facilities, together with the $600 million the Corporation has agreed to maintain under its existing Revolving Facility to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption (as described under "Details of the Offering — Debentures Redemption"), would be sufficient, if necessary, to fund the full cash portion of the purchase price for the Acquisition.

As at December 19, 2013, the Corporation and its subsidiaries had consolidated credit facilities of approximately $2.7 billion (not including the Acquisition Credit Facilities), of which $2.2 billion was unused, including an unused amount of approximately $820 million under the Corporation's $1 billion committed Revolving Facility. Fortis (on a consolidated basis) intends to use the net proceeds of the first instalment under the Offering and the Concurrent Private Placement which are expected to be $563,400,000 in the aggregate (assuming no exercise of the Over-Allotment Option) to repay borrowings under the Revolving Facility and for other general corporate purposes, including financing equity requirements of the Corporation's subsidiaries. Fortis (on a consolidated basis) intends to use the net proceeds of the final instalment under the Offering and the Concurrent Private Placement which are expected to be $1,164,600,000 in the aggregate (assuming no exercise of the Over-Allotment Option) to repay borrowings under the Acquisition Credit Facilities following the closing of the Acquisition and for other Acquisition-Related Expenses. See "Use of Proceeds".

Fortis is required to make prepayments of the Acquisition Credit Facilities in an amount equal to the net cash proceeds from any common or preferred equity or bond or other debt offerings by Fortis. Net proceeds from any equity offering will be applied firstly to repay the Short-Term Bridge Facility and secondly to repay the Medium-Term Bridge Facility. Net proceeds from any bond or other debt offerings, including the aggregate amount of the final instalment payable under this Offering and the Concurrent Private Placement, will be applied firstly to repay the Medium-Term Bridge Facility and secondly to repay the Short-Term Bridge Facility. Fortis expects that the remainder of borrowings under the Acquisition Credit Facilities will be reduced or repaid from the proceeds of one or more offerings of Common Shares, long-term debt securities, first preference shares or second preference shares or from amounts extended under other debt financings in order to restore the current consolidated capitalization structure of Fortis following the Acquisition.

The credit agreement pursuant to which the Acquisition Credit Facilities will be extended (the "Acquisition Credit Agreement") will contain certain prepayment options in favour of Fortis and certain prepayment obligations upon the occurrence of certain events. In particular, the net proceeds of any equity or debt offering by Fortis (other than certain permitted equity or debt offerings for strategic investments) will be required to be used to prepay the Short-Term Bridge Facility and Medium-Term Bridge Facility, respectively, and any prepayment under the Acquisition Credit Facilities may not be re-borrowed.

The Acquisition Credit Agreement will contain customary representations and warranties and affirmative and negative covenants of Fortis that will closely resemble those in the Revolving Facility. As part of these covenants, Fortis will be required to maintain a consolidated debt to consolidated capitalization ratio of not more than 0.70:1, which is consistent with the Revolving Facility.

Customary fees are payable by Fortis in respect of the Acquisition Credit Facilities and amounts outstanding under the Acquisition Credit Facilities will bear interest at market rates.

Concurrent Private Placement

The Corporation and the Selling Debentureholder have entered into subscription agreements dated December 11, 2013 (each a "Subscription Agreement") pursuant to which Private Placement Subscribers will purchase on an instalment and private placement basis, Private Placement Debentures at a price of $1,000 per Private Placement Debenture for aggregate gross proceeds to the Selling Debentureholder of $206,000,000 (the "Concurrent Private Placement"). The closing of the Concurrent Private Placement is scheduled to occur on the Closing Date, which is expected to take place on or about January 9, 2014 or such other date as may be agreed upon by the Corporation, the Selling Debentureholder and the Underwriters, but not later than January 20, 2014 and is conditional on the concurrent closing of the Offering. Each Private Placement Subscriber will be paid a commitment fee in cash equal to $20.00 per $1,000 aggregate principal amount of Private Placement Debentures subscribed for by such Private Placement Subscriber payable on the Closing Date. The Private Placement Debentures, the Instalment Receipts representing such Private Placement Debentures and the Common Shares issuable on the conversion of the Private Placement Debentures will be subject to resale restrictions for a four-month period from the closing of the Private Placement, in accordance with applicable Canadian securities laws. Fortis has applied to list the Instalment Receipts (representing the Private Placement Debentures) and the Common Shares issuable on the conversion of the Private Placement Debentures on the TSX.

Fortis, the Selling Debentureholder and Scotia Capital, RBC, TDSI and CIBC have entered into an agency agreement dated December 11, 2013 (the "Agency Agreement") pursuant to which Scotia Capital, RBC, TDSI and CIBC are, collectively, entitled to receive an agency fee of $20.00 per $1,000 aggregate principal amount of Private Placement Debentures in connection with the Concurrent Private Placement. Such agency fee will be paid on the Final Instalment Date, provided that the final instalment has been paid in respect of such Private Placement Debentures.

Purchasers of Debentures under this Prospectus should not rely on the fact that the Private Placement Subscribers have decided to participate in the Concurrent Private Placement and make an investment in the Private Placement Debentures. The net proceeds of the first instalment under the Concurrent Private Placement will be used to repay amounts outstanding under the Revolving Facility. The net proceeds of the final instalment under the Concurrent Private Placement will be used to reduce the amount outstanding under the Acquisition Credit Facilities following the closing of the Acquisition. See "Use of Proceeds". The subscription price for the Private Placement Debentures was negotiated between the Corporation, the Selling Debentureholder and each of the Private Placement Subscribers.

CAPITALIZATION

Upon completion of the Offering, the closing of the Acquisition and assuming the payment of the final instalment and the conversion of the Debentures and the Private Placement Debentures into Common Shares, there will be an aggregate of 58.6 million additional Common Shares outstanding, or 66.4 million additional Common Shares if the Over-Allotment Option is exercised in full (in each case on a non-fully diluted basis).

The following table sets out the consolidated capitalization of the Corporation as at September 30, 2013 and on a *pro forma* basis, assuming no exercise of the Over-Allotment Option, as of such date after giving effect to (i) the net proceeds of the Offering, determined after deducting the Underwriters' fee and estimated expenses of the Offering on an after-tax basis, (ii) the net proceeds of the Concurrent Private Placement, determined after deducting the commitment fee, the agency fee and estimated expenses of the Concurrent Private Placement, (iii) the Acquisition Credit Facilities to be drawn at the closing of the Acquisition to fund the balance of the purchase price, (iv) the Acquisition and the assumption of the UNS Energy debt, (v) the conversion of the Debentures and the Private Placement Debentures into Common Shares and (vi) the changes in Common Shares, long-term debt, capital lease and finance obligations from October 1, 2013 up to and including December 19, 2013. See "Changes in Share and Loan Capital Structure" and "Financing the Acquisition". The financial information set out below has been prepared in accordance with US GAAP. See "Index to Financial Statements".

	As at September 30, 2013 (unaudited)	***Pro forma* As at September 30, 2013 (unaudited)[(1)]**
	(in millions of dollars)	
Total debt, capital lease and finance obligations [(2)] (net of cash)	7,503	10,315
Shareholders' equity		
Securities offered hereby [(3)]	—	1,749
Common Shares [(4)]	3,760	3,782
Preference shares	1,229	1,229
Additional paid-in capital	16	16
Accumulated other comprehensive loss	(101)	(101)
Retained earnings	1,013	989
Total capitalization [(5)]	13,420	17,979

(1) After giving effect to (i) the net proceeds of the Offering, assuming no exercise of the Over-Allotment Option, determined after deducting the Underwriters' fee and estimated expenses of the Offering on an after-tax basis, (ii) the net proceeds of the Concurrent Private Placement, determined after deducting the commitment fee, the agency fee and estimated expenses of the Concurrent Private Placement, (iii) the Acquisition Credit Facilities to be drawn at the closing of the Acquisition to fund the balance of the purchase price, (iv) the Acquisition and the assumption of the UNS Energy debt and (v) the changes in Common Shares, long-term debt, capital lease and finance obligations from October 1, 2013 up to and including December 19, 2013. See "Changes in Share and Loan Capital Structure".

(2) Includes long-term debt, capital lease and finance obligations, including the current portion and short-term borrowings.

(3) Assuming the conversion of the Debentures and the Private Placement Debentures into Common Shares.

(4) Does not include the Common Shares issuable upon the conversion of the Debentures and the Private Placement Debentures, which are included as "Securities offered hereby".

(5) Excludes non-controlling interests.

EARNINGS COVERAGE RATIOS

The Corporation's interest requirements on all of its outstanding debt securities after giving effect to the issue of $1.8 billion principal amount of 4.00% Debentures distributed hereunder and under the Concurrent Private Placement (and the repayment of outstanding amounts under the Revolving Facility using the payment of the first instalment) amounted to $459 million and $471 million for the 12 months ended December 31, 2012 and the 12 months ended September 30, 2013, respectively. The Corporation's dividend requirements on all of its First Preference Shares for the 12 months ended December 31, 2012 and 12 months ended September 30, 2013, adjusted to a before-tax equivalent, amounted to $55 million using an effective income tax rate of 14.1% and $60 million using an effective income tax rate of 5.0%, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2012 and

12 months ended September 30, 2013 were $782 million and $761 million, respectively, which is 1.52 times and 1.43 times, respectively, the Corporation's aggregate interest and dividend requirements for the periods.

The earnings coverage ratios of the Corporation, calculated on a *pro forma* basis after giving effect to the Acquisition, including the conversion of the Debentures and the Private Placement Debentures into Common Shares and the Acquisition Credit Facilities remaining outstanding after the payment of the final instalment, are calculated as follows: (i) the Corporation's interest requirements on all of its outstanding debt securities amounted to $547 million and $416 million for each of the 12 months ended December 31, 2012 and the 9 months ended September 30, 2013, respectively; (ii) the Corporation's dividend requirements on all of its First Preference Shares for the 12 months ended December 31, 2012 and 9 months ended September 30, 2013, adjusted to a before-tax equivalent, amounted to $57 million using an effective income tax rate of 17.2% and $48 million using an effective income tax rate of 8.7%, respectively; and (iii) the Corporation's earnings before interest and income tax for the 12 months ended December 31, 2012 and 9 months ended September 30, 2013 were $1,033 million and $799 million, respectively, which is 1.71 times and 1.72 times, respectively, the Corporation's aggregate interest and dividend requirements for the periods.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at December 19, 2013, 213,145,372 Common Shares, 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G"), 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H"), 8,000,000 Cumulative Redeemable First Preference Shares, Series J (the "First Preference Shares, Series J") and 10,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series K (the "First Preference Shares, Series K") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K are listed on the TSX under the symbols "FTS", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G", "FTS.PR.H", "FTS.PR.J" and "FTS.PR.K", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since September 30, 2013:

(i) During the period from October 1, 2013 up to and including December 19, 2013, Fortis issued an aggregate of 727,112 Common Shares pursuant to the Corporation's DRIP, CSPP and ESPP and upon the exercise of options granted pursuant to the 2006 and 2002 Stock Option Plans, for aggregate consideration of approximately $22 million.

(ii) During the period from October 1, 2013 up to and including December 19, 2013, the Corporation's consolidated long-term debt, capital lease and finance obligations, including current portions and committed credit facility borrowings classified as long-term debt, increased by approximately $81 million, principally due to the following:

   (a) the issuance by the Corporation of US$285,000,000 3.84% senior unsecured notes, series C due October 1, 2023 and US$40,000,000 5.08% senior unsecured notes, series D due October 1, 2043, the proceeds of which were used to repay committed credit facility borrowings;

   (b) the issuance by Newfoundland Power of 30-year $70,000,000 4.805% first mortgage bonds, the proceeds of which were partially used to repay credit facility borrowings; and

   (c) credit facility borrowings at FortisAlberta to fund capital expenditures and for general corporate purposes.

(iii) As a result of the Offering and the Concurrent Private Placement, after giving effect to the assumed conversion of the Debentures and the Private Placement Debentures into Common Shares, shareholders' equity in the Corporation will increase by approximately $1.7 billion.

PRIOR SALES

The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares within the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
December 1, 2012	Common — DRIP (1)	$32.42	493,631
December 1, 2012	Common — ESPP (2)	$33.06	70,016
December 1, 2012	Common — CSPP (3)	$33.06	12,404
December 2013	Common — Exercise of Stock Options (4)	$27.12	161,261
January 2013	Common — Exercise of Stock Options (4)	$25.08	113,179
February 2013	Common — Exercise of Stock Options (4)	$14.61	73,086
March 1, 2013	Common — DRIP (1)	$32.94	562,571
March 1, 2013	Common — ESPP (2)	$33.58	146,325
March 1, 2013	Common — CSPP (3)	$33.58	8,777
March 20, 2013	Issue of Stock Options	$33.58	807,600
March 2013	Common — Exercise of Stock Options (4)	$12.81	5,660
April 2013	Common — Exercise of Stock Options (4)	$17.94	135,132
May 2013	Common — Exercise of Stock Options (4)	$18.59	43,990
June 1, 2013	Common — DRIP (1)	$32.93	483,209
June 1, 2013	Common — ESPP (2)	$33.50	70,835
June 1, 2013	Common — CSPP (3)	$33.58	7,960
June 27, 2013	Common (5)	$32.50	18,500,000
August 2013	Common — Exercise of Stock Options (4)	$19.45	16,400
September 1, 2013	Common — DRIP (1)	$29.58	591,651
September 1, 2013	Common — ESPP (2)	$30.17	75,470
September 1, 2013	Common — CSPP (3)	$30.17	9,928
September 2013	Common — Exercise of Stock Options (4)	$22.29	7,740
October 2013	Common — Exercise of Stock Options (4)	$22.29	10,000
November 2013	Common — Exercise of Stock Options (4)	$28.19	4,000
December 1, 2013	Common — DRIP (1)	$30.75	625,911
December 1, 2013	Common — ESPP (2)	$31.33	76,068
December 1, 2013	Common — CSPP (3)	$31.35	9,133
December 13, 2013	Common — Exercise of Stock Options (4)	$18.41	2,000

(1) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").

(2) Issued pursuant to the Corporation's Employee Share Purchase Plan ("ESPP").

(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").

(4) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.

(5) Issued on the exchange of 18,5000,000 subscription receipts issued by the Corporation on June 27, 2012 in connection with the acquisition of CH Energy Group.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; and First Preference Shares, Series K, on the TSX.

	Trading of Common Shares		
	TSX		
	High	Low	Volume
	($)	($)	(#)
2012			
December	34.35	32.83	9,203,571
2013			
January	34.85	33.92	7,028,930
February	34.89	32.89	8,565,427
March	34.29	33.21	9,213,786
April	35.08	33.06	9,634,522
May	35.14	33.00	11,446,339
June	33.32	30.70	13,237,638
July	32.95	31.25	8,084,459
August	32.45	29.92	8,815,840
September	31.57	29.78	13,894,725
October	32.80	30.76	9,216,065
November	32.84	31.00	9,949,813
December 1 to 19	31.68	29.51	8,448,469

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2012						
December	27.33	26.80	25,304	25.96	25.74	46,410
2013						
January	27.19	26.64	38,132	26.05	25.80	63,277
February	27.03	26.30	61,519	26.25	25.74	372,278
March	26.64	26.18	161,461	26.02	25.79	68,561
April	26.83	26.27	62,483	26.17	25.65	49,615
May	26.54	25.40	151,923	26.06	25.08	133,510
June	26.27	25.95	17,127	25.12	22.89	109,880
July	26.16	25.90	25,989	24.76	23.28	93,996
August	26.15	25.15	102,324	23.64	21.51	160,433
September	26.04	25.80	277,950	24.12	21.67	268,832
October	26.16	25.90	142,029	24.77	22.87	112,290
November	26.22	25.83	110,659	24.05	23.25	83,563
December 1 to 19	26.25	25.62	140,540	23.51	21.66	206,519

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2012						
December	24.74	24.05	382,796	25.75	25.40	132,976
2013						
January	25.10	24.32	619,282	26.03	25.43	236,790
February	25.31	24.87	462,897	26.25	25.45	232,420
March	25.38	24.99	231,399	26.38	25.80	293,989
April	25.39	25.09	166,680	26.26	25.29	166,015
May	25.78	25.01	233,188	25.92	25.10	142,715
June	25.12	22.33	141,639	25.46	24.05	169,198
July	24.92	24.03	172,482	24.62	22.53	186,298
August	24.05	22.90	152,750	22.98	19.90	266,107
September	23.82	23.20	186,736	22.17	20.68	254,009
October	24.10	23.35	210,044	22.30	20.12	330,407
November	24.19	23.78	166,399	22.38	20.80	447,312
December 1 to 19	24.08	23.76	221,999	21.55	21.00	552,597

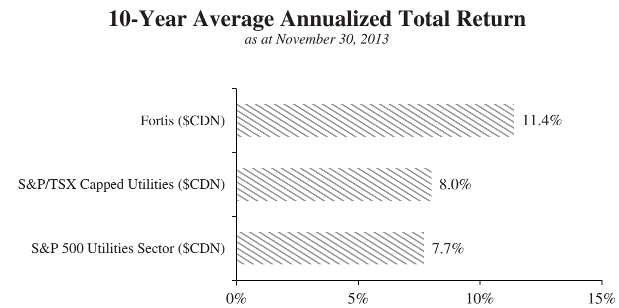
	Trading of First Preference Shares, Series J			Trading of First Preference Shares, Series K		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2012						
December	25.80	25.23	247,752	—	—	—
2013						
January	26.09	25.54	455,909	—	—	—
February	26.27	25.56	296,524	—	—	—
March	26.12	25.60	307,650	—	—	—
April	26.26	25.85	271,529	—	—	—
May	26.10	25.52	166,192	—	—	—
June	25.60	22.31	206,705	—	—	—
July (1)	24.49	22.75	193,041	25.29	24.90	619,484
August	23.58	20.99	239,500	25.25	24.25	216,119
September	23.75	21.13	378,127	24.84	24.10	158,746
October	23.75	22.33	215,901	24.76	24.20	329,716
November	23.59	22.37	252,735	24.78	23.96	137,442
December 1 to 19	22.70	21.24	318,874	24.84	24.05	160,077

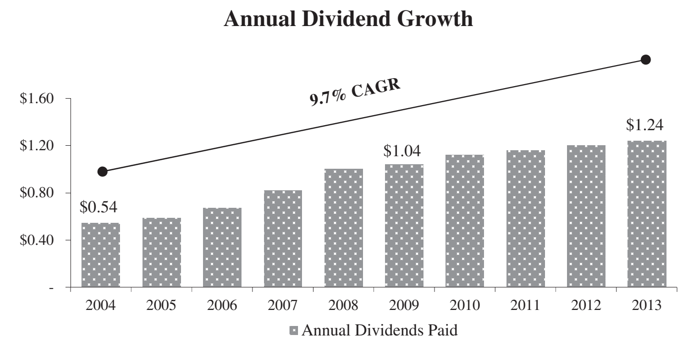
(1) The First Preference Shares, Series K commenced trading on July 18, 2013.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation declared cash dividends on its Common Shares of $1.21 in 2012 and $1.17 in 2011. On September 23, 2013, the Board of Directors declared a fourth quarter dividend of $0.31 per Common Share, which was paid on December 1, 2013 to holders of record on November 15, 2013, resulting in Fortis paying cumulative cash dividends on its Common Shares of $1.24 in 2013. On December 9, 2013, the Board of Directors declared a first quarter dividend of $0.32 per Common Share, payable on March 1, 2014 to holders of record on February 14, 2014. Fortis has increased its annual Common Share dividend payment for 41 consecutive years.

Earnings and dividend growth at Fortis have resulted in annualized total shareholder returns of 11.4% over the past 10 years. Over the same period, Fortis has maintained average annual dividend growth of 9.7%.





Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; and First Preference Shares, Series K, respectively. The Board of Directors declared a fourth quarter dividend on the First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; and First Preference Shares, Series K, on September 23, 2013, in each case in accordance with the applicable prescribed annual rate, which was paid on December 1, 2013 to holders of record on November 15, 2013. On December 9, 2013, the Board of Directors declared a first quarter dividend on the First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; and First Preference Shares, Series K, in each case in accordance with the applicable prescribed annual rate, payable on March 1, 2014 to holders of record on February 14, 2014.

DESCRIPTION OF COMMON SHARES

Dividends

Dividends on Common Shares are declared at the discretion of the Board of Directors. Holders of Common Shares are entitled to dividends on a *pro rata* basis if, as and when declared by the Board of Directors. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board of Directors may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

Liquidation, Dissolution or Winding-Up

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of the assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Voting Rights

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and to one vote in respect of each Common Share held at such meetings.

DETAILS OF THE OFFERING

The Offering consists of $1,594,000,000 aggregate principal amount of Debentures represented by Instalment Receipts at a price of $1,000 per Debenture, which are being sold by the Selling Debentureholder on an instalment basis. The first instalment of $333 per $1,000 principal amount of Debentures is payable on the Closing Date. The final instalment of $667 per $1,000 principal amount of Debentures is payable following notification to holders (the "Final Instalment Notice") that (i) the Corporation has received all regulatory and governmental approvals required to finalize the Acquisition and (ii) the Corporation and UNS Energy have fulfilled or waived all other outstanding conditions precedent to closing the Acquisition, other than those which by their nature cannot be satisfied until the closing of the Acquisition (collectively, the "Approval Conditions") as itemized in the Acquisition Agreement. Such notification, which must be given by no later than June 30, 2015, will establish a date for payment of the final instalment (the "Final Instalment Date"), which shall not be less than 15 days nor more than 90 days following the date of such notice. Payment of the final instalment in full must be received by the Custodian by no later than 3:30 p.m. (Toronto time) on the Final Instalment Date. Holders should make arrangements with the securities broker, trust company or other financial institution through which they hold Instalment Receipts to pay the final instalment sufficiently in advance of the Final Instalment Date to ensure that such payment is received by the Custodian prior to this deadline.

The Selling Debentureholder

The Selling Debentureholder is a wholly owned subsidiary of Fortis organized under the *Companies Act* (Nova Scotia) on December 19, 2008 and continued under the *Canada Business Corporations Act* on March 6, 2013. The Selling Debentureholder will acquire the Debentures offered pursuant to this Prospectus from Fortis for the purpose of participating in this Offering. The Selling Debentureholder will also be the seller of the Private Placement Debentures. See "Financing the Acquisition — Concurrent Private Placement".

If the Over-Allotment Option is exercised by the Underwriters, the Selling Debentureholder will acquire the Debentures purchased in the Over-Allotment Option from Fortis and will sell them to the Underwriters on the terms and conditions set out in the Underwriting Agreement.

Instalment Receipts

The following is a summary of the material attributes and characteristics of the Instalment Receipts representing Debentures and the rights and obligations of holders thereof. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, the terms of the instalment receipt and pledge agreement (the "Instalment Receipt Agreement"), to be dated as of the Closing Date, among the Corporation, the Selling Debentureholder, the Underwriters and Computershare Trust Company of Canada in its capacity as custodian and security agent (the "Custodian"). Copies of the Instalment Receipt Agreement will be available for inspection at the principal offices of the Custodian in Toronto and Montreal. A prospective purchaser of Debentures represented by Instalment Receipts should carefully review the Instalment Receipt Agreement, a copy of which will also be available on the Corporation's SEDAR profile at www.sedar.com.

Holders of Instalment Receipts will be bound by the terms of the Instalment Receipt Agreement. The Instalment Receipt Agreement will provide that legal title to the Debentures offered hereby will be held by the Custodian following payment of the first instalment and until the Final Instalment Date provided the final instalment has been fully paid to the Custodian on behalf of the Selling Debentureholder on or before the Final Instalment Date (and in no case later than 3:30 p.m. (Toronto time) on the Final Instalment Date). The Debentures offered hereby will be pledged to the Selling Debentureholder by the Underwriters at Closing and the physical certificates representing the Debentures will be held in the possession of the Custodian, as security agent, on behalf of the Selling Debentureholder, subject to the terms of the Instalment Receipt Agreement.

Prior to payment of the final instalment, beneficial ownership of Debentures will be represented by Instalment Receipts. An Instalment Receipt will evidence, among other things, the fact that the first instalment has been paid in respect of the Debenture represented thereby and the right of a holder thereof, subject to compliance with the provisions of the Instalment Receipt Agreement, (i) to have the pledge of the Debentures released following the Final Instalment Date provided that payment in full of the final instalment with respect to such Debentures has been received by the Custodian on or prior to such date or (ii) if the Debentures are redeemed by the Corporation prior to payment of the final instalment, to receive (after the Custodian pays the final instalment to the Selling Debentureholder on behalf of the holder) $333 per underlying Debenture plus accrued and unpaid interest on such Debenture up to but excluding the redemption date. A holder of an Instalment Receipt is deemed to have assumed the obligation to pay the final instalment on or before the Final Instalment Date and to have acquired beneficial ownership of the Debenture represented by the Instalment Receipt, subject to the pledge of such Debenture which secures such obligation. A holder of an Instalment Receipt is further deemed to agree that the foregoing pledge will remain in effect and be binding and effective notwithstanding any transfer of or other dealings with the Instalment Receipt and the rights evidenced or arising thereby.

The Corporation shall as soon as practicable following satisfaction of the Approval Conditions (but no later than June 30, 2015) cause a Final Instalment Notice to be given to holders of Debentures represented by Instalment Receipts (i) confirming that all Approval Conditions have been fulfilled to the satisfaction of the Corporation, (ii) setting the Final Instalment Date (which shall not be less than 15 days nor more than 90 days following the date that such notice is first given) and (iii) advising holders of their ability to exercise the conversion privilege with respect to Debentures represented by their Instalment Receipts concurrently with the payment of the final instalment. See "—Debentures — Conversion Rights". The Selling Debentureholder shall also cause to be issued a press release containing particulars of the Final Instalment Notice. Payment of the final instalment is required regardless of whether a holder receives the Final Instalment Notice, directly or indirectly.

A holder of an Instalment Receipt will be entitled to make payment, in accordance with the provisions of the Instalment Receipt Agreement, of the final instalment at any time following receipt of the Final Instalment Notice and prior to 3:30 p.m. (Toronto time) on the Final Instalment Date. **A holder of Instalment Receipts that fails to pay the final instalment in full by 3:30 p.m. (Toronto time) on the Final Instalment Date (a "Defaulting Holder") has no further right to pay the final instalment and all rights and privileges of the Defaulting Holder described below under "— Rights and Privileges" shall immediately cease (unless otherwise waived by the Selling Debentureholder).**

Subject to compliance with the provisions of the Instalment Receipt Agreement and timely payment of the final instalment, the Custodian will, as soon as practicable on or after the Final Instalment Date, discharge and release the pledge of the Debentures represented by such Instalment Receipts and such Debentures (or the Common Shares into which the Debentures may be converted) will be held through the facilities of CDS Clearing and Depository Services Inc. ("CDS"), in which case the holder will receive only a customer confirmation of purchase of the Debentures (or, if the conversion privilege is exercised, the underlying Common Shares) from the holder's CDS Participant (as defined below).

The Instalment Receipts representing the Debentures are issued in "book-entry only" form and must be purchased or transferred through a participant in CDS (a "CDS Participant"). The Corporation will cause a global certificate or certificates representing any newly issued Instalment Receipts to be delivered to, and registered in the name of, CDS or its nominee. All rights and obligations of holders of Instalment Receipts must be exercised or performed through, and all notices, payments or other property to which such holders are entitled or obligated will be made or delivered by the holder holding such Instalment Receipts through CDS or the CDS Participants in accordance with the rules and procedures applicable to CDS and such CDS Participants. Each person who acquires Instalment Receipts will receive only a customer confirmation of purchase from the CDS Participant from or through which the Instalment Receipts representing the Debentures are acquired in accordance with the practices and procedures of that registered dealer. The practices of CDS Participants may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book-entry accounts for its CDS Participants having interests in Instalment Receipts. See "— Book-Entry Only System". **Because payment of the final instalment will be made by holders of Instalment Receipts through CDS and CDS Participants, it is strongly advised that holders make arrangements with the securities broker, trust company or other financial institution through which they hold Instalment Receipts to pay their final instalment sufficiently in advance of the Final Instalment**

Date to ensure that such payment is received by the Custodian by no later than 3:30 p.m. (Toronto time) on the Final Instalment Date.

Transfer of Instalment Receipts

The TSX has conditionally approved the listing of the Instalment Receipts (representing the Debentures and the Private Placement Debentures) on the TSX, subject to Fortis fulfilling all of the requirements of the TSX on or before March 11, 2014. It is anticipated that holders will be able to transfer Instalment Receipts through the facilities of the TSX until the close of trading on the trading day immediately preceding the Final Instalment Date following which, Instalment Receipts will stop trading on the TSX. Upon a transfer of an Instalment Receipt, the transferee will acquire the transferor's rights, subject to the pledge in favour of the Selling Debentureholder and become subject to the obligations of a holder of Instalment Receipts under the Instalment Receipt Agreement, including the assumption by the transferee of the obligation to pay the final instalment on or before the Final Instalment Date. No transfer of an Instalment Receipt after the Final Instalment Date will be accepted (except where an intermediary holds Instalment Receipts on behalf of a non-registered holder and such non-registered holder has failed to pay the final instalment when due, or with the express consent of the Selling Debentureholder).

Liability of Instalment Receipt Holders

Pursuant to the Instalment Receipt Agreement, the Underwriters will pledge the Debentures purchased on an instalment basis to secure payment of the final instalment. If payment of the final instalment is not duly received by the Custodian from a holder of Instalment Receipts when due, the Instalment Receipt Agreement will provide that (except as set out below) any Debenture then remaining pledged under the Instalment Receipt Agreement may, at the option of the Selling Debentureholder, subject to complying with applicable law, be forfeited to the Selling Debentureholder in full satisfaction of the obligations of such holder of Instalment Receipts secured thereby. The Instalment Receipt Agreement will further provide that the Selling Debentureholder may, alternatively, direct the Custodian to sell the Debentures in respect of which payment of the final instalment was not duly received, in accordance with the requirements of applicable law and of the Instalment Receipt Agreement, and remit to the Defaulting Holder of Instalment Receipts its *pro rata* portion of the proceeds of sale after deducting therefrom the amount of the remaining unpaid final instalment, the amount of any applicable withholding taxes and the Defaulting Holder's *pro rata* portion of the costs of sale (such costs not to exceed $25 per $1,000 principal amount of Debentures). **The Instalment Receipt Agreement will provide that, unless the Debentures are forfeited to the Selling Debentureholder in full satisfaction of the obligation of a Defaulting Holder, the foregoing shall not limit any other remedies available to the Selling Debentureholder against such Defaulting Holder of the Instalment Receipt in the event proceeds of such sale are insufficient to cover the amount of the final instalment and the costs of sale and accordingly, such holder shall in such circumstances remain liable to the Selling Debentureholder for any such deficiency.**

Rights and Privileges

Under the Instalment Receipt Agreement, holders of Instalment Receipts will have the same rights and privileges, and will be subject to the same limitations, as holders of Debentures. In particular, holders of Instalment Receipts will be entitled under arrangements through the Custodian, in the manner set forth in the Instalment Receipt Agreement, to (i) receive interest on the Debentures represented by Instalment Receipts until the Final Instalment Date, after which the interest rate payable on the Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Debentures (ii) receive the Make-Whole Payment in respect of the Debentures represented thereby if the Final Instalment Date occurs prior to the first anniversary of the Closing Date and provided that a holder of Debentures represented by Instalment Receipts has paid the Final Instalment on or prior to the Final Instalment Date and (iii) exercise the votes attached to the Debentures represented by such Instalment Receipts. In the event that the Corporation issues (including on liquidation, dissolution or winding up) to the holders of Debentures, any securities, or options, rights or warrants to purchase any securities, or any securities convertible into or exchangeable for securities, or other property or assets of like nature, the Custodian will, as promptly as commercially reasonable sell such securities, options, rights, warrants, evidences of indebtedness, property or assets and remit *pro rata* to the holders of Instalment Receipts, the proceeds of sale net of the Custodian's costs of disposition, subject to withholding tax requirements.

Redemption of Debentures and Cancellation of Instalment Receipts

In the event that Debentures are redeemed prior to the payment of the final instalment and before the Final Instalment Date (if any), the Corporation shall, in respect of each Instalment Receipt outstanding on the date of such redemption, pay to the Selling Debentureholder, on behalf of the holder of an Instalment Receipt, an amount equal to the final instalment and pay the balance plus any accrued and unpaid interest to the holder. Payment of such redemption price will be made on the date that the Debentures are redeemed by the Corporation.

Modification

Apart from changes which do not materially prejudice the holders of Instalment Receipts as a group (which may be made without the consent of such holders), the Instalment Receipt Agreement may not be amended without the affirmative vote of the holders of Instalment Receipts entitled to not less than two-thirds of the principal amount of Debentures (including the Private Placement Debentures) represented by Instalment Receipts which are represented and voted at a meeting duly called for the purpose or rendered by instruments in writing signed by the holders of Instalment Receipts representing not less than two-thirds of the principal amount of the Debentures (including the Private Placement Debentures).

General

The Custodian may require holders of Instalment Receipts from time to time to furnish such information and documents as may be necessary or appropriate to comply with any fiscal or other laws or regulations relating to the Debentures or to rights and obligations represented by Instalment Receipts. The Custodian shall not be responsible for any taxes, duties, governmental charges or expenses which are or may become payable in respect of the Debentures or Instalment Receipts. In this regard, the Custodian shall be entitled to deduct or withhold from any payment or other distribution required or contemplated by the Instalment Receipt Agreement the appropriate amount of money or property, or to require holders of Instalment Receipts to make any required payments, and to withhold delivery of certificates representing the Debentures until satisfactory provision for payment is made, in respect of any non-resident Canadian withholding taxes or other taxes, duties or governmental charges or expenses required by applicable law to be withheld or paid.

Holders of Instalment Receipts will not be liable for charges and expenses of the Custodian except for any taxes, duties and other governmental charges which may be payable as described above.

Book-Entry Only System

Registration of interests in and transfers of Instalment Receipts will be made only through the book-entry only system of CDS (the "Book-Entry Only System"). Instalment Receipts must be purchased, transferred and surrendered through a CDS Participant. Upon purchase of any Instalment Receipts representing Debentures, the Corporation understands that the holder of Instalment Receipts will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Instalment Receipts are purchased. References in this Prospectus to a holder of Instalment Receipts mean, unless the context otherwise requires, the owner of the beneficial interest in such Instalment Receipts.

The ability of a beneficial owner of Instalment Receipts to pledge such Instalment Receipts or otherwise take action with respect to such beneficial holder's interest in such Instalment Receipts (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Selling Debentureholder has the option to terminate registration of the Instalment Receipts through the Book-Entry Only System in which case certificates for the Instalment Receipts in fully registered form would be issued to holders of such Instalment Receipts.

Debentures

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, the terms of the trust indenture (the "Indenture") to be dated on or about the Closing Date between the Corporation, as issuer, and Computershare Trust

Company of Canada, as trustee (in such capacity, the "Trustee"). A prospective purchaser of Debentures represented by Instalment Receipts should carefully review the Indenture, a copy of which will be available on the Corporation's SEDAR profile at www.sedar.com on or about the Closing Date.

The Debentures and the Private Placement Debentures will be issued to the Selling Debentureholder on the Closing Date as the initial series under the Indenture and in the aggregate principal amount of $1,800,000,000. In the event that the Over-Allotment Option is exercised, Fortis will issue additional debentures of the same series under the Indenture.

The Debentures will be dated as of the Closing Date and will mature on the Maturity Date. The Debentures are issuable in denominations of $1,000 and integral multiples thereof and will bear interest at an annual rate of 4.00% per $1,000 principal amount of Debentures and will be payable quarterly in arrears in equal instalments on the first business day of March, June, September and December of each year to and including the Final Instalment Date to holders of record on the applicable record date. The first interest payment will be made on March 3, 2014 in the amount of $5.5890 per $1,000 principal amount of Debentures and will include interest payable from and including the date of issue. Subsequently, quarterly interest payments will be made in the amount of $10.00 per $1,000 principal amount of Debentures. A final interest payment will be made on the Final Instalment Date and will be equal to the unpaid interest accrued from the date of the last quarterly interest payment to and including the Final Instalment Date. On the day following the Final Instalment Date, the interest rate payable on the Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Debentures. Based on a first instalment of $333 per $1,000 principal amount of Debenture, the effective annual yield to and including the Final Instalment Date is 12.00%, and the effective yield thereafter is 0%.

If the Final Instalment Date occurs on a day that is prior to the first anniversary of the Closing Date, holders of Debentures who have paid the final instalment on or before the Final Instalment Date will be entitled to receive, on the business day following the Final Instalment Date, in addition to the payment of accrued and unpaid interest to and including the Final Instalment Date, the Make-Whole Payment, being an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the Closing Date had the Debentures remained outstanding and continued to accrue interest until such date. No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the Closing Date.

The Debentures will be direct obligations of Fortis and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of the Corporation as described under "— Subordination". The Indenture does not restrict the Corporation from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

Payment Upon Maturity

On the Maturity Date, the Corporation will repay the principal amount of any Debentures not converted into Common Shares and remaining outstanding, in cash. The Corporation may, at its option and without prior notice, satisfy the obligation to pay all or a portion of the principal amount of such Debentures on maturity by delivery of that number of freely tradable Common Shares obtained by dividing the principal amount of the Debentures with respect to which the Corporation is exercising such right by 95% of the Market Price.

Conversion Right

At the option of the holder and provided that payment of the final instalment has been made, each Debenture will be convertible into Common Shares on or at any time after the Final Instalment Date, but prior to the earlier of the date that the Corporation redeems the Debentures or the Maturity Date. The Conversion Price will be $30.72 per Common Share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Debentures, subject to adjustment in certain events. No adjustment will be made for cash dividends on Common Shares issuable upon conversion or for accrued and unpaid interest, which will be paid by the Corporation in cash. A holder of Debentures who does not exercise its conversion privilege concurrently with its payment of the final instalment in order to convert its Debentures to Common Shares on the Final Instalment Date will hold a Debenture that pays 0% interest and may be redeemed by the Corporation in whole or in part on any trading day following the Final Instalment Date at a price equal to its principal amount plus any unpaid interest which accrued to and including the Final Instalment Date.

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in certain events including: (a) the distribution of Common Shares or securities convertible into Common Shares to holders of its Common Shares by way of stock dividend or otherwise other than an issue of Common Shares to holders of outstanding Common Shares who have elected to receive dividends in stock in lieu of receiving cash dividends paid in the ordinary course; (b) the subdivision or consolidation of the outstanding Common Shares; (c) the issuance of rights or warrants to all holders of Common Shares entitling them to acquire Common Shares or other securities convertible into Common Shares at less than the Conversion Price; (d) the distribution to all holders of Common Shares of any securities or assets (other than cash dividends and dividends in Common Shares); or (e) if an issuer bid or exchange offer is made by the Corporation for its Common Shares. There will be no adjustment of the Conversion Price in respect of any event described herein if, with the prior regulatory approval and the approval of the TSX, the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to such transaction. The Corporation will not be required to make adjustments in the Conversion Price unless the effect of such adjustment would change the Conversion Price by at least 1%, provided that any adjustment of less than 1% will be carried forward and taken into account in connection with any subsequent adjustment.

No fractional Common Shares will be issued on any conversion but in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the Conversion Price of such fractional interest, provided that the Corporation shall not be required to make any cash payment of less than $10.00.

Redemption

The Debentures may not be redeemed by the Corporation except that the Debentures will be redeemed by the Corporation at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the Approval Conditions will not be satisfied; (ii) termination of the Acquisition Agreement; and (iii) July 2, 2015 if the Final Instalment Notice has not been given on or before June 30, 2015. Upon any such redemption, the redemption proceeds will be paid by the Corporation to the Custodian on behalf of the holders. The Custodian will pay the following for each $1,000 principal amount of Debentures: (i) $333 plus accrued and unpaid interest to the holder of the Instalment Receipt; and (ii) $667 to the Selling Debentureholder on behalf of the holder of the Instalment Receipt in satisfaction of the final instalment. Under the terms of the Instalment Receipt Agreement, Fortis has agreed that until such time as the Debentures have been redeemed in accordance with the foregoing or the Final Instalment Date has occurred, the Corporation will at all times maintain availability under the Revolving Facility of not less than $600,000,000 to cover one-third of the principal amount of the Debentures in the event of a mandatory redemption.

In addition, after the Final Instalment Date, (i) any Debentures not converted to Common Shares may be redeemed by the Corporation at a price equal to their principal amount plus any unpaid interest which accrued prior to the Final Instalment Date and (ii) the Corporation will have the right to purchase Debentures in the open market or by tender or by private contract at prices not exceeding 100% of the principal amount thereof together with accrued and unpaid interest and costs of purchase.

Subordination

The Debentures will be direct unsecured obligations of Fortis. Payment of the principal of, interest on, the Make-Whole Payment, if any, and other amounts owing in respect of each Debenture will be subordinated in right of payment to all present and future liabilities of the Corporation for (i) moneys borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers acceptances, debt instruments and any liability represented by bonds, debentures, notes or similar instruments), (ii) the deferred purchase price of assets or services or (iii) any trade debts in effect at any time and from time to time (collectively, the "Senior Indebtedness"). Payment of the principal of, interest on and other amounts owing in respect of each Debenture will rank *pari passu* with each other Debenture issued under the Indenture (including the Private Placement Debentures) regardless of their actual date or terms of issue, and with all other present and future unsecured and subordinated indebtedness of Fortis except as prescribed by law.

The Indenture does not limit the ability of the Corporation to incur additional indebtedness, including indebtedness that ranks senior to the Debentures or from mortgaging, pledging, charging, hypothecating, granting a security interest in or otherwise encumbering any or all of its properties to secure any indebtedness. The Indenture provides that the Corporation shall not make any payment, and the holders of Debentures shall not be entitled to demand, accelerate, institute proceedings for the collection of, or receive any payment or benefit (including, without limitation, by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (i) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures; (ii) at any time when an event of default has occurred under the Senior Indebtedness and is continuing, unless and until such Senior Indebtedness has been paid and satisfied in full or such default or event of default shall have been cured or waived in writing in accordance with the provisions of such Senior Indebtedness; or (iii) if the making of any such payment or the taking of any such action would create, including by the lapse of time or giving of notice, a default or an event of default under any Senior Indebtedness unless and until such Senior Indebtedness has been satisfied in full or the making of any such payment or taking of any such action would no longer create, including by lapse of time or giving of notice, a default or an event of default under any Senior Indebtedness.

In addition, the Trustee on behalf of the holders of Debentures may, at the request of the Corporation, enter into contractual subordination agreements with certain lenders of the Corporation with terms to the foregoing effect.

Events of Default

The Indenture will include the following events of default:

(a) failure to pay when due any principal or premium, if any, on the Debentures, when the same becomes due and payable whether on maturity, redemption, acceleration or otherwise, which default continues for a period of five business days;

(b) failure to pay any interest or Make-Whole Payment, if any, on the Debentures, which default continues for 30 days after the date when due;

(c) default in the delivery when due of all cash and any Common Shares or other consideration deliverable upon conversion of any Debentures, which default continues for 30 days;

(d) the Corporation's failure to comply with any of its other agreements under the Debentures or contained in the Indenture for a period 30 days after receipt of notice of default specifying such failure;

(e) default by the Corporation or any "material subsidiary" (as defined in the Indenture), with respect to any indebtedness (excluding amounts due to the holders of Debentures), where the aggregate principal amount of such indebtedness exceeds an amount equal to the greater of 2% of the consolidated net worth of Fortis at such time and $100,000,000, and (i) if the default is a payment default, such default continues to exist for a period exceeding 30 days; provided that if the payment obligation to which the default relates is accelerated, then the default shall constitute an event of default immediately following such acceleration, and (ii) if the default is not a payment default, then as a result of the default and the passing of any applicable cure period, the maturity of the obligation is accelerated; provided that, in each case, if the default is cured prior to acceleration of the Debentures, then the event of default shall be deemed to have been cured; and

(f) certain events of bankruptcy, insolvency or reorganization affecting the Corporation.

If an event of default shall have occurred and is continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Debentures then outstanding may declare the principal of the Debentures and any accrued and unpaid interest through the date of such declaration immediately due and payable. In the case of certain events of bankruptcy or insolvency, the principal amount of the Debentures together with any accrued interest through the occurrence of such event shall automatically become and be immediately due and payable.

Modification

The rights of the holders of the Debentures may be modified. For that purpose, among others, the Indenture will contain certain provisions which will make binding on all holders of Debentures resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66⅔% of the principal amount of the Debentures, or rendered by instruments in writing signed by the holders of not less than 66⅔% of the principal amount of the Debentures then outstanding.

Certification and the Book-Entry Only System

Registration of interests in and transfers of Debentures represented by Instalment Receipts will be made only through the Book-Entry Only System. Debentures represented by Instalment Receipts must be purchased, transferred and surrendered through a CDS Participant. From the Closing Date to the Final Instalment Date, the Debentures will be issued in certificated and fully registered form in the name of Computershare Trust Company of Canada, in its capacity as security agent under the Instalment Receipt Agreement. Promptly following 3:30 p.m. (Toronto time) on the Final Instalment Date, provided due payment of the final instalment has been made in accordance with the terms of the Instalment Receipt Agreement, the Selling Debentureholder will cause the Custodian to deliver to CDS (i) a global certificate representing those Debentures not converted to Common Shares by exercise of the conversion right and (ii) Common Shares issued upon conversion of Debentures, in each case, to be registered in the name of CDS or its nominee. The Debentures will be represented by one or more global certificates. Thereafter, registration of interests in and transfers of the Debentures will be made only through the depository service of CDS and transfers of Common Shares will be effected electronically through the non-certificated inventory system administered by CDS.

Upon purchase of any Debentures through the Book-Entry Only System, the Corporation understands that the holder of Debentures will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Debentures are purchased. References in this Prospectus to a holder of Debentures mean, unless the context otherwise requires, the owner of the beneficial interest in such Debentures.

The Corporation will have the option to terminate registration of the Debentures through the Book-Entry Only System in which case certificates for the Debentures in fully registered form would be issued to holders of such Debentures.

USE OF PROCEEDS

The net proceeds from the Offering will be, in the aggregate, $1,528,240,000, determined after deducting the Underwriters' fee and the estimated expenses of the Offering. In the event that the Over-Allotment Option is exercised in full, the net proceeds to be received by the Selling Debentureholder (and Fortis, on a consolidated basis) will be, in the aggregate, $1,757,776,000.

The Selling Debentureholder intends to use the net proceeds of the Offering and of the Concurrent Private Placement to make distributions in the amounts of $1,528,240,000 and $197,760,000, respectively, to the Corporation. See "Details of the Offering — The Selling Debentureholder".

Fortis (on a consolidated basis) intends to use the net proceeds of the first instalment under the Offering and the Concurrent Private Placement, which are expected to be $563,400,000 (assuming no exercise of the Over-Allotment Option or $636,238,300 if the Over-Allotment Option is exercised), in each case when paid to Fortis by the Selling Debentureholder, as follows: (i) to repay borrowings under the Revolving Facility, which borrowings have been incurred primarily in connection with the construction of the Waneta Expansion and financing of certain of the Corporation's subsidiaries; and (ii) for other general corporate purposes, including providing financing to the Corporation's regulated utility subsidiaries for capital expenditures. Fortis (on a consolidated basis) intends to use the net proceeds of the final instalment under the Offering and the Concurrent Private Placement, which are expected to be $1,164,600,000 (assuming no exercise of the Over-Allotment Option or $1,319,297,700 if the Over-Allotment Option is exercised), as follows: (a) to repay borrowings under the Acquisition Credit Facilities following the closing of the Acquisition; and (b) for other Acquisition-Related Expenses. See "Financing the Acquisition", "The Acquisition Agreement" and "Details of the Offering".

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated December 13, 2013 (the "Underwriting Agreement") among Fortis, the Selling Debentureholder and the Underwriters, the Selling Debentureholder has agreed to sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, all but not less than all of the Debentures offered hereby on an instalment basis at a price of $1,000 per $1,000 principal amount of Debentures (the "Offering Price"). The Offering Price is payable in cash to the Selling Debentureholder on delivery as follows: the first instalment of $333 per $1,000 principal amount of Debenture is payable on the Closing Date against delivery; and the final instalment of $667 per $1,000 principal amount of Debenture is payable on or before the Final Instalment Date. See "Details of the Offering — The Selling Debentureholder".

The obligations of the Underwriters under the Underwriting Agreement are several and not joint or joint and several and may be terminated by them on the basis of certain stated events. Under the Underwriting Agreement, the obligations of any Underwriter may be terminated in their discretion if, at or prior to the Closing Date: (a) there should occur or commence, or be announced or threatened, any inquiry, action, suit, investigation or other proceeding (whether formal or informal) other than any inquiry, action, suit, investigation or other proceeding based on alleged activities of the Underwriters, or any order is issued by any governmental authority, other than an order based on the alleged activities of the Underwriters, or any law or regulation is promulgated, changed or announced, which, in the reasonable opinion of the Underwriters (or any of them), is expected to prevent or materially restrict the trading in or the distribution of the Debentures, the Instalment Receipts representing the Debentures, the underlying Common Shares or any other securities of the Corporation or would be expected to have a material adverse effect on the market price or value of the Debentures, the Instalment Receipts representing the Debentures, the underlying Common Shares or any other securities of the Corporation; (b) there should develop, occur or come into effect or existence any event, action, state, condition or occurrence of national or international consequence, acts of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, or any law, action, regulation or other occurrence of any nature whatsoever which, in the reasonable opinion of the Underwriters (or any of them), materially adversely affects or involves, or is expected to materially adversely affect or involve, financial markets generally or the business, affairs or operations of the Corporation; (c) there should occur any material change (financial or otherwise) in the business, affairs or operations of the Corporation or any change in any material fact (other than a change related solely to the Underwriters), or the Underwriters become aware of any undisclosed material information, which, in the reasonable opinion of the Underwriters (or any of them), could be expected to have a material adverse effect on the market price or value of the Debentures, the Instalment Receipts representing the Debentures or any other securities of the Corporation; or (d) the Acquisition Agreement is terminated prior to 8:00 a.m. (Toronto time) on the Closing Date.

The Underwriters are obligated to take up and pay for all of the Debentures represented by Instalment Receipts offered hereby (other than the Debentures represented by Instalment Receipts issuable on exercise of the Over-Allotment Option) if any of those Debentures are purchased under the Underwriting Agreement. The Debentures represented by Instalment Receipts offered hereby are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for the Prospectus.

The Selling Debentureholder has granted to the Underwriters the Over-Allotment Option, which is exercisable in whole or in part at any time until the date that is 30 days following the Closing Date and pursuant to which the Underwriters may purchase additional Debentures represented by Instalment Receipts equal to up to 15% of the aggregate principal amount of Debentures represented by Instalment Receipts sold in the Offering on the same terms as set forth above, to cover over-allotments, if any. This Prospectus qualifies the grant of the Over-Allotment Option and the issuance of Debentures represented by Instalment Receipts on the exercise of the Over-Allotment Option. A purchaser who acquires Debentures represented by Instalment Receipts forming part of the Underwriters' over-allocation position acquires those Debentures under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The Underwriting Agreement provides that the Underwriters will be paid a fee equal to 4.00% of the gross proceeds of the Offering ($40.00 per Debenture) in consideration for their services in connection with the Offering, one-half of which is payable on the Closing Date and the remaining one-half of which is payable on the Final Instalment Date. Accordingly, upon payment of the final instalment and assuming the final instalment payment is made for all outstanding Instalment Receipts, the total price to the public will be $1,594,000,000, the Underwriters' fee will be $63,760,000 and the net proceeds to the Selling Debentureholder will be approximately $1,528,240,000, after deducting the expenses of the Offering estimated at $2,000,000, which will be paid out of the general funds of Fortis. After the Underwriters have made reasonable efforts to sell all the Debentures represented by Instalment Receipts at the Offering Price, the Offering Price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Debentures represented by Instalment Receipts is less than the gross proceeds paid by the Underwriters to Fortis. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation, the Selling Debentureholder and the Underwriters.

There is currently no market through which the Debentures represented by Instalment Receipts may be sold and purchasers may not be able to resell securities purchased under this Prospectus. This may affect the

pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. The TSX has conditionally approved the listing of the Instalment Receipts (representing the Debentures and the Private Placement Debentures) and the Common Shares issuable on the conversion of the Debentures and Private Placement Debentures on the TSX, subject to Fortis fulfilling all of the requirements of the TSX on or before March 11, 2014. The Corporation has no current intention to list the Debentures or the Private Placement Debentures for trading on any exchange as it currently anticipates all Debentures and Private Placement Debentures will be converted to Common Shares on the Final Instalment Date.

Upon listing, the Instalment Receipts (representing the Debentures and the Private Placement Debentures) will be quoted and traded on the TSX in the same manner as other debentures listed on the TSX, with all bids and offers for and trades of Instalment Receipts reflecting only the partly paid capital portion of the Debentures and not accrued interest. Accrued interest will be reflected in the settlement amount and in the confirmations generated by the CDS participant from or through whom the trade was executed. Bid, offer and trading prices for the Instalment Receipts listed on the TSX will be expressed as a percentage of the $1,000 principal amount of a fully paid Debenture (and not as a percentage of the $333 first instalment already paid). In accordance with TSX trading rules, the Instalment Receipts will be quoted based on $100 principal amounts and all trades in Instalment Receipts will be made in multiples of $1,000. A board lot of Instalment Receipts is represented by one Instalment Receipt, the underlying value of which is $1,000 principal amount of a fully paid Debenture.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Debentures represented by Instalment Receipts ends and all stabilization arrangements relating to the Debentures represented by Instalment Receipts are terminated, bid for or purchase Instalment Receipts, Debentures or Common Shares. The foregoing restrictions are subject to certain exceptions including: (i) a bid for or purchase made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada; (ii) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period; and (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Instalment Receipts, Debentures or Common Shares is for the purpose of maintaining a fair and orderly market in the Instalment Receipts, Debentures or Common Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Debentures, the Instalment Receipts representing the Debentures, and the Common Shares into which the Debentures may be converted have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, may not be offered, or delivered, directly or indirectly, or sold in the United States or to, or for the account or benefit of, U.S. persons (other than distributors) unless the Debentures represented by Instalment Receipts and the Common Shares into which the Debentures may be converted are registered under the 1933 Act or an exemption from the registration requirements of the 1933 Act and any applicable state securities laws is available. The Underwriters have agreed that they will not sell the Debentures represented by Instalment Receipts within the United States or to, or for the account or benefit of, any U.S. person, except in accordance with the Underwriting Agreement pursuant to the exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Debentures represented by Instalment Receipts within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with Rule 144A. When used in this section, the terms "United States", "U.S. person" and "distributor" have meanings ascribed to them in Regulation S under the 1933 Act ("Regulation S").

To comply with the requirements of Regulation S, any Underwriter and any other distributor selling Debentures represented by Instalment Receipts to a distributor, dealer or other person receiving a selling concession, fee or other remuneration in respect of the securities sold, prior to the expiration of 40 days after the closing of the offering of the Debentures represented by Instalment Receipts pursuant to this Prospectus, unless otherwise notified by the Corporation, must send to the purchaser a confirmation or other notice stating that the purchaser is subject to the same restrictions on offers and sales of the Debentures represented by Instalment Receipts that apply to such Underwriter or other distributor.

RELATIONSHIP BETWEEN FORTIS, THE SELLING DEBENTUREHOLDER AND CERTAIN UNDERWRITERS

Each of the Underwriters is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended (or will extend) credit facilities to, or holds (or will hold) other indebtedness of, the Corporation and/or its subsidiaries, including the Revolving Facility and the Acquisition Credit Facilities (collectively, the "Bank Indebtedness"). See "Financing the Acquisition" and "Capitalization". In addition, Scotia Capital, RBC, TDSI and CIBC are acting as agents in the Concurrent Private Placement and will receive an agency fee in connection with such role pursuant to the Agency Agreement. See "Financing the Acquisition — Concurrent Private Placement". Scotia Capital is also acting as financial advisor to Fortis in connection with the Acquisition and is receiving a fee therefor. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation.

Except as described in "Use of Proceeds", none of these Underwriters will receive any direct benefit from the Offering other than the underwriting commission relating to the Offering and the agency fee payable pursuant to the Agency Agreement in connection with the Concurrent Private Placement. The decision to distribute the Debentures hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation, the Selling Debentureholder and the Underwriters. No bank had any involvement in such decision or determination. As at December 19, 2013, an aggregate of approximately $426 million was outstanding under the Bank Indebtedness. Fortis and/or its subsidiaries are in material compliance with their respective obligations under the Bank Indebtedness. Since entering into the Bank Indebtedness, no breach thereunder has been waived by the lenders thereof; there has been no material change in the financial position or condition of Fortis or its subsidiaries, except as otherwise described in this Prospectus (including in the documents incorporated by reference herein); and the value of any security for any such Bank Indebtedness has not changed, except in the ordinary course of business. See "Use of Proceeds".

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis and the Selling Debentureholder, and Stikeman Elliott LLP, counsel to the Underwriters, (collectively, "Counsel") the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable to a holder who acquires Debentures represented by Instalment Receipts pursuant to this offering and who, for the purposes of the Tax Act and at all relevant times: (i) is resident, or is deemed to be resident, in Canada; (ii) holds the Debentures and will hold any Common Shares received on the conversion or maturity of the Debentures (collectively, the "Securities") as capital property; (iii) deals at arm's length with Fortis, the Selling Debentureholder and the Underwriters; and (iv) is not affiliated with the Corporation or the Selling Debentureholder (a "Holder"). Generally, the Securities will be considered to be capital property to a Holder provided the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Holders who might not otherwise be considered to hold their Securities as capital property may, in certain circumstances, be entitled to have the Securities, and all other "Canadian securities" (as defined in the Tax Act) owned by such holders in the taxation year of the election and all subsequent taxation years, deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Holders are advised to consult their personal tax advisors to determine whether such an election is available and desirable in their particular circumstances.

This summary is not applicable to a Holder: (i) that is a "financial institution", as defined in the Tax Act for the purposes of the mark-to-market rules; (ii) that is a "specified financial institution" as defined in the Tax Act; (iii) an interest which would be a "tax shelter investment" as defined in the Tax Act; (iv) that has elected to report its "Canadian tax results" in a currency other than the Canadian currency pursuant to the "functional currency" reporting rules, as all those terms are defined in the Tax Act; (v) that enters into a "derivative forward agreement" in respect of the Debentures or Common Shares, as defined in the Tax Act; or (vi) that is a corporation which is, or becomes as part of a series of transactions, controlled by a non-resident corporation and in respect of which a subsidiary of Fortis is, or would at any time be, a "foreign affiliate" (as defined in the Tax Act). Any such Holder should consult its own tax advisor with respect to an investment in the Securities.

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly announced prior to the date hereof (the "Proposed Amendments") and Counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary assumes that the Proposed Amendments will be enacted in the form proposed; however, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, if at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax consequences to any Holder are made. Consequently, Holders and prospective holders of Securities should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring Securities pursuant to this offering, having regard to their particular circumstances. This summary does not address any tax considerations applicable to persons other than Holders and such persons should consult their own tax advisors regarding the consequences of acquiring, holding and disposing of Securities under the Tax Act and any jurisdiction in which they may be subject to tax.

Taxation of Interest on Debentures

A Holder of Debentures represented by Instalment Receipts that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues to it to the end of the particular taxation year or that has become receivable by or is received by the Holder before the end of that taxation year, except to the extent that such interest was included in computing the Holder's income for a preceding taxation year. A "Canadian-controlled private corporation" (as defined in the Tax Act) also may be liable to pay a 6⅔% refundable tax on certain investment income including interest.

Any other Holder, including an individual, will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Holder in that taxation year (depending upon the method regularly followed by the Holder in computing income), except to the extent that the interest was included in the Holder's income for a preceding taxation year.

Where, on acquisition of a Debenture represented by an Instalment Receipt, a Holder pays an amount on account of interest accrued on the Debenture to the date of acquisition, such amount may be deducted in computing the Holder's income in the taxation year in which, and to the extent that, the accrued interest is included in the Holder's income as interest. The adjusted cost base to the Holder of the Debenture represented by an Instalment Receipt will be reduced by the amount that is so deductible.

Any premium or bonus paid by the Corporation to a Holder because the Debenture is redeemed before the maturity thereof will be deemed to be interest received at that time by the Holder to the extent that such premium can reasonably be considered to relate to, and does not exceed the value at the time of the redemption of, the interest that would have been paid or payable on the Debenture for a taxation year ending after the redemption had the Debenture not been redeemed.

Exercise of Conversion Privilege

Generally, a Holder who converts a Debenture into Common Shares pursuant to the conversion privilege will be deemed not to have disposed of the Debenture (except for purposes of the deduction for interest included in income but not received as discussed below under "— Disposition of Debentures"). Accordingly, a Holder who converts a Debenture into Common Shares will not be considered to realize a capital gain (or capital loss) on such conversion. Under the current administrative practice of the Canada Revenue Agency, a Holder who, upon conversion of a Debenture, receives cash not in excess of $200 in lieu of a fraction of a Common Share may either treat this amount as proceeds of disposition of a portion of the Debenture, thereby realizing a capital gain (or capital loss), or reduce the adjusted cost base of the Common Shares that the Holder receives on the conversion by the amount of the cash received.

The aggregate cost to a Holder of Common Shares acquired on the conversion of a Debenture will generally be equal to the Holder's adjusted cost base of the Debenture immediately before the conversion. For the purposes of determining the adjusted cost base to a Holder of Common Shares at any time, the cost of such Common Shares will be averaged with the adjusted cost base of any other Common Shares owned by the Holder as capital property at the time.

Disposition of Debentures

A disposition or deemed disposition of a Debenture by a Holder, including upon redemption or at maturity but not including the conversion of a Debenture into Common Shares pursuant to the Holder's right of conversion as described above, will generally result in the Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below) are greater (or less) than the aggregate of the Holder's adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "— Taxation of Capital Gains and Capital Losses". In this regard, the cost to a Holder of a Debenture represented by an Instalment Receipt will include all amounts paid or payable by the Holder for such Debenture, including the amount of the final instalment, whether paid or unpaid. The proceeds of disposition to a Holder who disposes of a Debenture represented by an Instalment Receipt will include the amount of any unpaid final instalment.

Upon a disposition or deemed disposition, other than upon redemption or at maturity, interest accrued on the Debenture to the date of disposition will be included in computing the Holder's income for the year of disposition, except to the extent that it was included in computing the Holder's income for that or a preceding taxation year, and will be excluded from the Holder's proceeds of disposition of the Debenture. Where a Holder has disposed of a Debenture for consideration equal to its fair market value, the Holder will be entitled to deduct in computing income for the year of disposition any amount that has been included in the Holder's income as interest in respect of such Debenture for that year or any preceding taxation year to the extent such amount exceeds the amount received or receivable by the Holder in respect thereof. A conversion of a Debenture into Common Shares is a disposition for purposes of this rule.

If the Corporation pays the principal amount of the Debentures upon maturity by issuing Common Shares to the Holder, the Holder's proceeds of disposition of the Debenture will be equal to the fair market value, at the time of disposition of the Debenture, of the Common Shares and any other consideration so received (except any consideration received in satisfaction of accrued interest). The Holder's aggregate cost of the Common Shares so received will be equal to the fair market value of such Common Shares. For the purposes of determining the adjusted cost base to a Holder of the Common Shares at any time, the cost of such Common Shares will be averaged with the adjusted cost base of any other Common Shares owned by the Holder as capital property at that time.

Where a Debenture represented by an Instalment Receipt is forfeited to the Selling Debentureholder or is sold by the Custodian as a consequence of the Holder's failure to pay the final instalment, the Holder may be subject to special rules in the Tax Act relating to the seizure by a seller of property previously sold or the settlement or forgiveness of debt. Holders should consult their own tax advisors with respect to these special rules.

Receipt of Dividends on Common Shares

Dividends received or deemed to be received on Common Shares by a Holder who is an individual (other than certain trusts) will be included in computing the individual's income for tax purposes and will be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from "taxable Canadian corporations" (as defined in the Tax Act), including the enhanced gross-up and dividend tax credit for "eligible dividends". A dividend will be an eligible dividend if the recipient receives written notice (which may include a notice published on the Corporation's website) from the Corporation designating the dividend as an "eligible dividend". There may be limitations on the ability of the Corporation to designate dividends as eligible dividends.

Taxable dividends received by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

A Holder that is a corporation will include dividends received or deemed to be received on Common Shares in computing its income for tax purposes and generally will be entitled to deduct the amount of such dividends in computing its taxable income, with the result that no tax will be payable by it in respect of such dividends.

Certain corporations, including a "private corporation" or a "subject corporation" (as such terms are defined in the Tax Act), may be liable to pay a refundable tax under Part IV of the Tax Act of 33⅓% on dividends received or deemed to be received on Common Shares to the extent such dividends are deductible in computing taxable income.

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Holder will generally result in the Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share are greater (or less) than the aggregate of the Holder's adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "— Taxation of Capital Gains and Capital Losses".

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in the Holder's income for the year, and one-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year must be deducted from taxable capital gains realized by the Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act. Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act. A "Canadian-controlled private corporation" (as defined in the Tax Act) also may be liable to pay a 6⅔% refundable tax on certain investment income including taxable capital gains.

The amount of any capital loss realized by a Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances described in the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

RISK FACTORS

An investment in: (i) the Debentures represented by Instalment Receipts pending payment of the final instalment; (ii) the Debentures following payment of the final instalment; and (iii) the Common Shares issuable upon the conversion of the Debentures, involves certain risks. A prospective purchaser of Debentures should carefully consider the risk factors described under:

(a) the heading "Business Risk Management" in the Annual MD&A as found on pages 49 to 66 of the Corporation's 2012 Annual Report;

(b) note 33 "Financial Risk Management" found on pages 136 to 139 in the Corporation's audited comparative consolidated financial statements as at December 31, 2012 and for the years ended December 31, 2012 and 2011, as contained in the Corporation's 2012 Annual Report; and

(c) note 20 "Financial Risk Management" found on pages F-26 to F-31 in the Corporation's unaudited comparative interim consolidated financial statements as at September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012,

each of which is incorporated by reference herein. In addition, a prospective purchaser of Debentures should carefully consider the risk factors described in this section which relate to the Acquisition, the Instalment Receipts, the Debentures and the post-Acquisition business and operations of the Corporation and UNS Energy, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein).

Risk Factors Relating to the Acquisition

Failure to complete the Acquisition

The closing of the Acquisition is subject to the normal commercial risks that the Acquisition will not close on the terms negotiated (including with respect to the consideration to be paid for each outstanding share of common stock of UNS Energy) or at all. The completion of the Acquisition is subject to receipt of UNS Energy Shareholder Approval and satisfaction of the other Approval Conditions, including obtaining the approval of each of the ACC and FERC, and the satisfaction or waiver of certain closing conditions contained in the Acquisition Agreement. The failure to obtain the required approvals or satisfy or waive the conditions contained in the Acquisition Agreement may result in the termination of the Acquisition Agreement. There is no assurance that such closing conditions will be satisfied or waived. Accordingly, there can be no assurance that Fortis will complete the Acquisition in the timeframe or on the basis described herein, if at all. The termination of the Acquisition Agreement may have a negative effect on the price of the Instalment Receipts, the Debentures and the Common Shares and will result in the redemption of the Debentures. If the closing of the Acquisition does not take place as contemplated, the Corporation could suffer adverse consequences, including the loss of investor confidence. See “The Acquisition Agreement — Closing Conditions”.

The Cash Purchase Price could increase

UNS Energy is a public company and its directors owe fiduciary duties to UNS Energy which may require them to consider competing offers to purchase the common stock of UNS Energy as alternatives to the Acquisition. The Acquisition Agreement preserves the ability of the directors of UNS Energy to accept an alternative or competing offer in certain circumstances if such offer constitutes a Superior Proposal. If a Superior Proposal to acquire UNS Energy is made Fortis may exercise its right to match such offer and as a result the Cash Purchase Price may increase. See “The Acquisition Agreement”.

Length of time required to complete the Acquisition is unknown

As described above under “— Failure to complete the Acquisition”, the closing of the Acquisition is subject to the receipt of required shareholder and regulatory approvals and the satisfaction of other closing conditions contained in the Acquisition Agreement. There is no certainty, nor can Fortis provide any assurance, as to when these conditions will be satisfied, if at all. A substantial delay in obtaining regulatory approvals or the imposition of unfavourable terms and/or conditions in such approvals could have a material adverse effect on the Corporation’s ability to complete the Acquisition and on the Corporation’s or UNS Energy’s business, financial condition or results of operations. Fortis intends to complete the Acquisition as soon as practicable after obtaining the required UNS Energy Shareholder Approval and regulatory approvals and satisfying the other required closing conditions. See “The Acquisition Agreement — Closing Conditions”.

Fortis may not realize all of the anticipated benefits of the Acquisition

As described in “The Acquisition — Acquisition Rationale”, Fortis believes that the Acquisition will provide benefits to the Corporation, including that the Acquisition will be accretive in the first full year following the closing of the Acquisition, excluding one-time Acquisition-Related Expenses. However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Corporation. The challenge of integrating previously independent businesses makes evaluating the Corporation’s business and future financial prospects difficult. The past financial performance of the Corporation may not be indicative of its future financial performance.

Failure to realize the anticipated benefits of the Acquisition may impact the financial performance of the Corporation, the price of its Common Shares and the ability of Fortis to continue to pay dividends on its Common Shares at current rates or at all. The declaration of dividends by the Corporation is at the discretion of the Board of Directors and the Board of Directors may determine at any time to cease paying dividends. See “Dividend Policy” and “Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy”.

Foreign exchange risk

The cash consideration for the Acquisition is required to be paid in U.S. dollars, while funds raised in the Offering, which will constitute a significant portion of the funds ultimately used to finance the Acquisition, are denominated in Canadian dollars. See “Use of Proceeds”. As a result, increases in the value of the U.S. dollar versus the Canadian dollar prior to payment of the final instalment will increase the purchase price translated in Canadian dollars and thereby reduce the proportion of the purchase price for the Acquisition ultimately obtained by Fortis under this Offering.

In addition, the operations of UNS Energy are conducted in U.S. dollars. Following the Acquisition, the consolidated earnings and cash flows of Fortis will be impacted to a much greater extent by movements in the U.S. dollar relative to the Canadian dollar. To manage these risks, Fortis may enter into forward foreign exchange contracts and utilize certain derivatives as cash flow hedges of its exposure to foreign currency risk to a greater extent than in the past. There is no guarantee that such hedging strategies, if adopted, will be effective. In addition, currency hedging entails a risk of illiquidity and, to the extent the applicable U.S. dollar depreciates against the Canadian dollar, the risk of using hedges could result in losses greater than if the hedging had not been used. Hedging arrangements may have the effect of limiting or reducing the total returns to Fortis if management's expectations concerning future events or market conditions prove to be incorrect, in which case the costs associated with the hedging strategies may outweigh their benefits.

Significant demands will be placed on the Corporation as a result of the Acquisition

As a result of the pursuit and completion of the Acquisition, significant demands will be placed on the Corporation's managerial, operational and financial personnel and systems. No assurance can be given that the Corporation's systems, procedures and controls will be adequate to support the expansion of the Corporation's operations resulting from the Acquisition. The Corporation's future operating results will be affected by the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational and financial controls and reporting systems.

Failure to pay final instalment will negatively impact the consolidated capitalization of the Corporation

Completion of the Acquisition is not conditional on the completion of this Offering by the Corporation or on the Corporation obtaining financing on favourable terms or at all. If a material amount due on payment of the final instalment is not paid by holders of Instalment Receipts and the Corporation is not able to quickly realize on the Debentures pledged to secure the obligation to pay the final instalment, the Corporation will not be able to use those proceeds to repay the Acquisition Credit Facilities. As a result, it may take Fortis longer than anticipated to repay the Acquisition Credit Facilities which may have a negative impact on the consolidated capitalization of Fortis until such time as the Acquisition Credit Facilities have been repaid by Fortis in full.

The Acquisition Credit Facilities may become unavailable

The commitment of the lenders to enter into the Acquisition Credit Facilities is subject to certain standard conditions which may result in such facilities becoming unavailable to Fortis in certain circumstances. If the Acquisition Credit Facilities become unavailable to Fortis, Fortis may not be able to complete the Acquisition. The inability of Fortis to complete the Acquisition will result in redemption of the Debentures. See "Financing the Acquisition — Acquisition Credit Facilities".

The Concurrent Private Placement may not be completed

Each of the Private Placement Subscribers has entered into a binding Subscription Agreement with the Corporation and the Selling Debentureholder, but such Subscription Agreements contain standard terms and conditions which may result in their termination prior to completion of the Concurrent Private Placement. In addition, one or more Private Placement Subscribers may breach the terms of their Subscription Agreement on or before the Closing Date or thereafter, resulting in non-payment of all or a portion of the price for the Private Placement Debentures or the final instalment with respect to such Private Placement Debentures. Any termination or non-completion with respect to any portion of the Concurrent Private Placement will have an adverse effect on the Corporation and any such termination or non-completion prior to the closing of the Offering will render certain disclosure in this Prospectus incorrect, potentially requiring the Corporation to file an amendment to the Prospectus, thereby delaying the closing of the Offering.

Fortis does not currently control UNS Energy and its subsidiaries

Although the Acquisition Agreement contains covenants on the part of UNS Energy regarding the operation of its business prior to closing the Acquisition, Fortis will not control UNS Energy and its subsidiaries until completion of the Acquisition and the UNS Energy business and results of operations may be adversely affected by events that are outside of the Corporation's control during the intervening period. Historic and current performance of UNS Energy's business and operations may not be indicative of success in future periods. The future performance of UNS Energy may be influenced by, among other factors, economic downturns, increased environmental regulation, turmoil in financial markets, unfavourable regulatory decisions, rising interest rates and other factors beyond the Corporation's control. As a result of any one or more of these factors, among others, the operations and financial performance of UNS Energy may be negatively affected which may adversely affect the future financial results of Fortis. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Fortis expects to incur significant Acquisition-Related Expenses

Fortis expects to incur a number of costs associated with completing the Acquisition. The substantial majority of these costs will be non-recurring expenses resulting from the Acquisition and will consist of transaction costs related to the Acquisition, including costs relating to the financing of the Acquisition and obtaining regulatory approval. Additional unanticipated costs may be incurred.

Information relating to UNS Energy in this Prospectus has been obtained from UNS Energy or its public disclosure record

All information relating to UNS Energy or its affiliates contained in this Prospectus has been provided to Fortis by UNS Energy or taken from the UNS Energy public disclosure record. Although the Corporation has conducted what it believes to be a prudent and thorough level of investigation in connection with the Acquisition and the disclosure relating to UNS Energy contained in this Prospectus, an unavoidable level of risk remains regarding the accuracy and completeness of such information. While Fortis has no reason to believe the information provided by UNS Energy or taken from the public disclosure record is misleading, untrue or incomplete, Fortis cannot assure the accuracy or completeness of such information nor can Fortis compel UNS Energy to disclose events which may have occurred or may affect the completeness or accuracy of such information but which are unknown to Fortis.

Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy

Fortis will have a substantial amount of indebtedness which may adversely affect its cash flow and ability to operate its business

After giving effect to the Acquisition, Fortis will have a significant amount of debt, including US$1.8 billion of debt of UNS Energy assumed by Fortis as a result of the Acquisition. As of September 30, 2013, on a pro forma basis after giving effect to the Acquisition and other refinancing activities, but assuming conversion of all Debentures to Common Shares, details of which are included in the Capitalization table provided herein, Fortis would have approximately $10.3 billion of total indebtedness outstanding. The change in the capital structure of Fortis as a result of the Acquisition, the Offering, the Concurrent Private Placement and the entering into of the Acquisition Credit Facilities could cause credit rating agencies which rate the outstanding debt obligations of Fortis to re-evaluate and potentially downgrade the Corporation's current credit ratings, which could increase the Corporation's borrowing costs. See "Capitalization" and "Recent Developments".

The Corporation's historical and pro forma combined financial information may not be representative of the results of the Corporation following the Acquisition

The *pro forma* combined financial information included in this Prospectus has been prepared using the consolidated historical financial statements of Fortis and the consolidated historical financial statements of UNS Energy and does not purport to be indicative of the financial information that will result from the operations of Fortis on a consolidated basis following the Acquisition. In addition, the *pro forma* combined financial information included in this Prospectus is based in part on certain assumptions regarding the Acquisition that Fortis currently believes are reasonable. Fortis makes no assurances that its current assumptions will prove to be accurate over time. Accordingly, the historical and pro forma financial information included in this Prospectus does not necessarily represent the Corporation's results of operations and financial condition had Fortis and UNS Energy operated as a combined entity during the periods presented, or of the Corporation's results of operations and financial condition in the future. The Corporation's potential for future business success and operating profitability must be considered in light of the risks, uncertainties, expenses and difficulties typically encountered by recently combined companies.

In preparing the pro forma financial information contained in this Prospectus, Fortis has given effect to, among other items, the Offering, the Acquisition Credit Facilities, the completion of the Acquisition and the assumption of UNS Energy's outstanding indebtedness. Fortis has also assumed that the Debentures and the Private Placement Debentures will be converted into Common Shares on or immediately following the Final Instalment Date. While management believes that the estimates and assumptions underlying the pro forma financial information are reasonable, such assumptions and estimates may be materially different than the Corporation's actual experience following completion of the Acquisition. See also "Risk Factors — Risks Relating to the Acquisition". See the notes to the *pro forma* financial statements of Fortis incorporated in this Prospectus.

Potential undisclosed liabilities associated with the Acquisition

In connection with the Acquisition, there may be liabilities of UNS Energy and its subsidiaries that the Corporation failed to discover or was unable to quantify in the due diligence which it conducted prior to the execution of the Acquisition Agreement and the Corporation may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities of UNS Energy and its subsidiaries could have a material adverse effect on the Corporation's business, financial condition or future prospects.

Fortis may not be successful in retaining the services of certain key personnel of UNS Energy following the Acquisition

Fortis currently intends to retain certain key personnel of UNS Energy following the completion of the Acquisition to continue to manage and operate UNS Energy as a separate operating company. Fortis will compete with other potential employers for employees, and it may not be successful in keeping the services of the executives and other employees that it needs to realize the anticipated benefits of the Acquisition. The Corporation's failure to retain key personnel to remain as part of the management team of UNS Energy in the period following the Acquisition could have a material adverse effect on the business and operations of UNS Energy and Fortis on a consolidated basis.

Fortis is subject to risks associated with its results of operations and financing risks

Management of Fortis believes, based on its current expectations as to the Corporation's future performance (which reflects, among other things, the completion of the Acquisition), that the cash flow from its operations and funds available to it under its Revolving Facility and its ability to access capital markets will be adequate to enable the Corporation to finance its operations, execute its business strategy and maintain an adequate level of liquidity. However, expected revenue and the costs of planned capital expenditures are only estimates. Moreover, actual cash flows from operations are dependent on regulatory, market and other conditions that are beyond the control of the Corporation. As such, no assurance can be given that management's expectations as to future performance will be realized. In addition, management's expectations as to the Corporation's future performance reflect the current state of its information about UNS Energy and its operations and there can be no assurance that such information is correct and complete in all material respects.

The Corporation's degree of leverage could have adverse consequences for Fortis, particularly if a significant portion of the Acquisition Credit Facilities are drawn to complete the Acquisition or if a significant portion of the Debentures are not converted into Common Shares by the holders thereof. The significant increase in the degree of the Corporation's leverage could, among other things, limit the Corporation's ability to obtain additional financing for working capital, investment in subsidiaries, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; restrict the Corporation's flexibility and discretion to operate its business; limit the Corporation's ability to declare dividends on its Common Shares; require Fortis to dedicate a portion of cash flows from operations to the payment of interest on its existing indebtedness, in which case such cash flows will not be available for other purposes; cause ratings agencies to re-evaluate or downgrade the Corporations' existing credit ratings; expose Fortis to increased interest expense on borrowings at variable rates; limit the Corporation's ability to adjust to changing market conditions; place Fortis at a competitive disadvantage compared to its competitors that have less debt; make Fortis vulnerable to any downturn in general economic conditions; and render Fortis unable to make expenditures that are important to its future growth strategies.

Within the next five years (from September 30, 2013), approximately $2 billion of the Corporation's consolidated indebtedness will become due. Assuming the completion of the Acquisition, within the next five years (from September 30, 2013), approximately $2.7 billion of the Corporation's consolidated indebtedness will become due. Therefore, the Corporation will need to refinance or reimburse amounts outstanding under the Corporation's existing consolidated indebtedness. There can be no assurance that any indebtedness of the Corporation will be refinanced or that additional financing on commercially reasonable terms will be obtained, if at all. In the event that such indebtedness cannot be refinanced, or if it can be refinanced on terms that are less favourable than the current terms, the ability of the Corporation to declare dividends may be adversely affected.

The ability of the Corporation to meet its debt service requirements will depend on its ability to generate cash in the future, which depends on many factors, including the financial performance of the Corporation, debt service obligations, the realization of the anticipated benefits of the Acquisition and working capital and future capital expenditure requirements. In addition, the ability of the Corporation to borrow funds in the future to make payments on outstanding debt will depend on the satisfaction of covenants in existing credit agreements and other agreements. A failure to comply with any covenants or obligations under the Corporation's consolidated indebtedness could result in a default under one or more such instruments, which, if not cured or waived, could result in the termination of distributions by the Corporation and permit acceleration of the relevant indebtedness. If such indebtedness were to be accelerated, there can be no assurance that the assets of the Corporation would be sufficient to repay such indebtedness in full. There can also be no assurance that the Corporation will generate cash flow in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

Jointly owned generating plants and generating plants operated by third parties

Certain of the generating stations from which TEP receives power are jointly owned with, or are operated by, third parties. TEP may not have the sole discretion or any ability to affect the management or operations at such facilities. As a result of this reliance on other operators, TEP may not be able to ensure the proper management of the operations and maintenance of the plants. Further, TEP may have no ability or a limited ability to make determinations on how best to manage the changing environmental regime which affects such facilities. In addition, TEP will not have sole discretion as to how to proceed in the face of requirements relating to environmental compliance which could require significant capital expenditures or the closure of such generating stations. A divergence in the interests of TEP and the co-owners or operators, as applicable, of such generating facilities could negatively impact the business and operations of TEP.

Pension and other employee benefit obligations of UNS Energy

UNS Energy's future benefit obligations to employees were estimated to be US$142 million (net of fair value of plan assets) as at September 30, 2013. Economic fluctuations could adversely impact the funding and expenses associated with these obligations and there can be no assurance that these pension and employee benefit obligations will not increase materially in the future, thereby negatively impacting UNS Energy's results of operations, net income and cash flows, and those of Fortis following the Acquisition.

National and local economic conditions can have a significant impact on the results of operations, net income and cash flows at UNS Energy and its subsidiaries

The business of UNS Energy and the UNS Utilities is concentrated in the State of Arizona. In recent years economic conditions in the State of Arizona have contributed significantly to a reduction in TEP's retail customer growth and lower energy usage by the company's residential, commercial and industrial customers. As a result of weak economic conditions, TEP's average retail customer base grew by less than 0.4% in each year from 2008 through 2012 compared with average increases of approximately 2% in each year from 2003 to 2007. In 2012, total retail kWh sales were 0.7% below 2011 levels. Similar impacts were felt at UNS Gas and UNS Electric. Annual average increases in the number of retail customers at both companies remained below 1% in 2008 through 2012 compared with average annual growth rates of 3% from 2003 to 2007. While it is expected that economic conditions in the State of Arizona will improve in the future, if they do not or if they should worsen, retail customer growth rates may stagnate or decline and customers' energy usage may further decline, adversely affecting UNS Energy's results of operations, net income and cash flows and those of Fortis following the Acquisition.

Stranded assets

The coal-fired San Juan, Four Corners and Navajo generating stations in which TEP is a participant may be required to be closed before the end of their useful life due to recent changes in environmental regulation. Future changes in environmental regulation relating to CO_2 emissions may also further negatively impact the ability of the coal-fired generating plants from which TEP receives power to operate on an economically viable basis or at all. If any of the coal-fired generation plants from which TEP obtains power are closed prior to the end of their useful life, TEP could incur a material write-down of its assets and incur added expenses relating to the maintenance, decommissioning and cancellation of long-term coal contracts of such generating plants. Closure of any of such generating stations may force TEP to find higher cost replacement sources for the power it obtains from such generating facilities. TEP may not be permitted or entitled to seek reimbursement for such incremental increases in costs in the rates it charges its customers. See "The Acquired Business — Environmental Regulation".

New technological developments and the implementation of new Electric EE Standards will continue to have a significant impact on retail sales, which could negatively impact UNS Energy's results of operations, net income and cash flows

Heightened awareness of energy costs and environmental concerns has increased demand for products intended to reduce consumers' use of electricity. TEP and UNS Electric also are promoting DSM programs designed to help customers reduce their energy use and these efforts will increase significantly under energy efficiency rules approved in 2010 by the ACC and effective commencing in 2012. Unless the ACC makes a specific provision for the recovery of usage-based revenues lost to these energy efficiency programs, the reduced retail sales that could result from the success of these efforts could negatively impact the results of operations, net income and cash flows of TEP and UNS Electric and those of Fortis following the Acquisition.

Developments in technology could reduce demand for electricity

Research and development activities are ongoing for new technologies that produce power or reduce power consumption. These technologies include renewable energy, customer-oriented generation, energy efficiency and more energy efficient appliances and equipment. Advances in these, or other technologies, could reduce the cost of producing electricity or make the existing generating facilities of UNS Energy less economical. In addition, advances in such technologies could reduce electrical demand, which could negatively impact the results of operations, net income and cash flows of TEP and UNS Electric and those of Fortis following the Acquisition.

The revenues, results of operations and cash flows of the UNS Utilities are seasonal and are subject to weather conditions and customer usage patterns

TEP typically earns the majority of its operating revenue and net income in the third quarter because retail customers increase their air conditioning usage during the summer. Conversely, TEP's first quarter net income is typically limited by relatively mild winter weather in its retail service territory. UNS Electric's earnings follow a similar pattern, while UNS Gas' sales peak in the winter during home heating season. Cool summers or warm winters may reduce customer usage at all three companies, adversely affecting operating revenues, cash flows and net income by reducing sales.

The UNS Utilities are subject to regulation by the ACC, which sets the companies' retail rates and oversees many aspects of their business in ways that could negatively affect the companies' results of operations, net income and cash flows

The ACC is a regulatory body governed by the Arizona state constitution and is composed of five elected commissioners. Commissioners are elected state-wide for staggered four-year terms and are limited to serving a total of two terms. As a result, the composition of the commission and therefore its policies, are subject to change every two years.

The ACC is charged with setting retail electric and gas rates that provide utility companies in Arizona with an opportunity to recover their costs of service and earn a reasonable rate of return. ACC rate orders also regulate average cost of capital and the capital structure of the UNS Utilities, among other things, which limits the discretion of management in respect of the manner in which it runs such businesses. The decisions of these elected officials on such matters impact the net income and cash flows of the UNS Utilities.

In May 2013, the ACC initiated and subsequently closed an inquiry to discuss the possibility of opening Arizona to retail electric competition. If the ACC ultimately decides to implement retail electric competition in Arizona, it could negatively impact the results of operations, net income and cash flows of TEP and UNS Electric. See "The Acquired Business — Regulation".

Changes in U.S. federal energy regulation may negatively affect the results of operations, net income and cash flows of the UNS Utilities

The UNS Utilities are subject to the impact of comprehensive and changing governmental regulation at the federal level in the United States that continues to change the structure of the electric and gas utility industries and the ways in which these industries are regulated. The UNS Utilities are subject to regulation by FERC. FERC has jurisdiction over rates for electric transmission in interstate commerce and rates for wholesale sales of electric power, including terms and prices of transmission services and sales of electricity at wholesale prices. Changes in regulations by FERC may negatively affect the results of operations, net income and cash flows of the UNS Utilities.

The UNS Utilities are subject to numerous environmental laws and regulations that may increase their cost of operations or expose them to environmentally-related litigation and liabilities. Many of these regulations could have a significant impact on TEP due to its reliance on coal as its primary fuel for electricity generation

Numerous federal, state and local environmental laws and regulations in the United States and the State of Arizona affect present and future operations of UNS Energy's regulated utility subsidiaries. Those laws and regulations include rules regarding air emissions, water use, wastewater discharges, solid waste, hazardous waste and management of coal combustion residuals.

These laws and regulations can contribute to higher capital, operating and other costs, particularly with regard to enforcement efforts focused on existing power plants and new compliance standards related to new and existing power plants. These laws and regulations generally require TEP and UNS Electric to obtain and comply with a wide variety of environmental licenses, permits, authorizations and other approvals. Both public officials and private individuals may seek to enforce applicable environmental laws and regulations against UNS Energy and its regulated utility subsidiaries. Failure to comply with applicable laws and regulations may result in litigation, the imposition of civil or criminal fines and penalties and a requirement for costly equipment upgrades by regulatory authorities against UNS Energy and its regulated utility subsidiaries.

Existing environmental laws and regulations may be revised or new environmental laws and regulations may be adopted or become applicable to the facilities and operations of the UNS Utilities. Increased compliance costs or additional operating restrictions from revised or additional regulation could have an adverse effect on the results of operations of the UNS Utilities, particularly if those costs are not fully recoverable from customers. TEP's obligation to comply with the EPA's BART determinations as a participant in the San Juan, Four Corners and Navajo electricity generating plants, coupled with the financial impact of future climate change legislation, other environmental regulations and other business considerations, could jeopardize the economic viability of these electricity generating plants or the ability of individual participants to meet their obligations and continue their participation in these electricity generating plants. TEP cannot predict the ultimate outcome of these matters.

TEP also is contractually obligated to pay a portion of the environmental reclamation costs incurred at generating stations in which it has a minority interest and is obligated to pay similar costs at the coal mines that supply these generating stations. While TEP has recorded the portion of its obligations for such reclamation costs that can be determined at this time, the total costs for final reclamation at these sites are unknown and could be substantial.

New federal regulations to limit greenhouse gas emissions could increase TEP's cost of operations and result in a change in the composition of TEP's coal-dominated generating fleet

Based on the finding by the EPA in December 2009 that emissions of greenhouse gases endanger public health and welfare, the agency is in the process of regulating greenhouse gas emissions. In addition, there are proposals and ongoing studies at the state, federal and international levels to address global climate change that could also result in the regulation of CO_2 and other greenhouse gases. Any future regulatory actions taken to address global climate change represent a business risk to the operations of UNS Energy. In 2012, 72% of TEP's total energy resources came from its coal-fueled generating facilities.

Reductions in CO_2 emissions to the levels specified by some proposals could be materially adverse to the financial position or results of operations of UNS Energy if associated costs of control or limitation cannot be recovered from customers. In June 2013, President Obama directed the EPA to move forward with carbon emission regulations for both new and existing fossil-fueled power plants. For existing power plants, the President ordered the EPA to propose carbon emission standards by June 1, 2014, to finalize those standards by June 1, 2015 and to require states to submit their implementation plans to meet the standards by June 30, 2016. Changes to existing environmental laws applicable to the generating assets of TEP and UNS Electric could negatively impact the ability of certain of the generating plants to operate on an economically viable basis or at all and could result in significant capital expenditures being required to bring such plants into compliance with any new legislation. There is a particular risk that any new rules proposed by the EPA will significantly impair the ability to operate certain of TEP's coal-fired generation plants on an economically viable basis or at all. If any of the coal-fired generation plants from which TEP obtains power were closed prior to the end of their useful lives, TEP would likely be forced to find replacement sources for the power it obtains from such generating facilities at increased cost and could incur a material write-down of its assets. The impact of legislation or regulation to address global climate change would depend on the specific terms of those measures and cannot be determined at this time.

Failure to meet renewable energy standards and gas energy efficiency standards

The ACC's renewable energy standards require TEP and UNS Electric to increase their use of renewable energy each year until it represents at least 15% of their total annual retail energy requirements in 2025. Further, in 2010, the ACC approved Gas EE Standards and Electric EE Standards which are designed to require TEP, UNS Gas and UNS Electric to implement cost-effective programs to reduce customers' energy consumption. There is a possibility that these renewable energy standards and gas efficiency standards will not be met which may result in regulatory sanctions and adverse financial consequences to TEP, UNS Gas or UNS Electric.

Volatility or disruptions in the financial markets may increase UNS Energy's financing costs, limit access to the credit markets and increase pension funding obligations, which may adversely affect UNS Energy's liquidity and ability to carry out its financial strategy

UNS Energy relies on access to the bank markets and capital markets as a significant source of liquidity and for capital requirements not satisfied by cash flow from operations. Market disruptions such as those experienced over the last four years in the United States and internationally may increase the cost of borrowing or adversely affect the ability of UNS Energy to access sources of liquidity needed to finance its operations and satisfy its obligations as they become due. These disruptions may include turmoil in the financial services industry, including substantial uncertainty surrounding particular lending institutions and counterparties UNS Energy does business with, unprecedented volatility in the markets where the outstanding securities of UNS Energy currently trade and general economic downturns in the UNS Energy regulated utility subsidiary service territories. If UNS Energy is unable to access credit at competitive rates, or if its borrowing costs dramatically increase, its ability to finance its operations, meet its short-term obligations and execute its financial strategy could be adversely affected.

Changing market conditions could negatively affect the market value of assets held in the pension and other retiree plans of UNS Energy and may increase the amount and accelerate the timing of required future funding contributions. See "— Pension and other employee benefit obligations of UNS Energy".

TEP, UNS Gas and UNS Electric are subject to wholesale credit risk

TEP, UNS Gas and UNS Electric are subject to credit risk related to their respective wholesale sales, purchases, procurement and hedging activities. This includes the risk of non-payment on power sales and delivery risk on power and gas purchases. All three companies have forward physical and financial contracts which may result in positive mark-to-market values which are subject to default risk. Significant levels of default or non-payment in connection with these activities would have an adverse impact on the financial condition of the UNS Utilities.

UNS Energy's net income and cash flows can be adversely affected by rising interest rates

As of February 13, 2013, TEP had US$215 million of tax-exempt variable rate debt obligations, US$50 million of which was hedged with a fixed-for-floating interest rate swap through September 2014. The variable interest rates are set weekly with maximum interest rates of 20% on US$178 million of debt obligations and 10% on the remaining US$37 million. The average weekly interest rate ranged from 0.06% to 0.26% in 2012.

UNS Energy, TEP, UNS Gas and UNS Electric also are subject to risk resulting from changes in the interest rate on their borrowings under revolving credit facilities. Revolving credit borrowings may be made on a spread over LIBOR or an Alternate Base Rate. Each of these agreements is a committed facility and expires in November 2016, subject to any rights of the lenders to terminate those facilities as a result of the Acquisition.

If capital market conditions result in rising interest rates, the resulting increase in the cost of variable rate borrowings would negatively impact UNS Energy's, TEP's, UNS Gas' and UNS Electric's results of operations, net income and cash flows.

TEP, UNS Gas and UNS Electric may be required to post margin under their power and fuel supply agreements, which could negatively impact their liquidity

TEP, UNS Gas and UNS Electric secure power and fuel supply resources to serve their respective retail customers. The agreements under which these regulated utilities contract for such resources include requirements to post credit enhancement in the form of cash or LOCs in certain circumstances, including changes in market prices of power and fuel supply which affect contract values, or a change in creditworthiness of the respective companies.

In order to post such credit enhancement, TEP, UNS Gas and UNS Electric would be required to use available cash, draw under their revolving credit agreements, or issue LOCs under their revolving credit agreements.

The maximum amount TEP may use under its revolving credit facility is US$200 million. As of September 30, 2013, TEP had US$199 million available to borrow under its revolving credit facility. The maximum amount UNS Gas or UNS Electric may borrow is US$70 million, so long as the combined amount drawn by both companies does not exceed US$100 million (the size of their combined borrowing capacity under the revolving credit facility). As of September 30, 2013, UNS Gas had US$70 million and UNS Electric had US$47 million, available to borrow under their revolving credit facility. From time to time, TEP, UNS Gas and UNS Electric use their respective revolving credit facilities to post collateral. If additional collateral is required, it may negatively impact TEP, UNS Gas and/or UNS Electric's ability to fund their capital requirements. As of September 30, 2013, TEP and UNS Electric each had posted less than US$1 million with counterparties in the form of cash or LOCs.

UNS Energy and its subsidiaries have debt which could adversely affect their business and results of operations

UNS Energy has no operations of its own and derives all of its revenues and cash flow from its subsidiaries. At December 31, 2012, the ratio of total debt (including capital lease obligations net of investments in lease debt) to total capitalization for UNS Energy and its subsidiaries was 63%. This debt level:

- requires UNS Energy and its subsidiaries to dedicate a substantial portion of their cash flow to pay principal and interest on their debt, which could reduce the funds available for working capital, capital expenditures and other general corporate purposes;
- could limit UNS Energy and its subsidiaries' ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of its business strategy or other purposes;
- could limit the ability of UNS Energy to pay dividends following the Acquisition; and
- could negatively impact the realization of the anticipated benefits of the Acquisition by Fortis.

The cost of purchasing TEP's leased assets and the cost of procuring alternate sources of generation or purchased power in 2015 could require significant outlays of cash in a short period of time, which could be difficult to finance

In August and October 2013, TEP exercised purchase options with respect to an additional aggregate 35.4% undivided interest in Springerville Unit 1 from the owner participants at an aggregate purchase price of approximately US$65.5 million, with the closing of the lease purchase options scheduled to occur in December 2014 and January 2015. In 2015, following the acquisition by TEP of the additional 35.4% interest in Springerville Unit 1 and the expiry of the Springerville Unit 1 Leases, the capacity received by TEP from this facility will be reduced to 49.5% of the continuous operating capability of Springerville Unit 1.

In August 2013, TEP entered into exclusive negotiations with Entegra to purchase Gila River, a natural gas-fired combined-cycle unit with a capacity rating of 550 MW. The purchase of Gila River, if completed, will replace foregone coal-fired leased capacity following expiry of the Springerville Unit 1 Leases.

The Springerville Coal Handling Facilities can be purchased in 2015 for a fixed price of US$120 million. TEP also leases a 50% undivided interest in the Springerville Common Facilities with primary lease terms ending in 2017 and 2021. Upon expiration of the Springerville Coal Handling Facilities Leases and Springerville Common Facilities Leases (whether at the end of the initial term or any renewal term), TEP has the obligation under agreements with the owners of Springerville Units 3 and 4 to purchase such facilities. Upon acquisition by TEP, the owner of Springerville Unit 3 has the option and the owner of Springerville Unit 4 has the obligation to purchase from TEP a 14% interest in the Common Facilities and a 17% interest in the Coal Handling Facilities.

The anticipated purchase by TEP of the additional 35.4% interest in Springerville Unit 1, Gila River and the Springerville Coal Handling Facilities in 2014 and 2015 will result in significant capital expenditures by TEP in a short period of time, which may be difficult to finance.

Regulatory rules and other restrictions could limit the ability of TEP, UNS Gas and UNS Electric to make distributions to UNS Energy

As a holding company, UNS Energy is dependent on the earnings and distributions of funds from its subsidiaries to service its debt. Several restrictions could preclude the ability of any of the UNS Utilities to transfer funds to UNS Energy, including the following:

- TEP, UNS Gas and UNS Electric are restricted from lending to affiliates or issuing securities without ACC approval;
- the Federal Power Act states that an electric utility's dividends shall not be paid out of funds properly included in capital accounts. Although TEP now has a positive balance of retained earnings as of September 30, 2013, TEP has historically had an accumulated deficit rather than positive retained earnings. UNS Energy currently believes that there is a reasonable basis for TEP to pay dividends from current year earnings even if it were to have an accumulated deficit. However, there can be no assurance that FERC would permit such dividend payments; and
- TEP, UNS Gas and UNS Electric must be in compliance with their respective debt agreements in order to make dividend payments to UNS Energy.

Restrictions of this nature could limit the ability of UNS Energy to pay dividends following the Acquisition and could negatively impact the realization of the anticipated benefits of the Acquisition by Fortis.

Unanticipated financing needs or reductions to net income could adversely impact the ability to comply with financial covenants in the UNS Energy, TEP and UNS Electric Credit Agreements

The UNS Energy, TEP and UNS Electric credit and reimbursement agreements include a maximum leverage ratio. The leverage ratios are calculated as the ratio of total indebtedness to total capital. The ability to comply with these covenants could be adversely impacted by unanticipated borrowing needs or unexpected charges to earnings or shareholder equity. In the event that UNS Energy, TEP or UNS Electric seek to renegotiate these provisions to provide additional flexibility, they may need to pay fees or increased interest rates on borrowings as a condition to any amendments or waivers.

The operation of electric generating stations involves risks that could result in unplanned outages or reduced generating capability that could adversely affect TEP's or UNS Electric's results of operations, net income, and cash flows

The operation of electric generating stations involves certain risks, including equipment breakdown or failure (due to wear and tear, latent defect, design error or operator error, among other things), interruption of fuel supply and lower than expected levels of efficiency or operational performance. Unplanned outages, including extensions of planned outages due to equipment failure or other complications, occur from time to time and are an inherent risk of the businesses of TEP and UNS Electric. There can be no assurance that the generation facilities of TEP or UNS Electric will continue to operate in accordance with expectations. If an unplanned outage or an equipment breakdown occurs, TEP or UNS Electric could be adversely affected. In addition, any applicable insurance coverage may not be adequate to protect the business of TEP and UNS Electric from material adverse effects as a result of such operational failures.

Operations may be adversely affected if water supply is materially reduced

Natural gas and coal-fired plants require continuous water flow for their operation. Shifts in weather or climate patterns, seasonable precipitation, the timing and rate of melting, run off, and other factors beyond the control of TEP and UNS Electric, may reduce the water flow to their generation facilities. Any material reduction in the water flow to such facilities would limit the ability of TEP and UNS Electric to produce and market electricity from such facilities and could have a material adverse effect on the business of each such company. Further, any change in regulations or the level of regulation respecting the use, treatment and discharge of water, or respecting the licensing of water rights in the jurisdictions where TEP and UNS Electric operate could result in a material adverse effect on the business of each such company.

Disruption of fuel supply could have an adverse impact on the financial condition of the UNS Utilities

The UNS Utilities depend on third parties to supply fuel, including natural gas and coal. As a result, there are risks of supply interruptions and fuel price volatility, as fuel deliveries may not exactly match those required for energy sales or use in electricity production, due in part to the need to pre-purchase fuel inventories for reliability and dispatch requirements. Disruption of transportation services for fuel, whether because of weather-related problems, strikes, lock-outs, break-downs of locks and dams, pipeline failures or other events could impair the ability to deliver electricity or gas or generate electricity and could adversely affect operations. Further, the loss of coal suppliers or the inability to renew existing coal and natural gas contracts at favorable terms could significantly affect the ability to serve customers and have an adverse impact on the financial condition and results of operations of the UNS Utilities.

The facilities and operations of UNS Energy could be affected by natural disasters or other catastrophic events.

UNS Energy's facilities and operations are exposed to potential damage and partial or complete loss resulting from environmental disasters (e.g. floods, high winds, fires and earthquakes), equipment failures, vandalism, potentially catastrophic events such as a major accident or incident at one of the sites, and other events beyond the control of UNS Energy. The operation of transmission and distribution systems involves certain risks, including gas leaks, fires, explosions, pipeline ruptures and other hazards and risks that may cause unforeseen interruptions, personal injury or property damage. Any such incident could have an adverse effect on UNS Energy. In certain cases, there is potential that some events may not excuse UNS Energy and its utility subsidiaries from performing obligations pursuant to agreements with third parties.

TEP could be subject to higher costs and the possibility of significant penalties as a result of mandatory transmission standards

As a result of the Energy Policy Act of 2005, owners and operators of bulk power transmission systems, including TEP, are subject to mandatory transmission standards developed and enforced by NERC and subject to the oversight of FERC. Compliance with modified or new transmission standards may subject TEP to higher operating costs and increased capital costs. Failure to comply with the mandatory transmission standards could subject TEP to sanctions, including substantial monetary penalties.

UNS Energy may be subject to cyber-attacks and information security risks

As operators of critical energy infrastructure, UNS Energy and its regulated utility subsidiaries may face a heightened risk of cyber-attack and their corporate and information technology systems may be vulnerable to disability or failures as a result of unauthorized access due to hacking, viruses, acts of war or terrorism and other causes. In addition, the utility business requires access to sensitive customer data, including personal and credit information, in the ordinary course of business. If, despite the security measures of UNS Energy and its regulated utility subsidiaries, a significant or widely publicized breach occurred, UNS Energy and its regulated utility subsidiaries could have their operations disrupted, property damaged and customer information stolen, experience substantial loss of revenues, response costs and other financial loss; and be subject to increased regulation, litigation and damage to their reputation, any of which could have a negative impact on the business and results of operations of UNS Energy and its regulated utility subsidiaries.

TEP or UNS Electric might not be able to secure adequate rights-of-way to construct transmission lines and distribution related facilities and could be required to find alternate ways to provide adequate sources of energy and maintain reliable service for their customers

TEP and UNS Electric rely on federal, state and local governmental agencies and the Navajo Nation to secure right-of-way and siting permits to construct transmission lines and distribution-related facilities. If adequate right-of-way and siting permits to build new transmission lines cannot be secured:

- TEP and UNS Electric may need to rely on more costly alternatives to provide energy to their customers;
- TEP and UNS Electric may not be able to maintain reliability in their service areas; or
- TEP and UNS Electric's ability to provide electric service to new customers may be negatively impacted.

TEP and UNS Electric rely on transmission lines they do not own or control, which may hinder their ability to produce, sell and deliver electricity

TEP and UNS Electric depend on transmission and distribution facilities that are owned and operated by other utilities and power companies to deliver some of the electricity that they generate. An extended disruption in transmission, a failure in any such transmission system or a lack of available transmission and distribution facilities could impact the ability of TEP and UNS Electric to produce, sell and deliver electricity, which could result in a material adverse effect to the respective businesses of such companies.

Labour Relations

The organized employees of the UNS Energy utility subsidiaries are members of labour unions which have entered into collective bargaining agreements with their respective employer. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by the UNS Energy utility subsidiaries. The UNS Energy utility subsidiaries consider their relationships with their respective labour unions to be satisfactory, but 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. Collective bargaining agreements covering certain employees of TEP, UNS Gas and UNS Electric expire in 2014, 2015 and 2016. 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 for the UNS Energy utility subsidiaries, which could have an adverse effect on the results of operations, cash flow and net income of such companies and on UNS Energy.

Underinsured and Uninsured Losses

UNS Energy and its utility subsidiaries maintain at all times insurance coverage in respect of potential liabilities and the accidental loss of value of certain of their assets from risks, in amounts 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, not all risks are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on economically feasible terms or that the amounts of insurance will be sufficient to cover losses or claims that may occur involving the assets or operations of UNS Energy or any of its utility subsidiaries.

Risk Factors Relating to the Instalment Receipts

Balance of Instalment Receipt purchase price remains outstanding and the failure of a holder of instalment receipts to pay the balance of the purchase price on or before the Final Instalment Date will have adverse consequences for the holder

Each Instalment Receipt purchased in the Offering represents an obligation of the holder of such security to pay $667 per $1,000 principal amount of Debentures on or before the Final Instalment Date. If the final instalment of the purchase price is not paid when due, the Defaulting Holder will no longer be able to pay the final instalment without the consent of the Selling Debentureholder. In addition, the Defaulting Holder will no longer be able to exercise the rights described under “Details of the Offering — Instalment Receipts — Rights and Privileges” and will cease to be entitled to any principal and the Make-Whole Payment (if applicable) in respect of the Debenture represented by such Instalment Receipt. In addition, if the holder of an Instalment Receipt does not pay the final instalment when due, the Debentures evidenced by such Instalment Receipt may, at the Selling Debentureholder’s option, upon compliance with applicable law and the terms of the Instalment Receipt Agreement, be forfeited to the Selling Debentureholder in full satisfaction of the Defaulting Holder’s obligations or such Debentures may be sold and the Defaulting Holder will remain liable for any deficiency in the proceeds of such sale. The Selling Debentureholder will have the right to and may commence legal action against Defaulting Holders who do not pay the final instalment on or before the Final Instalment Date. The commencement of any such litigation by the Selling Debentureholder may negatively affect the Corporation and the Selling Debentureholder, and could have an adverse effect on the price of the Debentures and the Common Shares.

There is currently no market through which the Instalment Receipts may be sold

There is currently no market through which the Instalment Receipts may be sold and purchasers of Debentures may not be able to resell Instalment Receipts. There can be no assurance that an active trading market will develop for the Instalment Receipts after the Offering or, if developed, that such a market will be sustained. This may affect the pricing of the Instalment Receipts in the secondary market, the transparency and availability of trading prices, the liquidity of Instalment Receipts, and the extent of issuer regulation. If an active market for the Instalment Receipts fails to develop or be sustained, the prices at which the Instalment Receipts trade may be adversely affected. Whether or not the Instalment Receipts will trade at lower prices depends on many factors, including liquidity of the Instalment

Receipts, prevailing interest rates and the market for similar securities, the market price of debt securities with maturities comparable to the Debentures, the market price of the Common Shares, general economic conditions and Fortis' financial condition, historic financial performance and future prospects.

The TSX has conditionally approved the listing of the Instalment Receipts (representing the Debentures and the Private Placement Debentures) and the Common Shares issuable on the conversion of the Debentures and Private Placement Debentures on the TSX, subject to Fortis fulfilling all of the requirements of the TSX on or before March 11, 2014. The Corporation has no current intention to list the Debentures or the Private Placement Debentures for trading on the TSX or any other exchange as it currently anticipates all Debentures and the Private Placement Debentures will be converted to Common Shares on the Final Instalment Date.

Fluctuations in trading price

An Instalment Receipt entitles the holder to unencumbered ownership of a Debenture upon payment of the final instalment on or before the Final Instalment Date. Interest rate movements will cause the value of debt instruments with a maturity comparable to the Debentures to fluctuate, and this will be reflected in the market price of the Instalment Receipts. The price volatility of the Instalment Receipts will be greater than the price volatility of debt instruments of a maturity comparable to the Debentures. This is due to the fact that the payment for the Instalment Receipts represents only 33.3% of the total principal amount payable for the underlying Debenture.

Further, the market price of the Common Shares underlying the Debentures may be volatile. This volatility may affect the ability of holders of Instalment Receipts to sell the Instalment Receipts at an advantageous price, particularly if the market price for Common Shares falls below the Conversion Price of Debentures represented by Instalment Receipts. In addition, it may result in greater volatility in the market price of the Instalment Receipts than would be expected for other debt securities or for non-convertible or non-exchangeable securities. Market price fluctuations in the Common Shares may be due to, among other things, the operating results of the Corporation failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, market perception of the likelihood of the completion of the Acquisition, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by Fortis, or by Fortis' competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the prices of the Instalment Receipts and the Common Shares.

Rights of holders of Instalment Receipts may change

Purchasers of Debentures will, prior to payment of the final instalment, be holders of Instalment Receipts and will be bound by the terms and conditions of the Instalment Receipt Agreement. The Instalment Receipt Agreement will provide that, pending payment of the final instalment, legal title to the Debentures offered hereby will be held by the Custodian on behalf of the Selling Debentureholder pursuant to the pledge to secure the payment of the final instalment. The terms and conditions of the Instalment Receipt Agreement may be amended in certain circumstances, including with the approval of holders of Instalment Receipts representing two-thirds of the principal amount of the Debentures represented thereby. The description of the Instalment Receipt Agreement contained in this Prospectus is qualified in its entirety by the provisions of such agreement, which should be reviewed by holders of Instalment Receipts. The Instalment Receipt Agreement will be filed by Fortis on SEDAR on the Closing Date.

Use of proceeds

There is no restriction on the ability of the Selling Debentureholder to use the proceeds of the Offering following closing of the Offering, both before and after the payment of the final instalment. Any such proceeds may be used by the Selling Debentureholder prior to the completion of the Acquisition for purposes unrelated to the Acquisition. Fortis currently expects that the aggregate amount of the final instalment will ultimately be used to repay amounts drawn under the Acquisition Credit Facilities and for other Acquisition-Related Expenses. See "Use of Proceeds".

Right to receive unencumbered Debentures may terminate

The Corporation has the obligation to redeem the Debentures at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the Approval Conditions will not be satisfied; (ii) termination of the Acquisition Agreement; and (iii) July 2, 2015 if the Final Instalment Notice has not been given on or before June 30, 2015. See “Details of the Offering — Debentures — Redemption”. Accordingly, it is possible that Instalment Receipts will be outstanding for a very limited period of time. Upon such redemption, a holder will no longer be entitled to pay the final instalment or to receive any unencumbered Debentures and will only be entitled to receive a net payment equal to the redemption price less the amount of the final instalment otherwise payable by such holder to the Selling Debentureholder plus accrued and unpaid interest thereon. Until the Approval Conditions are satisfied and the Debentures are delivered to holders of Instalment Receipts pursuant to the Instalment Receipt Agreement, such holders have the rights described under “Details of the Offering — Instalment Receipts”.

While the right of holders of Instalment Receipts to receive unencumbered Debentures may terminate as a result of a redemption by the Corporation of the Debentures as described herein, the Acquisition could potentially still be completed by the Corporation. If the Acquisition is completed following the redemption of the Debentures, holders of Instalment Receipts will not receive any of the benefits which may accrue to shareholders of the Corporation following completion of the Acquisition.

Acquisition may be completed on other terms

Both before and after payment of the final instalment, the Corporation may, in its sole discretion, amend the Acquisition Agreement and consummate the Acquisition on terms that may be substantially different from those contemplated in this Prospectus. Any such change will not affect the obligation of the holder of an Instalment Receipt to pay the final instalment on or before the Final Instalment Date. See “The Acquisition Agreement” and “Risk Factors — Risks Relating to the Acquisition — Failure to complete the Acquisition”.

Risk Factors Relating to the Debentures

There is currently no market through which the Debentures may be sold

There is currently no market through which the Debentures may be sold and purchasers of Debentures may not be able to resell Debentures purchased under this Prospectus. The Corporation has not applied to list the Debentures for trading on the TSX, but has received conditional approval to list the Common Shares into which the Debentures may be converted. Accordingly, an investor who does not exercise the conversion privilege in respect of fully paid Debentures will be holding what Fortis expects will be highly illiquid securities. There can be no assurance that an active trading market will develop for the Debentures after payment of the final instalment or, if developed, that such a market will be sustained. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of Debentures, and the extent of issuer regulation. If an active market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including, among others, liquidity of the Debentures, prevailing interest rates and the market for similar securities, the market price of the Common Shares, general economic conditions and the Corporation’s financial condition, historic financial performance and future prospects.

Fluctuations in trading price

After the Final Instalment Date, Debentures will stop accruing interest. Accordingly, their value will be a function of the value of the underlying Common Share into which the Debenture is convertible. The market price of the Common Shares underlying the Debentures may be volatile. This volatility may affect the ability of holders of Debentures to sell the Debentures at an advantageous price. In addition, it may result in greater volatility in the market price of the Debentures than would be expected for other debt securities or non-convertible securities. Market price fluctuations in the Common Shares may be due to the operating results of the Corporation failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts’ estimates, governmental regulatory action, market perception of the likelihood of the completion of the Acquisition, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by Fortis, or by Fortis’ competitors, along with a variety of additional factors.

Existing and Prior Ranking Indebtedness

On the Closing Date the Corporation expects to have consolidated indebtedness of approximately $8.4 billion (including the Debentures). After giving effect to the Acquisition, assuming receipt of the aggregate total amount of the final instalment for each of the Debentures and the Private Placement Debentures and the use of such amounts to repay a portion of the Acquisition Credit Facilities, conversion of all Debentures and Private Placement Debentures into Common Shares and the assumption of UNS Energy's outstanding indebtedness, management estimates that the consolidated indebtedness of the Corporation will be $10.3 billion. See "Financing of the Acquisition" and "Capitalization".

The Debentures will be subordinate to all Senior Indebtedness of the Corporation. See "Details of the Offering — Debentures — Subordination". Therefore, in the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the Corporation, the assets of the Corporation would be made available to satisfy its obligations with respect to the Debentures only after it has paid all of its secured creditors and all holders of senior indebtedness. Accordingly, all or a substantial portion of the Corporation's assets could be unavailable to satisfy the claims of holders of the Debentures. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. See "Risk Factors — Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy".

Absence of Covenant Protection

The Indenture does not restrict the Corporation or any of its subsidiaries from incurring additional indebtedness for borrowed money or otherwise from mortgaging, pledging or charging their properties to secure any indebtedness or other financing. The Indenture does not contain any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Corporation or any of its subsidiaries.

Rights of holders of Debentures may change

Holders of Debentures will be bound by the terms and conditions of the Indenture. The terms and conditions of the Indenture may be amended in certain circumstances, including with the approval of two-thirds of holders of outstanding Debentures. The description of the Indenture contained in this Prospectus is qualified in its entirety by the provisions of the Indenture, which should be reviewed by holders of Instalment Receipts and Debentures. The Indenture will be filed by Fortis on SEDAR on the Closing Date.

Redemption Prior to Maturity

The Debentures may be redeemed, at the option of the Corporation and without the consent of holders of Debentures, subject to certain conditions, after the Final Instalment Date and prior to the Maturity Date at a redemption price equal to the principal amount thereof, plus any unpaid interest which accrued prior to the Final Instalment Date, as described under "Details of the Offering — Debentures — Redemption".

The right of holders of Debentures to receive Common Shares will terminate as a result of a redemption by the Corporation of the Debentures as described herein. If a holder of Debentures has its Debentures redeemed by the Corporation following completion of the Acquisition, but prior to conversion by the holder of such Debentures into Common Shares, such holder will not receive any of the benefits which may accrue to shareholders of the Corporation following completion of the Acquisition. In addition, the redemption price of the Debentures may be worth less than the consideration obtained on a conversion of those Debentures by the holder thereof.

Conversion of Debentures following satisfaction of the Approval Conditions

Subject to satisfaction by the Corporation of the Approval Conditions and payment of the final instalment by the holder of an Instalment Receipt on or prior to the Final Instalment Date, such holder may convert its Debentures after the Final Instalment Date but prior to the earlier of the date of redemption or the Maturity Date. The Conversion Price will be $30.72 per Common Share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Debentures, subject to adjustment in certain circumstances. See "Details of the Offering — Debentures — Conversion Right". If the market price of the Common Shares is less than the Conversion Price, the trading price of the Debentures will be negatively impacted. If the market price of the Common Shares is less than the Conversion Price on the date of conversion by a holder, such holder will receive fewer Common Shares on conversion of its Debentures than they would be able to purchase with funds equal to the principal amount of its Debentures.

Interest on Debentures will cease to be payable prior to the Maturity Date

After giving the Final Instalment Notice, Fortis has the right, but not the obligation, to redeem any outstanding and unconverted Debentures at any time on or after the Final Instalment Date and prior to the Maturity Date, but may choose not to redeem such Debentures. Any unconverted Debentures outstanding on or after the day following the Final Instalment Date will cease to accrue interest. A holder who has not exercised its conversion privilege by such date will be holding a convertible debt security which no longer earns interest.

Credit risk

The likelihood that holders of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of the Corporation and its creditworthiness. Although Fortis currently has an investment grade credit rating, there is no assurance the Corporation will have sufficient capital to repay the Debentures in cash on redemption or at the Maturity Date or that it will be able to raise sufficient capital on acceptable terms by the applicable redemption date or the Maturity Date to repay the outstanding Debentures. While Fortis has covenanted to maintain availability under its Revolving Facility of not less than $600,000,000, which is equal to one-third of the principal amount of the Debentures until the Final Instalment Date, there can be no certainty that the Revolving Facility will continue to be available at the time of redemption. The risk of default in any payment obligation by Fortis may increase to the extent that there is a significant decline in the price of the Common Shares.

No security or guarantees

The Debentures are unsecured obligations of the Corporation and are not secured by any of its assets or assets of any current or future subsidiaries of the Corporation.

Prevailing yields on similar securities

The prevailing yield on debt securities with comparable maturities will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. The market value of the Debentures may also decline after the Debentures cease to accrue interest depending on the value of the underlying Common Shares.

Dilutive effects on shareholders

The issuance of Common Shares on conversion of the Debentures and the Private Placement Debentures may have a dilutive effect on shareholders of Fortis and an adverse impact on the price of the Common Shares, which may also adversely impact the price of the Debentures. Potential future offerings by Fortis of Common Shares or securities convertible into or exchangeable for Common Shares would dilute purchasers acquiring securities under this Prospectus.

Investment eligibility

The Corporation will endeavour to ensure that the Debentures represented by Instalment Receipts and the Common Shares continue to be qualified investments for Exempt Plans under the Tax Act, although there is no assurance that the conditions prescribed for such qualified investments will be adhered to at any particular time. The Tax Act imposes penalties for the acquisition or holding of non-qualified or prohibited investments.

Income tax matters

The income of the Corporation and its subsidiaries must be computed and is taxed in accordance with Canadian and other applicable tax laws, all of which may be changed in a manner that could adversely affect the amount of cash distributions. There can be no assurance that taxation authorities will accept the tax positions adopted by the Corporation or its subsidiaries, including their determinations of the amounts of income and capital taxes and the reasonableness of inter-company transfer prices, including interest charges, which could materially adversely affect cash positions of the Corporation or its subsidiaries, and holders of Debentures and the Common Shares.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

The auditors of UNS Energy and TEP are PricewaterhouseCoopers LLP, in Phoenix, Arizona. PricewaterhouseCoopers LLP is an independent registered public accounting firm that audited the financial statements of UNS Energy and TEP included in this Prospectus.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation and the Selling Debentureholder by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Instalment Receipts, the Debentures represented thereby and the Common Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

Original purchasers of Debentures will have a contractual right of rescission against Fortis following the conversion of such Debentures in the event that this Prospectus or any amendment thereto contains a misrepresentation. The contractual right of rescission will entitle such original purchasers to receive from Fortis, upon surrender of the Common Shares issued upon conversion of such Debentures, the amount paid for such Debentures, provided that the right of rescission is exercised within 180 days from the date of the purchase of such Debentures under this Prospectus.

Original purchasers of Debentures are further cautioned that in an offering of convertible securities, such as the Debentures, the statutory right of action for damages for a misrepresentation contained in a prospectus is, under the securities legislation of certain provinces and territories, limited to the price at which the convertible security was offered to the public under the prospectus offering. Accordingly, any further payment made at the time of conversion of the security may not be recoverable in a statutory action for damages in such provinces or territories. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of this right of action for damages or consult with a legal adviser.

ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

Mr. Frank Crothers, one of the Corporation's directors, resides outside of Canada and has appointed Fortis Inc., Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 as agent for service of process. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person that resides outside of Canada, even if such person has appointed an agent for service of process.

GLOSSARY OF TERMS

In this Prospectus, unless the context otherwise requires, the following terms have the meanings set forth below.

"**1933 Act**" means the United States *Securities Act of 1933*, as amended.

"**2013 TEP Rate Order**" has the meaning ascribed thereto under the heading "The Acquired Business — Rates — TEP".

"**ACC**" means the Arizona Corporation Commission.

"**Acquisition**" means the acquisition by an indirect wholly owned subsidiary of Fortis of all of the issued and outstanding shares of UNS Energy pursuant to the terms of the Acquisition Agreement.

"**Acquisition Agreement**" has the meaning ascribed thereto on the cover page.

"**Acquisition Credit Agreement**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Acquisition Credit Facilities".

"**Acquisition Credit Facilities**" has the meaning ascribed thereto under the heading "Prospectus Summary — Financing the Acquisition — Acquisition Credit Facilities".

"**Acquisition-Related Expenses**" means the estimated non-recurring costs, including related income tax effects and any governmental and other imposed costs, that may be incurred to consummate the Acquisition. Such costs, which will be fully expensed when incurred in accordance with US GAAP, include but are not limited to fees associated with financial advisory, consulting, accounting, tax, legal and other professional services, bridge facility commitment fees, costs associated with change of control and integration, out-of-pocket costs and other costs of a non-recurring nature.

"**Agency Agreement**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Concurrent Private Placement".

"**AIF**" means the Annual Information Form of Fortis dated March 22, 2013 for the year ended December 31, 2012.

"**Algoma Power**" means Algoma Power Inc.

"**Annual MD&A**" means the Management Discussion and Analysis of financial condition and results of operations of Fortis for the year ended December 31, 2012 as contained in the Corporation's 2012 Annual Report.

"**Approval Conditions**" has the meaning ascribed thereto under the heading "Details of the Offering".

"**APS**" means the Arizona Public Service.

"**AUC**" has the meaning ascribed thereto under the heading "Recent Developments — FortisAlberta Capital Tracker Application".

"**Bank Indebtedness**" has the meaning ascribed thereto under the heading "Relationship Between Fortis, The Selling Debentureholder and Certain Underwriters".

"**BART**" has the meaning ascribed thereto under the heading "The Acquired Business — Environment Regulation — Regional Haze Rules".

"**BC Hydro**" means British Columbia Hydro and Power Authority.

"**BCUC**" means British Columbia Utilities Commission.

"**BECOL**" means Belize Electric Company Limited.

"**Belize Electricity**" means Belize Electricity Limited.

"**BMGS**" means the Black Mountain Generating Station.

"**BMO**" means BMO Nesbitt Burns Inc.

"**Board of Directors**" means the board of directors of Fortis.

"**Book-Entry Only System**" has the meaning ascribed thereto under the heading "Details of the Offering — Instalment Receipts — Book-Entry Only System".

"**CAGR**" means compound annual growth rate.

“**Capital Tracker Application**” has the meaning ascribed thereto under the heading “Recent Developments — FortisAlberta Capital Tracker Application”.

“**Caribbean Utilities**” means Caribbean Utilities Company, Ltd.

“**Cash Purchase Price**” has the meaning ascribed thereto under the heading “The Acquisition Agreement — Purchase Price”.

“**CC&N**” means a Certificate of Convenience and Necessity.

“**CCRs**” has the meaning ascribed thereto under the heading “The Acquired Business — Environmental Regulation — Coal Combustion Residuals”.

“**CDS Participant**” means a participant in the CDS depository service.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**Central Hudson**” means Central Hudson Gas & Electric Corporation.

“**CFIUS**” means the Committee on Foreign Investment in the United States.

“**CH Energy Acquisition**” has the meaning ascribed thereto under the heading “Recent Developments — Acquisition of CH Energy Group”.

“**CH Energy Group**” means CH Energy Group, Inc.

“**CIBC**” means CIBC World Markets Inc.

“**Circuit Court**” means the Tenth Circuit United States Court of Appeals.

“**Closing Date**” has the meaning ascribed thereto on the cover page.

“**CNPI**” means Canadian Niagara Power Inc.

“**Common Shares**” means the common shares of Fortis.

“**Company Material Adverse Effect**” has the meaning ascribed thereto under the heading “The Acquisition Agreement — Closing Conditions”.

“**Concurrent Private Placement**” has the meaning ascribed thereto under the heading “Financing the Acquisition — Concurrent Private Placement”.

“**Conversion Price**” has the meaning ascribed thereto on the cover page.

“**Cornwall Electric**” means Cornwall Street Railway, Light and Power Company, Limited.

“**Corporation**” means Fortis Inc.

“**Counsel**” has the meaning ascribed thereto under the heading “Canadian Federal Income Tax Considerations”.

“**CPC/CBT**” means Columbia Power Corporation and Columbia Basin Trust.

“**CSPP**” means the Consumer Share Purchase Plan of Fortis.

“**Custodian**” has the meaning ascribed thereto under the heading “Details of the Offering — Instalment Receipts”.

“**DBRS**” means DBRS Limited.

“**Debentures**” means 4.00% convertible unsecured subordinated debentures of Fortis offered pursuant to this Prospectus.

“**Defaulting Holder**” has the meaning ascribed thereto under the heading “Details of the Offering — Instalment Receipts”.

“**Desjardins Securities**” means Desjardins Securities Inc.

“**DPSP**” has the meaning ascribed thereto under the heading “Eligibility for Investment”.

“**DRIP**” means the Dividend Reinvestment Plan of Fortis.

"**DSM**" means demand side management.

"**ECA**" means an Environmental Compliance Adjustor.

"**Electric EE Standards**" has the meaning ascribed thereto under the heading "The Acquired Business — Regulation — Electric Energy Efficiency Standards and Decoupling".

"**Entegra**" means Entegra Power Group LLC.

"**EPA**" means the United States Environmental Protection Agency.

"**EPNG**" means the El Paso Natural Gas Company.

"**ESP**" means energy service provider.

"**ESPP**" means the Employee Share Purchase Plan of Fortis.

"**Exempt Plans**" has the meaning ascribed thereto under the heading "Eligibility for Investment".

"**FEI**" means FortisBC Energy Inc.

"**FERC**" means the United States Federal Energy Regulatory Commission.

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

"**FEWI**" means FortisBC Energy (Whistler) Inc.

"**Final Instalment Date**" has the meaning ascribed thereto under the heading "Details of the Offering".

"**Final Instalment Notice**" has the meaning ascribed thereto under the heading "Details of the Offering".

"**FIP**" has the meaning ascribed thereto under the heading "The Acquired Business — Environmental Regulation — Regional Haze Rules — San Juan".

"**First Preference Shares, Series E**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series F**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series G**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series H**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series J**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**First Preference Shares, Series K**" has the meaning ascribed thereto under the heading "Share Capital of Fortis".

"**Fortis**" means Fortis Inc.

"**FortisAlberta**" means FortisAlberta Inc.

"**FortisBC Holdings**" means FortisBC Holdings Inc.

"**FortisBC**" means FortisBC Inc.

"**FortisOntario**" means FortisOntario Inc.

"**FortisUS Energy**" means FortisUS Energy Corporation.

"Fortis Properties" means Fortis Properties Corporation.

"**Fortis Turks and Caicos**" means, collectively, FortisTCI Limited and its subsidiary Turks and Caicos Utilities Limited.

"**Four Corners**" means the Four Corners Generating Station.

"**FVRB**" means the Fair Value Rate Base.

"**Gas EE Standards**" has the meaning ascribed thereto under the heading "The Acquired Business — Regulation — Gas Energy Efficiency Standards and Decoupling".

"**GHG**" has the meaning ascribed thereto under the heading "The Acquired Business — Environmental Regulation — Climate Change".

“**Gila River**” has the meaning ascribed thereto under the heading “The Acquired Business — TEP — Future Generating Resources”.

“**GOB**” means the Government of Belize.

“**Griffith Energy Services**” means Griffith Energy Services, Inc.

“**GWh**” means gigawatt hours.

“**Holder**” has the meaning ascribed thereto under the heading “Canadian Federal Income Tax Considerations”.

“**IBEW**” means the International Brotherhood of Electrical Workers.

“**IFRS**” means International Financial Reporting Standards.

“**Indenture**” has the meaning ascribed thereto under the heading “Details of the Offering — Debentures”.

“**Instalment Receipt Agreement**” has the meaning ascribed thereto under the heading “Details of the Offering — Instalment Receipts”.

“**Instalment Receipts**” has the meaning ascribed thereto on the cover page.

“**kWh**” means kilowatt hour.

“**LFCR**” means the Lost Fixed Cost Recovery.

“**LIBOR**” has the meaning ascribed thereto under the heading “The Acquired Business — Outstanding Indebtedness — Credit Facilities”.

“LNG” means liquefied natural gas.

“LOCs” means letters of credit.

“**Luna**” means the Luna Generating Station.

“**Make-Whole Payment**” has the meaning ascribed thereto on the cover page.

“**Management Information Circular**” means the Management Information Circular of Fortis dated March 21, 2013 prepared in connection with the Corporation’s annual meeting of shareholders held on May 9, 2013.

“**Maritime Electric**” means Maritime Electric Company, Limited.

“Market Price” means the weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days preceding the Maturity Date.

“**MATS**” means the EPA’s Mercury and Air Toxics Standards.

“**Maturity Date**” means January 9, 2024.

“**Medium-Term Bridge Facility**” has the meaning ascribed thereto under the heading “Prospectus Summary — Financing the Acquisition — Acquisition Credit Facilities”.

“**Millennium**” means Millennium Energy Holdings, Inc.

“**Moody’s**” means Moody’s Investor Services.

“**MW**” means megawatts.

“**Navajo**” means the Navajo Generating Station.

“**NB Financial**” means National Bank Financial Inc.

“**NERC**” means the North American Electric Reliability Corporation.

“**Newfoundland Hydro**” means Newfoundland and Labrador Hydro Corporation.

“**Newfoundland Power**” means Newfoundland Power Inc.

“**NO_X**” means nitrogen oxide.

"**NTUA**" means the Navajo Tribal Utility Authority.

"**NYSE**" means the New York Stock Exchange.

"**O&M**" has the meaning ascribed under the heading "The Acquired Business — Environmental Regulation — Clean Air Act Requirements".

"**OCRB**" means the Original Cost Rate Base.

"**Offering**" the offering of Debentures pursuant to this Prospectus.

"**Offering Price**" means $1,000 per Debenture.

"**Operating Earnings**" means net earnings before corporate and other segment net expenses.

"**Over-Allotment Option**" has the meaning ascribed thereto on the cover page.

"**PBR**" means the performance-based rate.

"PGA" means Purchased Gas Adjustor.

"**PNM**" means the Public Service Company of New Mexico.

"**PPAs**" means power purchase agreements.

"**Private Placement Debentures**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Concurrent Private Placement".

"**Private Placement Subscriber**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Concurrent Private Placement".

"**Proposed Amendments**" has the meaning ascribed thereto under the heading "Canadian Federal Income Tax Considerations".

"**Prospectus**" means this short form prospectus.

"**Purchaser**" has the meaning ascribed thereto under the heading "The Acquisition Agreement — Representations and Warranties".

"**PV**" means photovoltaic solar generating capacity.

"**RBC**" means RBC Dominion Securities Inc.

"**Regulations**" means the regulations under the Tax Act.

"**Regulation S**" has the meaning ascribed thereto under the heading "Plan of Distribution".

"**RES**" means the ACC's Renewable Energy Standard.

"**Revolving Facility**" has the meaning ascribed thereto under the heading "Prospectus Summary — Financing the Acquisition — Acquisition Credit Facilities".

"**ROE**" means the return on common shareholders' equity.

"**RRIF**" has the meaning ascribed thereto under the heading "Eligibility for Investment".

"**RRSP**" has the meaning ascribed thereto under the heading "Eligibility for Investment".

"**Rules**" means the Retail Electric Competition Rules.

"**San Carlos**" means San Carlos Resources, Inc., a wholly owned subsidiary of TEP.

"**San Juan**" means the San Juan Generating Station.

"**Scotia Capital**" means Scotia Capital Inc.

"**SCR**" has the meaning ascribed thereto under the heading "The Acquired Business — Environment Regulation — Regional Haze Rules — Navajo".

"**Securities**" has the meaning ascribed thereto under the heading "Canadian Federal Income Tax Considerations".

"**SEDAR**" means the Canadian System for Electronic Document Analysis and Retrieval.

"**Selling Debentureholder**" means FortisUS Holdings Nova Scotia Limited.

"**Senior Indebtedness**" has the meaning ascribed thereto under the heading "Details of the Offering — Debentures — Subordination".

"**SES**" means Southwest Energy Solutions, Inc., a wholly owned subsidiary of Millennium.

"**Short-Term Bridge Facility**" has the meaning ascribed thereto under the heading "Prospectus Summary — Financing the Acquisition — Acquisition Credit Facilities".

"**SIP**" has the meaning ascribed thereto under the heading "The Acquired Business — Environmental Regulation — Regional Haze Rules — San Juan".

"**SNCR**" has the meaning ascribed thereto under the heading "The Acquired Business — Environmental Regulation — Regional Haze Rules — San Juan".

"**SO_2**" means sulfur dioxide.

"**Springerville**" means the Springerville Generating Station.

"**Springerville Coal Handling Facilities Leases**" has the meaning ascribed thereto under the heading "The Acquired Business — TEP — Generating and Other Resources — Springerville Generating Station".

"**Springerville Common Facilities**" has the meaning ascribed thereto under the heading "The Acquired Business — TEP — Generating and Other Resources — Springerville Generating Station".

"**Springerville Common Facilities Leases**" has the meaning ascribed thereto under the heading "The Acquired Business — TEP —

"**Springerville Unit 1 Leases**" has the meaning ascribed thereto under the heading "The Acquired Business — TEP — Generating and Other Resources — Springerville Generating Station".

"**SRP**" means the Salt River Project Agriculture Improvement and Power District.

"**Subscription Agreement**" has the meaning ascribed thereto under the heading "Financing the Acquisition — Concurrent Private Placement".

"**Sundt Station**" has the meaning ascribed thereto under the heading "The Acquired Business — TEP — Generating and Other Resources — Sundt Station and Sundt Internal Combustion Turbines".

"**Superior Proposal**" has the meaning ascribed thereto under the heading "The Acquisition Agreement — Superior Proposal".

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder.

"**TDSI**" means TD Securities Inc.

"**TEP**" means Tucson Electric Power Company.

"TEP Credit Facility" has the meaning ascribed thereto under the heading "The Acquired Business — Outstanding Indebtedness — Credit Facilities".

"**TEP LOC Facilities**" has the meaning ascribed thereto under the heading "The Acquired Business — Outstanding Indebtedness — Credit Facilities".

"**TFSA**" has the meaning ascribed thereto under the heading "Eligibility for Investment".

"**Tilbury LNG Facility**" has the meaning ascribed thereto under the heading "Recent Development — Tilbury LNG Facility Expansion".

"**TJ**" means terajoules.

"**Transwestern**" means Transwestern Pipeline Company.

"**Tri-State**" means Tri-State Generation and Transmission Association, Inc.

"**Trustee**" has the meaning ascribed thereto under the heading "Details of the Offering — Debentures".

"**TSX**" means the Toronto Stock Exchange.

"**Underwriters**" has the meaning ascribed thereto under the heading "Plan of Distribution".

"**Underwriting Agreement**" has the meaning ascribed thereto under the heading "Plan of Distribution".

"**UNS Electric**" means UNS Electric Inc.

"**UNS Electric Term Loan**" has the meaning ascribed thereto under the heading "The Acquired Business — Outstanding Indebtedness — Credit Facilities".

"**UNS Electric/UNS Gas Credit Facility**" has the meaning ascribed thereto under the heading "The Acquired Business — Outstanding Indebtedness — Credit Facilities".

"**UNS Energy**" means UNS Energy Corporation.

"**UNS Energy Credit Facility**" has the meaning ascribed thereto under the heading "The Acquired Business — Outstanding Indebtedness — Credit Facilities".

"**UniSource Energy Services**" means UniSource Energy Services, Inc.

"**UNS Energy Shareholder Approval**" has the meaning ascribed thereto under the heading "The Acquisition Agreement — Closing Conditions".

"**UNS Gas**" means UNS Gas, Inc.

"**UNS Utilities**" means, collectively, TEP, UNS Electric and UNS Gas.

"**U.S. dollar**" has the meaning ascribed thereto under the heading "Currency".

"**US GAAP**" means generally accepted and accounting principles in the United States.

"**Valencia**" means the Valencia Power Plant.

"**Waneta Expansion**" has the meaning ascribed thereto under the heading "Fortis — Non-Regulated — Fortis Generation — British Columbia".

"**Waneta Partnership**" has the meaning ascribed thereto under the heading "Fortis".

"**WAPA**" means Western Area Power Administration.

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(1) The Report of Independent Registered Public Accounting Firm on the consolidated financial statements of Tucson Electric Power Company, a wholly-owned subsidiary of UNS Energy Corporation, is also included.

(2) The financial statements of Tucson Electric Power Company are also included.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
UNS Energy Corporation:

In our opinion, the accompanying consolidated balance sheets and statements of capitalization and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholders' equity present fairly, in all material respects, the financial position of UNS Energy Corporation and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Phoenix, Arizona

February 26, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
Tucson Electric Power Company:

In our opinion, the accompanying consolidated balance sheets and statements of capitalization and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholder's equity present fairly, in all material respects, the financial position of Tucson Electric Power Company and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Phoenix, Arizona

February 26, 2013

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2012	2011	2010
	- Thousands of Dollars - (Except Per Share Amounts)		
Operating Revenues			
Electric Retail Sales	**$1,087,279**	$1,085,822	$1,051,002
Electric Wholesale Sales	**125,414**	132,346	123,943
California Power Exchange (CPX) Provision for Wholesale Refunds	**—**	—	(2,970)
Gas Revenue	**123,133**	145,053	141,036
Other Revenues	**125,940**	115,481	112,936
Total Operating Revenues	**1,461,766**	1,478,702	1,425,947
Operating Expenses			
Fuel	**327,832**	324,520	295,652
Purchased Energy	**224,696**	276,610	279,269
Transmission	**14,540**	7,334	10,945
Increase (Decrease) to Reflect PPFAC/PGA Recovery Treatment	**32,246**	(4,932)	(29,622)
Total Fuel and Purchased Energy	**599,314**	603,532	556,244
Operations and Maintenance	**383,689**	379,220	370,037
Depreciation	**141,303**	133,832	128,215
Amortization	**35,784**	30,983	28,094
Taxes Other Than Income Taxes	**49,881**	49,428	46,243
Total Operating Expenses	**1,209,971**	1,196,995	1,128,833
Operating Income	**251,795**	281,707	297,114
Other Income (Deductions)			
Interest Income	**1,106**	4,568	7,779
Other Income	**7,085**	8,288	11,038
Other Expense	**(7,988)**	(5,279)	(15,202)
Total Other Income (Deductions)	**203**	7,577	3,615
Interest Expense			
Long-Term Debt	**71,909**	73,217	65,020
Capital Leases	**33,613**	40,359	46,740
Other Interest Expense	**1,983**	2,535	1,651
Interest Capitalized	**(2,153)**	(3,753)	(2,587)
Total Interest Expense	**105,352**	112,358	110,824
Income Before Income Taxes	**146,646**	176,926	189,905
Income Tax Expense	**55,727**	66,951	76,921
Net Income	**$ 90,919**	$ 109,975	$ 112,984
Weighted-Average Shares of Common Stock Outstanding (000)			
Basic	**40,362**	36,962	36,415
Diluted	**41,755**	41,609	41,041
Earnings per Share			
Basic	**$ 2.25**	$ 2.98	$ 3.10
Diluted	**$ 2.20**	$ 2.75	$ 2.86
Dividends Declared per Share	**$ 1.72**	$ 1.68	$ 1.56

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2012	**2011**	**2010**
	-Thousands of Dollars-		
Comprehensive Income			
Net Income	**$90,919**	$109,975	$112,984
Other Comprehensive Income (Loss)			
Unrealized Loss on Cash Flow Hedges, net of $1,119, $2,376, and $4,216 income taxes	**(1,710)**	(3,626)	(6,431)
Reclassification of Realized Losses on Cash Flow Hedges to Net Income, net of $(1,862), $(1,412), and $(2,140) income taxes	**2,844**	2,153	3,264
SERP Benefit Adjustments, net of $608, $(804) and $523 income taxes	**(840)**	1,158	(800)
Total Other Comprehensive Income (Loss), Net of Income Taxes	**294**	(315)	(3,967)
Total Comprehensive Income	**$91,213**	$109,660	$109,017

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2012	**2011**	**2010**
	- Thousands of Dollars -		
Cash Flows from Operating Activities			
Cash Receipts from Electric Retail Sales	**$1,197,390**	$1,163,537	$1,142,364
Cash Receipts from Electric Wholesale Sales	**149,722**	183,151	194,580
Cash Receipts from Gas Sales	**141,590**	159,529	157,397
Cash Receipts from Operating Springerville Units 3 & 4	**107,927**	104,754	102,563
Cash Receipts from Wholesale Gas Sales	**5,233**	12,404	422
Interest Received	**2,947**	6,334	10,026
Income Tax Refunds Received	**1,821**	4,672	341
Performance Deposits Received	**200**	7,050	18,470
Other Cash Receipts	**24,105**	23,937	32,011
Fuel Costs Paid	**(321,355)**	(277,386)	(243,639)
Payment of Operations and Maintenance Costs	**(291,512)**	(295,662)	(259,833)
Purchased Energy Costs Paid	**(250,231)**	(328,713)	(364,132)
Taxes Other Than Income Taxes Paid, Net of Amounts Capitalized	**(187,257)**	(179,766)	(163,037)
Wages Paid, Net of Amounts Capitalized	**(127,176)**	(122,370)	(125,893)
Interest Paid, Net of Amounts Capitalized	**(69,478)**	(68,027)	(59,749)
Capital Lease Interest Paid	**(28,788)**	(32,103)	(38,646)
Wholesale Gas Costs Paid	**—**	(11,822)	—
Performance Deposits Paid	**(200)**	(4,550)	(19,220)
Income Taxes Paid	**—**	(700)	(22,797)
Other Cash Payments	**(6,829)**	(6,949)	(14,308)
Net Cash Flows—Operating Activities	**348,109**	337,320	346,920
Cash Flows from Investing Activities			
Return of Investments in Springerville Lease Debt	**19,278**	38,353	25,615
Proceeds from Note Receivable	**15,000**	—	—
Other Cash Receipts	**22,094**	15,251	12,958
Capital Expenditures	**(307,277)**	(374,122)	(279,240)
Purchase of Intangibles—Renewable Energy Credits	**(10,317)**	(5,992)	(7,514)
Deposit—San Juan Mine Reclamation Trust	**(1,445)**	—	—
Purchase of Sundt Unit 4 Lease Asset	**—**	—	(51,389)
Other Cash Payments	**(232)**	(578)	(5,490)
Net Cash Flows—Investing Activities	**(262,899)**	(327,088)	(305,060)
Cash Flows from Financing Activities			
Proceeds from Borrowings Under Revolving Credit Facilities	**359,000**	391,000	239,000
Proceeds from Issuance of Long-Term Debt	**149,513**	340,285	127,815
Proceeds from Stock Options Exercised	**3,570**	8,115	13,391
Other Cash Receipts	**4,865**	4,743	12,406
Repayments of Borrowings Under Revolving Credit Facilities	**(381,000)**	(351,000)	(268,500)
Payments of Capital Lease Obligations	**(89,452)**	(74,381)	(55,997)
Common Stock Dividends Paid	**(69,648)**	(61,904)	(56,590)
Repayments of Long-Term Debt	**(9,341)**	(252,125)	(51,592)
Payments of Debt Issue/Retirement Costs	**(3,547)**	(4,361)	(8,341)
Other Cash Payments	**(1,642)**	(1,813)	(2,775)
Net Cash Flows—Financing Activities	**(37,682)**	(1,441)	(51,183)
Net Increase (Decrease) in Cash and Cash Equivalents	**47,528**	8,791	(9,323)
Cash and Cash Equivalents, Beginning of Year	**76,390**	67,599	76,922
Cash and Cash Equivalents, End of Year	**$ 123,918**	$ 76,390	$ 67,599
Non-Cash Financing Activity			
Repayment of UED Short-Term Debt	**$ —**	$ —	$ (3,188)

See Note 15 for supplemental cash flow information.

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	-Thousands of Dollars-	
ASSETS		
Utility Plant		
Plant in Service	**$ 5,005,768**	$ 4,856,108
Utility Plant Under Capital Leases	**582,669**	582,669
Construction Work in Progress	**128,621**	89,749
Total Utility Plant	**5,717,058**	5,528,526
Less Accumulated Depreciation and Amortization	**(1,921,733)**	(1,869,300)
Less Accumulated Amortization of Capital Lease Assets	**(494,962)**	(476,963)
Total Utility Plant—Net	**3,300,363**	3,182,263
Investments and Other Property		
Investments in Lease Debt and Equity	**36,339**	65,829
Other	**36,537**	34,205
Total Investments and Other Property	**72,876**	100,034
Current Assets		
Cash and Cash Equivalents	**123,918**	76,390
Accounts Receivable—Customer	**93,742**	98,633
Unbilled Accounts Receivable	**53,568**	51,464
Allowance for Doubtful Accounts	**(6,545)**	(5,572)
Materials and Supplies	**93,322**	82,649
Fuel Inventory	**62,019**	33,263
Regulatory Assets—Current	**51,619**	97,056
Deferred Income Taxes—Current	**34,260**	23,158
Investments in Lease Debt	**9,118**	—
Derivative Instruments	**3,165**	11,966
Other	**33,567**	32,577
Total Current Assets	**551,753**	501,584
Regulatory and Other Assets		
Regulatory Assets—Noncurrent	**191,077**	173,199
Other Assets	**24,360**	32,199
Total Regulatory and Other Assets	**215,437**	205,398
Total Assets	**$ 4,140,429**	$ 3,989,279

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS — (Continued)

	December 31, 2012	December 31, 2011
	-Thousands of Dollars-	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	**$1,065,465**	$ 888,474
Capital Lease Obligations	**262,138**	352,720
Long-Term Debt	**1,498,442**	1,517,373
Total Capitalization	**2,826,045**	2,758,567
Current Liabilities		
Current Obligations Under Capital Leases	**90,583**	77,482
Borrowing Under Revolving Credit Facilities	**—**	10,000
Accounts Payable—Trade	**107,740**	109,760
Accrued Taxes Other than Income Taxes	**41,939**	41,997
Interest Accrued	**31,950**	38,302
Accrued Employee Expenses	**24,094**	25,660
Regulatory Liabilities—Current	**43,516**	41,911
Customer Deposits	**34,048**	32,485
Derivative Instruments	**14,742**	36,467
Other	**10,517**	8,455
Total Current Liabilities	**399,129**	422,519
Deferred Credits and Other Liabilities		
Deferred Income Taxes—Noncurrent	**364,756**	300,326
Regulatory Liabilities—Noncurrent	**279,111**	234,945
Pension and Other Retiree Benefits	**159,401**	139,356
Derivative Instruments	**12,709**	20,403
Other	**99,278**	113,163
Total Deferred Credits and Other Liabilities	**915,255**	808,193
Commitments, Contingencies, and Environmental Matters (Note 4)		
Total Capitalization and Other Liabilities	**$4,140,429**	$3,989,279

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CAPITALIZATION

			December 31, 2012	December 31, 2011
			- Thousands of Dollars -	
COMMON STOCK EQUITY				
Common Stock-No Par Value			**$ 882,138**	$ 725,903
	2012	**2011**		
Shares Authorized	**75,000,000**	75,000,000		
Shares Outstanding	**41,343,851**	36,918,024		
Accumulated Earnings			**193,117**	172,655
Accumulated Other Comprehensive Loss			**(9,790)**	(10,084)
Total Common Stock Equity			**1,065,465**	888,474
PREFERRED STOCK				
No Par Value, 1,000,000 Shares Authorized, None Outstanding			**—**	—
CAPITAL LEASE OBLIGATIONS				
Springerville Unit 1			**196,843**	253,481
Springerville Coal Handling Facilities			**48,038**	65,022
Springerville Common Facilities			**107,840**	111,699
Total Capital Lease Obligations			**352,721**	430,202
Less Current Maturities			**(90,583)**	(77,482)
Total Long-Term Capital Lease Obligations			**262,138**	352,720
LONG-TERM DEBT				
Issue	**Maturity**	**Interest Rate**		
UNS Energy:				
Convertible Senior Notes	2035	4.50%	**—**	150,000
Credit Agreement	2016	Variable	**45,000**	57,000
Tucson Electric Power Company:				
Variable Rate Tax-Exempt Bonds	2014 – 2016	Variable	**215,300**	215,300
Unsecured Fixed Rate Bonds	2020 – 2040	4.50% – 6.38%	**609,320**	615,855
Unsecured Notes	2021 – 2023	3.85% – 5.15%	**398,822**	249,218
UNS Gas and UNS Electric:				
Senior Unsecured Notes	2015 – 2026	5.39% – 7.10%	**200,000**	200,000
UNS Electric:				
Unsecured Term Loan	2015	Variable	**30,000**	30,000
Total Long-Term Debt			**1,498,442**	1,517,373
Total Capitalization			**$2,826,045**	$2,758,567

See Notes to Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares Outstanding*	Common Stock	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
			- Thousands of Dollars -		
Balances at December 31, 2009	**35,851**	**$696,206**	**$ 68,925**	**$ (5,802)**	**$ 759,329**
Comprehensive Income:					
2010 Net Income			112,984		112,984
Other Comprehensive Loss, net of $2,599 income taxes				(3,967)	(3,967)
Total Comprehensive Income					109,017
Dividends, Including Non-Cash Dividend Equivalents			(57,071)		(57,071)
Shares Issued under Deferred Compensation Plans	16	519			519
Shares Issued for Stock Options	660	12,756			12,756
Shares Issued Under Performance Share Awards	15	—			—
Other		6,206			6,206
Balances at December 31, 2010	**36,542**	**715,687**	**124,838**	**(9,769)**	**830,756**
Comprehensive Income:					
2011 Net Income			109,975		109,975
Other Comprehensive Loss, net of $160 income taxes				(315)	(315)
Total Comprehensive Income					109,660
Dividends, Including Non-Cash Dividend Equivalents			(62,158)		(62,158)
Shares Issued for Stock Options	319	8,176			8,176
Shares Issued Under Performance Share Awards	57	—			—
Other		2,040			2,040
Balances at December 31, 2011	**36,918**	**725,903**	**172,655**	**(10,084)**	**888,474**
Comprehensive Income:					
2012 Net Income			90,919		90,919
Other Comprehensive Income, net of $(135) income taxes				294	294
Total Comprehensive Income					91,213
Dividends, Including Non-Cash Dividend Equivalents			(70,457)		(70,457)
Shares Issued on Conversion of Notes and Related Tax					
Effect	4,262	149,805			149,805
Shares Issued for Stock Options	133	3,511			3,511
Shares Issued Under Performance Share Awards	31	—			—
Other		2,919			2,919
Balances at December 31, 2012	**41,344**	**$882,138**	**$193,117**	**$ (9,790)**	**$1,065,465**

* UNS Energy has 75 million authorized shares of Common Stock.

We describe limitations on our ability to pay dividends in Note 7.

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2012	**2011**	**2010**
	- Thousands of Dollars -		
Operating Revenues			
Electric Retail Sales	**$ 915,879**	$ 903,930	$ 868,188
Electric Wholesale Sales	**111,194**	129,861	141,103
California Power Exchange (CPX) Provision for Wholesale Refunds	**—**	—	(2,970)
Other Revenues	**134,587**	122,595	118,946
Total Operating Revenues	**1,161,660**	1,156,386	1,125,267
Operating Expenses			
Fuel	**318,901**	318,268	284,744
Purchased Power	**80,137**	105,766	118,716
Transmission	**5,722**	(1,435)	3,254
Increase (Decrease) to Reflect PPFAC Recovery Treatment	**31,113**	(6,165)	(21,541)
Total Fuel and Purchased Energy	**435,873**	416,434	385,173
Operations and Maintenance	**334,553**	330,801	316,625
Depreciation	**110,931**	104,894	99,510
Amortization	**39,493**	34,650	32,196
Taxes Other Than Income Taxes	**40,323**	40,199	37,732
Total Operating Expenses	**961,173**	926,978	871,236
Operating Income	**200,487**	229,408	254,031
Other Income (Deductions)			
Interest Income	**136**	3,567	6,707
Other Income	**6,043**	5,693	6,629
Other Expense	**(13,772)**	(12,064)	(11,506)
Total Other Income (Deductions)	**(7,593)**	(2,804)	1,830
Interest Expense			
Long-Term Debt	**55,038**	49,858	42,378
Capital Leases	**33,613**	40,358	46,734
Other Interest Expense	**1,446**	1,127	433
Interest Capitalized	**(1,782)**	(2,073)	(1,880)
Total Interest Expense	**88,315**	89,270	87,665
Income Before Income Taxes	**104,579**	137,334	168,196
Income Tax Expense	**39,109**	52,000	59,936
Net Income	**$ 65,470**	$ 85,334	$ 108,260

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2012	2011	2010
	-Thousands of Dollars-		
Comprehensive Income			
Net Income	**$65,470**	$85,334	$108,260
Other Comprehensive Income (Loss)			
Unrealized Loss on Cash Flow Hedges, net of $913, $2,331, and $4,216 income taxes	**(1,396)**	(3,555)	(6,431)
Reclassification of Realized Losses on Cash Flow Hedges to Net Income, net of $(1,800), $(1,390), and $(2,140) income taxes	**2,750**	2,122	3,264
SERP Benefit Adjustments, net of $608, $(804) and $523 income taxes	**(840)**	1,158	(800)
Total Other Comprehensive Income (Loss), Net of Income Taxes	**514**	(275)	(3,967)
Total Comprehensive Income	**$65,984**	$85,059	$104,293

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2012	2011	2010
	- Thousands of Dollars -		
Cash Flows from Operating Activities			
Cash Receipts from Electric Retail Sales	**$1,006,926**	$ 963,247	$ 947,498
Cash Receipts from Electric Wholesale Sales	**124,594**	152,618	190,779
Cash Receipts from Operating Springerville Units 3 & 4	**107,927**	104,754	102,563
Reimbursement of Affiliate Charges	**20,926**	18,448	18,356
Cash Receipts from Wholesale Gas Sales	**4,652**	11,825	—
Interest Received	**2,025**	5,367	8,998
Income Tax Refunds Received	**493**	7,492	3,369
Other Cash Receipts	**18,850**	19,611	23,429
Fuel Costs Paid	**(313,742)**	(271,975)	(232,591)
Payment of Operations and Maintenance Costs	**(282,752)**	(287,615)	(248,895)
Taxes Other Than Income Taxes Paid, Net of Amounts Capitalized	**(147,859)**	(139,728)	(134,540)
Wages Paid, Net of Amounts Capitalized	**(104,955)**	(100,942)	(101,815)
Purchased Power Costs Paid	**(81,328)**	(117,224)	(169,658)
Interest Paid, Net of Amounts Capitalized	**(52,125)**	(45,433)	(38,232)
Capital Lease Interest Paid	**(28,786)**	(32,103)	(38,640)
Income Taxes Paid	**(1,796)**	(2,346)	(19,663)
Wholesale Gas Costs Paid	**—**	(11,822)	—
Other Cash Payments	**(5,131)**	(5,880)	(8,475)
Net Cash Flows—Operating Activities	**267,919**	268,294	302,483
Cash Flows from Investing Activities			
Return of Investments in Springerville Lease Debt	**19,278**	38,353	25,615
Other Cash Receipts	**15,957**	7,195	8,044
Capital Expenditures	**(252,782)**	(351,890)	(225,920)
Purchase of Intangibles—Renewable Energy Credits	**(8,889)**	(5,111)	(7,903)
Deposit—San Juan Mine Reclamation Trust	**(1,445)**	—	—
Purchase of Sundt Unit 4 Lease Asset	**—**	—	(51,389)
Other Cash Payments	**—**	(558)	(1,483)
Net Cash Flows—Investing Activities	**(227,881)**	(312,011)	(253,036)
Cash Flows from Financing Activities			
Proceeds from Borrowings Under Revolving Credit Facility	**189,000**	220,000	177,000
Proceeds from Issuance of Long-Term Debt	**149,513**	260,285	118,245
Equity Investment from UNS Energy	**—**	30,000	15,000
Other Cash Receipts	**3,132**	2,458	3,241
Repayments of Borrowings Under Revolving Credit Facility	**(199,000)**	(210,000)	(212,000)
Payments of Capital Lease Obligations	**(89,452)**	(74,343)	(55,889)
Dividends Paid to UNS Energy	**(30,000)**	—	(60,000)
Repayments of Long-Term Debt	**(6,535)**	(172,460)	(30,000)
Payments of Debt Issue/Retirement Costs	**(3,547)**	(3,594)	(5,988)
Other Cash Payments	**(1,124)**	(894)	(1,491)
Net Cash Flows—Financing Activities	**11,987**	51,452	(51,882)
Net Increase (Decrease) in Cash and Cash Equivalents	**52,025**	7,735	(2,435)
Cash and Cash Equivalents, Beginning of Year	**27,718**	19,983	22,418
Cash and Cash Equivalents, End of Year	**$ 79,743**	$ 27,718	$ 19,983

See Note 15 for supplemental cash flow information.

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	- Thousands of Dollars -	
ASSETS		
Utility Plant		
Plant in Service	**$ 4,348,041**	$ 4,222,236
Utility Plant Under Capital Leases	**582,669**	582,669
Construction Work in Progress	**98,460**	76,517
Total Utility Plant	**5,029,170**	4,881,422
Less Accumulated Depreciation and Amortization	**(1,783,787)**	(1,753,807)
Less Accumulated Amortization of Capital Lease Assets	**(494,962)**	(476,963)
Total Utility Plant—Net	**2,750,421**	2,650,652
Investments and Other Property		
Investments in Lease Debt and Equity	**36,339**	65,829
Other	**35,091**	32,313
Total Investments and Other Property	**71,430**	98,142
Current Assets		
Cash and Cash Equivalents	**79,743**	27,718
Accounts Receivable—Customer	**71,813**	73,612
Unbilled Accounts Receivable	**33,782**	32,386
Allowance for Doubtful Accounts	**(4,598)**	(3,766)
Accounts Receivable—Due from Affiliates	**5,720**	4,049
Materials and Supplies	**80,377**	70,749
Fuel Inventory	**61,737**	32,981
Deferred Income Taxes—Current	**37,212**	21,678
Regulatory Assets—Current	**34,345**	71,747
Investments in Lease Debt	**9,118**	—
Other	**34,393**	15,192
Total Current Assets	**443,642**	346,346
Regulatory and Other Assets		
Regulatory Assets—Noncurrent	**178,330**	157,386
Other Assets	**17,223**	25,135
Total Regulatory and Other Assets	**195,553**	182,521
Total Assets	**$ 3,461,046**	$ 3,277,661

See Notes to Consolidated Financial Statements.

(Consolidated Balance Sheets Continued)

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	- Thousands of Dollars -	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	**$ 860,927**	$ 824,943
Capital Lease Obligations	**262,138**	352,720
Long-Term Debt	**1,223,442**	1,080,373
Total Capitalization	**2,346,507**	2,258,036
Current Liabilities		
Current Obligations Under Capital Leases	**90,583**	77,482
Borrowing Under Revolving Credit Facility	**—**	10,000
Accounts Payable—Trade	**82,122**	84,509
Accounts Payable—Due to Affiliates	**3,134**	4,827
Accrued Taxes Other than Income Taxes	**33,060**	32,155
Interest Accrued	**26,965**	30,877
Accrued Employee Expenses	**20,715**	22,099
Customer Deposits	**24,846**	23,743
Regulatory Liabilities—Current	**20,822**	23,702
Derivative Instruments	**4,899**	9,040
Other	**7,085**	5,957
Total Current Liabilities	**314,231**	324,391
Deferred Credits and Other Liabilities		
Deferred Income Taxes—Noncurrent	**319,216**	263,225
Regulatory Liabilities—Noncurrent	**241,189**	200,599
Pension and Other Retiree Benefits	**149,718**	130,660
Derivative Instruments	**10,565**	14,142
Other	**79,620**	86,608
Total Deferred Credits and Other Liabilities	**800,308**	695,234
Commitments, Contingencies, and Environmental Matters (Note 4)		
Total Capitalization and Other Liabilities	**$3,461,046**	$3,277,661

See Notes to Consolidated Financial Statements.

(Consolidated Balance Sheets Concluded)

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF CAPITALIZATION

			December 31, 2012	December 31, 2011
			- Thousands of Dollars -	
COMMON STOCK EQUITY				
Common Stock-No Par Value			**$ 888,971**	$ 888,971
	2012	2011		
Shares Authorized	**75,000,000**	75,000,000		
Shares Outstanding	**32,139,434**	32,139,434		
Capital Stock Expense			**(6,357)**	(6,357)
Accumulated Deficit			**(12,157)**	(47,627)
Accumulated Other Comprehensive Loss			**(9,530)**	(10,044)
Total Common Stock Equity			**860,927**	824,943
PREFERRED STOCK				
No Par Value, 1,000,000 Shares Authorized, None Outstanding			**—**	—
CAPITAL LEASE OBLIGATIONS				
Springerville Unit 1			**196,843**	253,481
Springerville Coal Handling Facilities			**48,038**	65,022
Springerville Common Facilities			**107,840**	111,699
Total Capital Lease Obligations			**352,721**	430,202
Less Current Maturities			**(90,583)**	(77,482)
Total Long-Term Capital Lease Obligations			**262,138**	352,720
LONG-TERM DEBT				
Issue	**Maturity**	**Interest Rate**		
Variable Rate Tax-Exempt Bonds	2014 – 2016	Variable	**215,300**	215,300
Unsecured Fixed Rate Bonds	2020 – 2040	4.50% – 6.38%	**609,320**	615,855
Unsecured Notes	2021 – 2023	3.85% – 5.15%	**398,822**	249,218
Total Long-Term Debt			**1,223,442**	1,080,373
Total Capitalization			**$2,346,507**	$2,258,036

See Notes to Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

	Common Stock	Capital Stock Expense	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholder's Equity
Balances at December 31, 2009	**$843,971**	**$(6,357)**	**$(181,221)**	**$ (5,802)**	**$650,591**
Comprehensive Income:					
2010 Net Income			108,260		108,260
Other Comprehensive Loss, net of $2,599 income taxes				(3,967)	(3,967)
Total Comprehensive Income					104,293
Capital Contribution from UNS Energy	15,000				15,000
Dividends Paid			(60,000)		(60,000)
Balances at December 31, 2010	**858,971**	**(6,357)**	**(132,961)**	**(9,769)**	**709,884**
Comprehensive Income:					
2011 Net Income			85,334		85,334
Other Comprehensive Loss, net of $137 income taxes				(275)	(275)
Total Comprehensive Income					85,059
Capital Contribution from UNS Energy	30,000				30,000
Balances at December 31, 2011	**888,971**	**(6,357)**	**(47,627)**	**(10,044)**	**824,943**
Comprehensive Income:					
2012 Net Income			65,470		65,470
Other Comprehensive Income, net of $(279) income taxes				514	514
Total Comprehensive Income					65,984
Dividends Paid			(30,000)		(30,000)
Balances at December 31, 2012	**$888,971**	**$(6,357)**	**$ (12,157)**	**$ (9,530)**	**$860,927**

We describe limitations on our ability to pay dividends in Note 7.

See Notes to Consolidated Financial Statements.

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

UNS Energy Corporation (UNS Energy), formerly UniSource Energy Corporation, is a utility services holding company engaged, through its subsidiaries, in the electric generation and energy delivery business. Each of UNS Energy's subsidiaries is a separate legal entity with its own assets and liabilities. UNS Energy owns 100% of Tucson Electric Power Company (TEP), UniSource Energy Services, Inc. (UES), Millennium Energy Holdings, Inc. (Millennium), and UniSource Energy Development Company (UED).

TEP is a regulated public utility and UNS Energy's largest operating subsidiary, representing approximately 84% of UNS Energy's total assets as of December 31, 2012. TEP generates, transmits and distributes electricity to approximately 406,000 retail electric customers in a 1,155 square mile area in southeastern Arizona. TEP also sells electricity to other utilities and power marketing entities, located primarily in the western United States. In addition, TEP operates Springerville Generating Station (Springerville) Unit 3 on behalf of Tri-State Generation and Transmission Association, Inc. (Tri-State) and Springerville Unit 4 on behalf of Salt River Project Agriculture Improvement and Power District (SRP).

UES holds the common stock of two regulated public utilities, UNS Gas, Inc. (UNS Gas) and UNS Electric, Inc. (UNS Electric). UNS Gas is a regulated gas distribution company, which services approximately 149,000 retail customers in Mohave, Yavapai, Coconino, and Navajo counties in northern Arizona, as well as in Santa Cruz County in southern Arizona. UNS Electric is a regulated public utility, which generates, transmits and distributes electricity to approximately 92,000 retail customers in Mohave and Santa Cruz counties.

UED and Millennium's investments in unregulated businesses represent less than 1% of UNS Energy's assets as of December 31, 2012.

Our business is comprised of three reporting segments – TEP, UNS Gas, and UNS Electric.

References to "we" and "our" are to UNS Energy and its subsidiaries, collectively.

REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

In the fourth quarter of 2012, we identified that we had incorrectly reported UNS Electric's sales and purchase contracts, which did not result in the physical delivery of energy. The transactions were reported on a gross basis rather than on a net basis during the first three quarters of 2012 as well as the calendar years 2011 and 2010. This error resulted in an equal and offsetting overstatement of Electric Wholesale Sales and Purchased Energy in the income statements of $31 million in 2011 and $28 million in 2010. This error had no impact to operating income, net income, retained earnings, or cash flows. We assessed the impact of these errors on prior period financial statements and concluded they were not material to any period. However, the errors were significant to the individual line items. As a result, in accordance with Staff Accounting Bulletin 108, we have revised the 2011 and 2010 financial statements included herein to correct these errors. See Note 17 for the quarterly impact of the revisions on the years presented. The interim financial data is unaudited. The revisions noted above impacted UNS Energy's statements of income as shown in the tables below:

	UNS Energy			
	Year Ended December 31, 2011		Year Ended December 31, 2010	
	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars-			
Income Statement				
Electric Wholesale Sales	$ 163,159	$ 132,346	$ 151,962	$ 123,943
Total Operating Revenues	1,509,515	1,478,702	1,453,966	1,425,947
Purchased Energy	307,423	276,610	307,288	279,269
Total Fuel and Purchased Energy	634,345	603,532	584,263	556,244
Total Operating Expenses	1,227,843	1,196,995	1,156,852	1,128,833

	UNS Energy 2012 Three Months Ended					
	March 31,		June 30,		September 30,	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars					
Income Statement						
Electric Wholesale Sales	$ 37,104	$ 33,538	$ 28,684	$ 24,381	$ 32,494	$ 28,836
Purchased Energy	63,276	59,790	51,376	48,203	60,238	57,085
Total Fuel and Purchased Energy	134,276	130,790	151,328	148,155	175,687	172,534
Total Operating Expenses	284,479	280,984	299,112	295,932	330,852	327,700

	UNS Energy 2011 Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars							
Income Statement								
Electric Wholesale Sales	$ 40,914	$ 35,438	$ 38,744	$ 35,331	$ 41,847	$ 32,818	$ 41,654	$ 28,759
Purchased Energy	78,274	71,685	66,336	61,804	88,734	79,343	74,079	63,778
Total Fuel and Purchased Energy	146,579	139,990	155,539	151,007	182,766	173,376	149,461	139,159
Total Operating Expenses	299,946	293,357	298,383	293,852	327,187	317,796	302,327	291,990

	UNS Energy							
	Six Month Period Ended				Nine Month Period Ended			
	June 30, 2012		June 30, 2011		September 30, 2012		September 30, 2011	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars							
Income Statement								
Electric Wholesale Sales	$ 65,787	$ 57,919	$ 79,658	$ 70,769	$ 98,282	$ 86,755	$ 121,506	$ 103,587
Total Operating Revenues	686,044	679,384	714,439	703,318	1,123,305	1,113,492	1,165,387	1,144,875
Purchased Energy	114,653	107,993	144,610	133,489	174,891	165,078	233,344	212,832
Total Fuel and Purchased Energy	285,605	278,945	302,118	290,997	461,292	451,479	484,885	464,373
Total Operating Expenses	583,590	576,916	598,330	587,209	914,428	904,616	925,518	905,005
Operating Income(1)	102,454	102,468	116,109	116,109	208,877	208,876	239,869	239,869

(1) Includes immaterial reclassifications from Operating Expense to Other Expense to conform with current year presentation.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board issued authoritative guidance that eliminated the option to report other comprehensive income in the statement of changes in equity. Rather, an entity must elect to present items of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. In 2012, we elected to include two separate but consecutive statements.

We implemented accounting guidance in 2012 which enhances our disclosures regarding unobservable inputs in calculating the fair market value of certain assets and liabilities. The guidance requires additional quantitative analysis of inputs when we use significant unobservable inputs to measure the fair value of our derivatives and financial instruments. See Note 11.

BASIS OF PRESENTATION

We consolidate our investments in subsidiaries when we hold a majority of the voting stock and we can exercise control over the operations and policies of the company. Consolidation means accounts of the parent and subsidiary are combined and intercompany balances and transactions are eliminated. Intercompany profits on transactions between regulated entities are not eliminated if recovery from ratepayers is probable. See Note 2.

USE OF ACCOUNTING ESTIMATES

Management makes estimates and assumptions when preparing financial statements under generally accepted accounting principles (GAAP) in the United States. These estimates and assumptions affect:

- Assets and liabilities on our balance sheets at the dates of the financial statements;
- Our disclosures about contingent assets and liabilities at the dates of the financial statements; and
- Our revenues and expenses in our income statements during the periods presented.

Because these estimates involve judgments based upon our evaluation of relevant facts and circumstances, actual results may differ from the estimates.

ACCOUNTING FOR RATE REGULATION

We generally use the same accounting policies and practices used by unregulated companies. However, sometimes GAAP requires that rate-regulated companies apply special accounting treatment to show the effect of rate regulation. For example, we capitalize certain costs that would be included as expense in the current period by unregulated companies. Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in the rates charged to retail customers. Our Retail Rates are designed to allow TEP, UNS Gas, and UNS Electric an opportunity to recover reasonable operating and capital costs and earn a return on utility plant in service. Regulatory liabilities generally represent expected future costs that have already been collected from customers or items that are expected to be returned to customers through billing reductions. We evaluate regulatory assets each period and believe recovery is probable. If future recovery of costs ceases to be probable, the assets would be written off as a charge to current period earnings.

TEP, UNS Gas, and UNS Electric apply regulatory accounting as the following conditions exist:

- An independent regulator sets rates;
- The regulator sets the rates to recover the specific enterprise's costs of providing service; and
- Rates are set at levels that will recover the entity's costs and can be charged to and collected from customers.

CASH AND CASH EQUIVALENTS

We define Cash and Cash Equivalents as cash (unrestricted demand deposits) and all highly liquid investments purchased with an original maturity of three months or less.

As of December 31, 2012, we include $7 million of restricted cash in Investments and Other Property—Other on the balance sheets, of which $2 million has been legally restricted as to its use. At December 31, 2011, we included $9 million of restricted cash in Investments and Other Property – Other on the balance sheets, of which $3 million had been legally restricted as to its use.

UTILITY PLANT

Utility Plant includes the business property and equipment that supports electric and gas services, consisting primarily of generation, transmission, and distribution facilities. We report utility plant at original cost. Original cost includes materials and labor, contractor services, construction overhead (when applicable), and an Allowance for Funds Used During Construction (AFUDC).

We record the cost of repairs and maintenance, including planned major overhauls, to Operations and Maintenance (O&M) expense in the income statements as costs are incurred.

When a unit of regulated property is retired, we reduce accumulated depreciation by the original cost plus removal costs less any salvage value. There is no income statement impact.

AFUDC and Capitalized Interest

AFUDC reflects the cost of debt or equity funds used to finance construction and is capitalized as part of the cost of regulated utility plant. AFUDC amounts capitalized are included in rate base for establishing Retail Rates. For operations that do not apply regulatory accounting, we capitalize interest related only to debt as a cost of construction. The capitalized interest that relates to debt reduces Other Interest Expense in the income statements. The capitalized cost for equity funds is recorded as Other Income in the income statements.

The average AFUDC rates on regulated construction expenditures are included in the table below:

	2012	2011	2010
TEP	7.22%	6.72%	6.65%
UNS Gas	7.95%	8.32%	8.19%
UNS Electric	7.89%	8.18%	8.22%

UNS Energy did not capitalize interest in 2012. UNS Energy capitalized interest at a rate of 3.30% for 2011 and 1.96% for 2010.

Depreciation

We compute depreciation for owned utility plant on a group method straight-line basis at depreciation rates based on the economic lives of the assets. See Note 5. The Arizona Corporation Commission (ACC) approves depreciation rates for all generation and distribution assets. Transmission assets are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). Depreciation rates are based on average useful lives and reflect estimated removal costs, net of estimated salvage value for interim retirements. Below are the summarized average annual depreciation rates for all utility plant, which reflect immaterial adjustments in the calculation of rates in the years presented to exclude allocated depreciation (the adjustment did not affect Depreciation Expense recorded in the income statements).

	TEP	UNS Gas	UNS Electric
2012	3.22%	2.69%	3.99%
2011	3.14%	2.84%	4.02%
2010	3.16%	2.83%	4.35%

Computer Software Costs

We capitalize costs incurred to purchase and develop internal use computer software and amortize those costs over the estimated economic life of the product. If the software is no longer useful, we immediately charge capitalized computer software costs to expense.

TEP Utility Plant Under Capital Leases

TEP financed the following generation assets with capital leases: Springerville Unit 1; facilities at Springerville used in common with Springerville Unit 1 and Unit 2 (Springerville Common Facilities); and the Springerville Coal Handling Facilities. The capital lease expense incurred consists of Amortization Expense (see Note 5) and Interest Expense—Capital Leases. The lease terms are described in Note 6.

INVESTMENTS IN LEASE DEBT AND EQUITY

TEP held an investment in lease debt relating to Springerville Unit 1 through its maturity date in January 2013 and recorded this investment at amortized cost and recognized interest income. TEP holds a 14% equity interest in Springerville Unit 1 and a one-half interest in certain Springerville Common Facilities (Springerville Unit 1 Leases). The fair value of these investments is described in Note 11. These investments do not reduce the capital lease obligations reflected on the balance sheet because there is no legal right of offset. TEP makes lease payments to a trustee who then distributes the payments to the equity holders.

TEP accounts for its equity interest in the Springerville Unit 1 Lease trust using the equity method.

JOINTLY-OWNED FACILITIES

TEP has investments in several generation and transmission facilities jointly-owned with other companies. These projects are accounted for on a proportionate consolidation basis based on our ownership percentage. See Note 5.

ASSET RETIREMENT OBLIGATIONS

TEP and UNS Electric record a liability for the estimated present value of a conditional Asset Retirement Obligation (ARO) as follows:

- When it is able to reasonably estimate the fair value of any future obligation to retire as a result of an existing or enacted law, statute, ordinance, or contract; or
- If it can reasonably estimate the fair value.

When the liability is initially recorded at net present value, TEP and UNS Electric capitalize the cost by increasing the carrying amount of the related long-lived asset. TEP and UNS Electric adjust the liability to its present value by recognizing accretion expense in O&M expense, and the capitalized cost is depreciated in Depreciation and Amortization expense over the useful life of the related asset or when applicable, the terms of the lease subject to ARO requirements.

Based on the decommissioning studies to estimate timing and amount of future retirement of certain generation assets, both TEP and UNS Electric record legal AROs for these assets. Additionally, TEP and UNS Electric incurred AROs related to their photovoltaic assets as a result of entering into various ground leases.

TEP and UNS Electric record cost of removal for generation assets that are recoverable through the rates charged to retail customers. See Note 2.

We record cost of removal for transmission and distribution assets through depreciation rates and recover those amounts in the rates charged to retail customers. There are no legal obligations associated with transmission and distribution assets. We have recorded an obligation for estimated costs of removal as regulatory liabilities.

EVALUATION OF ASSETS FOR IMPAIRMENT

We evaluate long-lived assets and investments for impairment whenever events or circumstances indicate the carrying value of the assets may be impaired. If expected future cash flows (without discounting) are less than the carrying value of the asset, an impairment loss is recognized if the impairment is other-than-temporary and the loss is not recoverable through rates.

DEFERRED FINANCING COSTS

We defer the costs to issue debt and amortize such costs to interest expense on a straight-line basis over the life of the debt as this approximates the effective interest method. These costs include underwriters' commissions, discounts or premiums, and other costs such as legal, accounting, regulatory fees, and printing costs.

We defer and amortize the gains and losses on reacquired debt associated with regulated operations to interest expense over the remaining life of the original debt.

UTILITY OPERATING REVENUES

We record utility operating revenues when services or commodities are delivered to customers. Operating revenues include an estimate for unbilled revenues from service that has been provided but not billed by the end of an accounting period.

We determine amounts delivered through periodic readings of customer meters. At the end of the month, the usage since the last meter reading is estimated and the corresponding unbilled revenue is calculated. Unbilled revenue is estimated based on daily generation or purchased volumes, estimated usage by customer class, estimated line losses, and estimated average customer Retail Rates. Accrued unbilled revenues are reversed the following month when actual billings occur. The accuracy of the unbilled revenue estimate is affected by factors that include fluctuations in energy demands, weather, line losses, customer Retail Rates, and changes in the composition of customer classes.

The ACC authorized a rate-adjustment mechanism for TEP, UNS Gas, and UNS Electric that provides for the recovery of actual fuel, transmission, and purchased power/energy cost. The revenue surcharge or surcredit adjusts the customers' retail rate for delivered electricity or gas to collect or return under- or over-recovered energy costs. The ACC revises these rate-adjustment mechanisms periodically (annually for TEP and UNS Electric; monthly for UNS Gas) and may increase or decrease the costs recovered through Retail Rates for any difference between the total amount collected under the mechanisms and the recoverable costs incurred. See Note 2.

Arizona's mandatory Renewable Energy Standard (RES) requires TEP and UNS Electric to increase their use of renewable energy and allows recovery of compliance costs through a RES surcharge to customers. We charge customers a Demand Side Management (DSM) surcharge to recover the cost of ACC-approved Electric Energy Efficiency Programs (Electric EE Programs) or Gas Energy Efficiency Programs (Gas EE Programs). We defer differences between actual RES or DSM qualified costs incurred and the recovery of such costs from retail customers through the RES and DSM surcharges. Cost over-recoveries (the excess of cost recoveries through the RES and DSM surcharges over actual qualified costs incurred) are deferred as regulatory liabilities and cost under-recoveries (the excess of actual qualified costs incurred over cost recoveries through the RES and DSM surcharges) are deferred as regulatory assets. The surcharges typically reset annually and incorporate an adjustor mechanism that, upon approval of the ACC, allows us to apply any shortage or surplus in the prior year's program expenses to the subsequent year's RES or DSM surcharge. See Note 2.

For purchased power and wholesale sales contracts that are not settled with energy, TEP and UNS Electric net the sales contracts with the purchase power contracts and reflect the net amount as Electric Wholesale Sales. The corresponding cash receipts are recorded in the statement of cash flows as Cash Receipts from Electric Wholesale Sales, while cash payments are recorded as Purchased Energy/Power Costs Paid.

We record an Allowance for Doubtful Accounts to reduce accounts receivable for amounts estimated to be uncollectible. The allowance is determined based on historical bad debt patterns, retail sales, and economic conditions. We refer uncollected accounts to external collection agencies after 90 days.

TEP earns and recognizes Other Revenues monthly as the operator of Springerville Unit 3 on behalf of Tri-State and Springerville Unit 4 on behalf of SRP. Tri-State and SRP reimburse TEP for various operating expenses at Springerville, which are recorded in the respective line item of the income statements based on the nature of service or materials provided. Tri-State and SRP also pay TEP for the use of the Springerville Common Facilities and the Springerville Coal Handling Facilities which are recorded as Other Revenues.

INVENTORY

Materials and Supplies consist of transmission, distribution, and generation construction and repair materials. We record fuel, materials, and supply inventories at the lower of weighted average cost or market prices. We capitalize handling and procurement costs (such as materials, labor, overhead costs, and transportation costs) as part of the cost of the inventory.

RECOVERY OF FUEL AND PURCHASED ENERGY COSTS

TEP and UNS Electric Purchased Power and Fuel Adjustment Clause

TEP and UNS Electric record the actual fuel, transmission, and purchased power costs incurred on a monthly basis. Retail customers are billed monthly for the cost of fuel, transmission, and purchased power in Base Rates and via the current Purchased Power and Fuel Adjustment Clause (PPFAC) rate. The difference between the costs billed to customers (recoveries) and actual fuel costs incurred to provide retail electric service is deferred. Cost over-recoveries (excess of fuel cost recoveries) are deferred as regulatory liabilities and cost under-recoveries (excess of actual costs incurred over fuel costs recovered) are deferred as regulatory assets. See Note 2.

UNS Gas Purchased Gas Adjustor

UNS Gas defers the difference between actual gas costs incurred and the recovery of such costs under a Purchased Gas Adjustor (PGA) mechanism. Gas cost over-recoveries (the excess of gas costs recovered under the PGA mechanism over actual gas costs incurred) are deferred as regulatory liabilities and under-recoveries (the excess of actual gas costs incurred over gas costs recovered via the PGA mechanism) are deferred as regulatory assets. See Note 2.

RENEWABLE ENERGY CREDITS

The ACC uses Renewable Energy Credits (RECs) to measure compliance with the RES requirements. A REC equals one kWh generated from renewable resources. The cost of REC purchases are qualified renewable expenditures recoverable through the RES surcharge. When TEP or UNS Electric purchases renewable energy, the premium paid above the market cost of conventional power is the REC cost and the remaining cost is recoverable through the PPFAC.

When RECs are purchased, TEP and UNS Electric record the cost of the unretired RECs (an indefinite-lived intangible asset) as Other Assets, and a corresponding regulatory liability, to reflect the obligation to use the RECs for future RES compliance. When RECs are reported to the ACC for compliance with RES requirements, TEP and UNS Electric recognize Purchased Power expense and Other Revenues in an equal amount, in the income statements. See Note 2.

INCOME TAXES

Due to the difference between GAAP and income tax laws, many transactions are treated differently for income tax purposes than for financial statement presentation purposes. Temporary differences are accounted for by recording deferred income tax assets and liabilities on our balance sheets. These assets and liabilities are recorded using income tax rates expected to be in effect when the deferred tax assets and liabilities are realized or settled. We reduce deferred tax assets by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred income tax asset will not be realized.

Tax benefits are recognized as reductions to Deferred Income Taxes – Noncurrent/Other Current Liabilities when it is more likely than not that a tax position will be sustained upon examination by the tax authorities based on the technical merits of the position. The tax benefit recorded is the largest amount that is more than 50% likely to be realized upon ultimate settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Tax benefits taken on returns which do not meet these requirements are recorded in Deferred Income Taxes – Noncurrent/Other Liabilities – Noncurrent. Interest expense accruals relating to income tax obligations are recorded in Other Interest Expense.

Prior to 1990, TEP flowed through to ratepayers certain accelerated tax benefits related to utility plant as the benefits were recognized on tax returns. Regulatory Assets – Noncurrent includes income taxes recoverable through future rates, which reflects the future revenues due us from ratepayers as these tax benefits reverse. See Note 2.

We account for federal energy credits generated prior to 2012 using the grant accounting model. The credit is treated as deferred revenue, which is recognized over the depreciable life of the underlying asset. The deferred tax benefit of the credit is treated as a reduction to income tax expense in the year the credit arises. Federal energy credits generated in 2012 are deferred as Regulatory Liabilities – Noncurrent and amortized as a reduction in Income Tax Expense over the tax life of the underlying asset. Income Tax Expense attributable to the reduction in tax basis is accounted for in the year the federal energy credit is generated. All other federal and state income tax credits are treated as a reduction to Income Tax Expense in the year the credit arises.

Consolidated income tax liabilities are allocated to subsidiaries based on their taxable income as reported in the consolidated tax return.

TAXES OTHER THAN INCOME TAXES

We act as conduits or collection agents for sales taxes, utility taxes, franchise fees, and regulatory assessments. As we bill customers for these taxes and assessments, we record trade receivables. At the same time, we record liabilities payable, on the balance sheet, to governmental agencies for these taxes and assessments. These amounts are not reflected in the income statements.

DERIVATIVE FINANCIAL INSTRUMENTS

Risks and Overview

We are exposed to energy price risk associated with gas and purchased power requirements, volumetric risk associated with seasonal load, and operational risk associated with power plants, transmission, and transportation systems. We reduce our energy price risk through a variety of derivative and non-derivative instruments. The objectives for entering into such contracts include: creating price stability, ensuring we can meet load and reserve requirements, and reducing exposure to price volatility that may result from delayed recovery under the PPFAC or PGA. See Note 2.

We consider the effect of counterparty credit risk in determining the fair value of derivative instruments that are in a net asset position after incorporating collateral posted by counterparties and allocate the credit risk adjustment to individual contracts. We also consider the impact of our own credit risk after considering collateral posted on instruments that are in a net liability position and allocate the credit risk adjustment to all individual contracts.

We present cash collateral and derivative assets and liabilities associated with the same counterparty separately in our financial statements, and we separate all derivatives into current and long-term portions on the balance sheet.

In 2010 through 2012, we did not engage in trading of derivative financial instruments.

Cash Flow Hedges

TEP hedges the cash flow risk associated with unfavorable changes in the variable interest rates related to the leveraged lease arrangements relating to the Springerville Unit 1 Leases and variable rate industrial development revenue or pollution control revenue bonds (IDBs). In addition, TEP hedges the cash flow risk associated with a six-year power supply agreement using a six-year power purchase swap agreement. UNS Electric entered into a cash flow hedge in August 2011 to effectively convert the interest rate on the UNS Electric term loan from a variable rate to a fixed rate. TEP and UNS Electric account for cash flow hedges as follows:

- The effective portion of the changes in the fair value of the interest rate swaps and TEP's six-year power purchase swap agreement are recorded in Accumulated Other Comprehensive Income (AOCI) and the ineffective portion, if any, is recognized in earnings; and
- When TEP and UNS Electric determine a contract is no longer effective in offsetting the changes in cash flow of a hedged item, TEP and UNS Electric recognize the changes in fair value in earnings. The unrealized gains and losses at that time remain in AOCI and are reclassified into earnings as the underlying hedged transaction occurs.

We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives have been and are expected to remain highly effective in offsetting changes in the cash flows of hedged items. We discontinue hedge accounting when: (1) the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) we determine that designating the derivative as a hedging instrument is no longer appropriate.

Subsequent Measurement at Fair Value

- **TEP**

  TEP's hedges, such as forward power purchase contracts indexed to gas, short-term forward power sales contracts, or call and put options (gas collars), that did not qualify for either cash flow hedge accounting treatment or the normal scope exception are considered transactions subsequently measured at fair value. TEP hedges a portion of its monthly natural gas exposure for plant fuel, gas-indexed purchased power, and spot market purchases with fixed price contracts for a maximum of three years. Unrealized gains and losses are recorded as either a regulatory asset or regulatory liability to the extent they qualify for recovery through the PPFAC.

- **UNS Gas**

  UNS Gas enters into derivative contracts such as forward gas purchases and gas swaps, creating price stability and reducing exposure to natural gas price volatility that may result in delayed recovery under the PGA. Unrealized gains and losses are recorded as either a regulatory asset or regulatory liability, as the PGA mechanism permits the recovery of the cost of hedging contracts.

- **UNS Electric**

  UNS Electric hedges a portion of its purchased power exposure to fixed price and natural gas-indexed contracts with forward power purchases, financial gas swaps, and call and put options. Unrealized gains and losses are recorded as either a regulatory asset or regulatory liability, as the PPFAC mechanism allows recovery of the prudent costs of contracts for hedging fuel and purchased power costs.

Normal Purchases and Normal Sales

We enter into forward energy purchase and sales contracts, including call options, with counterparties for load serving requirements or counterparties with generating capacity to support our current load forecasts. These contracts are not required to be measured at fair value and are accounted for on an accrual basis. We evaluate our counterparties on an ongoing basis for non-performance risk to ensure it does not impact our ability to obtain the normal purchases and normal sales scope exception.

PENSION AND OTHER RETIREE BENEFITS

We sponsor noncontributory, defined benefit pension plans for substantially all employees and certain affiliate employees. Benefits are based on employees' years of service and average compensation. We also maintain a Supplemental Executive Retirement Plan (SERP) for upper management. TEP also provides limited health care and life insurance benefits for retirees. We fund the pension plans by contributing at least the minimum amount required under Internal Revenue Service (IRS) regulations.

We recognize the underfunded status of our defined benefit pension plans as a liability on our balance sheets. The underfunded status is measured as the difference between the fair value of the pension plans' assets and the projected benefit obligation for the pension plans. We recognize a regulatory asset to the extent these future costs are probable of recovery in the rates charged to retail customers, and expect to recover these costs over the estimated service lives of employees.

Additionally, we provide supplemental retirement benefits to certain employees whose benefits are subject to IRS benefit or compensation limitations. Changes in SERP benefit obligations are recognized as a component of AOCI.

Pension and other retiree benefit expense are determined by actuarial valuations, based on assumptions that we evaluate annually. See Note 9.

RECLASSIFICATIONS

UNS Energy and TEP reclassified the following items in the 2011 and 2010 financial statements to be comparable to the presentation in the 2012 financial statements:

- UNS Energy reclassified $4 million of 2011 trade receivables with credit balances from Accounts Receivable – Customer to Other Current Liabilities;
- UNS Energy and TEP reclassified $4 million of 2011 and 2010 O&M costs paid from Fuel Costs Paid to Payment of Operations and Maintenance Costs in the statements of cash flows;
- TEP reclassified $2 million of 2011 trade receivables with credit balances from Accounts Receivable – Customer to Other Current Liabilities;
- UNS Energy and TEP reclassified $1 million of 2011 payroll withholding taxes from Other Current Liabilities to Accrued Employee Expenses; and
- UNS Energy and TEP reclassified $35 thousand from Taxes Other Than Income Taxes to Other Expense in the 2011 income statement to conform to current year presentation.

NOTE 2. REGULATORY MATTERS

RATES AND REGULATION

The ACC and the FERC each regulate portions of the utility accounting practices and rates used by TEP, UNS Gas, and UNS Electric. The ACC regulates rates charged to retail customers, the siting of generation and transmission facilities, the issuance of securities, and transactions with affiliated parties. The FERC regulates terms and prices of transmission services and wholesale electricity sales.

TEP Rates

TEP 2008 Rate Order

The 2008 TEP Rate Order, issued by the ACC and effective December 1, 2008, provided an average base rate increase of 6% over TEP's previous Base Rates; an 8% authorized rate of return on Original Cost Rate Base (OCRB) of approximately $1 billion; a 5.6% rate of return on Fair Value Rate Base (FVRB) of approximately $1.5 billion, which did not include a return on the fair value increment of rate base (the fair value increment of rate base represents the difference between the OCRB and FVRB). The ACC authorized a fuel rate included in Base Rates of 2.9 cents per kilowatt-hour (kWh); a PPFAC effective January 1, 2009; and a base rate increase moratorium through January 1, 2013.

Pending TEP Rate Case

In July 2012, TEP filed a general rate case, on a cost-of-service basis, with the ACC requesting a Base Rate increase of approximately 15% to cover a revenue deficiency of $128 million. TEP requested a 7.74% return on an OCRB of $1.5 billion and a 5.68% return on FVRB of $2.3 billion. The return on FVRB includes a 1.56% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $800 million).

TEP requested a Lost Fixed Cost Recovery (LFCR) mechanism to recover non-fuel costs that would go unrecovered due to lost kilowatt-hour (kWh) sales as a result of implementing the ACC's Electric Energy Efficiency Standards (Electric EE Standards) and the RES. TEP also requested a mechanism, which would be adjusted annually, to recover the costs of complying with environmental standards required by federal or other governmental agencies between rate cases.

TEP proposed a three-year pilot program allowing for investment in Electric EE Programs to meet the Electric EE Standards in the most cost effective manner. Under TEP's proposal, energy efficiency investments would be considered regulatory assets and amortized over a four-year period. TEP would earn a return on investment and recover the return and amortization expense through the existing DSM surcharge.

In February 2013, TEP, ACC Staff, and other parties to TEP's pending rate case proceeding entered into a proposed settlement agreement. The proposed settlement agreement requires the approval of the ACC before new rates can become effective.

UNS Gas Rates

2012 UNS Gas Rate Order

In April 2012, the ACC approved a Base Rate increase of $2.7 million, or 1.8%, and a mechanism to enable UNS Gas to recover lost fixed cost revenues as a result of implementing the ACC's Gas Energy Efficiency Standards (Gas EE Standards). UNS Gas recognized less than $0.1 million of revenue under the LFCR in 2012.

The ACC approved an authorized rate of return of 8.3% on an OCRB of $183 million, and a 1.0% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $70 million). The new rates became effective in May 2012.

UNS Electric Rates

2010 UNS Electric Rate Order

In September 2010, the ACC approved a base rate increase of $7 million, or 4%, including an 8.3% authorized rate of return on an OCRB of $169 million, and a 1.3% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $73 million). The order also authorized new depreciation rates, effective October 2010.

In July 2011, UNS Electric completed the ACC and the FERC approved purchase of BMGS from UED for $63 million, UED's book value for the assets. BMGS was included in UNS Electric's Rate Base through a revenue-neutral rate reclassification of approximately 0.7 cents per kWh from base power supply rate to non-fuel Base Rates.

Pending UNS Electric Rate Case

In December 2012, as required in the 2010 UNS Electric Rate Order, UNS Electric filed with the ACC a general rate case, on a cost-of-service basis, requesting a non-fuel Base Rate increase of $7.5 million, or 4.6%. UNS Electric requested a rate of return of 8.4% on an OCRB of approximately $217 million and a 6.7% rate of return on a FVRB of $286 million. The return on FVRB includes a 1.6% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $69 million).

UNS Electric requested a LFCR mechanism to recover non-fuel costs that would go unrecovered due to lost kWh sales as a result of implementing Electric EE Standards and the RES. In addition to the LFCR mechanism, UNS Electric requested a Transmission Cost Adjustor (TCA). The TCA is designed to track changes to UNS Electric's FERC approved Open Access Transmission Tariff (OATT) rate which is updated annually and would allow UNS Electric to recover transmission costs in a timely manner.

COST RECOVERY MECHANISMS

TEP, UNS Gas, and UNS Electric have received regulatory decisions that allow for more timely recovery of certain costs through the recovery mechanisms described below.

Purchased Power and Fuel Adjustment Clause

The PPFAC provides for the adjustment of Retail Rates to reflect variations in retail fuel, transmission, and purchased power costs, including demand charges, and the prudent costs of contracts for hedging fuel. TEP and UNS Electric record deferrals for recovery or refund to the extent actual retail fuel, transmission, and purchased power costs vary from the fuel rate and current PPFAC rates. The TEP PPFAC became effective in January 2009. A PPFAC rate adjustment is made annually each April 1st (unless otherwise approved by the ACC) and goes into effect for the subsequent 12-month period automatically unless suspended by the ACC. UNS Electric's PPFAC rate adjustment is made annually each June 1st, effective for the subsequent 12-month period.

The PPFAC rate includes: 1) a forward component, under which TEP and UNS Electric recover or refund differences between, a) forecasted fuel, transmission, and purchased power costs for the upcoming calendar year and, b) those embedded in the fuel rate and the current PPFAC rates; and 2) a true-up component, which reconciles differences between actual fuel, transmission, and purchased power costs and those recovered through the combination of the fuel rate and the forward component for the preceding 12-month period.

The table below summarizes TEP's and UNS Electric's PPFAC rates in cents per kWh that are compared against actual fuel cost to create regulatory assets or liabilities:

	2012			2011		
	June - December	April - May	January - March	June - December	April - May	January - March
TEP						
PPFAC	0.77	0.77	0.53	0.53	0.53	0.09
CTC [1]	0.00	0.00	(0.53)	(0.53)	(0.53)	(0.09)
Total PPFAC Rate	0.77	0.77	—	—	—	—
UNS Electric	(1.44)	(0.88)	(0.88)	(0.88)	0.08	0.08

(1) Competition Transition Charge

As part of the TEP 2008 Rate Order, TEP was required to credit previously collected revenues to customers through the PPFAC. As a result, the PPFAC charge had been zero since it became effective in January 2009. In November 2011, the Fixed CTC revenue was fully refunded to customers and TEP began deferring the PPFAC eligible costs until a new PPFAC rate was approved by the ACC in April 2012.

UNS Gas Purchased Gas Adjustor

The PGA mechanism allows UNS Gas to adjust Retail Rates to reflect variations in natural gas costs. UNS Gas records deferrals for recovery or refund to the extent actual natural gas costs vary from the PGA rate. The PGA rate reflects a weighted, rolling average of the gas costs incurred by UNS Gas over the preceding 12 months. The PGA rate automatically adjusts monthly, but it is restricted from rising or falling more than $0.15 per therm in a twelve-month period. UNS Gas is required to request an additional surcredit if deferral balances reflect $10 million or more on a billed-to-customer basis. In 2012, the ACC approved a PGA temporary surcredit of 4.5 cents per therm effective for the period from May 2012 through April 2014, or when the PGA balance reaches zero, whichever comes first. At December 31, 2012, the PGA bank balance was over-collected by $10 million on a billed-to-customer basis, an increase of $2 million from December 31, 2011.

The PGA rate ranged from $0.5202 to $0.6501 cents per therm in 2012, and ranged from $0.6593 to $0.7296 cents per therm in 2011.

RES and Energy Efficiency Standards

The ACC has a mandatory RES that requires TEP and UNS Electric to expand their use of renewable energy through efforts funded by customer surcharges. TEP and UNS Electric are required to file five-year implementation plans with the ACC and annually seek approval for the upcoming year's RES funding amount. Similarly, TEP, UNS Gas, and UNS Electric recover the cost of ACC-approved energy efficiency programs through DSM surcharges established by the ACC.

The following table shows RES and DSM tariffs collected:

	TEP RES	UNS Electric RES	TEP DSM	UNS Gas DSM	UNS Electric DSM
	-Millions of Dollars-				
2012	$30	$7	$11	$1	$7
2011	35	7	11	1	2
2010	32	7	10	1	2

Renewable Energy Standard

The following table summarizes TEP's authorized 2010-2012 RES programs:

	Years Ended December 31,		
	2012(2)	2011	2010
	-Millions of Dollars-		
Investment in Company-Owned Solar Projects	$28	$28	$ 14
Return on Investment for Company-Owned Solar Projects	2	1	—
Program Budget(1)	30	36	44

(1) The authorized program budget for 2010 includes $12 million in carryforward of 2008 and 2009 RES funds.

(2) TEP met the 2012 renewable energy target of 3.5%.

The funding mechanism allows TEP to use RES funds to recover operating costs, depreciation, and property taxes, and to earn a return on company-owned solar projects until the projects can be incorporated in Base Rates.

In January 2013, the ACC approved TEP's 2013 RES implementation plan. Under the plan, TEP expects to collect approximately $36 million from retail customers during 2013. The plan includes an investment of $28 million in 2013 for company-owned solar projects, of which $8 million was previously approved by the ACC, as well as the continuation of the funding mechanism for company-owned solar projects. In accordance with the funding mechanism approved by the ACC, TEP could earn approximately $4 million pre-tax in 2013 on solar investments made in 2010, 2011, and 2012.

The following table summarizes UNS Electric's authorized 2010-2012 RES programs:

	Years Ended December 31,		
	2012(1)	2011	2010
	-Millions of Dollars-		
Investment in Company-Owned Solar Projects	$5	$ 5	$—
Return on Investment for Company-Owned Solar Projects	1	—	—
Program Budget	8	8	9

(1) UNS Electric met the 2012 renewable energy target of 3.5%.

UNS Electric will invest up to $5 million per year in company-owned renewable assets (between 2013 and 2014) subject to an annual prudency review and approval by the ACC. UNS Electric will recover the associated operating costs, depreciation, and property taxes under the RES program until the next rate case is filed and the assets are incorporated in the Base Rates.

In January 2013, the ACC approved UNS Electric's 2013 RES implementation plan. UNS Electric's will collect approximately $7 million from retail customers during 2013, a portion of which is expected to provide recovery of operating costs and a return on investment to UNS Electric for company-owned solar projects.

TEP and UNS Electric entered into multiple ACC-approved long-term purchase power agreements with companies developing renewable energy generation facilities. TEP and UNS Electric are required to purchase the full output of each facility for 20 years. Both utilities are authorized to recover a portion of the cost of renewable energy through the PPFAC, with the balance of costs recoverable through the RES tariff.

Energy Efficiency Standards

In 2010, the ACC approved new Electric EE Standards designed to require TEP and UNS Electric to implement cost-effective DSM programs, effective in 2011. In 2011, the Electric EE Standards targeted total retail kWh savings equal to 1.25% of 2010 sales, increasing to 22% by 2020, and provide for a DSM surcharge to recover the costs to implement DSM programs.

In May 2012, TEP filed a modification to its proposed 2011-2012 Energy Efficiency implementation plan with the ACC. The proposal included a request for a performance incentive for 2012 ranging from approximately $3 million to $4 million and the collection of the performance incentive over a period from October 1, 2012 to December 31, 2012. An administrative law judge issued a recommended opinion and order in August 2012. TEP did not record any income related to the proposed performance incentive in 2012. A proposed settlement agreement in TEP's pending rate case proceeding includes a new mechanism for recovery of costs incurred to implement DSM programs. The proposed settlement agreement requires the ACC's approval before it becomes effective.

The ACC approved new Gas EE Standards which required UNS Gas to implement cost effective DSM programs to reduce total retail therm sales in 2011, by 701,113 therms, or 0.5% of 2010 sales and to reduce total retail therm sales in 2012 by 1,679,890 therms, or 1.2% of 2011 sales. Targeted savings increase annually in subsequent years until they reach a cumulative annual reduction in retail therm sales of 6% by 2020.

In 2011, UNS Gas filed its 2011-2012 Gas Energy Efficiency implementation plan and subsequently filed an update in September 2011 which requested a waiver of the Gas EE Standards. In 2012, UNS Gas filed a request to amend its plan to include its 2013 Gas Energy Efficiency plan and for a modified waiver of the Gas EE Standards. We cannot predict when the ACC will rule on the Gas Energy Efficiency plan or the subsequent requests.

In January 2012, the ACC granted UNS Electric a waiver from complying with the 2011 and 2012 Electric EE Standards.

In June 2012, UNS Electric filed its 2013 Energy Efficiency implementation plan with the ACC. The proposal includes a request for a 2013 performance incentive of approximately $1 million. UNS Electric requested a waiver from complying with the 2013 Electric EE Standards. UNS Electric is unable to predict when the ACC will issue a final order in this matter.

Lost Fixed Cost Recovery Mechanism

In May 2012, the ACC authorized a mechanism for UNS Gas to recover therm sales lost as a result of implementing programs under the Gas EE Standards. The LFCR mechanism enables UNS Gas to recover non-purchased energy related costs that would go unrecovered due to lost therm sales as a result of implementing the Gas EE Standards. UNS Gas recorded less than $0.1 million of LFCR revenue in 2012.

Renewable Energy Credits

UNS Electric had $2 million of RECs on December 31, 2012, and $1 million of RECs on December 31, 2011, recorded in Other Assets on the balance sheets. TEP did not have RECs balances at the end of the periods presented since all RECs have been retired for compliance with the RES standard.

Regulatory Assets and Liabilities

The following tables summarize regulatory assets and liabilities:

	December 31, 2012			
	TEP	UNS Gas	UNS Electric	UNS Energy
	-Millions of Dollars-			
Regulatory Assets—Current				
Property Tax Deferrals (1)	$ 18	$—	$—	$ 18
Derivative Instruments (Notes 11 and 16)	2	3	6	11
PPFAC (3)	7	—	8	15
DSM (3)	5	—	—	5
Other Current Regulatory Assets (4)	2	1	—	3
Total Regulatory Assets—Current	34	4	14	52
Regulatory Assets—Noncurrent				
Pension and Other Retiree Benefits (Note 9)	130	4	5	139
Income Taxes Recoverable through Future Revenues (5)	8	—	2	10
PPFAC—Final Mine Reclamation and Retiree Health Care Costs (6)	22	—	—	22
Tucson to Nogales Transmission Line (7)	5	—	—	5
Other Regulatory Assets (4)	13	1	1	15
Total Regulatory Assets—Noncurrent	178	5	8	191
Regulatory Liabilities—Current				
PGA (8)	—	(17)	—	(17)
RES (8)	(19)	—	(4)	(23)
Other Current Regulatory Liabilities	(2)	(1)	(1)	(4)
Total Regulatory Liabilities—Current	(21)	(18)	(5)	(44)
Regulatory Liabilities—Noncurrent				
Net Cost of Removal for Interim Retirements (9)	(231)	(25)	(11)	(267)
Income Taxes Payable through Future Rates	(5)	(1)	—	(6)
Deferred Investment Tax Credit (10)	(5)	—	—	(5)
Other Regulatory Liabilities	—	—	(1)	(1)
Total Regulatory Liabilities—Noncurrent	(241)	(26)	(12)	(279)
Total Net Regulatory Assets (Liabilities)	$ (50)	$ (35)	$ 5	$ (80)

	December 31, 2011			
	TEP	UNS Gas	UNS Electric	UNS Energy
	-Millions of Dollars-			
Regulatory Assets—Current				
Property Tax Deferrals [1]	$ 16	$—	$—	$ 16
Derivative Instruments (Notes 11 and 16)	7	7	10	24
Deregulation Costs [2]	3	—	—	3
PPFAC [3]	34	—	7	41
DSM [3]	8	—	1	9
Other Current Regulatory Assets [4]	4	—	—	4
Total Regulatory Assets—Current	72	7	18	97
Regulatory Assets—Noncurrent				
Pension and Other Retiree Benefits (Note 9)	107	3	4	114
Income Taxes Recoverable through Future Revenues [5]	10	—	2	12
PPFAC [3]	6	—	—	6
PPFAC—Final Mine Reclamation and Retiree Health Care Costs [6]	20	—	—	20
Derivative Instruments (Notes 11 and 16)	2	2	3	7
Other Regulatory Assets [4]	12	1	1	14
Total Regulatory Assets—Noncurrent	157	6	10	173
Regulatory Liabilities—Current				
PGA [8]	—	(15)	—	(15)
RES [8]	(22)	—	(3)	(25)
Other Current Regulatory Liabilities	(2)	—	—	(2)
Total Regulatory Liabilities—Current	(24)	(15)	(3)	(42)
Regulatory Liabilities—Noncurrent				
Net Cost of Removal for Interim Retirements [9]	(198)	(23)	(10)	(231)
Other Regulatory Liabilities	(3)	(1)	—	(4)
Total Regulatory Liabilities—Noncurrent	(201)	(24)	(10)	(235)
Total Net Regulatory Assets (Liabilities)	$ 4	$ (26)	$ 15	$ (7)

Regulatory assets are either being collected in Retail Rates or are expected to be collected through Retail Rates in a future period. We describe regulatory assets and state when we earn a return below:

(1) Property Tax is recovered over an approximate six-month period as costs are paid, rather than as costs are accrued.

(2) Deregulation costs represent deferred expenses that TEP incurred to comply with various ACC deregulation orders, as authorized by the ACC. TEP earned a return on this asset and recovered these costs through Retail Rates over a four-year period ended November 2012.

(3) See Cost Recovery Mechanisms discussion above.

(4) TEP's other assets include unamortized loss on reacquired debt (recovery through 2032), coal contract amendment (recovery through 2017), and other assets (recovery through 2014). UNS Gas' other assets consist of rate case costs (recovery over 3 years), and costs of the low income assistance program.

(5) Income Taxes Recoverable through Future Revenues are amortized over the life of the assets.

(6) Final Mine Reclamation and Retiree Health Care Costs stem from TEP's jointly-owned facilities at the San Juan Generating Station, the Four Corners Generating Station, and the Navajo Generating Station. TEP is required to recognize the present value of its liability associated with final mine reclamation and retiree health care obligations. TEP recorded a regulatory asset because TEP is permitted to fully recover these costs through the PPFAC when the costs are invoiced by the miners. TEP expects to recover these costs over the remaining life of the mines, which is estimated to be between 14 and 20 years.

(7) The Tucson to Nogales Transmission Line regulatory asset does not earn a return. TEP and UNS Electric will request recovery from FERC for the prudent cost incurred to develop a high-voltage transmission line, which we expect to abandon. See Note 4.

Regulatory liabilities represent items that we either expects to pay to customers through billing reductions in future periods or plans to use for the purpose for which they were collected from customers, as described below:

(8) See Cost Recovery Mechanisms discussion above.

(9) Net Cost of Removal for Interim Retirements represents an estimate of the cost of future AROs net of salvage value. These are amounts collected through revenue for the net cost of removal of interim retirements for transmission, distribution, general, and intangible plant which are not yet expended. TEP and UNS Electric have also collected amounts for generation plant, which they have not yet expended.

(10) The Deferred Investment Tax Credit is related to federal energy credits generated in 2012 and are deferred as Regulatory Liabilities – Noncurrent and amortized over the tax life of the underlying asset.

Income Statement Impact of Applying Regulatory Accounting

Regulatory accounting had the following effects on TEP's net income:

	Years Ended December 31,		
	2012	2011	2010
	-Millions of Dollars-		
TEP			
Operating Revenues			
Amortization of the Fixed CTC Revenue to be Refunded	$ —	$ 36	$ 10
Operating Expenses			
Depreciation (related to Net Cost of Removal for Interim Retirements)	(33)	(29)	(30)
(Amortization)/Deferral of PPFAC Costs	(31)	6	22
Other	(7)	—	(8)
Non-Operating Income/Expenses			
Long-Term Debt (Amortization of Loss on Reacquired Debt Costs)	1	1	1
AFUDC—Equity	3	4	4
Income Taxes—Deferral	(3)	(8)	1
Offset by the Tax Effect of the Above Adjustments	26	(4)	—
Net (Decrease)/Increase to Net Income	$ (44)	$ 6	$—

Had UNS Gas and UNS Electric not applied regulatory accounting each would have recognized the difference between expected and actual purchased energy costs and commodity derivative unrealized gains or losses as a change in income statement expense, rather than as a change in regulatory balances. Regulatory accounting had the following effects on UNS Gas' and UNS Electric's net income:

	Years Ended December 31,		
	2012	2011	2010
	-Millions of Dollars-		
UNS Gas			
Net (Decrease)/Increase to Net Income	$(6)	$(5)	$(1)
UNS Electric			
Net (Decrease)/Increase to Net Income	(7)	3	(7)

Future Implications of Discontinuing Application of Regulatory Accounting

We regularly assess whether we can continue to apply regulatory accounting to regulated operations, and we have concluded regulatory accounting is applicable. If we stopped applying regulatory accounting to our regulated operations, the following would occur:

- Regulatory pension assets would be reflected in AOCI;
- We would write off remaining regulatory assets as an expense and regulatory liabilities as income in the income statements;
- At December 31, 2012, based on the regulatory assets balances, net of regulatory liabilities:
  - TEP would have recorded an extraordinary after-tax gain of $48 million and an after-tax loss in AOCI of $78 million;
  - UNS Gas would have recorded an extraordinary after-tax loss of $19 million and an after-tax loss in AOCI of $3 million; and
  - UNS Electric would have recorded an extraordinary after-tax gain of $6 million and an after-tax loss in AOCI of $3 million.

While future regulatory orders and market conditions may affect cash flows, our cash flows would not be affected if we stopped applying regulatory accounting to our regulated operations.

NOTE 3. SEGMENT AND RELATED INFORMATION

We have three reportable segments that are determined based on the way we organize our operations and evaluate performance:

(1) TEP, a regulated electric utility business, is our largest subsidiary;

(2) UNS Gas is a regulated gas distribution utility business; and

(3) UNS Electric is a regulated electric utility business.

Results for the UNS Energy and UES holding companies, Millennium, and UED are included in Other below.

We disclose selected financial data for our reportable segments in the following tables:

	Reportable Segments					
	TEP	UNS Gas	UNS Electric	Other	Reconciling Adjustments	UNS Energy
	-Millions of Dollars-					
2012						
Income Statement						
Operating Revenues-External	$1,145	$129	$189	$ —	$ (1)	$1,462
Operating Revenues-Intersegment	17	4	1	18	(40)	—
Depreciation and Amortization	150	9	18	—	—	177
Interest Income	—	—	—	1	—	1
Interest Expense	88	6	8	3	—	105
Income Tax Expense	39	6	11	—	—	56
Net Income	65	9	17	—	—	91
Cash Flow Statement						
Capital Expenditures	(253)	(16)	(38)	—	—	(307)
Balance Sheet						
Total Assets	3,461	310	370	1,121	(1,122)	4,140

	Reportable Segments					
	TEP	UNS Gas	UNS Electric	Other	Reconciling Adjustments	UNS Energy
	-Millions of Dollars-					
2011						
Income Statement						
Operating Revenues-External [(1)]	$1,141	$149	$188	$ —	$ 1	$1,479
Operating Revenues-Intersegment	15	2	2	23	(42)	—
Depreciation and Amortization	140	8	17	1	(1)	165
Interest Income	4	—	—	1	—	5
Interest Expense	89	7	7	9	—	112
Income Tax Expense (Benefit)	52	7	11	(1)	(2)	67
Net Income	85	10	18	—	(3)	110
Cash Flow Statement						
Capital Expenditures	(352)	(13)	(96)	(34)	121	(374)
Balance Sheet						
Total Assets	3,278	320	370	1,172	(1,151)	3,989
2010						
Income Statement						
Operating Revenue-External [(1)]	$1,096	$144	$185	$ —	$ 1	$1,426
Operating Revenue-Intersegment	29	6	2	28	(65)	—
Depreciation and Amortization	132	8	16	2	(2)	156
Interest Income	7	—	—	1	—	8
Interest Expense	88	7	7	9	—	111
Net Loss from Equity Method Investments	—	—	—	(6)	—	(6)
Income Tax Expense	60	6	10	4	(3)	77
Net Income (Loss)	108	9	15	(14)	(5)	113
Cash Flow Statement						
Capital Expenditures	(277)	(12)	(24)	(18)	—	(331)

(1) The amounts previously reported have been revised.

Reconciling adjustments consist of the elimination of intersegment revenue resulting from the following transactions, which are eliminated in consolidation:

	Reportable Segments			
	TEP	UNS Gas	UNS Electric	Other
Intersegment Revenue	-Millions of Dollars-			
2012:				
Wholesale Sales—TEP to UNS Electric [1]	$ 2	$—	$—	$—
Wholesale Sales—UNS Electric to TEP [1]	—	—	1	—
Wholesale Sales—UNS Gas to TEP [2]	—	1	—	—
Gas Revenue—UNS Gas to UNS Electric	—	3	—	—
Other Revenue—TEP to Affiliates[3]	12	—	—	—
Other Revenue—Millennium to TEP, UNS Electric, & UNS Gas [4]	—	—	—	18
Other Revenue—TEP to UNS Electric [5]	3	—	—	—
Total Intersegment Revenue	$ 17	$ 4	$ 1	$ 18
2011:				
Wholesale Sales—TEP to UNS Electric [1]	$ 2	$—	$—	$—
Wholesale Sales—UNS Electric to TEP [1]	—	—	2	—
Wholesale Sales—UED to UNS Electric	—	—	—	5
Gas Revenue—UNS Gas to UNS Electric	—	2	—	—
Other Revenue—TEP to Affiliates[3]	10	—	—	—
Other Revenue—Millennium to TEP, UNS Electric, & UNS Gas [4]	—	—	—	18
Other Revenue—TEP to UNS Electric [5]	3	—	—	—
Total Intersegment Revenue	$ 15	$ 2	$ 2	$ 23
2010:				
Wholesale Sales—TEP to UNS Electric [1]	$ 18	$—	$—	$—
Wholesale Sales—UNS Electric to TEP [1]	—	—	2	—
Wholesale Sales—UED to UNS Electric	—	—	—	11
Wholesale Sales—UNS Gas to TEP[2]	—	1	—	—
Gas Revenue—UNS Gas to UNS Electric	—	5	—	—
Other Revenue—TEP to Affiliates[3]	8	—	—	—
Other Revenue—Millennium to TEP, UNS Electric, & UNS Gas [4]	—	—	—	17
Other Revenue—TEP to UNS Electric[5]	3	—	—	—
Total Intersegment Revenue	$ 29	$ 6	$ 2	$ 28

(1) TEP and UNS Electric sell power to each other at third-party market prices.

(2) UNS Gas provides gas to TEP for generation of power at third-party market prices.

(3) Common costs (systems, facilities, etc.) are allocated on a cost-causative basis and recorded as revenue by TEP. Management believes this method of allocation is reasonable.

(4) Millennium provides a supplemental workforce and meter-reading services to TEP, UNS Gas, and UNS Electric. Amounts are based on costs of services performed and management believes that the charges for services are reasonable. Millennium charged TEP $17 million in 2012 and 2011, and $16 million in 2010 for these services.

(5) TEP charged UNS Electric for control area services based on a FERC-approved tariff.

TEP provides all corporate services (finance, accounting, tax, information technology services, etc.) to UNS Energy affiliated entities. Costs are directly assigned to the benefiting entity. Direct costs charged by TEP to affiliates were $10 million in 2012, 2011, and 2010.

UNS Energy incurs corporate costs that are allocated to TEP and its other subsidiaries. Corporate costs are allocated based on a weighted-average of three factors: assets, payroll, and revenues. Management believes this method of allocation is reasonable and approximates the cost that TEP would have incurred as a standalone entity. Charges allocated to TEP were $2 million in 2012 and 2011, and $3 million in 2010.

Other

Other significant reconciling adjustments include the elimination of investments in subsidiaries held by UNS Energy and reclassifications of deferred tax assets and liabilities.

NOTE 4. COMMITMENTS, CONTINGENCIES, AND ENVIRONMENTAL MATTERS

TEP COMMITMENTS

Firm Purchase Commitments

At December 31, 2012, TEP had the following firm non-cancelable purchase commitments (minimum purchase obligations) and operating leases:

	Purchase Commitments						
	2013	2014	2015	2016	2017	Thereafter	Total
	-Millions of Dollars-						
Fuel (Including Transportation)	$ 65	$ 65	$ 50	$ 47	$ 39	$ 60	$ 326
Purchased Power	50	41	29	28	28	386	562
RES Performance-Based Incentive Payments	4	4	4	4	4	42	62
Solar Equipment	12	—	—	—	—	—	12
Transmission	3	3	3	3	3	22	37
Operating Leases	2	2	2	1	1	10	18
Service Agreement	2	2	—	—	—	—	4
Total Unrecognized Firm Commitments	$138	$117	$ 88	$ 83	$ 75	$520	$1,021

Fuel, Purchased Power, and Transmission Contracts

TEP has long-term contracts for the purchase and delivery of coal with various expiration dates through 2020. Amounts paid under these contracts depend on actual quantities purchased and delivered. Some of these contracts include a price adjustment clause that will affect the future cost. TEP expects to spend more than the minimum purchase obligations to meet its fuel requirements.

TEP has agreements with utilities and other energy suppliers for purchased power to meet system load and energy requirements, replace generation from company-owned units under maintenance and during outages, and meet operating reserve obligations. In general, these contracts provide for capacity payments and energy payments based on actual power taken under the contracts. These contracts expire in various years between 2013 and 2015. Certain of these contracts are at a fixed price per MW and others are indexed to natural gas prices. The commitment amounts included in the table are based on projected market prices as of December 31, 2012.

Additionally, Purchased Power includes six 20-year Power Purchase Agreements (PPAs) with renewable energy generation facilities that achieved commercial operation in 2011 and 2012. TEP is obligated to purchase 100% of the output from these facilities. TEP has additional long-term renewable PPAs to comply with the RES requirements; however, TEP's obligation to purchase power under these agreements does not begin until the facilities are operational.

Fuel, purchased power, and transmission costs are recoverable from customers through the PPFAC. A portion of the cost of renewable energy is recoverable through the PPFAC, with the balance of costs recoverable through the RES tariff. See Note 2.

RES Performance-Based Incentives

TEP has entered into REC purchase agreements to purchase the environmental attributes from retail customers with solar installations. Payments for the RECs are termed Performance-Based Incentives (PBIs) and are paid in contractually agreed-upon intervals (usually quarterly) based on metered renewable energy production. PBIs are recoverable through the RES tariff. See Note 2.

Solar Equipment

TEP committed to purchase 9 MW of photovoltaic equipment through December 2013. TEP spent $11 million in 2012 and $10 million in 2011 under this contract. The ACC approved this purchase under TEP's RES implementation plan. TEP earns a return on investment in company-owned solar projects. See Note 2.

Operating Leases

TEP's aggregate operating lease expense is primarily for rail cars, office facilities, and computer equipment, with varying terms, provisions, and expiration dates. This expense totaled $2 million in each of 2012, 2011, and 2010.

Service Agreement

In February 2012, TEP entered into a long-term agreement for information technology services. TEP is obligated to pay $2 million per year through December 2014.

UNS GAS AND UNS ELECTRIC COMMITMENTS

At December 31, 2012, UNS Gas had firm non-cancelable purchase commitments for fuel, including transportation, as described in the table below:

	Purchase Commitments						
	2013	2014	2015	2016	2017	Thereafter	Total
	-Millions of Dollars-						
Total Unrecognized Firm Commitments – Fuel	$26	$13	$8	$6	$4	$17	$74

UNS Gas purchases gas from various suppliers at market prices. However, UNS Gas' risk of loss due to increased costs (as a result of changes in market prices of fuel) is mitigated through the use of the PGA, which provides for the pass-through of actual commodity costs to customers. UNS Gas' forward gas purchase agreements expire through 2015. Certain of these contracts are at a fixed price per Million British Thermal Units (MMBtu) and others are indexed to natural gas prices. The commitment amounts included in the table above are based on market prices as of December 31, 2012. UNS Gas has firm transportation agreements with capacity sufficient to meet its load requirements. These contracts expire in various years between 2013 and 2024.

At December 31, 2012, UNS Electric had various firm non-cancelable purchase commitments as described in the table below:

	Purchase Commitments						
	2013	2014	2015	2016	2017	Thereafter	Total
	-Millions of Dollars-						
Purchased Power	$55	$50	$14	$6	$ 5	$ 80	$210
Transmission	4	2	2	1	—	—	9
Total Unrecognized Firm Commitments	$59	$52	$16	$7	$ 5	$ 80	$219

UNS Electric enters into agreements with various energy suppliers for purchased power at market prices to meet its energy requirements. In general, these contracts provide for capacity payments and energy payments based on actual power taken. These contracts expire in various years through 2015. Certain of these contracts are at a fixed price per MW and others are indexed to natural gas prices. The commitment amounts included in the table above are based on market prices as of December 31, 2012. Purchased power commitments also include two 20-year PPAs with renewable energy generation facilities that achieved commercial operation in 2011 and 2012. UNS Electric is obligated to purchase 100% of the output from these facilities.

UNS Electric imports the power it purchases over the Western Area Power Administration's (WAPA) transmission lines. UNS Electric's transmission capacity agreements with WAPA provide for annual rate adjustments and expire in 2013 and 2016. However, the effects of both purchased power and transmission cost adjustments are mitigated through UNS Electric's PPFAC.

UNS Gas and UNS Electric have operating leases, primarily for office facilities and computer equipment, with varying terms and expiration dates. The expense was less than $1 million in each of the years 2012, 2011, and 2010. UNS Gas' and UNS Electric's estimated future minimum payments under non-cancelable operating leases are less than $1 million per year for 2013 through 2031.

RES Performance-Based Incentives

UNS Electric is contractually obligated to make RES PBI payments to retail customers with solar installations. UNS Electric's total obligation for RES PBIs is about $6 million with payments required over periods ranging from 10 to 20 years based on metered renewable energy production. PBIs are recoverable through the RES tariff. See Note 2.

Solar Project

In December 2012, UNS Electric entered into an agreement for the construction of a 7.182 MW solar photovoltaic power plant that will be constructed in two phases. The first phase will result in a 4.2 MW plant that UNS Electric expects to be operational in June of 2013. The balance of the project will be completed in 2014. UNS Electric invested $5 million in this project in 2012. The contract requires additional investments of $4 million in each of 2013 and 2014. This is an approved project under UNS Electric's RES implementation plan. See Note 2.

TEP CONTINGENCIES

Springerville Generating Station Unit 3 Outage

In July 2012, Springerville Unit 3 experienced an unplanned outage. As a result of the outage, TEP recorded a pre-tax loss of $2 million in the third quarter of 2012 as TEP did not meet certain availability requirements under the terms of TEP's operating agreement with Tri-State.

Claims Related to San Juan Generating Station

San Juan Coal Company (SJCC) operates an underground coal mine in an area where certain gas producers have oil and gas leases with the federal government, the State of New Mexico, and private parties. These gas producers allege that SJCC's underground coal mine interferes with their operations, reducing the amount of natural gas they can recover. SJCC has compensated certain gas producers for any remaining production from wells deemed close enough to the mine to warrant plugging and abandoning them. These settlements, however, do not resolve all potential claims by gas producers in the area. TEP owns 50% of Units 1 and 2 at San Juan Generating Station (San Juan), which represents approximately 20% of the total generation capacity at San Juan, and is responsible for its share of any settlements. TEP cannot estimate the impact of any future claims by these gas producers on the cost of coal at San Juan.

Claims Related to Four Corners Generating Station

In October 2011, EarthJustice, on behalf of several environmental organizations, filed a lawsuit in the United States District Court for the District of New Mexico against Arizona Public Service Company (APS) and the other Four Corners Generating Station (Four Corners) participants, alleging violations of the Prevention of Significant Deterioration (PSD) provisions of the Clean Air Act at Four Corners. In January 2012, EarthJustice amended their complaint alleging violations of New Source Performance Standards resulting from equipment replacements at Four Corners. Among other things, the plaintiffs seek to have the court issue an order to cease operations at Four Corners until any required PSD permits are issued, and order the payment of civil penalties, including a beneficial mitigation project. In April 2012, APS filed Motions to Dismiss with the court for all claims asserted by EarthJustice in the amended complaint. The parties filed a Joint Motion to Stay in November 2012 in furtherance of settlement talks.

TEP owns 7% of Four Corners Units 4 and 5 and is liable for its share of any resulting liabilities. TEP cannot predict the final outcome of the claims relating to Four Corners, and, due to the general and non-specific nature of the claims and the indeterminate scope and nature of the injunctive relief sought for these claims, TEP cannot determine estimates of the range of loss at this time. TEP accrued estimated losses of less than $1 million in 2011 for this claim.

Mine Closure Reclamation at Generating Stations Not Operated by TEP

TEP pays ongoing reclamation costs related to coal mines that supply generating stations in which TEP has an ownership interest but does not operate. TEP is liable for a portion of final reclamation costs upon closure of the mines servicing Navajo Generating Station (Navajo), San Juan, and Four Corners. TEP's share of reclamation costs is expected to be $27 million upon expiration of the coal supply agreements, which expire between 2016 and 2019. The reclamation liability (present value of future liability) was $16 million at December 31, 2012, and $13 million at December 31, 2011.

Amounts recorded for final reclamation are subject to various assumptions, such as estimations of reclamation costs, the dates when final reclamation will occur, and the credit-adjusted risk-free interest rate to be used to discount future liabilities. As these assumptions change, TEP will prospectively adjust the expense amounts for final reclamation over the remaining coal supply agreement terms. TEP does not believe that recognition of its final reclamation obligations will be material to TEP in any single year because recognition will occur over the remaining terms of its coal supply agreements.

TEP's PPFAC allows us to pass through most fuel costs (including final reclamation costs) to customers. Therefore, TEP classifies these costs as a regulatory asset by increasing the regulatory asset and the reclamation liability over the remaining life of the coal supply agreements on an accrual basis and recovering the regulatory asset through the PPFAC as final mine reclamation costs are paid to the coal suppliers.

In June 2012, the participants at San Juan executed a Trust Reclamation Agreement requiring each participant to individually establish and fund a trust based on the participant's share of the estimated final mine reclamation costs. The trust must remain in effect through completion of final mine reclamation activities currently projected to be 2050. TEP established and funded its trust with $1 million in 2012. TEP expects to make additional cumulative deposits to the trust of approximately $1 million over the next five years.

Tucson to Nogales Transmission Line

TEP and UNS Electric are parties to a project development agreement for the joint construction of a 60-mile transmission line from Tucson, Arizona to Nogales, Arizona. This project was initiated in response to an order by the ACC to UNS Electric to improve the reliability of electric service in Nogales. TEP had previously capitalized $11 million related to the project, including $2 million to secure land and land rights. UNS Electric had previously capitalized $0.4 million related to the project.

TEP and UNS Electric expect to abandon the project based on the cost of the proposed 345-kV line, the difficulty in reaching agreement with the Forest Service on a path for the line, and concurrence by the ACC of recent transmission plans filed by TEP and UNS Electric supporting the elimination of this project. In TEP's pending rate case proceeding before the ACC, TEP entered into a proposed settlement agreement in which it agrees to seek recovery of the project costs from FERC before seeking rate recovery from the ACC. In the fourth quarter of 2012, TEP and UNS Electric wrote off a portion of the capitalized costs believed not probable of recovery and recorded a regulatory asset for the balance deemed probable of recovery. TEP and UNS Electric believe it is probable that we will recover at least $5 million and $0.2 million, respectively, of costs incurred through 2012.

RESOLUTION OF CONTINGENCIES

In April 2010, the Sierra Club filed a citizens' suit under the Resource Conservation and Recovery Act (RCRA) and the Surface Mine Control and Reclamation Act (SMCRA) in the United States District Court for the District of New Mexico against Public Service Company of New Mexico (PNM), as operator of San Juan, SJCC, and PNM's and SJCC's respective parent companies. The suit alleged that certain activities at San Juan and the San Juan mine associated with the treatment, storage, and disposal of coal and Coal Combustion Residuals (CCRs) violated

RCRA and SMCRA. The suit sought an injunction with respect to the placement of CCRs at the mine, the imposition of civil penalties, and attorney's fees and costs. In March 2012, the parties settled the case. The settlement was approved by the court.

TEP is responsible for its share of the settlement of the San Juan claims. TEP recorded less than $1 million for its share of the costs to fund environmental projects and Sierra Club attorney and expert fees required by the settlement, substantially all of which was recorded in 2011. In addition, TEP paid $1 million for its share of construction costs for a new groundwater recovery system adjacent to San Juan and other environmental projects required by the settlement.

San Juan Mine Fire

In September 2011, a fire at the underground mine that provides coal to San Juan caused mining operations to shut down. The mine resumed production in June 2012. The mine fire did not have a material effect on TEP's financial condition, results of operations, or cash flows due to the use of on-hand inventory of previously mined coal and the low market price of wholesale power during the closure. TEP awaits final resolution in the matter pending an insurance settlement between the mine operator and its insurance company.

ENVIRONMENTAL MATTERS

Environmental Regulation

The Environmental Protection Agency (EPA) limits the amount of sulfur dioxide (SO_2), nitrogen oxide (NOx), particulate matter, mercury and other emissions released into the atmosphere by power plants. TEP capitalized $2 million in 2012, $8 million in 2011, and $18 million in 2010 in construction costs to comply with environmental requirements, including TEP's share of new pollution control equipment installed at San Juan. TEP expects to capitalize environmental compliance costs of $10 million in 2013 and $27 million in 2014. In addition, TEP recorded O&M expenses of $15 million in 2012, $12 million in 2011, and $14 million in 2010 related to environmental compliance. TEP expects environmental O&M expenses to be $16 million in 2013.

TEP may incur additional costs to comply with future changes in federal and state environmental laws, regulations, and permit requirements at its power plants. Complying with these changes may reduce operating efficiency. TEP expects to recover the cost of environmental compliance from its ratepayers.

Hazardous Air Pollutant Requirements

The Clean Air Act requires the EPA to develop emission limit standards for hazardous air pollutants that reflect the maximum achievable control technology. In February 2012, the EPA issued final rules called the Mercury and Air Toxics Standards setting limits for mercury emissions and other hazardous air pollutants from power plants.

Navajo

Based on the EPA's final standards, Navajo may need mercury and particulate matter emission control equipment by 2015. TEP's share of the estimated capital cost of this equipment is less than $1 million for mercury control and about $43 million if the installation of baghouses to control particulates is necessary. TEP expects its share of the annual operating costs for mercury control and baghouses to be less than $1 million each. The operator of Navajo is currently analyzing the need for baghouses under various regulatory scenarios, which include the regional haze final Best Available Retrofit Technology (BART) rules.

San Juan

TEP expects San Juan's current emission controls to be adequate to comply with the EPA's final standards.

Four Corners

Based on the EPA's final standards, Four Corners may need mercury emission control equipment by 2015. The estimated capital cost of this equipment is less than $1 million. TEP expects the annual operating cost of the mercury emission control equipment to be less than $1 million.

Springerville

Based on the EPA's final standards, Springerville may need mercury emission control equipment by 2015. The estimated capital cost of this equipment for Springerville Units 1 and 2 is about $5 million. TEP expects the annual operating cost of the mercury emission control equipment to be about $3 million.

Sundt Generating Station

TEP expects the final EPA standards will have little effect on capital expenditures at Sundt Generating Station (Sundt).

Regional Haze Rules

The EPA's regional haze rules require emission controls known as BART for certain industrial facilities emitting air pollutants that reduce visibility. The rules call for all states to establish goals and emission reduction strategies for improving visibility in national parks and wilderness areas. States must submit these goals and strategies to the EPA for approval. Because Navajo and Four Corners are located on the Navajo Indian Reservation, they are not subject to state oversight. The EPA oversees regional haze planning for these power plants.

Complying with the EPA's BART findings, and with other environmental rules, may make it economically impractical to continue operating the Navajo, San Juan, and Four Corners power plants or for individual owners to continue to participate in these power plants. TEP cannot predict the ultimate outcome of these matters.

Navajo

In January 2013, the EPA proposed an alternative BART determination that would require the installation of SCR technology on all three units at Navajo by 2023. If SCR technology is ultimately required at Navajo, TEP estimates its share of the capital cost will be $42 million. Also, the installation of SCR technology at Navajo could increase the power plant's particulate emissions which may require that baghouses be installed. TEP estimates that its share of the capital expenditure for baghouses would be about $43 million. TEP's share of annual operating costs is estimated at less than $1 million for each of the control technologies (SCR and baghouses).

San Juan

In August 2011, the EPA issued a Federal Implementation Plan (FIP) establishing new emission limits for air pollutants at San Juan. These requirements are more stringent than those proposed by the State of New Mexico. The FIP requires the installation of SCR technology with sorbent injection on all four units within five years to reduce NOx and control sulfuric acid emissions by September 2016. TEP estimates its share of the cost to install SCR technology with sorbent injection to be between $180 million and $200 million. TEP expects its share of the annual operating costs for SCR technology to be approximately $6 million.

In 2011, PNM filed a petition for review of and a motion to stay the FIP with the Tenth Circuit United States Court of Appeals (Circuit Court). In addition, PNM filed a request for reconsideration of the rule with the EPA and a request to stay the effectiveness of the rule pending the EPA's reconsideration and the review by the Circuit Court. The State of New Mexico filed similar motions with the Circuit Court and the EPA. Several environmental groups were granted permission to join in opposition to PNM's petition to review in the Circuit Court. In addition, WildEarth Guardians filed a separate appeal against the EPA challenging the FIP's five-year implementation schedule. PNM was granted permission to join in opposition to that appeal. In March 2012, the Circuit Court denied PNM's and the State of New Mexico's motion for stay. Oral argument on the appeal was heard in October 2012 and the parties are currently awaiting the Circuit Court's decision.

In February 2013, the State of New Mexico released a proposed plan that it presented to the EPA as an alternative to the FIP. The proposed plan includes: the retirement of San Juan Units 2 and 3 by December 31, 2017; the replacement of those units with non-coal generation sources; and the installation of selective non-catalytic reduction technology (SNCR) on San Juan Units 1 and 4 by January 2016. TEP estimates its share of the cost to install SNCR technology on San Juan Unit 1 would be approximately $25 million.

TEP owns 340 MW, or 50%, of San Juan Units 1 and 2. At December 31, 2012, the book value of TEP's share of San Juan Units 1 and 2 was $217 million. If Unit 2 is retired early, we expect to request ACC approval to recover, over a reasonable time period, all costs associated with the early closure of the unit. We are evaluating various replacement resources. Any decision regarding early closure and replacement resources will require various actions by third parties as well as UNS Energy board and regulatory approvals.

If the proposed plan is not accepted and agreed to by the EPA, the New Mexico Environmental Department, the San Juan participants, and various other regulatory entities, TEP may begin making capital expenditures to install SCRs on San Juan Units 1 and 2 in 2013 to meet the FIP compliance deadline. TEP cannot predict the ultimate outcome of this matter.

Four Corners

In August 2012, the EPA finalized the regional haze FIP for Four Corners. The final FIP requires SCR technology to be installed on all five units by 2017. However, the FIP also includes an alternative plan that allows APS to close their wholly-owned Units 1, 2, and 3 and install SCR technology on Units 4 and 5. This option allows the installation of SCR technology to be delayed until July 2018. In either case, TEP's estimated share of the capital costs to install SCR technology is about $35 million. TEP's share of annual operating costs for SCR is estimated at $2 million.

Springerville

Regional haze regulations requiring emission control upgrades do not apply to Springerville currently and are not likely to impact Springerville operations until after 2018.

Sundt

In December 2012, the EPA issued a proposed rule on provisions, that had not been previously addressed, in the Arizona State Implementation Plan related to regional haze. Contrary to the Arizona plan the EPA disapproved, among other things, the determination that Sundt Unit 4 is not subject to the BART provisions of the regional haze rule and is therefore subject to BART requirements. If the BART eligibility determination stands, Sundt Unit 4 will be required to reduce certain emissions within five years of the final EPA BART rule which is likely to be completed in October 2013. The EPA is expected to release a proposed BART requirement for Sundt Unit 4 in March 2013.

NOTE 5. UTILITY PLANT AND JOINTLY-OWNED FACILITIES

UTILITY PLANT

The following table shows Utility Plant in Service by major class:

	UNS Energy		TEP	
	December 31,		December 31,	
	2012	2011	2012	2011
	-Millions of Dollars-			
Plant in Service:				
Electric Generation Plant	$1,932	$1,879	$1,847	$1,795
Electric Transmission Plant	842	810	796	766
Electric Distribution Plant	1,495	1,453	1,271	1,234
Gas Distribution Plant	240	233	—	—
Gas Transmission Plant	18	18	—	—
General Plant	347	331	309	302
Intangible Plant—Software Costs (1) (2)	124	122	123	121
Intangible Plant—Other	5	5	—	—
Electric Plant Held for Future Use	3	5	2	4
Total Plant in Service	$5,006	$4,856	$4,348	$4,222
Utility Plant under Capital Leases	$ 583	$ 583	$ 583	$ 583

(1) Unamortized computer software costs were $36 million for UNS Energy and $35 million for TEP as of December 31, 2012, and $43 million for UNS Energy and $42 million for TEP as of December 31, 2011.

(2) The amortization of computer software costs in UNS Energy's income statements was $13 million in 2012, $10 million in 2011, and $9 million in 2010. The amortization of computer software costs in TEP's income statements before intercompany allocations was $13 million in 2012, $10 million in 2011, and $9 million in 2010.

TEP Utility Plant under Capital Leases

All TEP utility plant under capital leases is used in TEP's generation operations and amortized over the primary lease term. See Note 6. At December 31, 2012, the utility plant under capital leases includes: 1) Springerville Unit 1; 2) Springerville Common Facilities; and 3) Springerville Coal Handling Facilities. The following table shows the amount of lease expense incurred for TEP's generation-related capital leases:

	Years Ended December 31,		
	2012	2011	2010
	-Millions of Dollars-		
Lease Expense:			
Interest Expense – Included in:			
Capital Leases	$ 34	$40	$47
Operating Expenses – Fuel	3	4	4
Other Expense	—	1	2
Amortization of Capital Lease Assets – Included in:			
Operating Expenses – Fuel	4	3	3
Operating Expenses – Amortization	14	14	14
Total Lease Expense	$ 55	$62	$70

The depreciable lives as of December 31, 2012, were as follows:

Major Class of Utility Plant in Service	TEP	UNS Gas and UNS Electric
Electric Generation Plant	11-57 years	38-49 years
Electric Transmission Plant	20-60 years	20-50 years
Electric Distribution Plant	28-60 years	23-50 years
Gas Distribution Plant	n/a	30-55 years
Gas Transmission Plant	n/a	30-65 years
General Plant	5-31 years	5-40 years
Intangible Plant	3-19 years	3-32 years

See *Utility Plant* in Note 1 and *TEP Capital Lease Obligations* in Note 6.

JOINTLY-OWNED FACILITIES

At December 31, 2012, TEP's interests in jointly-owned generating stations and transmission systems were as follows:

	Ownership Percentage	Plant in Service	Construction Work in Progress	Accumulated Depreciation	Net Book Value
		-Millions of Dollars-			
San Juan Units 1 and 2	50.0%	$ 443	$ 7	$220	$230
Navajo Units 1, 2, and 3	7.5	148	1	106	43
Four Corners Units 4 and 5	7.0	97	2	73	26
Luna Energy Facility	33.3	53	—	—	53
Transmission Facilities	7.5 to 95.0	328	22	186	164
Total		$1,069	$ 32	$585	$516

TEP has financed or provided funds for the above facilities and TEP's share of its operating expenses is reflected in the income statements based on the nature of the expense.

ASSET RETIREMENT OBLIGATIONS

The accrual of AROs is primarily related to generation and photovoltaic assets and is included in Deferred Credits and Other Liabilities on the balance sheets. The following table reconciles the beginning and ending aggregate carrying amounts of ARO accruals on the balance sheets:

	UNS Energy and TEP	
	December 31, 2012	December 31, 2011
	-Millions of Dollars-	
Beginning Balance	$ 13	$ 4
Liabilities Incurred	—	1
Liabilities Settled	—	—
Accretion Expense	1	—
Revision to Estimated Cash Flows	—	8
Ending Balance	$ 14	$ 13

NOTE 6. DEBT, CREDIT FACILITIES, AND CAPITAL LEASE OBLIGATIONS

Long-term debt matures more than one year from the date of the financial statements. We summarize UNS Energy's and TEP's long-term debt in the statements of capitalization.

UNS ENERGY DEBT—CONVERTIBLE SENIOR NOTES

In 2005, UNS Energy issued $150 million of 4.50% Convertible Senior Notes (Convertible Senior Notes) due in 2035. In 2012, UNS Energy converted or redeemed the entire $150 million Convertible Senior Notes outstanding. Holders of the Convertible Senior Notes had the option of converting their interests to Common Stock at a conversion rate applicable at the time of each notice of redemption or receiving the redemption price of par plus accrued interest for the Convertible Senior Notes. In the first quarter of 2012, holders of approximately $73 million of the Convertible Senior Notes converted their interests into approximately 2.1 million shares of Common Stock and $2 million were redeemed for cash. In the second quarter of 2012, holders of approximately $74 million of Convertible Senior Notes converted their interests into approximately 2.2 million shares of Common Stock and $1 million were redeemed for cash.

TEP DEBT

Tax-Exempt Variable Rate Bonds and Interest Rate Swap

TEP had $215 million in tax-exempt variable rate debt outstanding at December 31, 2012 and December 31, 2011. Each series of bonds is supported by a Letter of Credit (LOC) issued under the TEP Credit Agreement or separate TEP Letter of Credit and Reimbursement Agreements. The LOCs are secured by mortgage bonds issued under TEP's 1992 Mortgage.

In November 2011, TEP repurchased $150 million of variable rate bonds. TEP did not cancel the repurchased bonds, which remained outstanding under their respective indentures but were not reflected as debt on the balance sheet. See 2011 TEP Unsecured Notes below.

In December 2010, TEP issued $37 million of Coconino County, Arizona, tax-exempt pollution control bonds (2010 Coconino Bonds). The 2010 Coconino Bonds are supported by a LOC, which is secured by $37 million of 1992 Mortgage Bonds and expires December 2014. The bonds accrue interest at a variable weekly rate and are due October 2032. These bonds are multi-modal bonds that allow TEP to change the interest feature of the bonds. They are callable at any time at par plus accrued interest and are subject to mandatory redemption under certain circumstances if the LOC is not extended. The average interest rate on TEP's 2010 Coconino Bonds was 0.22% in 2012 and 0.23% in 2011. TEP used the proceeds to redeem a corresponding principal amount of fixed rate Coconino pollution control bonds. TEP capitalized less than $1 million in costs related to the issuance of these bonds and will amortize the costs to Interest Expense – Long-Term Debt in the income statements through October 2032, the term of the bonds.

The following table shows interest rates on TEP's variable rate bonds which are reset weekly by its remarketing agents:

	Years Ended December 31,		
	2012	2011	2010
Interest Rates on Bonds:			
Average Interest Rate	0.17%	0.18%	0.26%
Range of Average Weekly Rates	0.06% to 0.26%	0.05% to 0.34%	0.17% to 0.39%

In August 2009, TEP entered into an interest rate swap that had the effect of converting $50 million of variable rate bonds to a fixed rate of 2.4% from September 2009 to September 2014.

Unsecured Fixed Rate Bonds

At December 31, 2012, TEP had $609 million in unsecured fixed rate bonds. At December 31, 2011, TEP had $616 million outstanding.

In March 2012, the Industrial Development Authority of Apache County, Arizona issued $177 million of unsecured tax-exempt pollution control bonds on behalf of TEP. The bonds bear interest at a fixed rate of 4.5%, mature in March 2030, and may be redeemed at par on or after March 1, 2022. The proceeds from the sale of the bonds, together with $7 million of principal and $1 million for accrued interest provided by TEP, were deposited with a trustee to retire $184 million of unsecured tax-exempt bonds with interest rates of 5.85% and 5.875% and maturity dates ranging from 2026 to 2033. TEP's $8 million payment to the trustee was the only cash flow activity since proceeds from the newly-issued bonds were not received or disbursed by TEP. TEP capitalized approximately $2 million in costs related to the issuance of the bonds and will amortize the costs to Interest Expense – Long-Term Debt in the income statements through March 2030, the term of the bonds.

In June 2012, the Industrial Development Authority of Pima County, Arizona issued approximately $16 million of unsecured tax-exempt industrial development bonds on behalf of TEP. The bonds bear interest at a fixed rate of 4.5%, mature in June 2030, and may be redeemed at par on or after June 1, 2022. The proceeds from the sale of the bonds together with $0.4 million accrued interest provided by TEP, were deposited with a trustee to retire approximately $16 million of outstanding unsecured tax-exempt bonds with interest rates of 5.85% and 5.875%, and maturity dates ranging from 2026 to 2033. TEP's payment of accrued interest was the only cash flow activity since proceeds from the newly-issued bonds were not received or disbursed by TEP. TEP capitalized less than $0.5 million in costs related to the issuance of the bonds and will amortize the costs to Interest Expense – Long-Term Debt in the income statements through June 2030, the term of the bonds.

In November 2011, TEP redeemed $22 million in unsecured fixed rate bonds. See 2011 TEP Unsecured Notes below.

In October 2010, TEP issued $100 million of Pima County, Arizona tax-exempt IDBs. The IDBs are unsecured, bear interest at a rate of 5.25%, mature in October 2040, and are callable at par on or after October 1, 2020. Net of an underwriting discount, $99 million of proceeds were deposited in a construction fund with the bond trustee. The proceeds were applied to the construction of certain of TEP's transmission and distribution facilities used to provide electric service in Pima County. TEP drew down $88 million of the proceeds from the construction fund in 2010 and $11 million in 2011. TEP capitalized approximately $1 million in costs related to the issuance of these bonds and will amortize the costs to Interest Expense-Long-Term Debt in the income statements through October 2040, the term of the bonds.

2012 TEP Unsecured Notes

In September 2012, TEP issued $150 million of 3.85% unsecured notes due March 2023. TEP may call the debt prior to December 15, 2022, with a make-whole premium plus accrued interest. After December 15, 2022, TEP may call the debt at par plus accrued interest. The unsecured notes contain a limitation on the amount of secured debt that TEP may have outstanding. TEP used the net proceeds to repay approximately $72 million outstanding on the revolving credit facility, with the remaining proceeds used for general corporate purposes. TEP capitalized approximately $1 million in costs related to the issuance of unsecured notes and will amortize the costs to Interest Expense – Long-Term Debt in the income statements through March 2023, the term of the unsecured notes.

2011 TEP Unsecured Notes

In November 2011, TEP issued $250 million of 5.15% unsecured notes due November 2021. TEP may call the debt any time before August 15, 2021, with a make-whole premium plus accrued interest. After August 15, 2021, the debt is callable at par plus accrued interest. TEP used the net proceeds from the sale to: 1) repurchase $150 million of variable rate bonds; 2) redeem $22 million of 6.1% fixed rate bonds; and 3) repay $78 million of outstanding revolving credit facility balances, with the remaining proceeds applied to general corporate purposes. The variable rate bonds were supported by LOCs issued under TEP's Credit Facility. As a result of the repurchase of the variable rate bonds, TEP cancelled $155 million of LOCs and reduced its mortgage bonds supporting the LOCs by the same amount. TEP capitalized $2 million in costs related to the issuance of the notes and will amortize the costs to Interest Expense-Long-Term Debt in the income statements through November 2021, the term of the unsecured notes.

1992 Mortgage

TEP's 1992 Mortgage creates liens on and security interests in most of TEP's utility plant assets, with the exception of Springerville Unit 2. San Carlos Resources Inc., a wholly-owned subsidiary of TEP, holds title to Springerville Unit 2. Utility Plant under Capital Leases is not subject to such liens nor is it available to TEP creditors, other than the lessors. The net book value of TEP's utility plant subject to the lien of the indenture was approximately $2 billion at December 31, 2012, and December 31, 2011.

TEP CAPITAL LEASE OBLIGATIONS

Springerville Leases

The terms of TEP's capital leases are as follows:

- The Springerville Unit 1 Leases have an initial term to January 2015 and provide for renewal periods of three or more years through 2030. TEP has a fair market value purchase option for facilities under the Springerville Unit 1 Lease. In December 2011, TEP and the owner participants of the Springerville Unit 1 Leases completed a formal appraisal process to determine the fair market value purchase price, in accordance with the Springerville Unit 1 Leases agreements. Based on that appraisal, TEP would have to pay $159 million in 2015 for the 86% interest not already owned by TEP. In 2012, TEP initiated a proceeding seeking judicial confirmation of the results of the appraisal process in federal district court. In the proceeding, the owner participants alleged that the appraisal process failed to yield a legitimate purchase price for the leased interest. In January 2013, the federal district court denied TEP's petition on the grounds that the court lacks jurisdiction in the matter. In February 2013, TEP appealed the matter to the U.S. Court of Appeals for the Ninth Circuit.
- The Springerville Coal Handling Facilities Leases have an initial term to April 2015 and provide for fixed-rate lease renewal options if certain conditions are satisfied as well as a fixed-price purchase provision of $120 million. The lease provides for one renewal period of six years beginning in April 2015, with additional renewal periods of five or more years through 2035.
- The Springerville Common Facilities Leases have an initial term to December 2017 for one lease and January 2021 for the other two leases, subject to optional renewal periods of two or more years through 2025. Instead of extending the leases TEP may exercise a fixed-price purchase provision. The fixed prices for the acquisition of common facilities are $38 million in 2017 and $68 million in 2021.

TEP agreed with Tri-State, the owner of Springerville Unit 3, and SRP, the owner of Springerville Unit 4, that if the Springerville Coal Handling Facilities and Common Facilities Leases are not renewed, TEP will exercise the purchase options under these contracts. SRP will then be obligated to buy a portion of these facilities and Tri-State will then be obligated to either: 1) buy a portion of these facilities; or 2) continue making payments to TEP for the use of these facilities.

In January 2013, through scheduled lease payments, TEP reduced its capital lease obligations by $82 million.

LEASE DEBT AND EQUITY

Investments in Springerville Lease Debt and Equity

TEP's investments in Springerville Unit 1 lease debt totaled $9 million at December 31, 2012, and $29 million at December 31, 2011. In January 2013, TEP received the final maturity payment of $9 million on the investment in Springerville Unit 1 lease debt. TEP also held an undivided equity ownership interest in the Springerville Unit 1 Leases totaling $36 million at December 31, 2012, and $37 million at December 31, 2011.

Interest Rate Swaps—Springerville Common Facilities Lease Debt

TEP's interest rate swaps hedge the floating interest rate risk associated with the Springerville Common Facilities lease debt. Interest on the lease debt is payable at six-month London Interbank Offered Rate (LIBOR) plus a spread. The applicable spread was 1.75% at December 31, 2012, and 1.625% at December 31, 2011.

The swaps have the effect of fixing the interest rates on the amortizing principal balances as follows:

Outstanding at December 31, 2012	Fixed Ratio	LIBOR Spread
$ 34 million	5.77%	1.75%
$ 19 million	3.18%	1.75%
$ 6 million	3.32%	1.75%

TEP recorded these interest rate swaps as a cash flow hedge for financial reporting purposes. See Note 16.

UNS ELECTRIC SENIOR UNSECURED NOTES

UNS Electric has $100 million of senior unsecured notes: $50 million at 6.5%, due 2015 and $50 million at 7.1%, due 2023. The UNS Electric long-term notes are guaranteed by UES. The notes may be prepaid with a make-whole call premium reflecting a discount rate equal to an equivalent maturity United States Treasury security yield plus 50 basis points.

UNS Electric's long-term notes contain certain restrictive covenants, including restrictions on transactions with affiliates, mergers, liens to secure indebtedness, restricted payments, and incurrence of indebtedness.

UNS ELECTRIC TERM LOAN CREDIT AGREEMENT AND INTEREST RATE SWAP

In August 2011, UNS Electric entered into a four-year $30 million variable rate term loan credit agreement. UNS Electric used the $30 million in proceeds to repay borrowings under its revolving credit facility. The interest rate currently in effect is three-month LIBOR plus 1.125%. At the same time, UNS Electric entered into a fixed-for-floating interest rate swap in which UNS Electric will pay a fixed rate of 0.97% and receive a three-month LIBOR rate on a $30 million notional amount over a four-year period ending August 2015. The UNS Electric term loan credit agreement, included in Long-Term Debt on the balance sheet, is guaranteed by UES.

The term loan credit agreement contains certain restrictive covenants for UNS Electric and UES. The covenants include restrictions on transactions with affiliates, restricted payments, additional indebtedness, liens, and mergers. UNS Electric must meet an interest coverage ratio to issue additional debt. However, UNS Electric may, without meeting these tests, refinance indebtedness and incur short-term debt in an amount not to exceed $5 million. The credit agreement also requires UNS Electric to maintain a maximum leverage ratio, and allows UNS Electric to pay dividends so long as it maintains compliance with the credit agreement.

UNS GAS SENIOR UNSECURED NOTES

In August 2011, UNS Gas issued $50 million of senior guaranteed notes at 5.39% due August 2026. UNS Gas used the proceeds to pay in full the $50 million of UNS Gas 6.23% notes that matured in August 2011. UNS Gas has another $50 million of notes at 6.23% due August 2015. The notes may be prepaid with a make-whole call premium reflecting a discount rate equal to an equivalent maturity United States Treasury security yield plus 50 basis points. UES guarantees the notes. UNS Gas capitalized less than $0.5 million of costs related to the issuance of the notes and will amortize these costs over the life of the notes.

UNS Gas' long-term debt contains certain restrictive covenants, including restrictions on transactions with affiliates, mergers, liens to secure indebtedness, restricted payments, and incurrence of indebtedness.

UNS ENERGY CREDIT AGREEMENT

In November 2011, UNS Energy amended its existing credit agreement to extend the expiration date from November 2014 to November 2016.

In November 2010, UNS Energy amended and restated its existing credit agreement. As amended, the agreement consists of a $125 million revolving credit facility and revolving letter of credit facility. UNS Energy's obligations under the agreement are secured by a pledge of the capital stock of Millennium, UES, and UED.

UNS Energy capitalized less than $0.5 million related to the 2011 credit agreement amendment and $1 million related to the 2010 credit agreement amendment and restatement, and will amortize these costs through November 2016.

UNS Energy had $45 million of outstanding borrowings at December 31, 2012, and $57 million of outstanding borrowings at December 31, 2011, under its revolving credit facility. The weighted average interest rate on the revolver was 1.96% at December 31, 2012, and 2.04% at December 31, 2011. We reflected the revolver borrowings in Long-Term Debt on the balance sheet as UNS Energy has the ability and the intent to have outstanding borrowings for the next twelve months. As of February 13, 2013, outstanding borrowings under the UNS Credit Agreement were $45 million.

Interest rates and fees under the UNS Energy Credit Agreement are based on a pricing grid tied to UNS Energy's credit ratings. The interest rate currently in effect on borrowings is LIBOR plus 1.75% for Eurodollar loans or Alternate Base Rate plus 0.75% for Alternate Base Rate loans.

The UNS Energy Credit Agreement contains a number of covenants which restrict UNS Energy and its subsidiaries, including restrictions on additional indebtedness, liens, mergers, and sales of assets. The UNS Energy Credit Agreement also requires UNS Energy to meet a minimum cash flow to interest coverage ratio determined on a UNS Energy standalone basis and not to exceed a maximum leverage ratio determined on a consolidated basis. Under the UNS Energy Credit Agreement, UNS Energy may pay dividends so long as it maintains compliance with the agreement.

TEP CREDIT AGREEMENT

In December 2011, TEP reduced its letter of credit facility from $341 million to $186 million, following the repurchase of $150 million of variable rate bonds and the cancellation of $155 million of LOCs supporting those bonds.

In November 2011, TEP amended its existing credit agreement to extend the expiration date from November 2014 to November 2016.

In November 2010, TEP amended and restated its existing credit agreement, consisting of a $200 million revolving credit, revolving LOC facility, and a $341 million LOC facility to support tax-exempt bonds.

The TEP credit facility is secured by $386 million of mortgage bonds issued under the 1992 Mortgage, which creates a lien on and security interest in most of TEP's utility plant assets.

TEP capitalized $1 million related to the 2011 credit agreement amendment and $4 million related to the 2010 credit agreement amendment and restatement, and will amortize these costs through November 2016.

Interest rates and fees under the TEP Credit Agreement are based on a pricing grid tied to TEP's credit ratings. The interest rate currently in effect on borrowings is LIBOR plus 1.125% for Eurodollar loans or Alternate Base Rate plus 0.125% for Alternate Base Rate loans. The margin rate currently in effect on the $186 million letter of credit facility is 1.125%.

The TEP Credit Agreement contains a number of covenants which restrict TEP and its subsidiaries, including restrictions on liens, mergers, and sale of assets. The TEP Credit Agreement also requires TEP not to exceed a maximum leverage ratio. Under the TEP Credit Agreement, TEP may pay dividends to UNS Energy so long as it maintains compliance with the agreement.

As of December 31, 2012, TEP had no borrowings outstanding and $1 million in LOCs issued under its revolving credit facility. As of December 31, 2011, TEP had $10 million in borrowings and $1 million outstanding in LOCs under its revolving credit facility. The revolving loan balance was included in Current Liabilities on UNS Energy's and TEP's balance sheets. The outstanding LOCs are off-balance sheet obligations of TEP. As of February 13, 2013, TEP had $30 million in borrowings and $1 million outstanding in LOCs under its revolving credit facility.

2010 TEP REIMBURSEMENT AGREEMENT

A $37 million letter of credit was issued pursuant to the 2010 TEP Reimbursement Agreement. The letter of credit supports $37 million aggregate principal amount of variable rate tax-exempt bonds that were issued on behalf of TEP in December 2010, see Variable Rate Tax-Exempt Bonds, above.

The 2010 TEP Reimbursement Agreement is secured by $37 million of mortgage bonds issued under TEP's 1992 Mortgage. Fees are payable on the aggregate outstanding amount of the letter of credit at a rate of 1.50% per annum.

The 2010 TEP Reimbursement Agreement contains substantially the same restrictive covenants as the TEP Credit Agreement described above.

UNS GAS/UNS ELECTRIC REVOLVER

In November 2011, UNS Gas and UNS Electric amended their existing unsecured credit agreement to extend the expiration date from November 2014 to November 2016.

In November 2010, UNS Gas and UNS Electric amended and restated their existing unsecured credit agreement. As amended, the UNS Gas/UNS Electric Revolver consists of a $100 million revolving credit and revolving letter of credit facility. The maximum borrowings outstanding at any one time for UNS Gas or UNS Electric under the agreement may not exceed $70 million. UNS Gas and UNS Electric each are liable for only their own individual borrowings under the UNS Gas/UNS Electric Revolver. UES guarantees the obligations of both UNS Gas and UNS Electric. The UNS Gas/UNS Electric Revolver may be used to issue LOCs, as well as for revolver borrowings. UNS Gas and UNS Electric issue LOCs, which are off-balance sheet obligations, to support power and gas purchases and hedges.

UNS Gas and UNS Electric capitalized less than $0.5 million of costs related to the 2011 credit agreement amendment and $1 million related to the 2010 credit agreement amendment and restatement, and will continue to amortize these costs through November 2016 to Interest Expense – Long-Term Debt in the income statements.

Interest rates and fees under the UNS Gas/UNS Electric Revolver are based on a pricing grid tied to their credit ratings. The interest rate currently in effect on borrowings is LIBOR plus 1.25% for Eurodollar loans or Alternate Base Rate plus 0.25% for Alternate Base Rate loans.

The UNS Gas/UNS Electric Revolver contains a number of covenants which impose restrictions on UNS Gas, UNS Electric, and UES, including restrictions on additional indebtedness, liens, and mergers. The UNS Gas/UNS Electric Revolver also stipulates a maximum leverage ratio. Under the terms of the UNS Gas/UNS Electric Revolver, UNS Gas and UNS Electric may pay dividends so long as they maintain compliance with the agreement.

UNS Electric had less than $0.5 million in outstanding LOCs under the UNS Gas/UNS Electric Revolver as of December 31, 2012, and $6 million outstanding as of December 31, 2011. These balances are not shown on the balance sheet.

OTHER

At December 31, 2012, UNS Energy and its subsidiaries were in compliance with the terms of their respective loan, note purchase, and credit agreements. No amounts of net income were subject to dividend restrictions.

DEBT MATURITIES

Long-term debt, including term loan payments, revolving credit facilities classified as long-term, and capital lease obligations mature on the following dates:

	TEP Variable Rate Bonds Supported by Letters of Credit[1]	TEP Scheduled Debt Retirements[2]	TEP Capital Lease Obligations	TEP Total	UNS Gas	UNS Electric	UNS Energy Parent Company	Total
			-Millions of Dollars-					
2013	$—	$ —	$121	$ 121	$—	$—	$—	$ 121
2014	37	—	194	231	—	—	—	231
2015	—	—	23	23	50	80	—	153
2016	178	—	17	195	—	—	45	240
2017	—	—	18	18	—	—	—	18
Total 2013 – 2017	215	—	373	588	50	80	45	763
Thereafter	—	1,009	42	1,051	50	50	—	1,151
Less: Imputed Interest	—	—	(62)	(62)	—	—	—	(62)
Total	$215	$1,009	$353	$1,577	$100	$130	$ 45	$1,852

(1) TEP's variable rate bonds are backed by $186 million in LOCs issued pursuant to TEP's Credit Agreement which expires in November 2016 and TEP's $37 million Reimbursement Agreement which expires in December 2014. Although the variable rate bonds mature between 2018 and 2032, the above table reflects a redemption or repurchase of such bonds in 2014 and 2016 as though the LOCs terminate without replacement upon expiration of the TEP Credit Agreement.

(2) The repayment of TEP Unsecured Notes is not reduced by the approximately $1 million discount.

NOTE 7. STOCKHOLDERS' EQUITY

DIVIDEND LIMITATIONS

UNS Energy

UNS Energy's ability to pay cash dividends on Common Stock outstanding depends, in part, upon cash flows from our subsidiaries: TEP, UES, Millennium, and UED, as well as compliance with various debt covenant requirements. UNS Energy and each of its subsidiaries were in compliance with debt covenants at December 31, 2012; therefore, TEP and the other subsidiaries were not restricted from paying dividends.

In February 2013, UNS Energy declared a first quarter dividend to shareholders of $0.435 per share of UNS Energy Common Stock. The dividend, totaling approximately $18 million, will be paid on March 25, 2013, to common shareholders of record as of March 13, 2013.

In the first half of 2012, $147 million of the Convertible Senior Notes outstanding were converted into approximately 4.3 million shares of UNS Energy Common Stock increasing common stock equity by $147 million.

TEP

The Federal Power Act states that an electric utility's dividends shall not be paid out of funds properly included in capital accounts. TEP has an accumulated deficit rather than positive retained earnings. Although the terms of the Federal Power Act are unclear, we believe that there is a reasonable basis for TEP to pay dividends from current year earnings. TEP paid dividends to UNS Energy of $30 million in 2012; no dividends were paid in 2011; and $60 million were paid in 2010.

UNS Energy did not contribute capital to TEP in 2012 but made capital contributions of $30 million in 2011 and $15 million in 2010.

NOTE 8. INCOME TAXES

A reconciliation of the federal statutory income tax rate to each company's effective income tax rate follows:

	UNS Energy			TEP		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Federal Income Tax Expense at Statutory Rate	$ 51	$ 62	$66	$ 37	$ 48	$ 58
State Income Tax Expense, Net of Federal Benefit	7	8	9	5	6	8
Deferred Tax Asset Valuation Allowance	—	—	8	—	—	—
Deferred Tax Asset Write-off Related to Unregulated Investment	—	—	3	—	—	—
AFUDC Equity	(1)	(1)	(1)	(1)	(1)	(1)
Domestic Production Deduction	—	—	(3)	—	—	(3)
Federal/State Tax Credits	(1)	(3)	(2)	(1)	(2)	(2)
Other	—	1	(3)	(1)	1	—
Total Federal and State Income Tax Expense	$ 56	$ 67	$77	$ 39	$ 52	$ 60
Effective Tax Rate	38%	38%	41%	37%	38%	36%

In 2010, UNS Energy recorded a $3 million out-of-period income tax expense. The out-of-period expense related to the write-off of a previously recorded deferred tax asset associated with the excess of tax over book basis difference in a consolidated unregulated investment. Management concluded that this out-of-period adjustment was not material to current and prior period financial statements.

Income tax expense included in the income statements consists of the following:

	UNS Energy			TEP		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Current Tax Expense (Benefit)						
Federal	$ (2)	$ (7)	$34	$ (4)	$ (5)	$ 28
State	(2)	(2)	7	(2)	(2)	7
Total	(4)	(9)	41	(6)	(7)	35
Deferred Tax Expense (Benefit)						
Federal	51	64	32	38	50	24
Federal Investment Tax Credits	—	(1)	(1)	—	(1)	(1)
State	9	13	5	7	10	2
Total	60	76	36	45	59	25
Total Federal and State Income Tax Expense	$ 56	$ 67	$77	$ 39	$ 52	$ 60

The significant components of deferred income tax assets and liabilities consist of the following:

	UNS Energy		TEP	
	December 31,		December 31,	
	2012	2011	2012	2011
	-Millions of Dollars-			
Gross Deferred Income Tax Assets				
Capital Lease Obligations	$ 141	$ 169	$ 141	$ 169
Net Operating Loss Carryforwards	72	81	85	76
Customer Advances and Contributions in Aid of Construction	34	30	19	17
Alternative Minimum Tax Credit	43	43	24	25
Accrued Postretirement Benefits	23	23	23	23
Renewable Energy Credit Up-Front Incentive Payments	26	22	20	18
Emission Allowance Inventory	10	10	10	10
Unregulated Investment Losses	9	9	—	—
Other	44	34	43	29
Gross Deferred Income Tax Assets	402	421	365	367
Deferred Tax Assets Valuation Allowance	(7)	(7)	—	—
Gross Deferred Income Tax Liabilities				
Plant – Net	(648)	(585)	(571)	(516)
Capital Lease Assets – Net	(34)	(41)	(34)	(41)
Pensions	(23)	(17)	(24)	(18)
PPFAC	(6)	(19)	(3)	(16)
Other	(15)	(29)	(15)	(17)
Gross Deferred Income Tax Liabilities	(726)	(691)	(647)	(608)
Net Deferred Income Tax Liabilities	$(331)	$(277)	$(282)	$(241)

The net deferred income tax liability on the balance sheet is as follows:

	UNS Energy		TEP	
	December 31,		December 31,	
	2012	2011	2012	2011
	-Millions of Dollars-			
Deferred Income Taxes – Current Assets	$ 34	$ 23	$ 37	$ 22
Deferred Income Taxes – Noncurrent Liabilities	(365)	(300)	(319)	(263)
Net Deferred Income Tax Liability	$(331)	$(277)	$(282)	$(241)

The $9 million unregulated investment loss deferred tax asset includes $7 million of capital loss at December 31, 2012, and December 31, 2011. The deferred tax asset can only be used if the company has capital gains to offset the losses. Management believes that it is more likely than not that the company will not be able to generate future capital gains. As a result, UNS Energy recorded a $7 million valuation allowance against the deferred tax asset as of December 31, 2012, and December 31, 2011. Management believes that based on its historical pattern of taxable income, UNS Energy will produce sufficient income in the future to realize all other deferred income tax assets.

Income Tax Position

As of December 31, 2012, UNS Energy and TEP had the following carryforward amounts:

	UNS Energy		TEP	
	Amount	Expiring Year	Amount	Expiring Year
	-Amounts in Millions of Dollars-			
Capital Loss	$ 8	2015	$—	—
Federal Net Operating Loss	202	2031-32	233	2031-32
State Net Operating Loss	14	2032	57	2016-32
State Credits	2	2016-17	4	2016-17
AMT Credit	43	None	24	None

State Tax Rate Change

In the first quarter of 2011, the Arizona legislature passed a bill reducing the corporate income tax rate from the current rate of 6.968%. The tax rate reduction will be phased in beginning in 2014, with a reduction of approximately 0.5% per year until the income tax rate reaches 4.9% for 2017 and later years. As a result of these tax rate reductions, we reduced the net deferred tax liabilities at UNS Energy and TEP by $13 million, offset entirely by adjustments to regulatory assets and liabilities. The income tax rate change did not have an impact on UNS Energy's and TEP's effective tax rate for 2012 or 2011.

Excess Tax Benefit Realized from Share-Based Compensation Plans

UNS Energy records excess tax benefits as an increase to Common Stock when tax deductions for share-based compensation exceed the expense recorded in the financial statements and they result in a reduction to income taxes payable. As of December 31, 2012, UNS Energy had $2 million of excess tax benefits that were not recorded in Common Stock. The excess benefits will be recorded in Common Stock when the Federal net operating loss carryforwards of $202 million are used.

Uncertain Tax Positions

In accordance with accounting rules related to uncertain tax positions, we are required to determine whether it is more likely than not that we will sustain an income tax position under examination. Each income tax position is measured to determine the amount of benefit to recognize in the financial statements. The following table shows the changes in unrecognized tax benefits of UNS Energy and TEP:

	UNS Energy		TEP	
	December 31,		December 31,	
	2012	2011	2012	2011
	-Millions of Dollars-			
Unrecognized Tax Benefits, Beginning of Year	$ 29	$ 41	$ 24	$ 35
Additions Based on Tax Positions Taken in the Current Year	5	9	3	8
Reductions Based on Settlements with Tax Authorities	(4)	(22)	(4)	(19)
Additions Based on Tax Positions Taken in the Prior Year	—	1	—	—
Unrecognized Tax Benefits, End of Year	$ 30	$ 29	$ 23	$ 24

Unrecognized tax benefits of $1 million, if recognized, would reduce the effective tax rate at December 31, 2012, and December 31, 2011, for both UNS Energy and TEP. The balance in unrecognized tax benefits could change in the next 12 months as a result of ongoing IRS audits, but we are unable to determine the amount of the change.

UNS Energy and TEP recognize interest accrued related to unrecognized tax benefits in Other Interest Expense in the income statements. UNS Energy and TEP did not recognize a reduction to interest expense in 2012. A reduction to Other Interest Expense of $1 million was recorded in 2011. The balance of interest payable for UNS Energy and TEP was $1 million at both December 31, 2012 and December 31, 2011. We have no penalties accrued in the years presented.

UNS Energy and TEP have been audited by the IRS through tax year 2008 and are currently under audit by the IRS for 2009 and 2010. We are unable to determine when the audits will be completed. UNS Energy and TEP are not currently under audit by any state tax agencies.

NOTE 9. EMPLOYEE BENEFIT PLANS

PENSION BENEFIT PLANS

Pension Contributions

The Pension Protection Act of 2006 (The Pension Act) established minimum funding targets for pension plans. A plan's funding target is the present value of all benefits accrued or earned as of the beginning of the plan year. While the annual targets are not legally required, benefit payment options are limited for plans that do not meet the targets, and a funding deficiency notice must be sent to all plan participants. Our plans are in compliance with The Pension Act.

In 2013, UNS Energy expects to contribute $24 million to the pension plans, including $22 million in contributions by TEP.

OTHER RETIREE BENEFIT PLANS

TEP provides limited health care and life insurance benefits for retirees. Active TEP employees may become eligible for these benefits if they reach retirement age while working for TEP or an affiliate. UNS Gas and UNS Electric provide retiree medical benefits for current retirees. UNS Gas and UNS Electric active employees are not eligible for retiree medical benefits.

TEP has a Voluntary Employee Beneficiary Association (VEBA) to fund its other retiree benefit plan related to classified employees. TEP contributed $3 million in 2012, and $2 million in each of 2011 and 2010 to the VEBA. We record changes in other retiree obligation, not yet reflected in net periodic benefit cost, as a regulatory asset, as such amounts are probable of future recovery in the rates charged to retail customers. Other retiree benefits for unclassified employees are funded on a year-by-year basis.

TEP's retiree medical plan was amended effective December 31, 2011, to increase the participant contributions for unclassified employees who retire on or after July 1, 2012. TEP's retiree medical plan was amended in 2012, to increase the participant contributions for classified employees who retire after February 1, 2014.

The pension and other retiree benefit related amounts (excluding tax balances) included on the UNS Energy balance sheet are:

	Pension Benefits		Other Retiree Benefits	
	Years Ended December 31,			
	2012	2011	2012	2011
	-Millions of Dollars-			
Regulatory Pension Asset Included in Other Regulatory Assets	$129	$106	$ 10	$ 8
Accrued Benefit Liability Included in Accrued Employee Expenses	(1)	(1)	(2)	(2)
Accrued Benefit Liability Included in Pension and Other Retiree Benefits	(90)	(72)	(69)	(66)
Accumulated Other Comprehensive Loss (related to SERP)	4	2	—	—
Net Amount Recognized	$ 42	$ 35	$ (61)	$ (60)

The table above includes accrued pension benefit liabilities for UNS Gas and UNS Electric of approximately $9 million at December 31, 2012, and $8 million at December 31, 2011. The table also includes a retiree benefit liability of $1 million for UNS Gas and UNS Electric for each period presented.

OBLIGATIONS AND FUNDED STATUS

We measured the actuarial present values of all pension benefit obligations and other retiree benefit plans at December 31, 2012, and December 31, 2011. The table below includes TEP's, UNS Gas', and UNS Electric's plans. The change in projected benefit obligation and plan assets and reconciliation of the funded status are as follows:

	Pension Benefits		Other Retiree Benefits	
	Years Ended December 31,			
	2012	2011	2012	2011
	-Millions of Dollars-			
Change in Projected Benefit Obligation				
Benefit Obligation at Beginning of Year	$319	$283	$ 73	$ 73
Actuarial (Gain) Loss	51	22	3	—
Interest Cost	15	16	3	4
Service Cost	10	10	3	3
Amendments	—	—	—	(2)
Benefits Paid	(15)	(12)	(4)	(5)
Projected Benefit Obligation at End of Year	380	319	78	73
Change in Plan Assets				
Fair Value of Plan Assets at Beginning of Year	245	220	5	4
Actual Return on Plan Assets	36	14	1	—
Benefits Paid	(15)	(12)	(4)	(5)
Employer Contributions [(1)]	23	23	5	6
Fair Value of Plan Assets at End of Year	289	245	7	5
Funded Status at End of Year	$ (91)	$ (74)	$ (71)	$ (68)

(1) TEP made $20 million in pension contributions and $5 million of other retiree benefits contributions in 2012 and 2011.

The table above includes the following for UNS Gas and UNS Electric:

- Pension benefit obligations of $23 million at December 31, 2012, and $18 million at December 31, 2011;

- Plan assets of $14 million at December 31, 2012, and $10 million at December 31, 2011; and
- A retiree benefit obligation of $1 million at December 31, 2012, and at December 31, 2011.

The following table provides the components of UNS Energy's regulatory assets and accumulated other comprehensive loss that have not been recognized as components of net periodic benefit cost as of the dates presented:

	Pension Benefits		Other Retiree Benefits	
	Years Ended December 31,			
	2012	2011	2012	2011
	-Millions of Dollars-			
Net Loss	$133	$108	$13	$11
Prior Service Cost (Benefit)	1	1	(3)	(3)

Information for pension plans with Accumulated Benefit Obligations in excess of pension plan assets follows:

	December 31,	
	2012	2011
	-Millions of Dollars-	
Projected Benefit Obligation at End of Year	$380	$319
Accumulated Benefit Obligation at End of Year	334	281
Fair Value of Plan Assets at End of Year	289	245

At December 31, 2012, and December 31, 2011, all UNS Energy defined benefit pension plans had accumulated benefit obligations in excess of pension plan assets.

The components of net periodic benefit costs are as follows:

	Pension Benefits			Other Retiree Benefits		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Service Cost	$ 10	$ 10	$ 8	$ 3	$ 3	$ 3
Interest Cost	16	15	15	3	4	4
Expected Return on Plan Assets	(17)	(16)	(14)	—	—	—
Prior Service Cost Amortization	—	—	—	—	(1)	(2)
Recognized Actuarial Loss	7	6	5	—	—	—
Net Periodic Benefit Cost	$ 16	$ 15	$ 14	$ 6	$ 6	$ 5

Approximately 20% of the net periodic benefit cost was capitalized as a cost of construction and the remainder was included in current year earnings.

The changes in plan assets and benefit obligations recognized as regulatory assets or in AOCI are as follows:

	Pension Benefits					
	2012		2011		2010	
	Regulatory Asset	AOCI	Regulatory Asset	AOCI	Regulatory Asset	AOCI
	-Millions of Dollars-					
Current Year Actuarial (Gain) Loss	$30	$ 1	$25	$ (2)	$16	$ 1
Amortization of Actuarial Gain (Loss)	(7)	—	(5)	—	(5)	—
Total Recognized (Gain) Loss	$23	$ 1	$20	$ (2)	$11	$ 1

	Other Retiree Benefits		
	2012	2011	2010
	Regulatory Asset	Regulatory Asset	Regulatory Asset
	-Millions of Dollars-		
Prior Service Cost (Credit)	$ —	$ (2)	$—
Current Year Actuarial (Gain) Loss	2	—	(1)
Amortization of Actuarial (Gain) Loss	—	—	(1)
Amortization of Prior Service (Cost) Credit	—	1	2
Total Recognized (Gain) Loss	$ 2	$ (1)	$—

For all pension plans, we amortize prior service costs on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan. We will amortize $9 million estimated net loss from other regulatory assets and less than $0.5 million prior service cost from AOCI into net periodic benefit cost in 2013. The estimated net loss for the defined benefit postretirement plans that will be amortized from other regulatory assets into net periodic benefit cost in 2013 is less than $1 million. The estimated prior service benefit that will be amortized is less than $1 million.

	Pension Benefits		Other Retiree Benefits	
	2012	2011	2012	2011
Weighted-Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount Rate	4.1%-4.3%	4.9%-5.0%	3.8%	4.7%
Rate of Compensation Increase	3.0%	3.0%	N/A	N/A

	Pension Benefits			Other Retiree Benefits		
	2012	2011	2010	2012	2011	2010
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31,						
Discount Rate	4.9% - 5.0%	5.5% - 5.6%	6.3%	4.7%	5.2%	6.0%
Rate of Compensation Increase	3.0%	3.0% - 5.0%	3.0% - 5.0%	N/A	N/A	N/A
Expected Return on Plan Assets	7.0%	7.0%	7.5%	7.0%	5.1%	5.6%

Net periodic benefit cost is subject to various assumptions and determinations, such as the discount rate, the rate of compensation increase, and the expected return on plan assets.

We use a combination of sources in selecting the expected long-term rate-of-return-on-assets assumption, including an investment return model. The model used provides a "best-estimate" range over 20 years from the 25th percentile to the 75th percentile. The model, used as a guideline for selecting the overall rate-of-return-on-assets assumption, is based on forward looking return expectations only. The above method is used for all asset classes.

Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as net periodic benefit cost. The assumed health care cost trend rates follow:

	December 31,	
	2012	2011
Health Care Cost Trend Rate Assumed for Next Year	6.9%	6.9%
Ultimate Health Care Cost Trend Rate Assumed	4.5%	4.5%
Year that the Rate Reaches the Ultimate Trend Rate	2027	2027

Assumed health care cost trend rates significantly affect the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the December 31, 2012, amounts:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
	-Millions of Dollars-	
Effect on Total Service and Interest Cost Components	$1	$(1)
Effect on Retiree Benefit Obligation	6	(5)

PENSION PLAN AND OTHER RETIREE BENEFIT ASSETS

Pension Assets

We calculate the fair value of plan assets on December 31, the measurement date. Pension plan asset allocations, by asset category, on the measurement date were as follows:

	TEP Plan Assets		UNS Gas and UNS Electric Plan Assets	
	2012	2011	2012	2011
Asset Category				
Equity Securities	50%	49%	56%	55%
Fixed Income Securities	41	42	33	34
Real Estate	7	7	11	11
Other	2	2	—	—
Total	100%	100%	100%	100%

The following tables set forth the fair value measurements of pension plan assets by level within the fair value hierarchy:

	Fair Value Measurements of Pension Assets December 31, 2012			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	- Millions of Dollars -			
Asset Category				
Cash Equivalents	$ 1	$—	$—	$ 1
Equity Securities:				
United States Large Cap	—	71	—	71
United States Small Cap	—	15	—	15
Non-United States	—	59	—	59
Fixed Income	—	116	—	116
Real Estate	—	8	13	21
Private Equity	—	—	6	6
Total	$ 1	$269	$ 19	$289

	Fair Value Measurements of Pension Assets December 31, 2011			
	Level 1	Level 2	Level 3	Total
	- Millions of Dollars -			
Asset Category				
Cash Equivalents	$ 1	$—	$—	$ 1
Equity Securities:				
United States Large Cap	—	61	—	61
United States Small Cap	—	13	—	13
Non-United States	—	47	—	47
Fixed Income	—	101	—	101
Real Estate	—	7	11	18
Private Equity	—	—	4	4
Total	$ 1	$229	$ 15	$245

Level 1 cash equivalents are based on observable market prices and are comprised of the fair value of commercial paper, money market funds, and certificates of deposit.

Level 2 investments comprise amounts held in commingled equity funds, United States bond funds, and real estate funds. Valuations are based on active market quoted prices for assets held by each respective fund.

Level 3 real estate investments were valued using a real estate index value. The real estate index value was developed based on appraisals comprising 87% of real estate assets tracked by the index in 2012 and comprising 85% in 2011.

Level 3 private equity funds are classified as funds-of-funds. They are valued based on individual fund manager valuation models.

The tables above reflecting the fair value measurements of pension plan assets include Level 2 assets for the UES pension plan of $14 million at December 31, 2012, and $10 million at December 31, 2011.

The following tables set forth a reconciliation of changes in the fair value of pension assets classified as Level 3 in the fair value hierarchy. There were no transfers in or out of Level 3.

	Year Ended December 31, 2012		
	Private Equity	Real Estate	Total
Beginning Balance at January 1, 2012	$4	$ 11	$15
Actual Return on Plan Assets:			
Assets Held at Reporting Date	1	2	3
Purchases, Sales, and Settlements	1	—	1
Ending Balance at December 31, 2012	$6	$ 13	$19

	Year Ended December 31, 2011		
	Private Equity	Real Estate	Total
Beginning Balance at January 1, 2011	$ 2	$ 10	$12
Actual Return on Plan Assets:			
Assets Held at Reporting Date	—	1	1
Purchases, Sales, and Settlements	2	—	2
Ending Balance at December 31, 2011	$ 4	$ 11	$15

UNS Gas and UNS Electric have no pension assets classified as Level 3 in the fair value hierarchy.

Pension Plan Investments

Investment Goals

Asset allocation is the principal method for achieving each pension plan's investment objectives, while maintaining an appropriate level of risk. We will consider the projected impact on benefit security of any proposed changes to the current asset allocation policy. The expected long-term returns and implications for pension plan sponsor funding will be reviewed in selecting policies to ensure that current asset pools are projected to be adequate to meet the expected liabilities of the pension plans. We expect to use asset allocation policies weighted most heavily to equity and fixed income funds, while maintaining some exposure to real estate and opportunistic funds. Within the fixed income allocation, long-duration funds may be used to partially hedge interest rate risk.

Risk Management

We recognize the difficulty of achieving investment objectives in light of the uncertainties and complexities of the investment markets. We also recognize some risk must be assumed to achieve a pension plan's long-term investment objectives. In establishing risk tolerances, the following factors affecting risk tolerance and risk objectives will be considered: plan status, plan sponsor financial status and profitability, plan features, and workforce characteristics. We have determined that the pension plans can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives. TEP tracks each pension plan's portfolio relative to the benchmark through quarterly investment reviews. The reviews consist of a performance and risk assessment of all investment categories and on the portfolio as a whole. Investment managers for the pension plan may use derivative financial instruments for risk management purposes or as part of their investment strategy. Currency hedges may also be used for defensive purposes.

Relationship between Plan Assets and Benefit Obligations

The overall health of each plan will be monitored by comparing the value of plan obligations (both Accumulated Benefit Obligation and Projected Benefit Obligation) against the fair value of assets and tracking the changes in each. The frequency of this monitoring will depend on the availability of plan data, but will be no less frequent than annually via annual actuarial valuation.

Target Allocation Percentages

The current target allocation percentages for the major asset categories of the plan as of December 31, 2012, follow. Each plan allows a variance of +/- 2% from these targets before funds are automatically rebalanced.

	TEP Plan	UES Plan	VEBA Trust
Fixed Income	41%	33%	35%
United States Large Cap	24	28	43
Non-United States Developed	15	17	13
Real Estate	8	11	—
United States Small Cap	5	6	2
Non-United States Emerging	5	5	5
Private Equity	2	—	—
Cash/Treasury Bills	—	—	2
Total	100%	100%	100%

Pension Fund Descriptions

For each type of asset category selected by the Pension Committee, our investment consultant assembles a group of third-party fund managers and allocates a portion of the total investment to each fund manager. In the case of the private equity fund, our investment consultant directs investments to a private equity manager that invests in third-parties' funds.

Other Retiree Benefit Assets

As of December 31, 2012, the fair value of VEBA trust assets was $7 million, of which $3 million were fixed income investments and $4 million were equities. As of December 31, 2011, the fair value of VEBA trust assets was $5 million, including $3 million of fixed income investments and approximately $2 million of equity and money market funds. The VEBA trust assets are primarily Level 2. There are no Level 3 assets in the VEBA trust.

ESTIMATED FUTURE BENEFIT PAYMENTS

TEP expects the following benefit payments to be made by the defined benefit pension plans and retiree plan, which reflect future service, as appropriate.

	Pension Benefits	Other Retiree Benefits
	-Millions of Dollars-	
2013	$ 15	$ 4
2014	16	5
2015	16	5
2016	18	5
2017	20	5
Years 2018-2022	110	30

TEP's union plan was amended in 2012 to allow terminated participants to elect early retirement benefits equal to the actuarial equivalent of the participant's termination retirement benefit. The impact of the amendment on estimated future benefit payments shown above was approximately $5 million in total. The pension benefit obligation was not materially affected by this amendment.

UNS Gas and UNS Electric expect annual benefit payments, made by the defined benefit pension and retiree plans, to be approximately $2 million in 2013 through 2017, and $9 million in 2018 through 2022.

DEFINED CONTRIBUTION PLAN

We offer a defined contribution savings plan to all eligible employees. The Internal Revenue Code identifies the plan as a qualified 401(k) plan. Participants direct the investment of contributions to certain funds in their account which may include a UNS Energy stock fund. We match part of a participant's contributions to the plan. TEP made matching contributions to the plan of $5 million in 2012, $5 million in 2011, and $4 million in 2010. UNS Gas and UNS Electric made matching contributions of less than $1 million in each of 2012, 2011, and 2010.

NOTE 10. SHARE-BASED COMPENSATION PLAN

Under the UNS Energy 2011 Omnibus Stock and Incentive Plan (2011 Plan), the Compensation Committee of the UNS Energy Board of Directors (Compensation Committee) may issue various types of share-based compensation, including stock options, restricted shares/units, and performance shares. The total number of shares which may be awarded under the 2011 Plan cannot exceed 1.2 million shares.

STOCK OPTIONS

Stock options are granted with an exercise price equal to the fair market value of the stock on the date of grant, vest over three years, become exercisable in one-third increments on each anniversary date of the grant, and expire on the tenth anniversary of the grant. Compensation expense is recorded on a straight-line basis over the service period for the total award based on the grant date fair value of the options less estimated forfeitures. For awards granted to retirement-eligible officers, compensation expense is recorded immediately.

See summary of the stock option activity in the table below:

(Shares in Thousands)	2012		2011		2010	
Stock Options	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding, Beginning of Year	581	$29.11	921	$27.96	1,598	$24.50
Granted	—	—	—	—	—	—
Exercised	(132)	26.54	(319)	25.60	(660)	19.33
Forfeited/Expired	(40)	37.88	(21)	31.92	(17)	37.88
Outstanding, End of Year	409	29.09	581	29.11	921	27.96
Exercisable, End of Year	409	$29.09	508	$29.53	654	$28.70
Aggregate Intrinsic Value of Options Exercised ($000s)		$1,878		$3,690		$9,124

	At December 31, 2012
Aggregate Intrinsic Value for Options Outstanding ($000s)	$ 5,450
Aggregate Intrinsic Value for Options Exercisable ($000s)	$ 5,450
Weighted Average Remaining Contractual Life of Outstanding Options	5.2 years
Weighted Average Remaining Contractual Life of Exercisable Options	5.2 years

See summary of stock options in the table below:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number of Shares (000s)**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number of Shares (000s)**	**Weighted Average Exercise Price**
$26.11—$37.88	409	5.2 years	$29.09	409	$29.09

RESTRICTED STOCK UNITS AND PERFORMANCE SHARE AWARDS

Restricted Stock Units

Restricted stock and stock units are generally granted to non-employee directors. Restricted stock is an award of Common Stock that is subject to forfeiture if the restrictions specified in the award are not satisfied. Stock units are a non-voting unit of measure that is equivalent to one share of Common Stock. The directors may elect to receive stock units in lieu of restricted stock. Restricted stock generally vests over periods ranging from one to three years and is payable in Common Stock. Stock units vest either immediately or over periods ranging from one to three years. The restricted stock units vest immediately upon death, disability, or retirement. In the January following the year the person is no longer a director, Common Stock shares will be issued for the vested stock units. Compensation expense equal to the fair market value on the grant date is recognized over the vesting period. Fully vested but undistributed stock unit awards accrue dividend equivalent stock units based on the fair market value of common shares on the date the dividend is paid.

Common Stock shares totaling 31,058 in 2012, 56,705 in 2011, and 14,866 in 2010 were issued with no additional increase in equity as the expense was previously recognized over the vesting period.

The Compensation Committee granted in total, the following stock units to non-employee directors:

- 2012—15,303 stock units at a weighted average fair value of $35.94 per share;
- 2011—14,655 stock units at a weighted average fair value of $37.53 per share; and
- 2010—15,620 stock units at a weighted average fair value of $31.69 per share.

Performance Share Awards

In 2012, 2011, and 2010, the Compensation Committee granted performance share awards to upper management. Half of the performance share awards will be paid out in Common Stock based on a comparison of UNS Energy's cumulative Total Shareholder Return to the Edison Electric Institute Index during the performance period. The grant date fair value of these awards with a market condition were derived based on a Monte Carlo simulation. Compensation expense equal to the fair value on the grant date is recognized over the vesting period if the requisite service period is fulfilled, whether or not the threshold is achieved. The remaining half will be paid out in Common Stock based on cumulative net income during the performance period. The grant date fair values of these awards with a performance condition were the closing Common Stock market prices on the dates of grant. Compensation expense equal to the fair value on the grant date is recognized over the requisite service period only for the awards that ultimately vest. The performance shares vest based on the achievement of these goals by the end of the performance period; any unearned awards are forfeited. Vested performance shares are eligible for dividend equivalents during the performance period.

			Grant Date Fair Value	
Award Year	Performance Period	Shares Granted	Market Condition	Performance Condition
2012	January 1, 2012 to December 31, 2014	80,140	$32.71	$36.40
2011	January 1, 2011 to December 31, 2013	80,440	33.73	36.58
2010	January 1, 2010 to December 31, 2012	93,720	31.26	30.52

At December 31, 2012, upon completion of the three-year performance period, 76,478 shares were earned and vested; 17,242 shares were unearned and forfeited. The vested performance shares also earned 10,516 in dividend equivalent shares.

	Performance Shares		Restricted Stock Units	
	Shares (000s)	Weighted Average Grant Date Fair Value	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2012	153	$32.85	15	$37.53
Granted	80	34.56	15	35.94
Vested	(77)	31.08	(15)	37.53
Forfeited	(11)	31.42	—	—
Non-vested at December 31, 2012	145	34.83	15	35.94

SHARE-BASED COMPENSATION EXPENSE (Stock Options, Restricted Stock Units, and Performance Shares)

Annually during 2010 through 2012, UNS Energy recorded share-based compensation expense of $3 million, $2 million of which related to TEP. No share-based compensation was capitalized as part of the cost of an asset. The actual tax deduction realized from the exercise of share-based payment arrangements totaled less than $1 million in 2012 and $3 million in 2010. UNS Energy did not realize a tax deduction from the exercise of share-based payment arrangements in 2011.

At December 31, 2012, the total unrecognized compensation cost related to non-vested share-based compensation was $2 million, which will be recorded as compensation expense over the remaining vesting periods through December 2014. The total number of shares awarded but not yet issued, including target performance based shares, under the share-based compensation plans at December 31, 2012, was 1 million.

NOTE 11. FAIR VALUE MEASUREMENTS

We categorize our assets and liabilities at fair value into the three-level hierarchy based on inputs used to determine the fair value measurement. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in an active market. Level 2 inputs include quoted prices for similar assets or liabilities, quoted prices in non-active markets, and pricing models whose inputs are observable. Level 3 inputs are unobservable and supported by little or no market activity.

The following tables present, by level within the fair value hierarchy, UNS Energy's and TEP's assets and liabilities accounted for at fair value on a recurring basis. These assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. There were no transfers between Levels 1, 2, or 3 for either reporting period.

	UNS Energy			
	Level 1	**Level 2**	**Level 3**	**Total**
	December 31, 2012 - Millions of Dollars -			
Assets				
Cash Equivalents(1)	$ 20	$—	$—	$ 20
Rabbi Trust Investments to Support the Deferred Compensation and SERP Plans(2)	—	19	—	19
Energy Contracts(3)	—	2	5	7
Total Assets	20	21	5	46
Liabilities				
Energy Contracts(3)	—	(7)	(10)	(17)
Interest Rate Swaps(4)	—	(10)	—	(10)
Total Liabilities	—	(17)	(10)	(27)
Net Total Assets and (Liabilities)	$ 20	$ 4	$ (5)	$ 19

	UNS Energy			
	Level 1	**Level 2**	**Level 3**	**Total**
	December 31, 2011 - Millions of Dollars -			
Assets				
Cash Equivalents(1)	$ 23	$—	$—	$ 23
Rabbi Trust Investments to Support the Deferred Compensation and SERP Plans(2)	—	16	—	16
Energy Contracts(3)	—	—	14	14
Total Assets	23	16	14	53
Liabilities				
Energy Contracts(3)	—	(21)	(24)	(45)
Interest Rate Swaps(4)	—	(12)	—	(12)
Total Liabilities	—	(33)	(24)	(57)
Net Total Assets and (Liabilities)	$ 23	$ (17)	$ (10)	$ (4)

	TEP			
	Level 1	**Level 2**	**Level 3**	**Total**
	December 31, 2012 - Millions of Dollars -			
Assets				
Cash Equivalents(1)	$ 7	$—	$—	$ 7
Rabbi Trust Investments to Support the Deferred Compensation and SERP Plans(2)	—	19	—	19
Energy Contracts(3)	—	1	2	3
Total Assets	7	20	2	29
Liabilities				
Energy Contracts(3)	—	(3)	(2)	(5)
Interest Rate Swaps(4)	—	(10)	—	(10)
Total Liabilities	—	(13)	(2)	(15)
Net Total Assets and (Liabilities)	$ 7	$ 7	$—	$ 14

	TEP			
	Level 1	Level 2	Level 3	Total
	December 31, 2011 - Millions of Dollars -			
Assets				
Cash Equivalents[1]	$ 8	$—	$—	$ 8
Rabbi Trust Investments to Support the Deferred Compensation and SERP Plans[2]	—	16	—	16
Energy Contracts[3]	—	—	3	3
Total Assets	8	16	3	27
Liabilities				
Energy Contracts[3]	—	(9)	(3)	(12)
Interest Rate Swaps[4]	—	(11)	—	(11)
Total Liabilities	—	(20)	(3)	(23)
Net Total Assets and (Liabilities)	$ 8	$ (4)	$—	$ 4

(1) Cash Equivalents are based on observable market prices and include the fair value of money market funds and certificates of deposit. These amounts are included in Cash and Cash Equivalents and in Investments and Other Property—Other on the balance sheets.

(2) Rabbi Trust Investments include amounts held in mutual and money market funds related to deferred compensation and SERP benefits. The valuation is based on quoted prices traded in active markets. These investments are included in Investments and Other Property – Other on the balance sheets.

(3) Energy Contracts include gas swap agreements (Level 2), gas and power options (Level 3), forward power purchase and sales contracts (Level 3), and forward power purchase contracts indexed to gas (Level 3), entered into to reduce exposure to energy price risk. These contracts are included in Other Assets and Derivative Instruments on the balance sheets. The valuation techniques are described below. See Note 16.

(4) Interest Rate Swaps are valued based on the 3-month or 6-month LIBOR index or the Securities Industry and Financial Markets Association municipal swap index. These interest rate swaps are included in Derivative Instruments on the balance sheets.

Energy Contracts

We primarily apply the market approach for recurring fair value measurements. When we have observable inputs for substantially the full term of the asset or liability, such as gas swap derivatives valued using New York Mercantile Exchange pricing adjusted for basis differences, we categorize the instrument in Level 2. We categorize derivatives in Level 3 when we use an aggregate pricing service or published prices that represent a consensus reporting of multiple brokers.

For both power and gas prices, we obtain quotes from brokers, major market participants, exchanges, or industry publications, and rely on our own price experience from active transactions in the market. We primarily use one set of quotations each for power and for gas and then validate those prices using other sources. We believe that the market information provided is reflective of market conditions as of the time and date indicated.

Published prices for energy derivative contracts may not be available due to the nature of contract delivery terms such as non-standard time blocks and non-standard delivery points. In these cases, we apply adjustments based on historical price curve relationships, transmission, and line losses.

We estimate the fair value of our options using the Black-Scholes-Merton option pricing model which includes inputs such as implied volatility, correlations, interest rates, and forward price curves.

We also consider the impact of counterparty credit risk using current and historical default and recovery rates, as well as our own credit risk using credit default swap data.

Our assessments of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. We review the assumptions underlying our contracts monthly.

The following table provides quantitative information regarding significant unobservable inputs in UNS Energy's Level 3 fair value measurements:

	Fair Value at December 31, 2012		Range of Unobservable Input
	Assets	Liabilities	
	-Millions of Dollars-		
Forward Contracts[1]	$4	$ (10)	
Valuation Technique: Market approach			
Unobservable Input:			
Market price per MWh			$19.50 - $ 56.24
Option Contracts[2]	1	—	
Valuation Technique: Option model			
Unobservable Inputs:			
Market Price per MWh			$29.50 - $ 46.00
Power Volatility			30.38% - 59.95%
Market Price per MMbtu			$3.22 - $ 3.84
Gas Volatility			29.32% -36.14%
Level 3 Energy Contracts	$5	$ (10)	

(1) TEP comprises $1 million of the forward contract assets and $2 million of the forward contract liabilities.
(2) The option contracts relate to TEP.

Our exposure to risk resulting from changes in the unobservable inputs identified above is mitigated as we report the change in fair value of energy contract derivatives as a regulatory asset or a regulatory liability. These are recoverable through the PPFAC or PGA mechanisms, or as a component of other comprehensive income, rather than in the income statements.

The following tables present a reconciliation of changes in the fair value of assets and liabilities classified as Level 3 in the fair value hierarchy:

	Year Ended December 31, 2012	
	UNS Energy	TEP
	Energy Contracts	
	-Millions of Dollars-	
Balance as of December 31, 2011	$(10)	$—
Realized/Unrealized Gains/(Losses)Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(5)	1
Settlements	10	(1)
Balance as of December 31, 2012	$ (5)	$—
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$ (1)	$—

	Year Ended December 31, 2011	
	UNS Energy	TEP
	Energy Contracts	
	-Millions of Dollars-	
Balance as of December 31, 2010	$(10)	$ 1
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(9)	2
Other Comprehensive Income	(1)	(1)
Settlements	10	(2)
Balance as of December 31, 2011	$(10)	$—
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$ (9)	$—

Financial Instruments Not Carried at Fair Value

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. We use the following methods and assumptions for estimating the fair value of our financial instruments:

- The carrying amounts of our current assets and liabilities, including current maturities of long-term debt, and amounts outstanding under our credit agreements, which approximate the fair values due to the short-term nature of these financial instruments. These items have been excluded from the table below.
- For Investment in Lease Debt, we calculate the present value of remaining cash flows using current market rates for instruments with similar characteristics such as credit rating and time-to-maturity. We also incorporate the impact of counterparty credit risk using market credit default swap data.
- For Investment in Lease Equity, we estimate the price at which an investor would realize a target internal rate of return. Our estimates include: the mix of debt and equity an investor would use to finance the purchase; the cost of debt; the required return on equity; and income tax rates. The estimate assumes a residual value based on an appraisal of Springerville Unit 1 in 2011.
- For Long-Term Debt, we use quoted market prices, where available, or calculate the present value of remaining cash flows at the balance sheet date. When calculating present value, we use current market rates for bonds with similar characteristics such as credit rating and time-to-maturity. We consider the principal amounts of variable rate debt outstanding to be reasonable estimates of the fair value. We also incorporate the impact of our own credit risk using a credit default swap rate.

The use of different estimation methods and/or market assumptions may yield different estimated fair value amounts. The carrying value recorded on the balance sheet and the estimated fair values of our financial instruments were as follows:

		December 31,			
		2012		2011	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
		-Millions of Dollars-			
Assets:					
TEP Investment in Lease Debt	Level 2	$ 9	$ 9	$ 29	$ 29
TEP Investment in Lease Equity	Level 3	36	23	37	21
Liabilities:					
Long-Term Debt					
UNS Energy	Level 2	1,498	1,583	1,517	1,543
TEP	Level 2	1,223	1,271	1,080	1,061

TEP held the Investment in Lease Debt to maturity in January 2013. This investment was stated at amortized cost, which means the purchase cost had been adjusted for the amortization of the premium and discount to maturity.

The fair value of TEP's Long-Term Debt increased from prior year because of a change in valuation methodology concerning the make-whole premium applied to the bonds if they are called early.

NOTE 12. UNS ENERGY EARNINGS PER SHARE

We compute basic Earnings Per Share (EPS) by dividing Net Income by the weighted average number of common shares outstanding during the period. Except when the effect would be anti-dilutive, the diluted EPS calculation includes the impact of shares that could be issued upon exercise of outstanding stock options; contingently issuable shares under equity-based awards, or common shares that would result from the conversion of Convertible Senior Notes. The numerator in calculating diluted EPS is Net Income adjusted for the interest on Convertible Senior Notes (net of tax) that would not be paid if the remaining notes, not yet converted, were converted to Common Stock.

The following table shows the effects of potentially dilutive common stock on the weighted average number of shares:

	Years Ended December 31, 2012	2011	2010
	-Thousands of Dollars-		
Numerator:			
Net Income	$90,919	$109,975	$112,984
Income from Assumed Conversion of Convertible Senior Notes	1,100	4,390	4,390
Adjusted Numerator	$92,019	$114,365	$117,374
	-Thousands of Shares-		
Denominator:			
Weighted Average Shares of Common Stock Outstanding:			
Common Shares Issued	40,212	36,780	36,200
Fully Vested Deferred Stock Units	150	129	123
Participating Securities	—	53	92
Total Weighted Average Shares of Common Stock Outstanding and Participating Securities—Basic	40,362	36,962	36,415
Effect of Diluted Securities:			
Convertible Senior Notes	1,062	4,281	4,178
Options and Stock Issuable Under Share-Based Compensation Plans	331	366	448
Total Shares—Diluted	41,755	41,609	41,041

The following table shows the number of stock options excluded from the diluted EPS computation because the stock option's exercise price was greater than the average market price of the Common Stock:

	Years Ended December 31, 2012	2011	2010
	-Thousands of Shares-		
Stock Options Excluded from the Diluted EPS Computation	50	153	212

In the first half of 2012, the entire balance of Convertible Senior Notes was converted to Common Shares or redeemed for cash. See Note 6.

NOTE 13. MILLENNIUM INVESTMENTS

In 2010, Millennium recorded impairment losses of $10 million reducing the book value of its unconsolidated equity and cost method investments to zero. Millennium received notification of valuation changes and ownership percentage reductions as projects lost viability and funding failed. In addition, Millennium sold a wholly-owned subsidiary and recorded a gain of less than $1 million. Gains and losses were included in Other Income or Other Expense in UNS Energy's income statements. Millennium also wrote off $3 million of Deferred Tax Assets related to its investments.

In 2009, Millennium sold an equity investment, receiving an upfront payment of $5 million in 2009 and a $15 million, 6% secured promissory note. Millennium received the remaining principal amount of $15 million in 2012.

NOTE 14. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The following recently issued accounting standards are not yet reflected in the financial statements:

- The Financial Accounting Standards Board (FASB) issued a pronouncement that will require entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position (balance sheet) or subject to an agreement similar to a master netting arrangement. In addition, the pronouncement requires disclosure of collateral received and posted in connection with master netting arrangements. We will be required to comply in the first quarter of 2013 and do not expect this pronouncement to have a material impact on our disclosures.
- The FASB issued a rule which amends the guidance for impairment testing of indefinite-lived intangible assets. An entity will have the option to perform qualitative analysis to determine whether an indefinite-lived intangible asset may be impaired. If the qualitative assessment does not result in likely impairment, an entity will not be required to perform the quantitative impairment test. We will be required to comply in the first quarter of 2013; however, we do not expect this pronouncement to have a material impact on our financial statements as our indefinite-lived intangible assets, RECs, are currently recoverable under the RES as we use RECs to comply with renewable resources requirements.

- The FASB decided in December 2012 to require new disclosures on items reclassified from AOCI. Companies will be required to disclose, in a single location, amounts reclassified from each component of AOCI based on its source and the income statement line items affected by the reclassification. We plan to present this information in a footnote. We will be required to comply in the first quarter of 2013 and do not expect this decision to have a material impact on our financial statements.

NOTE 15. SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of net income to net cash flows from operating activities follows:

	UNS Energy		
	Years Ended December 31,		
	2012	2011	2010
	-Thousands of Dollars-		
Net Income	$ 90,919	$109,975	$112,984
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities			
Depreciation Expense	141,303	133,832	128,215
Amortization Expense	35,784	30,983	28,094
Depreciation and Amortization Recorded to Fuel and O&M Expense	6,622	6,140	5,432
Amortization of Deferred Debt-Related Costs included in Interest Expense	3,000	3,985	3,753
Provision for Retail Customer Bad Debts	2,767	2,072	3,724
Use of Renewable Energy Credits for Compliance	5,935	5,695	4,745
Deferred Income Taxes	60,273	75,787	28,142
Deferred Tax Valuation Allowance	(9)	(272)	7,510
Pension and Retiree Expense	21,856	21,202	19,688
Pension and Retiree Funding	(29,058)	(28,775)	(27,742)
Share-Based Compensation Expense	2,573	2,599	2,751
Excess Tax Benefit from Stock Options Exercised	(145)	—	(3,338)
Allowance for Equity Funds Used During Construction	(3,464)	(4,496)	(4,232)
Increase (Decrease) to Reflect PPFAC/PGA Recovery	32,246	(4,932)	(29,622)
Competition Transition Charge Revenue Refunded	—	(35,958)	(10,095)
Partial Write-off of Tucson to Nogales Transmission Line	4,668	—	—
Liquidated Damages for Springerville Unit 3 Outage	2,050	—	—
Gain on Settlement of El Paso Electric Dispute	—	(7,391)	—
Loss on Millennium's Investments	—	—	9,936
Changes in Assets and Liabilities which Provided (Used)			
Cash Exclusive of Changes Shown Separately			
Accounts Receivable	3,369	2,743	(8,851)
Materials and Fuel Inventory	(39,429)	(20,864)	21,744
Accounts Payable	595	8,792	2,661
Income Taxes	(11,557)	(2,739)	24,470
Interest Accrued	6,922	14,344	14,354
Taxes Other Than Income Taxes	(58)	2,857	2,442
Current Regulatory Liabilities	(684)	2,644	2,788
Other	11,631	19,097	7,367
Net Cash Flows – Operating Activities	$348,109	$337,320	$346,920

	TEP		
	Years Ended December 31,		
	2012	2011	2010
	-Thousands of Dollars-		
Net Income	$ 65,470	$ 85,334	$108,260
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities			
Depreciation Expense	110,931	104,894	99,510
Amortization Expense	39,493	34,650	32,196
Depreciation and Amortization Recorded to Fuel and O&M Expense	5,384	4,509	3,855
Amortization of Deferred Debt-Related Costs included in Interest Expense	2,227	2,378	2,146
Provision for Retail Customer Bad Debts	1,871	1,447	2,506
Use of Renewable Energy Credits for Compliance	5,071	5,190	4,245
Deferred Income Taxes	45,232	59,309	24,897
Pension and Retiree Expense	19,289	18,816	17,454
Pension and Retiree Funding	(25,899)	(25,878)	(25,672)
Share-Based Compensation Expense	2,029	2,027	2,131
Allowance for Equity Funds Used During Construction	(2,840)	(3,842)	(3,567)
Increase (Decrease) to Reflect PPFAC Recovery	31,113	(6,165)	(21,541)
Competition Transition Charge Revenue Refunded	—	(35,958)	(10,095)
Partial Write-off of Tucson to Nogales Transmission Line	4,484	—	—
Liquidated Damages for Springerville Unit 3 Outage	2,050	—	—
Gain on Settlement of El Paso Electric Dispute	—	(7,391)	—
Changes in Assets and Liabilities which Provided (Used)			
Cash Exclusive of Changes Shown Separately			
Accounts Receivable	(871)	4,809	(5,156)
Materials and Fuel Inventory	(38,384)	(19,789)	20,920
Accounts Payable	1,115	14,561	(447)
Income Taxes	(11,421)	(5,582)	20,203
Interest Accrued	8,055	14,268	14,431
Taxes Other Than Income Taxes	905	2,282	1,469
Current Regulatory Liabilities	(3,040)	303	2,500
Other	5,655	18,122	12,238
Net Cash Flows – Operating Activities	$267,919	$268,294	$302,483

Non-Cash Transactions

In 2012, the following non-cash transactions occurred:

- UNS Energy converted $147 million of the previously outstanding $150 million Convertible Senior Notes into Common Shares. See Note 6; and
- TEP redeemed $193 million of tax-exempt bonds and reissued debt using a trustee. Since the cash flowed through trust accounts, the redemption and reissuance of debt resulted in a non-cash transaction at TEP. See Note 6.

In 2010, the following non-cash transactions occurred:

- TEP used a trustee to issue and redeem $37 million tax-exempt bonds. TEP had no cash receipts or payments as a result of this transaction. See Note 6; and
- TEP deposited proceeds from the issuance of $100 million Pima County tax-exempt IDBs in a construction fund with a trustee. TEP drew down funds as qualified expenditures were incurred. The $11 million remaining in the construction fund at December 31, 2010, affected recognized assets and liabilities but did not result in cash receipts or payments. TEP drew down the remaining funds in the construction fund by March 2011. See Note 6.

Other non-cash investing and financing activities that affected recognized assets and liabilities but did not result in cash receipts or payments were as follows:

	Years Ended December 31,		
	2012	2011	2010
	-Thousands of Dollars-		
(Decrease)/Increase to Utility Plant Accruals(1)	$ 4,813	$ (2,741)	$ 8,514
Net Cost of Removal of Interim Retirements(2)	35,983	31,626	4,592
Capital Lease Obligations(3)	11,967	15,162	16,630
Asset Retirement Obligations(4)	789	7,638	(1,872)
UED Secured Term Loan Prepayments(5)	—	—	3,188

(1) The non-cash additions to Utility Plant represent accruals for capital expenditures.

(2) The non-cash net cost of removal of interim retirements represents an accrual for future asset retirement obligations that does not impact earnings.

(3) The non-cash change in capital lease obligations represents interest accrued for accounting purposes in excess of interest payments.

(4) The non-cash additions to asset retirement obligations and related capitalized assets represent revision of estimated asset retirement cost due to changes in timing and amount of expected future asset retirement obligations.

(5) The non-cash UED Secured Term Loan prepayment represents deposits applied to $30 million of loan principal.

NOTE 16. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

See Note 1 for description of our related accounting policies and Note 11 for information related to the fair value of derivatives.

FINANCIAL IMPACT OF DERIVATIVES

Cash Flow Hedges

UNS Energy and TEP had liabilities related to cash flow hedges of $12 million as of December 31, 2012, and $14 million as of December 31, 2011. TEP's power purchase swap agreement under which these hedges are entered into expires in 2015.

The after-tax unrealized gains and losses on cash flow hedge activity and amounts reclassified to earnings are reported in the statements of other comprehensive income. The amounts reclassified to earnings are reported in Long Term Debt Interest Expense, Capital Leases Interest Expense, and Purchased Power Expense in the statements of income. The amounts expected to be reclassified to earnings within the next twelve months is estimated to be $2 million.

Regulatory Treatment of Commodity Derivatives

We disclose unrealized gains and losses on energy contracts that are recoverable through the PPFAC or PGA on the balance sheets as a regulatory asset or a regulatory liability rather than in the statements of other comprehensive income or in the income statements, as shown in the following table:

	UNS Energy			TEP		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Increase (Decrease) to Regulatory Assets /Liabilities	$(21)	$2	$—	$(6)	$2	$(4)

The fair values of derivative assets and liabilities were as follows:

	UNS Energy		TEP	
	Years Ended December 31,			
	2012	2011	2012	2011
	-Millions of Dollars-			
Assets	$ 7	$ 14	$ 4	$ 3
Liabilities	(15)	(43)	(4)	(9)
Net Assets (Liabilities)	$ (8)	$(29)	$—	$(6)

Derivative assets are included in Derivative Instruments and Other Non-Current Assets on the UNS Energy balance sheet and Other Current Assets and Other Non-Current Assets on the TEP balance sheet.

The realized losses on settled gas swaps that are fully recoverable through the PPFAC or PGA were as follows:

	UNS Energy			TEP		
	Years Ended December 31,					
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Realized Losses on Gas Swaps	$(22)	$(19)	$(23)	$(10)	$(7)	$(9)

At December 31, 2012, UNS Energy and TEP had contracts that will settle through the fourth quarter of 2015.

Other Commodity Derivatives

The settlement of forward purchased power and sales contracts that do not result in physical delivery were reflected in the financial statements of UNS Energy and TEP as follows:

	UNS Energy			TEP		
	2012	2011	2010	2012	2011	2010
	-Millions of Dollars-					
Recorded in Wholesale Sales [1]:						
Forward Power Sales	$ 22	$ 41	$ 53	$ 5	$ 14	$ 27
Forward Power Purchases	(20)	(46)	(62)	(6)	(15)	(34)
Total Sales and Purchases Not Resulting in Physical Delivery	$ 2	$ (5)	$ (9)	$(1)	$ (1)	$ (7)

(1) The amounts previously reported have been revised.

DERIVATIVE VOLUMES

At December 31, 2012, UNS Energy had gas swaps totaling 14,351 billion British thermal units (GBtu) and power contracts totaling 2,228 Gigawatt-hours (GWh), while TEP had gas swaps totaling 6,158 GBtu and power contracts totaling 820 GWh. At December 31, 2011, UNS Energy had gas swaps totaling 14,856 GBtu and power contracts totaling 3,147 GWh, while TEP had gas swaps totaling 6,855 GBtu and power contracts totaling 815 GWh.

CREDIT RISK ADJUSTMENT

When the fair value of our derivative contracts is reflected as an asset, the counterparty owes us and this creates credit risk. We also consider the impact of our own credit risk on instruments that are in a net liability position. The impact of counterparty credit risk and our own credit risk on the fair value of derivative asset contracts was less than $0.5 million at December 31, 2012 and December 31, 2011.

CONCENTRATION OF CREDIT RISK

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risk exposure resulting from the possibility of non-performance by counterparties pursuant to the terms of their contractual obligations. We enter into contracts for the physical delivery of energy and gas which contain remedies in the event of non-performance by the supply counterparties. In addition, volatile energy prices can create significant credit exposure from energy market receivables and subsequent measurement at fair value valuations.

We have contractual agreements for energy procurement and hedging activities that contain certain provisions requiring each company to post collateral under certain circumstances. These circumstances include: exposures in excess of unsecured credit limits provided to TEP, UNS Gas, or UNS Electric; credit rating downgrades; or a failure to meet certain financial ratios. In the event that such credit events were to occur, we would have to provide certain credit enhancements in the form of cash or LOCs to fully collateralize our exposure to these counterparties.

The following table shows the sum of the fair value of all derivative instruments under contracts with credit-risk related contingent features that are in a net liability position at December 31, 2012. It also shows LOCs posted and additional collateral to be posted if credit-risk related contingent features are triggered.

	UNS Energy	TEP
	December 31, 2012	
	-Millions of Dollars-	
Net Liability Position	$36	$10
LOCs	1	1
Additional Collateral to Post if Contingent Features Triggered	36	10

As of December 31, 2012, TEP had $15 million of credit exposure to other counterparties' creditworthiness related to its wholesale marketing and gas hedging activities, of which two counterparties individually composed greater than 10% of the total credit exposure. UNS Electric and UNS Gas had less than $1 million of such credit exposure related to its supply and hedging contracts.

NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Our quarterly financial information is unaudited but, in management's opinion, includes all adjustments necessary for a fair presentation. Our utility businesses are seasonal in nature. Peak sales periods for TEP and UNS Electric generally occur during the summer while UNS Gas' sales generally peak during the winter. Accordingly, comparisons among quarters of a year may not represent overall trends and changes in operations.

	UNS Energy			
	First	Second	Third	Fourth
	-Thousands of Dollars- (Except Per Share Amounts)			
2012				
Operating Revenue	$315,387	$363,997	$434,108	$348,274
Operating Income	34,403	68,065	106,409	42,918
Net Income	6,476	26,273	50,664	7,506
Basic EPS	0.17	0.65	1.22	0.18
Diluted EPS	0.17	0.64	1.21	0.18
2011				
Operating Revenue	$338,177	$365,141	$441,557	$333,827
Operating Income	44,820	71,290	123,760	41,837
Net Income	13,472	28,604	59,712	8,187
Basic EPS	0.37	0.77	1.61	0.22
Diluted EPS	0.35	0.71	1.46	0.22

EPS is computed independently for each of the quarters presented. Therefore, the sum of the quarterly EPS amounts may not equal the total for the year.

	TEP			
	First	Second	Third	Fourth
	-Thousands of Dollars-			
2012				
Operating Revenue	$223,978	$299,419	$366,910	$271,353
Operating Income	17,892	58,211	94,079	30,305
Net Income (Loss)	(1,461)	21,910	44,569	452
2011				
Operating Revenue	$239,588	$295,233	$369,845	$251,720
Operating Income	27,792	62,497	111,479	27,640
Net Income	4,704	25,158	53,912	1,560

The following tables reflect the quarterly impact of revisions on UNS Energy's statements of income recorded in the fourth quarter of 2012 (See Note 1):

	UNS Energy 2012 Three Months Ended					
	March 31,		June 30,		September 30,	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars-					
Income Statement						
Operating Revenue	$318,874	$315,387	$367,171	$363,997	$437,261	$434,108
Operating Income [(1)]	34,395	34,403	68,059	68,065	106,409	106,409

	2011 Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
	-Thousands of Dollars-							
Income Statement								
Operating Revenue	$344,766	$338,177	$369,673	$365,141	$450,947	$441,557	$344,129	$333,827
Operating Income [(1)]	44,820	44,820	71,290	71,290	123,760	123,760	41,802	41,837

(1) Includes immaterial reclassifications from Operating Expense to Other Expense to conform with current year presentation.

Schedule II—Valuation and Qualifying Accounts – UNS Energy

Description	Beginning Balance	Additions- Charged to Income	Deductions	Ending Balance
		-Millions of Dollars-		
Year Ended December 31,				
Reserve for Uncollectible Accounts [1]				
2012	$ 16	$ 4	$ 13	$ 7
2011	$ 13	$ 5	$ 2	$16
2010	$ 13	$ 4	$ 4	$13
Deferred Tax Assets Valuation Allowance [2]				
2012	$ 7	$—	$—	$ 7
2011	$ 8	$—	$ 1	$ 7
2010	$—	$ 8	$—	$ 8
Other [3]				
2012	$ 6			$ 9
2011	$ 4			$ 6
2010	$ 2			$ 4

(1) TEP, UNS Gas, and UNS Electric record additions to the Reserve for Uncollectible Accounts based on historical experience and any specific customer collection issues identified. Deductions principally reflect amounts charged off as uncollectible, less amounts recovered. Amounts include reserves for trade receivables, wholesale sales, and in-kind transmission imbalances.

(2) Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred income tax asset will not be realized. Management believes that it is more likely than not that we will not be able to generate future capital gains to offset the capital losses related to an unregulated investment loss deferred tax asset. As a result, an $8 million valuation allowance was recorded against the deferred tax asset as of December 31, 2010.

(3) Principally reserves for sales tax audits, litigation matters, and damages billable to third parties. As the Other reserves are not individually significant, additions and deductions need not be disclosed.

Schedule II—Valuation and Qualifying Accounts—TEP

Description	Beginning Balance	Additions- Charged to Income	Deductions	Ending Balance
		-Millions of Dollars-		
Year Ended December 31,				
Reserve for Uncollectible Accounts [1]				
2012	$ 14	$3	$12	$ 5
2011	$ 11	$4	$ 1	$14
2010	$ 11	$3	$ 3	$11
Other [2]				
2012	$ 4			$ 8
2011	$ 3			$ 4
2010	$—			$ 3

(1) TEP records additions to the Reserve for Uncollectible Accounts based on historical experience and any specific customer collection issues identified. Deductions principally reflect amounts charged off as uncollectible, less amounts recovered. Amounts include reserves for trade receivables, wholesales sales, and in-kind transmission imbalances.

(2) Principally reserves for sales tax audits, litigation matters, and damages billable to third parties. As the Other reserves are not individually significant, additions and deductions need not be disclosed.

TEP had no deferred tax assets valuation allowance in the periods presented.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended September 30, 2013	2012		Nine Months Ended September 30, 2013	2012
(Unaudited)			(Unaudited)	
Thousands of Dollars (Except Per Share Amounts)			Thousands of Dollars (Except Per Share Amounts)	
		Operating Revenues		
$362,244	$353,473	Electric Retail Sales	**$ 868,523**	$ 850,975
27,529	29,341	Electric Wholesale Sales	**92,581**	88,469
15,430	15,407	Gas Retail Sales	**86,432**	85,621
31,838	35,887	Other Revenues	**86,863**	88,427
437,041	434,108	**Total Operating Revenues**	**1,134,399**	1,113,492
		Operating Expenses		
85,102	92,873	Fuel	**253,249**	245,933
67,429	57,085	Purchased Energy	**189,384**	165,078
8,061	4,500	Transmission and Other PPFAC Recoverable Costs	**15,768**	10,738
(3,521)	18,076	Increase (Decrease) to Reflect PPFAC/PGA Recovery Treatment	**(6,814)**	29,730
157,071	172,534	**Total Fuel and Purchased Energy**	**451,587**	451,479
93,202	98,346	Operations and Maintenance	**278,245**	283,587
38,204	35,145	Depreciation	**111,175**	105,319
5,193	9,069	Amortization	**21,600**	26,845
13,606	12,605	Taxes Other Than Income Taxes	**41,329**	37,385
307,276	327,699	**Total Operating Expenses**	**903,936**	904,615
129,765	106,409	**Operating Income**	**230,463**	208,877
		Other Income (Deductions)		
2	340	Interest Income	**31**	981
2,044	1,011	Other Income	**5,545**	3,855
(438)	(752)	Other Expense	**(1,817)**	(1,508)
731	581	Appreciation (Depreciation) in Fair Value of Investments	**1,864**	1,621
2,339	1,180	**Total Other Income (Deductions)**	**5,623**	4,949
		Interest Expense		
17,580	17,074	Long-Term Debt	**53,534**	53,811
6,323	8,507	Capital Leases	**18,821**	25,105
230	692	Other Interest Expense	**183**	1,712
(933)	(459)	Interest Capitalized	**(2,352)**	(1,646)
23,200	25,814	**Total Interest Expense**	**70,186**	78,982
108,904	81,775	**Income Before Income Taxes**	**165,900**	134,844
40,914	31,111	Income Tax Expense	**51,947**	51,430
$ 67,990	$ 50,664	**Net Income**	**$ 113,953**	$ 83,414
		Weighted-Average Shares of Common Stock Outstanding (000)		
41,650	41,446	Basic	**41,596**	39,983
42,028	41,863	Diluted	**41,941**	41,719
		Earnings Per Share		
$ 1.63	$ 1.22	Basic	**$ 2.74**	$ 2.09
$ 1.62	$ 1.21	Diluted	**$ 2.72**	$ 2.03
$ 0.435	$ 0.43	**Dividends Declared Per Share**	**$ 1.305**	$ 1.29

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three Months Ended September 30, 2013 (Unaudited)	2012		Nine Months Ended September 30, 2013 (Unaudited)	2012
Thousands of Dollars			Thousands of Dollars	
		Comprehensive Income		
$67,990	$50,664	Net Income	**$113,953**	$83,414
		Other Comprehensive Income		
		Net Changes in Fair Value of Cash Flow Hedges:		
685	370	net of income tax expense of $(448) and $(244)		
		net of income tax expense of $(1,459) and $(421)	**2,229**	641
		Supplemental Executive Retirement Plan (SERP) Benefit Amortization:		
68	55	net of income tax expense of $(42) and $(34)		
		net of income tax expense of $(127) and $(50)	**205**	219
753	425	**Total Other Comprehensive Income, Net of Income Tax Expense**	**2,434**	860
$68,743	$51,089	**Total Comprehensive Income**	**$116,387**	$84,274

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2013 (Unaudited)	Nine Months Ended September 30, 2012 (Unaudited)
	Thousands of Dollars	
Cash Flows from Operating Activities		
Cash Receipts from Electric Retail Sales	**$ 912,098**	$ 894,195
Cash Receipts from Electric Wholesale Sales	**118,341**	107,854
Cash Receipts from Gas Retail Sales	**109,994**	114,055
Cash Receipts from Operating Springerville Units 3 & 4	**75,552**	75,715
Cash Receipts from Gas Wholesale Sales	**3,558**	565
Interest Received	**516**	2,884
Income Tax Refunds Received	**—**	307
Other Cash Receipts	**23,514**	18,810
Fuel Costs Paid	**(218,712)**	(239,397)
Purchased Energy Costs Paid	**(217,522)**	(189,927)
Payment of Operations and Maintenance Costs	**(199,939)**	(207,780)
Taxes Other Than Income Taxes Paid, Net of Amounts Capitalized	**(124,782)**	(128,513)
Wages Paid, Net of Amounts Capitalized	**(96,899)**	(94,815)
Interest Paid, Net of Amounts Capitalized	**(50,108)**	(52,593)
Capital Lease Interest Paid	**(21,698)**	(27,895)
Income Taxes Paid	**(316)**	—
Other Cash Payments	**(8,563)**	(5,327)
Net Cash Flows—Operating Activities	**305,034**	268,138
Cash Flows from Investing Activities		
Capital Expenditures	**(238,463)**	(232,036)
Purchase of Intangibles—Renewable Energy Credits	**(20,429)**	(7,554)
Deposit—San Juan Mine Reclamation Trust	**—**	(1,107)
Other Cash Payments	**—**	(232)
Return of Investments in Springerville Lease Debt	**9,104**	19,278
Restricted Cash Released	**4,500**	—
Proceeds from Note Receivable	**—**	12,500
Insurance Proceeds for Replacement Assets	**—**	2,875
Other Cash Receipts	**6,625**	14,484
Net Cash Flows—Investing Activities	**(238,663)**	(191,792)
Cash Flows from Financing Activities		
Proceeds from Borrowings Under Revolving Credit Facilities	**130,000**	342,000
Repayments of Borrowings Under Revolving Credit Facilities	**(100,000)**	(346,000)
Payments of Capital Lease Obligations	**(99,621)**	(89,452)
Common Stock Dividends Paid	**(54,146)**	(51,852)
Proceeds from Issuance of Long-Term Debt	**—**	149,513
Repayments of Long-Term Debt	**—**	(9,341)
Payment of Debt Issue/Retirement Costs	**(1,022)**	(3,349)
Proceeds from Stock Options Exercised	**2,724**	3,529
Proceeds from Common Stock Issuance	**408**	—
Other Cash Receipts	**4,721**	2,935
Other Cash Payments	**(962)**	(718)
Net Cash Flows—Financing Activities	**(117,898)**	(2,735)
Net Increase (Decrease) in Cash and Cash Equivalents	**(51,527)**	73,611
Cash and Cash Equivalents, Beginning of Year	**123,918**	76,390
Cash and Cash Equivalents, End of Period	**$ 72,391**	$ 150,001

See Note 10 for supplemental cash flow information.

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012
	Thousands of Dollars	
ASSETS		
Utility Plant		
Plant in Service	**$ 5,114,426**	$ 5,005,768
Utility Plant Under Capital Leases	**621,247**	582,669
Construction Work in Progress	**211,100**	128,621
Total Utility Plant	**5,946,773**	5,717,058
Less Accumulated Depreciation and Amortization	**(1,966,801)**	(1,921,733)
Less Accumulated Amortization of Capital Lease Assets	**(509,712)**	(494,962)
Total Utility Plant—Net	**3,470,260**	3,300,363
Investments and Other Property		
Investments in Lease Equity	**36,230**	36,339
Other	**33,441**	36,537
Total Investments and Other Property	**69,671**	72,876
Current Assets		
Cash and Cash Equivalents	**72,391**	123,918
Accounts Receivable—Customer	**127,316**	93,742
Unbilled Accounts Receivable	**55,730**	53,568
Allowance for Doubtful Accounts	**(7,215)**	(6,545)
Materials and Supplies	**89,302**	93,322
Fuel Inventory	**44,458**	62,019
Deferred Income Taxes—Current	**66,520**	34,260
Regulatory Assets—Current	**52,709**	51,619
Investments in Lease Debt	**—**	9,118
Derivative Instruments	**1,620**	3,165
Other	**26,882**	33,567
Total Current Assets	**529,713**	551,753
Regulatory and Other Assets		
Regulatory Assets—Noncurrent	**200,705**	191,077
Derivative Instruments	**752**	3,801
Other Assets	**22,704**	20,559
Total Regulatory and Other Assets	**224,161**	215,437
Total Assets	**$ 4,293,805**	$ 4,140,429

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS—(continued)

	September 30, 2013 (Unaudited)	December 31, 2012
	Thousands of Dollars	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	**$1,132,286**	$1,065,465
Capital Lease Obligations	**130,088**	262,138
Long-Term Debt	**1,505,536**	1,498,442
Total Capitalization	**2,767,910**	2,826,045
Current Liabilities		
Current Obligations Under Capital Leases	**169,060**	90,583
Borrowings Under Revolving Credit Facilities	**23,000**	—
Accounts Payable—Trade	**91,615**	107,740
Accrued Taxes Other than Income Taxes	**60,657**	41,939
Accrued Employee Expenses	**26,000**	24,094
Accrued Interest	**22,343**	31,950
Regulatory Liabilities—Current	**56,987**	43,516
Customer Deposits	**30,564**	34,048
Derivative Instruments	**12,988**	14,742
Other	**14,521**	10,517
Total Current Liabilities	**507,735**	399,129
Deferred Credits and Other Liabilities		
Deferred Income Taxes—Noncurrent	**482,516**	364,756
Regulatory Liabilities—Noncurrent	**297,699**	279,111
Pension and Other Retiree Benefits	**141,997**	159,401
Derivative Instruments	**7,183**	12,709
Other	**88,765**	99,278
Total Deferred Credits and Other Liabilities	**1,018,160**	915,255
Commitments, Contingencies, and Environmental Matters (Note 4)		
Total Capitalization and Other Liabilities	**$4,293,805**	$4,140,429

See Notes to Condensed Consolidated Financial Statements.

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares Outstanding*	Common Stock	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Thousands of Shares		(Unaudited) Thousands of Dollars		
Balances at December 31, 2012	**41,344**	**$882,138**	**$193,117**	**$(9,790)**	**$1,065,465**
Comprehensive Income					
2013 Year-to-Date Net Income			113,953		113,953
Other Comprehensive Income, net of $(1,586) income taxes				2,434	2,434
Total Comprehensive Income					116,387
Dividends, Including Non-Cash Dividend Equivalents			(54,733)		(54,733)
Shares Issued Under Dividend Reinvestment Plan	9	408			408
Shares Issued for Stock Options	85	2,724			2,724
Shares Issued Under Performance Share Awards	57	—			—
Other		2,035			2,035
Balances at September 30, 2013	**41,495**	**$887,305**	**$252,337**	**$(7,356)**	**$1,132,286**

* UNS Energy has 75 million authorized shares of Common Stock.

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended September 30, 2013 (Unaudited) Thousands of Dollars	2012		Nine Months Ended September 30, 2013 (Unaudited) Thousands of Dollars	2012
		Operating Revenues		
$310,632	$302,893	Electric Retail Sales	**$739,147**	$716,993
26,563	25,448	Electric Wholesale Sales	**90,503**	77,488
34,044	38,569	Other Revenues	**93,603**	95,826
371,239	366,910	**Total Operating Revenues**	**923,253**	890,307
		Operating Expenses		
82,065	88,402	Fuel	**247,417**	237,930
42,477	27,576	Purchased Power	**89,815**	62,064
4,940	1,914	Transmission and Other PPFAC Recoverable Costs	**7,535**	4,277
(7,992)	20,025	Increase (Decrease) to Reflect PPFAC Recovery Treatment	**(5,079)**	25,150
121,490	137,917	**Total Fuel and Purchased Energy**	**339,688**	329,421
79,335	86,942	Operations and Maintenance	**239,170**	248,092
30,311	27,644	Depreciation	**87,729**	82,656
6,118	10,001	Amortization	**24,393**	29,621
10,808	10,327	Taxes Other Than Income Taxes	**32,916**	30,325
248,062	272,831	**Total Operating Expenses**	**723,896**	720,115
123,177	94,079	**Operating Income**	**199,357**	170,192
		Other Income (Deductions)		
6	28	Interest Income	**14**	97
1,466	952	Other Income	**3,904**	3,041
(2,776)	(1,945)	Other Expense	**(7,493)**	(4,886)
731	581	Appreciation (Depreciation) in Fair Value of Investments	**1,864**	1,621
(573)	(384)	**Total Other Income (Deductions)**	**(1,711)**	(127)
		Interest Expense		
13,848	13,268	Long-Term Debt	**42,412**	40,562
6,323	8,507	Capital Leases	**18,821**	25,105
82	562	Other Interest Expense	**(86)**	1,338
(644)	(361)	Interest Capitalized	**(1,671)**	(1,381)
19,609	21,976	**Total Interest Expense**	**59,476**	65,624
102,995	71,719	**Income Before Income Taxes**	**138,170**	104,441
38,828	27,150	Income Tax Expense	**41,737**	39,423
$64,167	$ 44,569	**Net Income**	**$ 96,433**	$ 65,018

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three Months Ended September 30, 2013 (Unaudited)	Three Months Ended September 30, 2012 (Unaudited)		Nine Months Ended September 30, 2013 (Unaudited)	Nine Months Ended September 30, 2012 (Unaudited)
Thousands of Dollars			Thousands of Dollars	
		Comprehensive Income		
$64,167	$44,569	Net Income	**$96,433**	$65,018
		Other Comprehensive Income		
		Net Changes in Fair Value of Cash Flow Hedges:		
700	465	net of income tax expense of $(458) and $(304)		
		net of income tax expense of $(1,412) and $(584)	**2,156**	891
		SERP Benefit Amortization:		
68	55	net of income tax expense of $(42) and $(34)		
		net of income tax expense of $(127) and $(50)	**205**	219
768	520	**Total Other Comprehensive Income, Net of Income Tax Expense**	**2,361**	1,110
$64,935	$45,089	**Total Comprehensive Income**	**$98,794**	$66,128

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2013 (Unaudited)	Nine Months Ended September 30, 2012 (Unaudited)
	Thousands of Dollars	
Cash Flows from Operating Activities		
Cash Receipts from Electric Retail Sales	**$ 769,433**	$ 748,936
Cash Receipts from Electric Wholesale Sales	**107,997**	89,902
Cash Receipts from Operating Springerville Units 3 & 4	**75,552**	75,715
Reimbursement of Affiliate Charges	**17,639**	16,783
Cash Receipts from Gas Wholesale Sales	**3,209**	153
Interest Received	**509**	2,014
Income Tax Refunds Received	**77**	200
Other Cash Receipts	**18,240**	14,528
Fuel Costs Paid	**(214,722)**	(233,457)
Payment of Operations and Maintenance Costs	**(193,290)**	(200,569)
Taxes Other Than Income Taxes Paid, Net of Amounts Capitalized	**(97,419)**	(99,249)
Purchased Power Costs Paid	**(87,110)**	(60,684)
Wages Paid, Net of Amounts Capitalized	**(80,964)**	(77,820)
Interest Paid, Net of Amounts Capitalized	**(36,671)**	(35,728)
Capital Lease Interest Paid	**(21,698)**	(27,893)
Income Taxes Paid	**—**	(1,796)
Other Cash Payments	**(6,603)**	(3,884)
Net Cash Flows—Operating Activities	**254,179**	207,151
Cash Flows from Investing Activities		
Capital Expenditures	**(180,451)**	(196,429)
Purchase of Intangibles—Renewable Energy Credits	**(17,552)**	(6,436)
Deposit—San Juan Mine Reclamation Trust	**—**	(1,107)
Return of Investments in Springerville Lease Debt	**9,104**	19,278
Restricted Cash Released	**4,500**	—
Insurance Proceeds for Replacement Assets	**—**	2,875
Other Cash Receipts	**4,656**	9,207
Net Cash Flows—Investing Activities	**(179,743)**	(172,612)
Cash Flows from Financing Activities		
Proceeds from Borrowings Under Revolving Credit Facility	**78,000**	189,000
Repayments of Borrowings Under Revolving Credit Facility	**(78,000)**	(199,000)
Payments of Capital Lease Obligations	**(99,621)**	(89,452)
Dividends Paid to UNS Energy	**(20,000)**	—
Proceeds from Issuance of Long-Term Debt	**—**	149,513
Repayments of Long-Term Debt	**—**	(6,535)
Payment of Debt Issue/Retirement Costs	**(1,022)**	(3,349)
Other Cash Receipts	**1,976**	1,292
Other Cash Payments	**(726)**	(530)
Net Cash Flows—Financing Activities	**(119,393)**	40,939
Net Increase (Decrease) in Cash and Cash Equivalents	**(44,957)**	75,478
Cash and Cash Equivalents, Beginning of Year	**79,743**	27,718
Cash and Cash Equivalents, End of Period	**$ 34,786**	$ 103,196

See Note 10 for supplemental cash flow information.

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012
	Thousands of Dollars	
ASSETS		
Utility Plant		
Plant in Service	**$ 4,434,770**	$ 4,348,041
Utility Plant Under Capital Leases	**621,247**	582,669
Construction Work in Progress	**153,258**	98,460
Total Utility Plant	**5,209,275**	5,029,170
Less Accumulated Depreciation and Amortization	**(1,811,806)**	(1,783,787)
Less Accumulated Amortization of Capital Lease Assets	**(509,712)**	(494,962)
Total Utility Plant—Net	**2,887,757**	2,750,421
Investments and Other Property		
Investments in Lease Equity	**36,230**	36,339
Other	**32,009**	35,091
Total Investments and Other Property	**68,239**	71,430
Current Assets		
Cash and Cash Equivalents	**34,786**	79,743
Accounts Receivable—Customer	**105,646**	71,813
Unbilled Accounts Receivable	**46,240**	33,782
Allowance for Doubtful Accounts	**(5,238)**	(4,598)
Accounts Receivable—Due from Affiliates	**3,963**	5,720
Materials and Supplies	**76,255**	80,377
Fuel Inventory	**44,162**	61,737
Deferred Income Taxes—Current	**69,985**	37,212
Regulatory Assets—Current	**36,283**	34,345
Investments in Lease Debt	**—**	9,118
Derivative Instruments	**1,047**	2,230
Other	**20,605**	32,163
Total Current Assets	**433,734**	443,642
Regulatory and Other Assets		
Regulatory Assets—Noncurrent	**186,626**	178,330
Derivative Instruments	**259**	1,354
Other Assets	**17,525**	15,869
Total Regulatory and Other Assets	**204,410**	195,553
Total Assets	**$ 3,594,140**	$ 3,461,046

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS—(Continued)

	September 30, 2013 (Unaudited)	December 31, 2012
	Thousands of Dollars	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	**$ 939,721**	$ 860,927
Capital Lease Obligations	**130,088**	262,138
Long-Term Debt	**1,223,536**	1,223,442
Total Capitalization	**2,293,345**	2,346,507
Current Liabilities		
Current Obligations Under Capital Leases	**169,060**	90,583
Accounts Payable—Trade	**75,834**	82,122
Accounts Payable—Due to Affiliates	**2,981**	3,134
Accrued Taxes Other than Income Taxes	**50,465**	33,060
Accrued Employee Expenses	**22,937**	20,715
Accrued Interest	**20,503**	26,965
Regulatory Liabilities—Current	**26,440**	20,822
Customer Deposits	**21,251**	24,846
Derivative Instruments	**7,060**	4,899
Other	**9,336**	7,085
Total Current Liabilities	**405,867**	314,231
Deferred Credits and Other Liabilities		
Deferred Income Taxes—Noncurrent	**421,621**	319,216
Regulatory Liabilities—Noncurrent	**259,523**	241,189
Pension and Other Retiree Benefits	**132,491**	149,718
Derivative Instruments	**4,950**	10,565
Other	**76,343**	79,620
Total Deferred Credits and Other Liabilities	**894,928**	800,308
Commitments, Contingencies, and Environmental Matters (Note 4)		
Total Capitalization and Other Liabilities	**$3,594,140**	**$3,461,046**

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

	Common Stock	Capital Stock Expense	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholder's Equity
			(Unaudited) Thousands of Dollars		
Balances at December 31, 2012	**$888,971**	**$(6,357)**	**$(12,157)**	**$(9,530)**	**$860,927**
Comprehensive Income					
2013 Year-to-Date Net Income			96,433		96,433
Other Comprehensive Income, net of $(1,539) income taxes				2,361	2,361
Total Comprehensive Income					98,794
Dividends Paid			(20,000)		(20,000)
Balances at September 30, 2013	**$888,971**	**$(6,357)**	**$ 64,276**	**$(7,169)**	**$939,721**

See Notes to Condensed Consolidated Financial Statements.

NOTE 1. FINANCIAL STATEMENT PRESENTATION

UNS Energy Corporation (UNS Energy) is a holding company that conducts its business through three regulated public utilities: Tucson Electric Power Company (TEP); UNS Gas, Inc. (UNS Gas); and UNS Electric, Inc. (UNS Electric). References to "we" and "our" are to UNS Energy and its subsidiaries, collectively.

We prepared our condensed consolidated financial statements according to generally accepted accounting principles in the United States of America (GAAP) and the Securities and Exchange Commission's (SEC) interim reporting requirements. These condensed consolidated financial statements exclude some information and footnotes required by GAAP and the SEC for annual financial statement reporting. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes in our 2012 Annual Report on Form 10-K.

The condensed consolidated financial statements are unaudited, but, in management's opinion, include all recurring adjustments necessary for a fair presentation of the results for the interim periods presented. Because weather and other factors cause seasonal fluctuations in sales, our quarterly results are not indicative of annual operating results. UNS Energy and TEP reclassified certain amounts in the financial statements to conform to current year presentation.

REVISION OF PRIOR PERIOD UNS ENERGY INCOME STATEMENT

During the first three quarters of 2012, we incorrectly reported UNS Electric's sales and purchase contracts which did not result in the physical delivery of energy. The transactions were reported on a gross basis rather than on a net basis. This error resulted in an equal and offsetting overstatement of Electric Wholesale Sales and Purchased Energy in the income statements of $3 million for the three months ended and $10 million for the nine months ended September 30, 2012. This error had no impact on operating income, net income, accumulated earnings, or cash flows.

We assessed the impact of this error on prior period financial statements and concluded it was not material to any period. However, this error was significant to individual income statement line items. As a result, in accordance with GAAP, we revised our prior period income statement as follows:

	UNS Energy			
	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	As Reported	As Revised	As Reported	As Revised
	Thousands of Dollars		Thousands of Dollars	
Income Statement				
Electric Wholesale Sales	$ 32,494	$ 29,341	$ 98,282	$ 88,469
Purchased Energy	60,238	57,085	174,891	165,078
Total Fuel and Purchased Energy	175,687	172,534	461,292	451,479
Total Operating Expenses	330,852	327,699	914,428	904,615

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2013, we adopted authoritative guidance that:

- Requires disclosure related to offsetting derivative assets and derivative liabilities in accordance with GAAP. See Note 11.
- Requires additional disclosures for amounts reclassified out of Accumulated Other Comprehensive Income (AOCI) by component. See Note 12.
- Allows an entity to perform a qualitative analysis to determine if additional testing for impairment of indefinite-lived intangible assets is required. Based on our qualitative analysis, we had no impairment indicator as our only indefinite-lived intangible assets, Renewable Energy Credits (RECs), are currently recoverable under the Renewable Energy Standard (RES) as we use the RECs to comply with the standard's renewable resources requirements.

NOTE 2. REGULATORY MATTERS

RATES AND REGULATION

The Arizona Corporation Commission (ACC) and the Federal Energy Regulatory Commission (FERC) each regulate portions of the utility accounting practices and rates of TEP, UNS Gas, and UNS Electric. The ACC regulates rates charged to retail customers, the siting of generation and transmission facilities, the issuance of securities, and transactions with affiliated parties. The FERC regulates terms and prices of transmission services and wholesale electricity sales.

2013 TEP RATE ORDER

In June 2013, the ACC issued the 2013 TEP Rate Order that resolved the rate case filed by TEP in July 2012 which was based on a test year ended December 31, 2011. The 2013 TEP Rate Order approved new rates effective July 1, 2013.

The provisions of the 2013 TEP Rate Order include, but are not limited to:

- an increase in non-fuel retail Base Rates of approximately $76 million over adjusted test year revenues;
- an Original Cost Rate Base (OCRB) of approximately $1.5 billion and a Fair Value Rate Base (FVRB) of approximately $2.3 billion;
- a return on equity of 10.0%, a long-term cost of debt of 5.18%, and a short-term cost of debt of 1.42%, resulting in a weighted average cost of capital of 7.26%;
- a capital structure of approximately 43.5% equity, 56.0% long-term debt, and 0.5% short-term debt;
- a 0.68% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $800 million);
- a revision in depreciation rates from an average rate of 3.32% to 3.0% for generation and distribution plant, primarily due to revised estimates of asset removal costs, which will have the effect of reducing depreciation expense by approximately $11 million annually; and
- an agreement by TEP to seek recovery of costs related to the Nogales transmission line from the FERC before seeking rate recovery from the ACC.

The 2013 TEP Rate Order also includes the following cost recovery mechanisms:

- a new Purchased Power and Fuel Adjustment Clause (PPFAC) credit of $0.001388 per kWh effective July 1, 2013. The credit reflects the following:
  - a one-time reduction in the PPFAC bank balance, recorded in June 2013 as an increase to fuel expense, of $3 million related to prior Sulfur Credits; and
  - a transfer of $10 million, recorded in June 2013, from the PPFAC bank balance to a new regulatory asset to defer coal costs related to the San Juan mine fire. These costs will be eligible for recovery through the PPFAC upon final insurance settlement.
- a modification of the PPFAC mechanism to include recovery of generation-related lime costs offset by Sulfur Credits.
- a Lost Fixed Cost Recovery mechanism (LFCR) to recover certain non-fuel costs related to kWh sales lost due to energy efficiency programs and distributed generation, subject to ACC approval and a year-over-year cap of 1% of TEP's total retail revenues. TEP expects the LFCR rate, recovering 2013 costs, to be effective on July 1, 2014, upon approval of verified lost kWh sales by the ACC.
- an Environmental Compliance Adjustor (ECA) mechanism to recover certain capital carrying costs to comply with government-mandated environmental regulations between rate cases. The ECA rate is capped at $0.00025 per kWh, which approximates 0.25% of TEP's total retail revenues, and will be charged to customers beginning in May 2014 for any qualifying costs incurred between August 2013 and December 2013.
- an energy efficiency provision which includes a 2013 calendar year budget to fund programs that support the ACC's Electric Energy Efficiency Standards, as well as a performance incentive.

PENDING UNS ELECTRIC RATE CASE

In December 2012, UNS Electric filed a rate case application with the ACC as required by the ACC in UNS Electric's 2010 Rate Order. UNS Electric's rate filing was based on a test year ended June 30, 2012.

In September 2013, UNS Electric, the staff of the ACC, and certain other parties to UNS Electric's pending rate case proceeding entered into a settlement agreement (2013 UNS Electric Settlement Agreement). The 2013 UNS Electric Settlement Agreement requires the approval of the ACC before new rates can become effective.

The terms of the 2013 UNS Electric Settlement Agreement include, but are not limited to:

- an increase in non-fuel retail Base Rates of approximately $3 million;
- an OCRB of approximately $213 million and a FVRB of approximately $283 million;
- a return on equity of 9.50% and a long-term cost of debt of 5.97% resulting in a weighted average cost of capital of 7.83%;
- a 0.50% return on the fair value increment of rate base (the fair value increment of rate base represents the difference between OCRB and FVRB of approximately $70 million); and
- a capital structure of 52.6% equity and 47.4% long-term debt.

The 2013 UNS Electric Settlement Agreement also includes the following cost recovery mechanisms:

- an LFCR mechanism to recover certain non-fuel costs related to kWh sales lost due to energy efficiency programs and distributed generation; and
- a Transmission Cost Adjustor (TCA). The TCA would allow more timely recovery of transmission costs associated with serving retail customers.

UNS GAS PURCHASED GAS ADJUSTOR

In October 2013, the ACC approved an increase to the existing Purchased Gas Adjustor (PGA) credit from 4.5 cents per therm to 10 cents per therm in order to reduce the over-collected PGA bank balance. The new PGA credit will be effective for the period November 1, 2013 through April 30, 2014. At September 30, 2013, the PGA bank balance was over-collected by $17 million on a billed-to-customer basis.

REGULATORY ASSETS AND LIABILITIES

The following table summarizes changes in regulatory assets and liabilities since December 31, 2012:

	September 30, 2013		December 31, 2012	
	UNS Energy	TEP	UNS Energy	TEP
	Millions of Dollars			
Regulatory Assets – Current	$ 53	$ 36	$ 52	$ 34
Regulatory Assets – Noncurrent [1]	201	187	191	178
Regulatory Liabilities – Current [2]	(57)	(26)	(44)	(21)
Regulatory Liabilities – Noncurrent [3]	(298)	(260)	(279)	(241)
Total Net Regulatory Assets (Liabilities)	$(101)	$ (63)	$ (80)	$ (50)

(1) Regulatory Assets – Noncurrent increased reflecting a newly created regulatory asset primarily for the investment tax credit basis adjustment. See Note 6. This regulatory asset does not earn a return and will be recovered through future rates. The increase is also related to the addition of deferred rate case costs that do not earn a return and will be recovered over a four year period.

(2) Regulatory Liabilities – Current increased because purchased energy costs are over recovered following deferral of coal costs related to the San Juan mine fire, as discussed above. The regulatory asset related to these deferred costs does not earn a return and will be recovered at the time of the final insurance settlement.

(3) Regulatory Liabilities – Noncurrent increased due to the collection of amounts in rates for future asset removal costs that have not yet been expended.

FUTURE IMPLICATIONS OF DISCONTINUING APPLICATION OF REGULATORY ACCOUNTING

If our regulated operations no longer met the requirements to apply regulatory accounting we would remove our regulatory assets and liabilities by:

- writing off the remaining regulatory assets as an expense and regulatory liabilities as income in the income statements; and
- reflecting regulatory pension assets as part of AOCI.

If we had stopped applying regulatory accounting at September 30, 2013:

- TEP would have recorded an extraordinary after-tax gain of $113 million and an after-tax loss in AOCI of $75 million;
- UNS Gas would have recorded an extraordinary after-tax gain of $26 million and an after-tax loss in AOCI of $2 million; and
- UNS Electric would have recorded an extraordinary after-tax gain of $3 million and an after-tax loss in AOCI of $3 million.

While future regulatory orders and market conditions may affect cash flows, our cash flows would not be affected if we stopped applying regulatory accounting to our regulated operations.

NOTE 3. BUSINESS SEGMENTS

We have three reportable segments regularly reviewed by our chief operating decision makers to evaluate performance and make operating decisions.

(1) TEP, a regulated electric utility and our largest subsidiary

(2) UNS Gas, a regulated gas distribution utility

(3) UNS Electric, a regulated electric utility

We disclose selected financial data for our reportable segments in the following table:

	Reportable Segments					
	TEP	UNS Gas	UNS Electric	Non-Reportable Segments	Reconciling Adjustments	UNS Energy Consolidated
	Millions of Dollars					
Income Statement						
Three Months Ended September 30, 2013						
Operating Revenues – External	$367	$ 16	$ 54	$—	$—	$437
Operating Revenues – Intersegment [1]	4	2	—	4	(10)	—
Net Income	64	(1)	5	—	—	68
Three Months Ended September 30, 2012						
Operating Revenues – External	$362	$ 16	$ 56	$—	$—	$434
Operating Revenues – Intersegment [1]	5	2	—	5	(12)	—
Net Income	45	—	6	—	—	51

	Reportable Segments					
	TEP	UNS Gas	UNS Electric	Non-Reportable Segments	Reconciling Adjustments	UNS Energy Consolidated
	Millions of Dollars					
Income Statement						
Nine Months Ended September 30, 2013						
Operating Revenues – External	$910	$90	$134	$—	$—	$1,134
Operating Revenues – Intersegment [1]	13	3	1	12	(29)	—
Net Income	96	6	11	1	—	114
Nine Months Ended September 30, 2012						
Operating Revenues – External	$877	$89	$147	$—	$—	$1,113
Operating Revenues – Intersegment [1]	13	4	1	14	(32)	—
Net Income	65	5	14	(1)	—	83

(1) Operating Revenues – Intersegment: TEP includes control area services provided to UNS Electric based on a FERC-approved tariff; common costs (systems, facilities, etc.) allocated to affiliates on a cost-causative basis; and sales of power to UNS Electric at third-party market prices. Other primarily includes meter reading services and supplemental workforce provided by an unregulated affiliate to the utilities.

NOTE 4. COMMITMENTS, CONTINGENCIES, AND ENVIRONMENTAL MATTERS

In addition those reported in our 2012 Annual Report on Form 10-K, we entered into the following new long-term commitments through September 30, 2013:

TEP COMMITMENTS

	Purchase Commitments						
	2013	2014	2015	2016	2017	Thereafter	Total
	Millions of Dollars						
Purchased Power, Including Renewable PPA [1]	$ 2	$ 18	$ 6	$ 4	$ 4	$ 58	$ 92
Capital Lease Obligations [2]	—	—	46	—	—	—	46
RES Performance-Based Incentives [3]	1	1	1	1	1	7	12
Fuel Transportation [4]	4	5	5	5	5	1	25
Total Purchase Commitments	$ 7	$ 24	$58	$ 10	$ 10	$ 66	$175

(1) Purchased Power costs are recoverable from customers through the PPFAC. A portion of the Renewable Power Purchase Agreement (PPA) is recoverable through the PPFAC, with the balance recoverable through the RES tariff.
(2) In the third and fourth quarters of 2013, TEP entered into agreements to purchase certain Springerville Unit 1 leased interests. See Note 5.
(3) The RES Performance-Based Incentive (PBI) costs are recoverable through the RES tariff.
(4) Fuel Transportation costs are recoverable from customers through the PPFAC.

UNS GAS COMMITMENTS

Forward Energy Contracts

UNS Gas entered into new forward energy commitments that settle through 2016 at fixed prices per million British thermal units (MMBtu). UNS Gas' minimum payment obligations for these purchases are $2 million in 2014, $3 million in 2015, and $2 million in 2016.

Fuel Transportation

UNS Gas entered into revised gas transportation agreements in August 2013. UNS Gas anticipates that its commitments will increase by $3 million in 2013, $9 million each year in 2014 through 2016, $10 million in 2017, and $56 million thereafter.

UNS ELECTRIC COMMITMENTS

Purchased Power Contracts

UNS Electric entered into new forward purchased power commitments that will settle through 2015 at fixed prices per MWh. UNS Electric's minimum payment obligations for these purchases are $1 million in 2014 and $4 million in 2015.

TEP CONTINGENCIES

Claim Related to San Juan Generating Station

San Juan Coal Company (SJCC) operates an underground coal mine in an area where certain gas producers have oil and gas leases with the federal government, the State of New Mexico, and private parties. These gas producers allege that SJCC's underground coal mine interferes with their operations, reducing the amount of natural gas they can recover. SJCC compensated certain gas producers for any remaining production from wells deemed close enough to the mine to warrant plugging and abandoning them. These settlements, however, do not resolve all potential claims by gas producers in the area. TEP owns 50% of Units 1 and 2 at San Juan Generating Station (San Juan), which represents approximately 20% of the total generation capacity at San Juan, and is responsible for its share of any settlements. TEP cannot estimate the impact of any future claims by these gas producers on the cost of coal at San Juan.

In August 2013, the Bureau of Land Management (BLM) proposed regulations that, among other things, redefine the term "underground mine" to exclude high-wall mining operations and impose a higher surface mine coal royalty on high-wall mining. SJCC utilized high-wall mining techniques at its surface mines prior to beginning underground mining operations in January 2003. If the proposed regulations become effective, SJCC may be subject to additional royalties on coal delivered to San Juan between August 2000 and January 2003 totaling approximately $5 million of which TEP's proportionate share would approximate $1 million. TEP cannot predict the final outcome of the BLM's proposed regulations.

Claims Related to Four Corners Generating Station

In October 2011, EarthJustice, on behalf of several environmental organizations, filed a lawsuit in the United States District Court for the District of New Mexico against Arizona Public Service Company (APS) and the other Four Corners Generating Station (Four Corners) participants alleging violations of the Prevention of Significant Deterioration (PSD) provisions of the Clean Air Act at Four Corners. In January 2012, EarthJustice amended their complaint alleging violations of New Source Performance Standards resulting from equipment replacements at Four Corners. Among other things, the plaintiffs seek to have the court issue an order to cease operations at Four Corners until any required PSD permits are issued and order the payment of civil penalties, including a beneficial mitigation project. In April 2012, APS filed motions to dismiss with the court for all claims asserted by EarthJustice in the amended complaint. All parties filed a joint motion to stay until December 1, 2013.

TEP owns 7% of Four Corners Units 4 and 5 and is liable for its share of any resulting liabilities. TEP cannot predict the final outcome of the claims relating to Four Corners, and, due to the general and non-specific nature of the claims and the indeterminate scope and nature of the injunctive relief sought for this claim, TEP cannot determine estimates of the range of loss at this time. TEP accrued estimated losses of less than $1 million in 2011 for this claim based on its share of a settlement offer to resolve the claim.

In May 2013, the New Mexico Taxation and Revenue Department issued a notice of assessment for coal severance tax, penalties, and interest totaling $30 million to the coal supplier at Four Corners. The coal supplier and Four Corners' operating agent intend to contest the validity of the assessment on behalf of the participants in Four Corners, who will be liable for their share of any resulting liabilities. TEP's share of the assessment based on its ownership of Four Corners is approximately $1 million. TEP cannot predict the outcome or timing of resolution of this claim.

Mine Closure Reclamation at Generating Stations Not Operated by TEP

TEP pays ongoing reclamation costs related to coal mines that supply generating stations in which TEP has an ownership interest but does not operate. TEP is liable for a portion of final reclamation costs upon closure of the mines servicing Navajo, San Juan, and Four Corners. TEP's share of reclamation costs is expected to be $27 million upon expiration of the coal supply agreements, which expire between 2016 and 2019. The reclamation liability (present value of future liability) recorded was $18 million at September 30, 2013 and $16 million at December 31, 2012.

Amounts recorded for final reclamation are subject to various assumptions, such as estimations of reclamation costs, the dates when final reclamation will occur, and the credit-adjusted risk-free interest rate to be used to discount future liabilities. As these assumptions change, TEP will prospectively adjust the expense amounts for final reclamation over the remaining coal supply agreements' terms. TEP does not believe that recognition of its final reclamation obligations will be material to TEP in any single year because recognition will occur over the remaining terms of its coal supply agreements.

TEP's PPFAC allows us to pass through most fuel costs, including final reclamation costs, to customers. Therefore, TEP classifies these costs as a regulatory asset by increasing the regulatory asset and the reclamation liability over the remaining life of the coal supply agreements on an accrual basis and recovering the regulatory asset through the PPFAC as final mine reclamation costs are paid to the coal suppliers.

Tucson to Nogales Transmission Line

TEP and UNS Electric are parties to a project development agreement for the joint construction of a 60-mile transmission line from Tucson, Arizona to Nogales, Arizona. This project was initiated in response to an order by the ACC to UNS Electric to improve the reliability of electric service in Nogales. TEP and UNS Electric expect to abandon the project based on the cost of the proposed 345-kV line, the difficulty in reaching agreement with the Forest Service on a path for the line, and concurrence by the ACC of recent transmission plans filed by TEP and UNS Electric supporting elimination of this project. As part of the 2013 TEP Rate Order, TEP agreed to seek recovery of the project costs from FERC before seeking rate recovery from the ACC. See Note 2. In 2012, TEP recorded a regulatory asset of $5 million and UNS Electric recorded a regulatory asset of $0.2 million for the balance deemed probable of recovery.

RESOLUTION OF TEP CONTINGENCIES

Springerville Generating Station Unit 3 Outage

TEP paid Tri-State Generating and Transmission Association, Inc. (Tri-State) $2 million in March 2013 as a result of an outage at Springerville Unit 3 in 2012. TEP accrued the pre-tax loss in July 2012 as a result of not meeting certain availability requirements under the terms of TEP's operating agreement with Tri-State.

ENVIRONMENTAL MATTERS

Environmental Regulation

The Environmental Protection Agency (EPA) limits the amount of sulfur dioxide (SO_2), nitrogen oxide (NOx), particulate matter, mercury and other emissions released into the atmosphere by power plants. TEP may incur added costs to comply with future changes in federal and state environmental laws, regulations, and permit requirements at its power plants. Complying with these changes may reduce operating efficiency. TEP expects to recover the cost of environmental compliance from its ratepayers.

Hazardous Air Pollutant Requirements

The Clean Air Act requires the EPA to develop emission limit standards for hazardous air pollutants that reflect the maximum achievable control technology. In February 2012, the EPA issued final rules to set the standards for the control of mercury emissions and other hazardous air pollutants from power plants.

Navajo

Based on the EPA's standards, Navajo may require mercury and particulate matter emission control equipment by 2015. TEP's share of the estimated capital cost of this equipment is less than $1 million for mercury control and about $43 million if the installation of baghouses to control particulates is necessary. The operator of Navajo is currently analyzing the need for baghouses under various regulatory scenarios, which will be affected by final Best Available Retrofit Technology (BART) rules when issued. TEP expects its share of the annual operating costs for mercury control and baghouses to be less than $1 million each.

San Juan

TEP expects San Juan's current emission controls to be adequate to comply with the EPA's final standards.

Four Corners

Based on the EPA's final standards, Four Corners may require mercury emission control equipment by 2015. TEP's share of the estimated capital cost of this equipment is less than $1 million. TEP expects its share of the annual operating cost of the mercury emission control equipment to be less than $1 million.

Springerville Generating Station

Based on the EPA's final standards, Springerville Generating Station (Springerville) may require mercury emission control equipment by 2015. The estimated capital cost of this equipment for Springerville Units 1 and 2 is about $5 million. TEP expects the annual operating cost of the mercury emission control equipment to be about $3 million.

Sundt Generating Station

TEP expects the final EPA standards will have little effect on capital expenditures at Sundt Generating Station (Sundt).

Regional Haze Rules

The EPA's Regional Haze Rules require emission controls known as BART for certain industrial facilities emitting air pollutants that reduce visibility. The rules call for all states to establish goals and emission reduction strategies for improving visibility in national parks and wilderness areas. States must submit these goals and strategies to the EPA for approval. Because Navajo and Four Corners are located on the Navajo Indian Reservation, they are not subject to state oversight. The EPA oversees regional haze planning for these power plants.

Complying with the EPA's BART findings, and with other future environmental rules, may make it economically impractical to continue operating the Navajo, San Juan, and Four Corners power plants or for individual owners to continue to participate in these power plants. TEP cannot predict the ultimate outcome of these matters.

Navajo

In January 2013, the EPA proposed a BART determination that would require the installation of Selective Catalytic Reduction (SCR) technology on all three units at Navajo by 2023. In July 2013, SRP, along with other stakeholders including impacted government agencies, environmental organizations, and tribal representatives, submitted an agreement to the EPA that would achieve greater NOx emission reductions than the EPA's proposed BART rule. In September 2013, EPA issued a supplemental proposal incorporating the provisions of the agreement as a better-than-BART alternative.

Among other things, the agreement calls for the shut down of one unit or an equivalent reduction in emissions by 2020. The shutdown of one unit will not impact the total amount of energy delivered to TEP from Navajo. Additionally, the remaining Navajo participants would be required to install SCR or an equivalent technology on the remaining two units by 2030. As part of the agreement, the current owners have committed to cease their operation of conventional coal-fired generation at Navajo no later than December 2044. The Navajo Nation can continue operation after 2044 at its election. If SCR technology is ultimately implemented at Navajo, TEP estimates its share of the capital cost will be $42 million. Also, the installation of SCR technology at Navajo could increase the power plant's particulate emissions which may require that baghouses be installed. TEP estimates that its share of the capital expenditure for baghouses would be about $43 million. TEP's share of annual operating costs for SCR and baghouses is estimated at less than $1 million each.

San Juan

In August 2011, the EPA issued a Federal Implementation Plan (FIP) establishing new emission limits for air pollutants at San Juan. These requirements are more stringent than those proposed by the State of New Mexico. The FIP requires the installation of SCR technology with sorbent injection on all four units to reduce NOx and control sulfuric acid emissions by September 2016. TEP estimates its share of the cost to install SCR technology with sorbent injection to be between $180 millionand $200 million. TEP expects its share of the annual operating costs for SCR technology to be approximately $6 million.

In 2011, Public Service Company of New Mexico (PNM) filed a petition for review of, and a motion to stay, the FIP with the United States Court of Appeals for the Tenth Circuit (Tenth Circuit). In addition, the operator filed a request for reconsideration of the rule with the EPA and a request to stay the effectiveness of the rule pending the EPA's reconsideration and review by the Tenth Circuit. The State of New Mexico filed similar motions with the Tenth Circuit and the EPA. Several environmental groups were granted permission to join in opposition to PNM's petition to review in the Tenth Circuit. In addition, WildEarth Guardians filed a separate appeal against the EPA challenging the FIP's five-year implementation schedule. PNM was granted permission to join in opposition to that appeal. In March 2012, the Tenth Circuit denied PNM's and the State of New Mexico's motion for stay. Oral argument on the appeal was heard in October 2012 and the parties are currently awaiting the court's decision. In February 2013, the Tenth Circuit referred the litigation to the Tenth Circuit Mediation Office, which has authority to require the parties to attend mediation conferences to informally resolve issues in the pending appeals.

In February 2013, the State of New Mexico, the EPA, and PNM signed a non-binding agreement that outlines an alternative to the FIP. The terms of the agreement include: the retirement of San Juan Units 2 and 3 by December 31, 2017; the replacement by PNM of those units with non-coal generation sources; and the installation of Selective Non-Catalytic Reduction technology (SNCR) on San Juan Units 1 and 4 by January 2016 or later depending on the timing of EPA approvals. The New Mexico Environmental Department (NMED) prepared a revision to the regional haze SIP incorporating the provisions of the agreement, and in September 2013, the New Mexico Environmental Improvement Board approved the SIP revision. The SIP revision now awaits final EPA approval.

TEP estimates its share of the cost to install SNCR technology on San Juan Unit 1 would be approximately $35 million. TEP's share of incremental annual operating costs for SNCR is estimated at $1 million. TEP owns 340 MW, or 50%, of San Juan Units 1 and 2. At September 30, 2013, the book value of TEP's share of San Juan Unit 2 was $114 million. If Unit 2 is retired early, we expect to request ACC approval to recover, over a reasonable time period, all costs associated with the early closure of the unit. We are evaluating various replacement resources. Any decision regarding early closure and replacement resources will require various actions by third parties as well as UNS Energy board and regulatory approvals. TEP cannot predict the ultimate outcome of this matter.

Four Corners

In August 2012, the EPA finalized the regional haze FIP for Four Corners. The final FIP requires SCR technology to be installed on all five units by 2017. However, the FIP also includes an alternative plan that allows APS to close their wholly-owned Units 1, 2, and 3 and install SCR technology on Units 4 and 5. This option allows the installation of SCR technology to be delayed until July 2018. APS must select which FIP alternative to implement by December 31, 2013. In either case, TEP's estimated share of the capital costs to install SCR technology on Units 4 and 5 is approximately $35 million. TEP's share of incremental annual operating costs for SCR is estimated at $2 million.

Springerville

The BART provisions of the Regional Haze Rules requiring emission control upgrades do not apply to Springerville. Other provisions of the Regional Haze Rule requiring further emission reduction are not likely to impact Springerville operations until after 2018.

Sundt

In July 2013, the EPA rejected the Arizona state implementation plan determination that Sundt Unit 4 is not subject to the BART provisions of the Regional Haze Rule. Under the Regional Haze Rule, Sundt Unit 4 will be required to reduce certain emissions within five years of the final EPA BART determination. The EPA postponed its expected release of a proposed BART requirement for Sundt Unit 4 until December 2013, with a final determination expected in May 2014. While TEP does not agree that Sundt Unit 4 is BART eligible, in anticipation of EPA's proposed BART requirements, TEP has submitted a plan for EPA approval proposing to eliminate coal as a fuel after December 2017.

Greenhouse Gas Regulation

In June 2013, President Obama directed the EPA to move forward with carbon emission regulations for both new and existing fossil-fueled power plants.

In September 2013, the EPA issued a re-proposed rule for new power plants. UNS Energy does not anticipate that a final rule related to new fossil-fueled power plant sources will have a significant impact on operations.

For existing power plants, the President ordered the EPA to:

- propose carbon emission standards by June 1, 2014;
- finalize those standards by June 1, 2015; and
- require states to submit their implementation plans to meet the standards by June 30, 2016.

UNS Energy will continue to work with federal and state regulatory agencies to promote compliance flexibility in the rules impacting existing fossil-fuel fired power plants. We cannot predict the ultimate outcome of these matters.

NOTE 5. DEBT, CREDIT FACILITIES, AND CAPITAL LEASE OBLIGATIONS

We summarize below the significant changes to our debt and capital lease obligations from those reported in our 2012 Annual Report on Form 10-K.

TEP SPRINGERVILLE UNIT 1 CAPITAL LEASE PURCHASE COMMITMENTS

In 2011, TEP and the owner participants of Springerville Unit 1 completed a formal appraisal procedure to determine the fair market value purchase price of Springerville Unit 1 in accordance with the Springerville Unit 1 Leases. The purchase price was determined to be $478 per kW of capacity based on a continuous capacity rating of 387 MW. The appraisal price was challenged, and TEP initiated a proceeding in 2012 seeking judicial confirmation of the results of the appraisal process.

In August 2013, TEP elected to purchase leased interests comprising 24.8% of Springerville Unit 1, representing 96 MW of continuous operating capability, for an aggregate purchase price of $46 million, the appraised value, upon the expiration of the lease term in January 2015.

In October 2013, TEP elected to purchase an additional 10.6% leased interest in Springerville Unit 1, representing 41 MW of continuous operating capability, for $20 million, the appraised value, with the purchase scheduled to occur in December 2014.

Upon close of these lease option purchases, TEP will own 49.5% of Springerville Unit 1, or 192 MW of continuous operating capability. Due to TEP's purchase commitment, TEP and UNS Energy expect to record an increase of approximately $55 millionto both Utility Plant Under Capital Leases and Capital Lease Obligations on their balance sheets, of which $39 million is reflected as of September 30, 2013.

Because the owner participants whose leased interests TEP elected to purchase have agreed to sell their interests for amounts equal to the appraised value, TEP dismissed the legal action associated with the appraisal.

TEP TAX-EXEMPT BONDS ISSUED

In March 2013, the Industrial Development Authority of Pima County, Arizona issued approximately $91 million aggregate principal amount of unsecured tax-exempt industrial development bonds on behalf of TEP. The bonds bear interest at a fixed rate of 4.0%, mature in September 2029, and may be redeemed at par on or after March 1, 2023. The proceeds from the sale of the bonds, together with $0.5 million accrued interest provided by TEP, were deposited with a trustee to retire approximately $91million of 6.375% unsecured tax-exempt bonds in April 2013. TEP's payment of accrued interest was the only cash flow activity since proceeds from the newly-issued bonds were not received nor disbursed by TEP. TEP capitalized approximately $1million in costs related to the issuance of the bonds and will amortize the costs to Interest Expense – Long-Term Debt in the income statement through September 2029, the term of the bonds.

UNS ENERGY'S AND TEP'S CREDIT RATING UPGRADES

In June 2013, the pricing under certain debt agreements improved as a result of an upgrade in the credit ratings of UNS Energy and TEP.

- Under the UNS Energy Credit Agreement, the interest rate decreased from London Interbank Offered Rate (LIBOR) plus 1.75% to LIBOR plus 1.5%;
- Under the TEP Credit Agreement, the interest rate decreased from LIBOR plus 1.125% to LIBOR plus 1.0% ; and the margin rate on the $186 million letter of credit facility decreased from 1.125% to 1.0% ; and
- Under the 2010 TEP Reimbursement Agreement, fees payable on outstanding letters of credit decreased from 1.5% to 1.25% per annum.

TEP MORTGAGE INDENTURE

Prior to November 2013, the TEP Credit Agreement and the 2010 TEP Reimbursement Agreement were secured by $423 million in mortgage bonds issued under the 1992 Mortgage. As a result of TEP's credit rating upgrade, in October 2013, TEP (i) requested $423 million in mortgage bonds be returned to TEP for cancellation, and (ii) discharged the 1992 Mortgage, which had created a lien on and security interest in substantially all of TEP's utility plant assets. TEP's obligations under the TEP Credit Agreement and the 2010 TEP Reimbursement Agreement are now unsecured, which changed the pricing of the following agreements, with pricing tied to credit ratings for short-term borrowings:

- Under the TEP Credit Agreement, the interest rate increased from LIBOR plus 1.0% to LIBOR plus 1.25%; and the margin rate on the $186 million letter of credit facility increased from 1.0% to 1.25%; and
- Under the 2010 TEP Reimbursement Agreement, fees payable on outstanding letters of credit increased from 1.25% to 1.75% per annum.

COVENANT COMPLIANCE

At September 30, 2013, we were in compliance with the terms of our credit agreements, the 2010 TEP Reimbursement Agreement, and UNS Electric's term loan.

NOTE 6. INCOME TAXES

Income tax expense differs from the amount of income tax determined by applying the United States statutory federal income tax rate of 35% to pre-tax income due to the following:

	UNS Energy		TEP	
	Three Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Federal Income Tax Expense at Statutory Rate	$38	$ 29	$36	$ 25
State Income Tax Expense, Net of Federal Deduction	5	3	5	3
Federal/State Tax Credits	(1)	(1)	(1)	(1)
Other	(1)	—	(1)	—
Total Federal and State Income Tax Expense	41	$ 31	$39	$ 27

	UNS Energy		TEP	
	Nine Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Federal Income Tax Expense at Statutory Rate	$ 58	$ 47	$ 48	$ 37
State Income Tax Expense, Net of Federal Deduction	8	6	6	4
Federal/State Tax Credits	(2)	(1)	(2)	(1)
Investment Tax Credit Basis Adjustment – Creation of Regulatory Asset	(11)	—	(11)	—
Other	(1)	(1)	1	(1)
Total Federal and State Income Tax Expense	$ 52	$ 51	$ 42	$ 39

Investment Tax Credit Basis Difference Adjustment

Renewable energy assets are eligible for investment tax credits. We reduce the income tax basis of those qualifying assets by half of the related investment tax credit. Historically, the difference between the income tax basis of the asset and the book basis under GAAP was recorded as a deferred tax liability with an offsetting charge to income tax expense in the year the qualifying asset was placed in service. In June 2013, we recorded a regulatory asset and corresponding reduction of income tax expense of $11 million to recover previously recorded income tax expense through future rates as a result of the 2013 TEP Rate Order. The regulatory asset will be amortized as income tax expense as the qualifying assets are depreciated.

Uncertain Tax Positions

We recognize tax benefits from uncertain tax positions if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Each uncertain tax position is recognized up to the amount most likely to be sustained on examination and adjusted with changes in facts and circumstances. A reconciliation of the beginning and ending balances of unrecognized tax benefits follows:

	UNS Energy	TEP
	Millions of Dollars	
Unrecognized Tax Benefits at December 31, 2012	$ 30	$ 23
Additions Based on Tax Positions Taken in the Current Year	1	1
Reduction of Positions from Prior Year Based on Tax Authority Ruling	(27)	(22)
Unrecognized Tax Benefits at September 30, 2013	$ 4	$ 2

In February 2013, we received a favorable ruling from the Internal Revenue Service (IRS) allowing us to deduct up-front incentive payments to customers who install renewable energy resources. These customers transfer environmental attributes or RECs associated with their renewable installations to us over the expected life of the contract for an up-front incentive payment based on the generating capacity of their installation. As a result of the IRS ruling in the first quarter of 2013, UNS Energy reduced unrecognized tax benefits by $28 million, and TEP reduced unrecognized tax benefits by $22 million. The changes in tax benefits primarily affected the balance sheets.

The IRS completed its audit of the 2009 and 2010 tax returns in March 2013 resulting in no change to the financial statements.

In April 2013, the IRS provided notice of intent to audit the 2011 tax returns.

Tangible Repairs Regulation

In September 2013, the U.S. Treasury Department released final income tax regulations on the deduction and capitalization of expenditures related to tangible property. These final regulations apply to tax years beginning on or after January 1, 2014. Several of the provisions within the regulations will require a tax accounting method change to be filed with the IRS resulting in a cumulative effect adjustment. Management believes that adoption of these regulations will not result in a material change to plant-related deferred tax liabilities.

NOTE 7. EMPLOYEE BENEFIT PLANS

UNS Energy's net periodic benefit plan cost, comprised primarily of TEP's cost, includes the following components:

	Pension Benefits		Other Retiree Benefits	
	Three Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Service Cost	$ 4	$ 2	$ 1	$ 1
Interest Cost	4	4	—	1
Expected Return on Plan Assets	(5)	(4)	—	—
Actuarial Loss Amortization	2	2	—	—
Net Periodic Benefit Cost	$ 5	$ 4	$ 1	$ 2

	Pension Benefits		Other Retiree Benefits	
	Nine Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Service Cost	$ 10	$ 8	$ 3	$ 2
Interest Cost	11	12	2	2
Expected Return on Plan Assets	(15)	(13)	(1)	—
Actuarial Loss Amortization	7	5	—	—
Net Periodic Benefit Cost	$ 13	$ 12	$ 4	$ 4

NOTE 8. SHARE-BASED COMPENSATION PLANS

RESTRICTED STOCK UNITS

In May 2013, the UNS Energy Compensation Committee granted 8,870 restricted stock units to non-employee directors at a grant date fair value of $48.99 per share. We recognize compensation expense equal to the fair value on the grant date over the one-year vesting period. The grant date fair value was calculated by reducing the grant date share price by the present value of the dividends expected to be paid on the shares during the vesting period. Fully vested but undistributed non-employee director stock unit awards accrue dividend equivalent stock units based on the fair market value of common shares on the date the dividend is paid. We issue UNS Energy Common Stock (Common Stock) for the vested stock units in the January following the year the person is no longer a director.

In February 2013, the UNS Energy Compensation Committee granted 21,560 restricted stock units to certain management employees at a grant date fair value, based on the grant date share price, of $46.23 per share. The restricted stock units vest on the third anniversary of grant and are distributed in shares of Common Stock upon vesting. We recognize compensation expense equal to the fair value on the grant date over the vesting period. These restricted stock units accrue dividend equivalents during the vesting period, which are distributed in shares of Common Stock upon vesting.

PERFORMANCE SHARES

In February 2013, the UNS Energy Compensation Committee granted 43,120 performance share awards to certain management employees. Half of the performance share awards had a grant date fair value, based on a Monte Carlo simulation, of $45.54per share. Those awards will be paid out in Common Stock based on a comparison of UNS Energy's cumulative Total Shareholder Return to the companies included in the Edison Electric Institute Index during the performance period of January 1, 2013 through December 31, 2015. We recognize compensation expense equal to the fair value on the grant date over the vesting period if the requisite service period is fulfilled, whether or not the threshold is achieved. The remaining half had a grant date fair value, based on the grant date share price, of $46.23 per share and will be paid out in Common Stock based on cumulative net income for the three-year period ended December 31, 2015. We recognize compensation expense equal to the fair value on the grant date over the requisite service period only for the awards that ultimately vest. The performance shares vest based on the achievement of these goals by the end of the performance period; any unearned awards are forfeited. Performance shares accrue dividend equivalents during the performance period, which are paid upon vesting.

SHARE-BASED COMPENSATION EXPENSE

UNS Energy and TEP recorded $1 million of share-based compensation expense for the three months ended September 30, 2013 and September 30, 2012. For the nine months ended September 30, 2013, UNS Energy recorded share-based compensation expense of $3 million, $2 million of which related to TEP. For the nine months ended September 30, 2012, UNS Energy and TEP recorded share-based compensation expense of $2 million.

At September 30, 2013, the total unrecognized compensation cost related to non-vested share-based compensation was $4 million, which will be recorded as compensation expense over the remaining vesting periods through February 2016. AtSeptember 30, 2013, 1 million shares were awarded but not yet issued, including performance shares, under the share-based compensation plans.

NOTE 9. UNS ENERGY EARNINGS PER SHARE

We compute basic Earnings Per Share (EPS) by dividing Net Income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could result if outstanding stock options, share-based compensation awards, or UNS Energy's Convertible Senior Notes were exercised or converted into Common Stock. We excluded anti-dilutive stock options and contingently issuable shares from the calculation of diluted EPS. The numerator in calculating diluted EPS is Net Income adjusted for the interest on Convertible Senior Notes (net of tax) that would not be paid if the remaining notes, not yet converted, were converted to Common Stock.

The following table illustrates the effect of dilutive securities on net income and weighted average Common Stock outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	Thousands of Dollars			
Numerator:				
Net Income	$67,990	$50,664	$113,953	$83,414
Income from Assumed Conversion of Convertible Senior Notes (1)	—	—	—	1,100
Adjusted Net Income Available for Diluted Common Stock Outstanding	$67,990	$50,664	$113,953	$84,514
	Thousands of Shares			
Denominator:				
Weighted Average Shares of Common Stock Outstanding:				
Common Shares Issued	41,472	41,290	41,427	39,835
Fully Vested Deferred Stock Units	178	156	169	148
Total Weighted Average Common Stock Outstanding – Basic	41,650	41,446	41,596	39,983
Effect of Dilutive Securities:				
Convertible Senior Notes (1)	—	—	—	1,417
Options and Stock Issuable Under Share-Based Compensation Plans	378	417	345	319
Total Weighted Average Common Stock Outstanding – Diluted	42,028	41,863	41,941	41,719

(1) In 2012, the Convertible Senior Notes were converted to Common Stock or redeemed for cash.

We excluded the following outstanding stock options, with an exercise price above market, and contingently issuable shares from our diluted EPS computation as their effect would be anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	Thousands of Shares			
Stock Options	—	—	—	67
Restricted Stock Units	—	—	8	—
Total Anti-Dilutive Shares Excluded from the Diluted EPS Computation	—	—	8	67

NOTE 10. SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of Net Income to Net Cash Flows from Operating Activities follows:

	UNS Energy	
	Nine Months Ended September 30,	
	2013	2012
	Thousands of Dollars	
Net Income	$113,953	$ 83,414
Adjustments to Reconcile Net Income		
To Net Cash Flows from Operating Activities		
Depreciation Expense	111,175	105,319
Amortization Expense	21,600	26,845
Depreciation and Amortization Recorded to Fuel and Operations and Maintenance Expense	5,399	4,911
Amortization of Deferred Debt-Related Costs Included in Interest Expense	2,280	2,250
Provision for Retail Customer Bad Debts	1,703	2,017
Use of RECs for Compliance	12,999	4,017
Deferred Income Taxes	77,962	63,057
Investment Tax Credit Basis Adjustment – Creation of Regulatory Asset	(11,039)	—
Pension and Retiree Expense	17,087	16,391
Pension and Retiree Funding	(27,602)	(23,649)
Share-Based Compensation Expense	2,810	1,952
Allowance for Equity Funds Used During Construction	(4,145)	(2,708)
Increase (Decrease) to Reflect PPFAC/PGA Recovery	(6,814)	29,730
PPFAC Reduction – 2013 TEP Rate Order	3,000	—
Liquidated Damages for Springerville Unit 3 Outage	—	1,921
Changes in Assets and Liabilities which Provided (Used)		
Cash Exclusive of Changes Shown Separately		
Accounts Receivable	(32,883)	(28,686)
Materials and Fuel Inventory	14,839	(33,038)
Accounts Payable	(18,497)	(5,220)
Income Taxes	(15,847)	(11,738)
Interest Accrued	(2,137)	(1,551)
Taxes Other Than Income Taxes	18,718	16,478
Other	20,473	16,426
Net Cash Flows – Operating Activities	$305,034	$268,138

	TEP	
	Nine Months Ended September 30,	
	2013	2012
	Thousands of Dollars	
Net Income	$ 96,433	$ 65,018
Adjustments to Reconcile Net Income		
To Net Cash Flows from Operating Activities		
Depreciation Expense	87,729	82,656
Amortization Expense	24,393	29,621
Depreciation and Amortization Recorded to Fuel and Operations and Maintenance Expense	4,602	3,922
Amortization of Deferred Debt-Related Costs Included in Interest Expense	1,831	1,628
Provision for Retail Customer Bad Debts	1,315	1,348
Use of RECs for Compliance	11,766	3,324
Deferred Income Taxes	64,132	51,638
Investment Tax Credit Basis Adjustment – Creation of Regulatory Asset	(10,751)	—
Pension and Retiree Expense	14,909	14,466
Pension and Retiree Funding	(26,118)	(20,989)
Share-Based Compensation Expense	2,239	1,540
Allowance for Equity Funds Used During Construction	(2,923)	(2,265)
Increase (Decrease) to Reflect PPFAC Recovery	(5,079)	25,150
PPFAC Reduction – 2013 TEP Rate Order	3,000	—
Liquidated Damages for Springerville Unit 3 Outage	—	1,921
Changes in Assets and Liabilities which Provided (Used)		
Cash Exclusive of Changes Shown Separately		
Accounts Receivable	(42,542)	(44,269)
Materials and Fuel Inventory	14,955	(32,448)
Accounts Payable	(8,678)	4,977
Income Taxes	(10,681)	(11,424)
Interest Accrued	1,008	2,729
Taxes Other Than Income Taxes	17,405	16,710
Other	15,234	11,898
Net Cash Flows – Operating Activities	$254,179	$207,151

Non-Cash Transactions

In August 2013, TEP recorded an increase of $39 million to both Utility Plant Under Capital Leases and Capital Lease Obligations due to TEP's commitment to purchase leased interests in January 2015. See Note 5.

In March 2013, TEP issued $91 million of tax-exempt bonds and used the proceeds to redeem debt using a trustee. Since the cash flowed through a trust account, the issuance and redemption of debt resulted in a non-cash transaction. See Note 5.

In September 2012, TEP declared a $30 million dividend to UNS Energy which was paid in October 2012.

In the first nine months of 2012, UNS Energy converted $147 million of the previously outstanding $150 million Convertible Senior Notes into Common Stock, resulting in non-cash transactions.

In the first nine months of 2012, TEP's redemption of $193 million of tax-exempt bonds resulted in a non-cash transaction.

NOTE 11. FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS

We categorize our assets and liabilities accounted for at fair value into the three-level hierarchy based on inputs used to determine the fair value. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in an active market. Level 2 inputs include quoted prices for similar assets or liabilities, quoted prices in non-active markets, and pricing models whose inputs are observable, directly or indirectly. Level 3 inputs are unobservable and supported by little or no market activity.

FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. We use the following methods and assumptions for estimating the fair value of our financial instruments:

- The carrying amounts of our current assets, current liabilities, including current maturities of long-term debt, and amounts outstanding under our credit agreements approximate the fair values due to the short-term nature of these financial instruments. These items have been excluded from the table below.
- For Investment in Lease Debt, we calculated the present value of remaining cash flows using current market rates for instruments with similar characteristics such as credit rating and time-to-maturity. We also incorporated the impact of counterparty credit risk using market credit default swap data. TEP's Investment in Lease Debt matured in January 2013.
- For Investment in Lease Equity, we estimate the price at which an investor would realize a target internal rate of return. Our estimates include: the mix of debt and equity an investor would use to finance the purchase; the cost of debt; the required return on equity; and income tax rates. The estimate assumes a residual value based on an appraisal of Springerville Unit 1 conducted in 2011.
- For Long-Term Debt, we use quoted market prices, when available, or calculate the present value of remaining cash flows at the balance sheet date. When calculating present value, we use current market rates for bonds with similar characteristics such as credit rating and time-to-maturity. We consider the principal amounts of variable rate debt outstanding to be reasonable estimates of the fair value. We also incorporate the impact of our own credit risk using a credit default swap rate.

The use of different estimation methods and/or market assumptions may yield different estimated fair value amounts. The carrying values recorded on the balance sheets and the estimated fair values of our financial instruments include the following:

		September 30, 2013		December 31, 2012	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
		Millions of Dollars			
Assets:					
TEP Investment in Lease Debt	Level 2	$ —	$ —	$ 9	$ 9
TEP Investment in Lease Equity	Level 3	36	24	36	23
Liabilities:					
Long-Term Debt					
UNS Energy	Level 2	1,506	1,522	1,498	1,583
TEP	Level 2	1,224	1,215	1,223	1,271

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following tables present, by level within the fair value hierarchy, UNS Energy's and TEP's assets and liabilities accounted for at fair value on a recurring basis. These assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	UNS Energy					
	Total	Level 1	Level 2	Level 3	Counterparty Netting of Energy Contracts Not Offset on the Balance Sheets (5)	Net Amount
	September 30, 2013 Millions of Dollars					
Assets						
Cash Equivalents (1)	$ 31	$ 31	$—	$—	$—	$ 31
Restricted Cash (1)	2	2	—	—	—	2
Rabbi Trust Investments (2)	21	—	21	—	—	21
Energy Contracts – Regulatory Recovery (3)	2	—	1	1	(2)	—
Total Assets	56	33	22	1	(2)	54
Liabilities						
Energy Contracts – Regulatory Recovery (3)	(11)	—	(5)	(6)	2	(9)
Energy Contracts – Cash Flow Hedge (3)	(1)	—	—	(1)	—	(1)
Interest Rate Swaps (4)	(8)	—	(8)	—	—	(8)
Total Liabilities	(20)	—	(13)	(7)	2	(18)
Net Total Assets (Liabilities)	$ 36	$ 33	$ 9	$ (6)	$—	$ 36

	UNS Energy					
	Total	Level 1	Level 2	Level 3	Counterparty Netting of Energy Contracts Not Offset on the Balance Sheets (5)	Net Amount
	December 31, 2012 Millions of Dollars					
Assets						
Cash Equivalents (1)	$ 20	$ 20	$—	$—	$—	$ 20
Restricted Cash (1)	7	7	—	—	—	7
Rabbi Trust Investments (2)	19	—	19	—	—	19
Energy Contracts – Regulatory Recovery (3)	7	—	2	5	(5)	2
Total Assets	53	27	21	5	(5)	48
Liabilities						
Energy Contracts – Regulatory Recovery (3)	(15)	—	(7)	(8)	5	(10)
Energy Contracts – Cash Flow Hedge (3)	(2)	—	—	(2)	—	(2)
Interest Rate Swaps (4)	(10)	—	(10)	—	—	(10)
Total Liabilities	(27)	—	(17)	(10)	5	(22)
Net Total Assets (Liabilities)	$ 26	$ 27	$ 4	$ (5)	$—	$ 26

	TEP					
	Total	Level 1	Level 2	Level 3	Counterparty Netting of Energy Contracts Not Offset on the Balance Sheets (5)	Net Amount
	September 30, 2013 Millions of Dollars					
Assets						
Cash Equivalents (1)	$ 15	$ 15	$—	$—	$—	$ 15
Restricted Cash (1)	2	2	—	—	—	2
Rabbi Trust Investments (2)	21	—	21	—	—	21
Energy Contracts – Regulatory Recovery (3)	1	—	1	—	(1)	—
Total Assets	39	17	22	—	(1)	38
Liabilities						
Energy Contracts – Regulatory Recovery (3)	(3)	—	(2)	(1)	1	(2)
Energy Contracts – Cash Flow Hedge (3)	(1)	—	—	(1)	—	(1)
Interest Rate Swaps (4)	(8)	—	(8)	—	—	(8)
Total Liabilities	(12)	—	(10)	(2)	1	(11)
Net Total Assets (Liabilities)	$ 27	$ 17	$ 12	$ (2)	$—	$ 27

	TEP					
	Total	**Level 1**	**Level 2**	**Level 3**	**Counterparty Netting of Energy Contracts Not Offset on the Balance Sheets** [5]	**Net Amount**
	December 31, 2012 Millions of Dollars					
Assets						
Cash Equivalents [1]	$ 1	$ 1	$—	$—	$—	$ 1
Restricted Cash [1]	7	7	—	—	—	7
Rabbi Trust Investments [2]	19	—	19	—	—	19
Energy Contracts – Regulatory Recovery [3]	3	—	1	2	(1)	2
Total Assets	30	8	20	2	(1)	29
Liabilities						
Energy Contracts – Regulatory Recovery [3]	(3)	—	(3)	—	1	(2)
Energy Contracts – Cash Flow Hedge [3]	(2)	—	—	(2)	—	(2)
Interest Rate Swaps [4]	(10)	—	(10)	—	—	(10)
Total Liabilities	(15)	—	(13)	(2)	1	(14)
Net Total Assets (Liabilities)	$ 15	$ 8	$ 7	$—	$—	$ 15

(1) Cash Equivalents and Restricted Cash represent amounts held in money market funds and certificates of deposit valued at cost, including interest. Cash Equivalents are included in Cash and Cash Equivalents on the balance sheets. Restricted Cash is included in Investments and Other Property – Other on the balance sheets.

(2) Rabbi Trust Investments include amounts related to deferred compensation and Supplement Executive Retirement Plan (SERP) benefits held in mutual and money market funds valued at quoted prices traded in active markets. These investments are included in Investments and Other Property – Other on the balance sheets.

(3) Energy Contracts include gas swap agreements (Level 2), power options (Level 2), gas options (Level 3), forward power purchase and sales contracts (Level 3), and forward power purchase contracts indexed to gas (Level 3), entered into to reduce exposure to energy price risk. These contracts are included in Derivative Instruments on the UNS Energy and TEP balance sheets. The valuation techniques are described below.

(4) Interest Rate Swaps are valued based on the 3-month or 6-month LIBOR index or the Securities Industry and Financial Markets Association municipal swap index. These interest rate swaps are included in Derivative Instruments on the balance sheets.

(5) All energy contracts are subject to legally enforceable master netting arrangements to mitigate credit risk. We have presented the effect of offset by counterparty; however, we present derivatives on a gross basis on the balance sheets.

DERIVATIVE INSTRUMENTS

Regulatory Recovery

We are exposed to energy price risk associated with our gas and purchased power requirements. We reduce our energy price risk through a variety of derivative and non-derivative instruments. The objectives for entering into such contracts include: creating price stability; meeting load and reserve requirements; and reducing exposure to price volatility that may result from delayed recovery under the PPFAC or PGA. See Note 2.

We primarily apply the market approach for recurring fair value measurements. When we have observable inputs for substantially the full term of the asset or liability or use quoted prices in an inactive market, we categorize the instrument in Level 2. We categorize derivatives in Level 3 when we use an aggregate pricing service or published prices that represent a consensus reporting of multiple brokers.

For both power and gas prices we obtain quotes from brokers, major market participants, exchanges, or industry publications and rely on our own price experience from active transactions in the market. We primarily use one set of quotations each for power and for gas and then validate those prices using other sources. We believe that the market information provided is reflective of market conditions as of the time and date indicated.

Published prices for energy derivative contracts may not be available due to the nature of contract delivery terms such as non-standard time blocks and non-standard delivery points. In these cases, we apply adjustments based on historical price curve relationships, transmission, and line losses.

We estimate the fair value of our gas options using a Black-Scholes-Merton option pricing model which includes inputs such as implied volatility, interest rates, and forward price curves. Beginning in the third quarter of 2013, the fair value of our power options is based on contractually specified option premiums instead of the Black-Scholes-Merton option pricing model because the needed inputs are no longer available. Based on the change, we transferred the power options out of Level 3 and in to Level 2 at the end of third quarter of 2013. The amount transferred was less than $0.5 million. We record transfers between levels in the fair value hierarchy at the end of the reporting period. There were no other transfers between levels in the periods presented.

We also consider the impact of counterparty credit risk using current and historical default and recovery rates, as well as our own credit risk using credit default swap data.

Our assessments of the significance of a particular input to the fair value measurements require judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. We review the assumptions underlying our contracts monthly.

Cash Flow Hedges

We enter into interest rate swaps to mitigate the exposure to volatility in variable interest rates on debt. These swap agreements expire through January 2020. We also have a power purchase swap to hedge the cash flow risk associated with a long-term power supply agreement. This swap agreement expires in September 2015. The after-tax unrealized gains and losses on cash flow hedge activities and amounts reclassified to earnings are reported in the statements of other comprehensive income and Note 12. The loss expected to be reclassified to earnings within the next twelve months is estimated to be $4 million.

Financial Impact of Energy Contracts

We record unrealized gains and losses on energy contracts that are recoverable through the PPFAC or PGA on the balance sheets as a regulatory asset or a regulatory liability rather than reporting the transaction in the income statements or in the statements of other comprehensive income, as shown in following tables:

	UNS Energy		TEP	
	Three Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Increase (Decrease) to Regulatory Assets/Liabilities	$1	$(12)	$1	$(6)

	UNS Energy		TEP	
	Nine Months Ended September 30,			
	2013	2012	2013	2012
	Millions of Dollars			
Increase (Decrease) to Regulatory Assets/Liabilities	$—	$(20)	$2	$(7)

Realized gains and losses on settled contracts are fully recoverable through the PPFAC or PGA. At September 30, 2013, UNS Energy and TEP have energy contracts that will settle through the third quarter of 2016.

Derivative Volumes

The volumes associated with our energy contracts were as follows:

	UNS Energy		TEP	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Power Contracts GWh	1,819	2,228	856	820
Gas Contracts GBtu	29,022	17,851	8,504	7,958

Level 3 Fair Value Measurements

The following table provides quantitative information regarding significant unobservable inputs in UNS Energy's Level 3 fair value measurements:

		Fair Value at September 30, 2013			
	Valuation Approach	Assets	Liabilities	Unobservable Inputs	Range of Unobservable Input
		Millions of Dollars			
Forward Contracts [(1)]	Market approach	$1	$(7)	Market price per MWh	$23.00 – $48.00

(1) TEP comprises $2 million of the forward contract liabilities.

Our exposure to risk resulting from changes in the unobservable inputs identified above is mitigated as we report the change in fair value of energy contract derivatives as a regulatory asset or a regulatory liability recoverable through the PPFAC or PGA mechanisms, or as a component of other comprehensive income, rather than in the income statement.

The following tables present a reconciliation of changes in the fair value of assets and liabilities classified as Level 3 in the fair value hierarchy:

	Three Months Ended September 30, 2013	
	UNS Energy	TEP
	Millions of Dollars	
Balances at June 30, 2013	$(5)	$ (1)
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(3)	(1)
Settlements	2	—
Balances at September 30, 2013	$(6)	$ (2)
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$(2)	$—

	Nine Months Ended September 30, 2013	
	UNS Energy	TEP
	Millions of Dollars	
Balances at December 31, 2012	$(5)	$—
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(4)	(2)
Settlements	3	—
Balances at September 30, 2013	$(6)	$ (2)
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$(5)	$ (1)

	Three Months Ended September 30, 2012	
	UNS Energy	TEP
	Millions of Dollars	
Balances at June 30, 2012	$ (7)	$ (1)
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	—	1
Settlements	1	—
Balances at September 30, 2012	$ (6)	$—
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$—	$—

	Nine Months Ended September 30, 2012	
	UNS Energy	TEP
	Millions of Dollars	
Balances at December 31, 2011	$(10)	$—
Realized/Unrealized Gains/(Losses) Recorded to:		
Net Regulatory Assets/Liabilities – Derivative Instruments	(4)	—
Settlements	8	—
Balances at September 30, 2012	$ (6)	$—
Total Gains/(Losses) Attributable to the Change in Unrealized Gains/(Losses) Relating to Assets/Liabilities Still Held at the End of the Period	$ (1)	$—

CREDIT RISK

We consider the effect of counterparty credit risk in determining the fair value of derivative instruments that are in a net asset position after incorporating collateral posted by counterparties and allocate the credit risk adjustment to individual contracts. We also consider the impact of our own credit risk after considering collateral posted on instruments that are in a net liability position and allocate the credit risk adjustment to all individual contracts. The impact of counterparty credit risk and our own credit risk on the fair value of derivative contracts was less than $0.5 million at September 30, 2013 and at December 31, 2012.

Material adverse changes could trigger credit risk-related contingent features. At September 30, 2013, the fair value of derivative instruments in a net liability position under contracts with credit risk-related contingent features was $35 million for UNS Energy and $13 million for TEP. The additional collateral to be posted if credit-risk contingent features were triggered would be $35 million for UNS Energy and $13 million for TEP.

NOTE 12. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT

The realized changes in AOCI by component are as follows:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Other Comprehensive Income		Affected Line Item in the Income Statement
	UNS Energy	TEP	
	Three Months Ended September 30, 2013		
	Thousands of Dollars		
Realized Losses on Cash Flow Hedges			
Interest Rate Swaps – Debt	$(350)	$(296)	Interest Expense Long-Term Debt
Interest Rate Swaps – Capital Leases	(612)	(612)	Interest Expense Capital Leases
Commodity Contracts	(556)	(556)	Purchased Energy/Purchased Power
Tax Benefit	601	579	
Realized Losses on Cash Flow Hedges, Net of Taxes	(917)	(885)	
Amortization of SERP and Defined Benefit Plans			
Prior Service Costs	(110)	(110)	Other Expense
Tax Benefit	42	42	
Amortization, Net of Taxes	(68)	(68)	
Total Reclassifications from Other Comprehensive Income for the Period	$(985)	$(953)	

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Other Comprehensive Income		Affected Line Item in the Income Statement
	UNS Energy	TEP	
	Nine Months Ended September 30, 2013		
	Thousands of Dollars		
Realized Losses on Cash Flow Hedges			
Interest Rate Swaps – Debt	$(1,026)	$ (871)	Interest Expense Long-Term Debt
Interest Rate Swaps – Capital Leases	(1,820)	(1,820)	Interest Expense Capital Leases
Commodity Contracts	(747)	(747)	Purchased Energy/Purchased Power
Tax Benefit	1,420	1,360	
Realized Losses on Cash Flow Hedges, Net of Taxes	(2,173)	(2,078)	
Amortization of SERP and Defined Benefit Plans			
Prior Service Costs	(332)	(332)	Other Expense
Tax Benefit	127	127	
Amortization, Net of Taxes	(205)	(205)	
Total Reclassifications from Other Comprehensive Income for the Period	$(2,378)	$(2,283)	

NOTE 13. POTENTIAL PURCHASE OF GAS-FIRED GENERATION FACILITY

In August 2013, TEP entered into exclusive negotiations with Entegra Power Group LLC (Entegra) to purchase Unit 3 of the Gila River Generating Station (Gila River Unit 3) located in Gila Bend, Arizona. Gila River Unit 3 is a gas-fired combined cycle unit with a nominal capacity rating of 550 MW. Although there can be no assurance that TEP and Entegra will reach agreement on TEP's purchase of Gila River Unit 3, TEP anticipates that, if such an agreement is reached, definitive purchase and sale agreements would be executed prior to year-end 2013. TEP further anticipates any such purchase would close by year-end 2014 and would be subject to, among other things, the receipt of required regulatory approvals. UNS Electric may purchase up to 150 MW of Gila River Unit 3, while TEP would purchase the remaining capacity.

NOTE 14. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) issued guidance for the recognition, measurement, and disclosure of certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. On adoption, an entity would recognize and disclose in the financial statements its obligation from a joint and several liability arrangement as the sum of the amount the entity agreed with its co-obligors that it will pay, and any additional amount the entity expects to pay on behalf of its co-obligors. This guidance will be effective in the first quarter of 2014. We do not expect the adoption of this guidance to have a material impact on our financial condition, results of operations, or cash flows.

The FASB issued guidance which permits an entity to designate the Federal Funds Rate (the interest rate at which depository institutions lend balances to each other overnight) as a benchmark interest rate for fair value and cash flow hedges. Prior to this guidance, only interest rates on direct treasury obligations of the U.S. Government and the LIBOR were considered benchmark interest rates in the U.S. This guidance is effective immediately, and can be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We have not entered into any new cash flow or fair value hedges since the effective date of this guidance. We do not expect this guidance to have a material impact on our financial condition, results of operations, or cash flows.

The FASB issued new guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. We will be required to comply with the guidance on a prospective basis beginning in the first quarter of 2014. Although adoption of this new guidance may impact how such items are classified on our balance sheets, we do not expect such change to be material. In addition, there will be no changes in the presentations of our other financial statements.

Unaudited Pro forma Consolidated
Financial Statements

Fortis Inc.

As at and for the nine months ended September 30, 2013 and for the year ended December 31, 2012

FOREWORD

UNAUDITED *PRO FORMA* CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited *pro forma* consolidated financial statements give effect to the proposed acquisition (the "Proposed Acquisition") by Fortis Inc. of UNS Energy Corporation and its subsidiaries (collectively, "UNS Energy") under the purchase method of accounting. The unaudited *pro forma* consolidated balance sheet gives effect to the Proposed Acquisition as if it had closed on September 30, 2013. The unaudited *pro forma* consolidated statements of earnings for the nine-months ended September 30, 2013 and for the year ended December 31, 2012 give effect to the Proposed Acquisition as if it had closed on January 1, 2012.

The unaudited *pro forma* consolidated financial statements are presented for illustrative purposes only. The *pro forma* adjustments are based upon available information and certain assumptions that we believe are reasonable in the circumstances, as described in the notes to the unaudited *pro forma* consolidated financial statements.

UNS Energy, formerly UniSource Energy Corporation, is a utility services holding company engaged, through its subsidiaries, in the electric generation and energy delivery business. The unaudited *pro forma* consolidated financial statements are based on UNS Energy's consolidated financial statements as at and for the nine-months ended September 30, 2013 and for the year ended December 31, 2012.

The *pro forma* information presented, including allocation of purchase price, is based on preliminary estimates of fair values of assets acquired and liabilities assumed, available information and assumptions and may be revised as additional information becomes available. The actual adjustments to the consolidated financial statements upon the closing of the Proposed Acquisition will depend on a number of factors, including additional information available and the net assets of UNS Energy on the closing date of the Proposed Acquisition. Therefore, the actual adjustments will differ from the *pro forma* adjustments, and the differences may be material. For example, the final purchase price allocation is dependent on, among other things, the finalization of asset and liability valuations. A final determination of these fair values will reflect an independent third-party valuation. This final valuation will be based on the actual net tangible and intangible assets and liabilities of UNS Energy that exist as of the closing date of the Proposed Acquisition. Any final adjustment may change the allocation of purchase price, which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited *pro forma* consolidated financial statements, including a change to goodwill.

FORTIS INC.

PRO FORMA CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 2013

(Unaudited)
(In millions of Canadian dollars)

	Fortis Inc.	UNS Energy	*Note*	*Pro forma* adjustments	*Pro forma* consolidated balance sheet
ASSETS					
Current assets					
Cash and cash equivalents	$ 155	$ 75	3[b]	$(2,606)	**$ 230**
			3[c]	1,800	
			3[c]	(72)	
			3[d]	922	
			3[d]	(14)	
			3[e]	(30)	
Accounts receivable	523	183		—	**706**
Prepaid expenses	53	28		—	**81**
Inventories	172	138		—	**310**
Regulatory assets	146	54		—	**200**
Deferred income taxes	34	69		—	**103**
	1,083	547		—	**1,630**
Other assets	233	96	3[d]	14	**343**
Regulatory assets	1,825	207		—	**2,032**
Deferred income taxes	4	—	3[c]	21	**26**
			3[e]	1	
Utility capital assets	11,350	3,573		—	**14,923**
Non-utility capital assets	655	—		—	**655**
Intangibles assets	356	—		—	**356**
Goodwill	2,064	—	3[b]	1,439	**3,503**
	$17,570	$4,423		$ 1,475	**$23,468**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	$ 111	$ 24		$ —	**$ 135**
Accounts payable and other current liabilities	847	265	3[e]	(5)	**1,107**
Regulatory liabilities	108	59		—	**167**
Current installments of long-term debt	369	—		—	**369**
Current installments of capital lease and finance obligations	7	174		—	**181**
Deferred income taxes	9	—		—	**9**
	1,451	522		(5)	**1,968**
Other Liabilities	808	244		—	**1,052**
Regulatory liabilities	804	307		—	**1,111**
Deferred income taxes	1,064	497		—	**1,561**
Long-term debt	6,750	1,552	3[d]	922	**9,224**
Capital lease and finance obligations	421	134		—	**555**
	11,298	3,256		917	**15,471**
Shareholders' equity					
Common shares	3,760	915	3[g]	(915)	**5,509**
			3[c]	1,800	
			3[c]	(72)	
			3[c]	21	
Preference shares	1,229	—		—	**1,229**
Additional paid-in capital	16	—		—	**16**
Accumulated other comprehensive loss	(101)	(8)	3[g]	8	**(101)**
Retained earnings	1,013	260	3[g]	(260)	**989**
			3[e]	(30)	
			3[e]	6	
	5,917	1,167		558	**7,642**
Non-controlling interests	355	—		—	**355**
	6,272	1,167		558	**7,997**
	$17,570	$4,423		$ 1,475	**$23,468**

See the accompanying notes to the unaudited pro forma consolidated financial statements, which are integral part of these statements.

FORTIS INC.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2013

(Unaudited)

(In millions of Canadian dollars, except for per share amounts)

	Fortis Inc.	UNS Energy	Note	*Pro forma* adjustments	*Pro forma* consolidated statement of earnings
Revenue	$2,874	$1,161		$ —	**$4,035**
Expenses					
Energy supply costs	1,143	462		—	**1,605**
Operating	726	327		—	**1,053**
Depreciation and amortization	400	136		—	**536**
	2,269	925		—	**3,194**
Operating income	605	236		—	**841**
Other income (expenses)	(36)	6		—	**(30)**
Finance charges	284	72	3[d]	41	**398**
			3[d]	1	
Earnings before income taxes and extraordinary item	285	170		(42)	**413**
Income tax expense	3	53	3[d]	(12)	**36**
			3[f]	(8)	
Net earnings before extraordinary item	282	117		(22)	**377**
Extraordinary gain net of tax	22	—		—	**22**
Net earnings	$ 304	$ 117		$ (22)	**$ 399**
Net earnings attributable to:					
Non-controlling interests	$ 7	$ —		$ —	**$ 7**
Preference equity shareholders	44	—		—	**44**
Common equity shareholders	253	117		(22)	**348**
	$ 304	$ 117		$ (22)	**$ 399**
Earnings attributable to common equity shareholders, basic	$ 253				**$ 348**
Effect of potential dilutive securities: preference shares	11				**11**
Anti-dilutive impact: preference shares	(11)				**(11)**
Earnings attributable to common equity shareholders, diluted	$ 253				**$ 348**
Weighted average common shares outstanding (#, millions)					
Basic	199.1		3[h]	58.6	**257.7**
Diluted	199.8		3[h]	58.6	**258.4**
Earnings per common share before extraordinary item					
Basic	$ 1.16				**$ 1.26**
Diluted	$ 1.16				**$ 1.26**
Earnings per common share					
Basic	$ 1.27				**$ 1.35**
Diluted	$ 1.27				**$ 1.35**

See the accompanying notes to the unaudited pro forma consolidated financial statements, which are integral part of these statements.

FORTIS INC.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

(Unaudited)

(In millions of Canadian dollars, except for per share amounts)

	Fortis Inc.	UNS Energy	*Note*	*Pro forma* adjustments	*Pro forma* consolidated statement of earnings
Revenue	$3,654	$1,461		$ —	**$5,115**
Expenses					
Energy supply costs	1,522	599		—	**2,121**
Operating	868	434		—	**1,302**
Depreciation and amortization	470	177		—	**647**
	2,860	1,210		—	**4,070**
Operating income	794	251		—	**1,045**
Other income	4	—		—	**4**
Finance charges	366	105	3[d]	55	**527**
			3[d]	1	
Earnings before income taxes	432	146		(56)	**522**
Income tax expense	61	56	3[d]	(16)	**90**
			3[f]	(11)	
Net earnings	$ 371	$ 90		$ (29)	**$ 432**
Net earnings attributable to:					
Non-controlling interests	$ 9	$ —		$ —	**$ 9**
Preference equity shareholders	47	—		—	**47**
Common equity shareholders	315	90		(29)	**376**
	$ 371	$ 90		$ (29)	**$ 432**
Earnings attributable to common equity shareholders, basic	$ 315				**$ 376**
Effect of potential dilutive securities: preference shares	17				**17**
Anti-dilutive impact: preference shares	(7)				**(7)**
Earnings attributable to common equity shareholders, diluted	$ 325				**$ 386**
Weighted average common shares outstanding (#, millions)					
Basic	190.0		3[h]	58.6	**248.6**
Diluted	197.2		3[h]	58.6	**255.8**
Earnings per common share					
Basic	$ 1.66				**$ 1.51**
Diluted	$ 1.65				**$ 1.51**

See the accompanying notes to the unaudited pro forma consolidated financial statements, which are integral part of these statements.

FORTIS INC.

Notes to Unaudited *Pro Forma* Consolidated Financial Statements
As at and for the nine-months ended September 30, 2013 and for the year ended December 31, 2012
(in millions of Canadian dollars, unless otherwise stated)

1. BASIS OF PRESENTATION

The accompanying unaudited *pro forma* consolidated financial statements give effect to the proposed acquisition ("Proposed Acquisition") by Fortis Inc. ("Fortis" or the "Corporation") of UNS Energy Corporation and its subsidiaries (collectively, "UNS Energy") as described in the short form prospectus dated December 20, 2013 (the "Prospectus"). The accompanying unaudited *pro forma* consolidated financial statements have been prepared by management of Fortis and are derived from the unaudited and audited consolidated financial statements of Fortis as at and for the nine-months ended September 30, 2013 and for the year ended December 31, 2012, respectively, and the unaudited and audited consolidated financial statements of UNS Energy as at and for the nine-months ended September 30, 2013 and for the year ended December 31, 2012, respectively.

The accompanying unaudited *pro forma* consolidated financial statements utilize accounting policies that are consistent with those disclosed in the Corporation's audited consolidated financial statements and were prepared in accordance with accounting principles generally accepted in the United States.

The Proposed Acquisition has been accounted for using the purchase method. The purchase price is primarily based upon the regulated assets at the date of closing. Based on the purchase price calculation as detailed in the merger agreement dated December 11, 2013, the estimated net purchase price for the equity of UNS Energy is approximately $2.6 billion (Note 3[a]).

The accompanying unaudited *pro forma* consolidated balance sheet and unaudited *pro forma* consolidated statements of earnings reflect the Proposed Acquisition effected on September 30, 2013 and January 1, 2012, respectively. The accompanying unaudited *pro forma* consolidated financial statements are not necessarily indicative of the results that would have been achieved if the transactions reflected therein had been completed on the dates indicated or the results which may be obtained in the future. For instance, the actual purchase price allocation will reflect the fair value, at the purchase date, of the assets acquired and liabilities assumed based upon the Corporation's evaluation of such assets and liabilities following the closing of the Proposed Acquisition and, accordingly, the final purchase price allocation, as it relates principally to goodwill, may differ materially from the preliminary allocation reflected herein.

The accompanying unaudited *pro forma* consolidated financial statements should be read in conjunction with the description of the Proposed Acquisition and the financing thereof provided in the Prospectus; the audited and unaudited consolidated financial statements of UNS Energy, including the notes thereto, included in the Prospectus; and the audited and unaudited consolidated financial statements of Fortis, including the notes thereto, incorporated by reference in the Prospectus.

The underlying assumptions for the *pro forma* adjustments provide a reasonable basis for presenting the significant financial effect directly attributable to the Proposed Acquisition. These *pro forma* adjustments are tentative and are based on currently available financial information and certain estimates and assumptions. The actual adjustments to the consolidated financial statements will depend on a number of factors. Therefore, it is expected that the actual adjustments will differ from the *pro forma* adjustments, and the differences may be material.

2. DESCRIPTION OF TRANSACTION

Pursuant to an agreement and plan of a merger between Fortis, certain Fortis subsidiaries and UNS Energy, the Corporation will indirectly purchase all of the outstanding common shares of UNS Energy for US$60.25 per share. The net purchase price, including (i) payment for unexercised stock options and performance shares and restricted stock units; and (ii) estimated acquisition costs of $30 million, will be approximately $2.6 billion. The Corporation will also assume UNS Energy debt, which was approximately $1.9 billion as at September 30, 2013.

The accompanying unaudited *pro forma* consolidated financial statements assume that the Proposed Acquisition will be financed through the proceeds from a $1.8 billion common share issuance (as further described below) with the balance initially funded through debt.

The common equity is assumed to be issued through the 4% convertible unsecured subordinated debentures ("Convertible Debentures") represented by instalment receipts offered on a public offering and concurrent private placement basis, all as described in the Prospectus. The Corporation has also arranged a $2.0 billion committed bridge facility which together with the Convertible Debentures represented by instalment receipts contemplated in the Prospectus will fully fund the net purchase price and thereby ensure ample liquidity to close the Proposed Acquisition. The accompanying unaudited *pro forma* consolidated financial statements: (i) reflect the estimated costs of arranging the Convertible Debentures and bridge facility in acquisition costs (Note 3[e]); and (ii) assume that the Convertible Debentures will be issued and immediately fully converted into Fortis common shares at the assumed closing dates of the Proposed Acquisition. Therefore, the accompanying unaudited *pro forma* consolidated financial statements do not recognize interest costs associated with the Convertible Debentures. The Corporation anticipates that the closing period will be approximately 12 months but could span up to approximately 18 months, which would result in interest expense on the Convertible Debentures of up to approximately $108 million, or approximately $77 million net of income tax. Due to many factors, including the timing of regulatory approval, the estimated closing period is subject to change along with the estimated amount of interest expense on the Convertible Debentures and the related income tax recovery. Interest costs associated with the Convertible Debentures are expected to be funded through operating cash flows and/or the Corporation's existing credit facilities.

3. *PRO FORMA* ASSUMPTIONS AND ADJUSTMENTS

[a] Purchase Price and Financing Structure

The following is the estimated purchase price and assumed financing structure for the Proposed Acquisition. These estimates have been reflected in the accompanying unaudited *pro forma* consolidated financial statements.

Estimated Net Purchase Price

Unadjusted purchase price	$ 4,490
Estimated acquisition costs (Note 3[e])	30
Estimated net purchase price, before assumed debt	4,520
Assumed long-term debt of UNS Energy (Note 2)	(1,884)
Estimated net purchase price	$ 2,636

Estimated Net Funding Requirements

Estimated net purchase price	$2,636
Assumed long-term debt of UNS Energy (Note 2)	1,884
Common share issuance costs (Note 3[c])	72
Incremental long-term debt issuance costs (Note 3[d])	14
Estimated net funding requirements	$4,606

Assumed Financing Structure

Assumed long-term debt of UNS Energy	$1,884
Common share issuance (Note 3[c])	1,800
Incremental long-term debt (Note 3[d])	922
	$4,606

[b] Allocation of estimated net purchase price

The estimated net purchase price has been allocated to the estimated fair values of UNS Energy net assets and liabilities as at September 30, 2013 in accordance with the purchase method, as follows:

	UNS Energy	Fair Value and Other Adjustments	Net Total
Assets acquired:			
Cash and cash equivalents	$ 75	$—	$ 75
Accounts receivable	183	—	183
Prepaid expenses	28	—	28
Inventories	138	—	138
Regulatory assets	54	—	54
Deferred income taxes	69	—	69
Total current assets	547	—	547
Other assets	96	—	96
Regulatory assets	207	—	207
Utility capital assets	3,573	—	3,573
	$4,423	$—	$4,423
Liabilities assumed:			
Short-term borrowings	$ 24	—	$ 24
Accounts payable and other current liabilities	265	—	265
Regulatory liabilities	59	—	59
Current installments of capital lease and finance obligations	174	—	174
Total current liabilities	522	—	522
Other liabilities	244	—	244
Regulatory liabilities	307	—	307
Deferred income taxes	497	—	497
Long-term debt	1,552	—	1,552
Capital lease and finance obligations	134	—	134
	$3,256	$—	$3,256
Net assets at fair value, as at September 30, 2013			$1,167
Estimated net purchase price, before assumed debt and acquisition costs			2,606
Goodwill			$1,439

UNS Energy is a rate-regulated entity. The determination of revenues and earnings is based on regulated rates of return that are applied to historic values and does not change with a change of ownership. Therefore, no fair market value adjustments have been recognized as part of the purchase price on UNS Energy's assets and liabilities to be acquired because all of the economic benefits and obligations associated with them beyond regulated thresholds accrue to UNS Energy's customers. Consequently, the fair value of UNS Energy's assets and liabilities is assumed to be equal to their carrying amounts.

The excess of the estimated net purchase price of the Proposed Acquisition, before assumed debt and acquisition costs, over the assumed fair value of net assets acquired from UNS Energy is classified as goodwill on the accompanying unaudited *pro forma* consolidated balance sheet.

[c] Common share issuance

Assumed financing for the Proposed Acquisition contemplates the issuance, through the exercise of conversion rights under the Convertible Debentures, of approximately 58.6 million Fortis common shares at $30.72 per share for gross proceeds of approximately $1.8 billion. Underwriting and agency costs as well as private placement commitment fees are estimated at 4% of gross proceeds in the aggregate or approximately $72 million and will result in a corresponding deferred income tax asset of approximately $21 million based on the Corporation's statutory income tax rate of 29%.

[d] Incremental long-term debt

Assumed financing for the Proposed Acquisition contemplates the issuance of approximately $922 million of debt. Estimated debt issuance costs of approximately $14 million have been recognized as an other asset with a corresponding amortization expense of approximately $1 million recognized for the year ended December 31, 2012 and for the nine-months ended September 30, 2013 based on an estimated term of 10 years. The interest rate is estimated at 6%, which would result in incremental interest expense for the year ended December 31, 2012 and for the nine-months ended September 30, 2013 of $55 million and $41 million, respectively. Incremental interest expense would result in corresponding deferred income tax benefits of $16 million and $12 million, respectively, based on the Corporation's statutory income tax rate of 29%.

[e] Acquisition costs

Acquisition costs are estimated at approximately $30 million, or approximately $24 million net of income tax. The acquisition costs will create a deferred income tax asset of approximately $1 million and a reduction of $5 million to current income taxes payable. Acquisition costs are composed of estimated investment banking, accounting, tax, legal and other costs associated with the completion of the Proposed Acquisition. These costs have been included as a *pro forma* adjustment to retained earnings as opposed to being reflected in the unaudited *pro forma* consolidated statements of earnings of the Corporation on the basis that these expenses are directly incremental to the acquisition of UNS Energy and are non-recurring in nature.

[f] Income taxes

Income taxes applicable to the *pro forma* adjustments are calculated at Fortis' average tax rates of 29% (CDN rate) and 38% (US rate) for the year ended December 31, 2012 and for the nine-months ended September 30, 2013. To reflect an income tax benefit related to intercompany financing, a reduction in income tax expense of $11 million and $8 million has been recorded in the accompanying unaudited *pro forma* consolidated statement of earnings for the year ended December 31, 2012 and for the nine-months ended September 30, 2013, respectively.

The deferred income tax asset and liability is the cumulative amount of tax applicable to temporary differences between the accounting and tax values of assets and liabilities. Deferred income tax assets and liabilities are measured at the tax rates expected to apply when these differences reverse. For the purpose of the accompanying unaudited *pro forma* consolidated financial statements, deferred income tax rates of 29% (CDN rate) and 38% (US rate) have been used.

[g] UNS Energy historical shareholders' equity

The historical shareholders' equity of UNS Energy, which includes retained earnings, accumulated other comprehensive income and common shares, has been eliminated on consolidation.

[h] Earnings per common share

The calculation of the *pro forma* earnings per common share for the year ended December 31, 2012, and for the nine-months ended September 30, 2013 reflects the assumed issuance of approximately 58.6 million Fortis common shares as if the issuance had taken place as at January 1, 2012.

[i] Foreign exchange translation

The assets and liabilities of UNS Energy, which has a US dollar functional currency, are translated at the exchange rate in effect as at the unaudited *pro forma* consolidated balance sheet date. Revenue and expenses of UNS Energy's operations are translated at the average exchange rate in effect during the reporting period. The following exchange rates were utilized for the unaudited *pro-forma* consolidated financial statements:

Balance Sheet (US$ to C$)	
Spot rate — September 30, 2013	1.03
Income Statement (US$ to C$)	
Average rate — January 1, 2012 to December 31, 2012	1.00
Average rate — January 1, 2013 to September 30, 2013	1.02

CERTIFICATE OF FORTIS INC.

Dated: December 20, 2013

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL
President and
Chief Executive Officer

(Signed) BARRY V. PERRY
Vice-President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS
Director

(Signed) PETER E. CASE
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: December 20, 2013

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

Scotia Capital Inc.	**RBC Dominion Securities Inc.**	**TD Securities Inc.**	**CIBC World Markets Inc.**
(Signed) Stuart Lochray	(Signed) David Dal Bello	(Signed) Harold Holloway	(Signed) David H. Williams

BMO Nesbitt Burns Inc.

(Signed) Aaron Engen

National Bank Financial Inc

(Signed) Iain Watson

Desjardins Securities Inc.

(Signed) A. Thomas Little

FORTIS

RR DONNELLEY
Printed in Canada

5. **Full listing of each bond issue applicable for the 2015 with full details (e.g. principal face value, nominal interest rate, effective rate if issued at discount or premium, relevant benchmark Government of Canada bond, credit spread benchmark, date of issue, date of maturity, length of maturity, etc.)**

- See attached for FEI's bond issues for 2015 Test Year.

FortisBC Holdings Companies
Market Value of Long-term Debt
30-Jun-2015

	Coupon	Maturity	Life	Yield to MATURITY	30-Jun-15 Market Price (a) ($CAD)	30-Jun-15 Carrying Value ($CAD 000s)	30-Jun-15 Market Price (% of Par)	30-Jun-15 Market Value ($CAD 000s)
FEI								
Series A PMM	11.80%	30-Sep-15	0.25	2.031%	102.415	74,955	102.415%	76,765
Series B PMM	10.30%	30-Sep-16	1.25	1.541%	110.798	200,000	110.798%	221,596
Series 11 MTN	6.95%	21-Sep-29	14.24	3.812%	134.201	150,000	134.201%	201,302
Series 18 MTN	6.50%	1-May-34	18.85	3.841%	135.406	150,000	135.406%	203,109
Series 19 MTN	5.90%	26-Feb-35	19.67	3.841%	128.225	150,000	128.225%	192,338
Series 21 MTN	5.55%	25-Sep-36	21.25	3.911%	123.495	120,000	123.495%	148,194
Series 22 MTN	6.00%	2-Oct-37	22.27	3.911%	130.854	250,000	130.854%	327,135
Series 23 MTN	5.80%	13-May-38	22.88	3.911%	128.381	250,000	128.381%	320,953
Series 24 MTN	6.55%	24-Feb-39	23.67	3.911%	140.476	100,000	140.476%	140,476
Series 25 MTN	4.25%	9-Dec-41	26.46	3.910%	105.568	100,000	105.568%	105,568
Series 26 MTN	3.38%	13-Apr-45	29.81	3.910%	90.633	150,000	90.633%	135,950
Capital Leases						---	n/a	---
FEI (formerly: FEVI/Island)								
Series 2008	6.05%	15-Feb-38	22.65	3.911%	131.923	250,000	131.923%	329,808
Series 2010	5.20%	6-Dec-40	25.45	3.910%	120.659	100,000	120.659%	120,659
Total Long-term Debt						$2,044,955		$2,523,851

RBC Capital Markets®

FortisBC

Pricing as at June 30, 2015

Issue	Series	Type	Book Value (BV) (C$000)	Benchmark Yield	Benchmark Bond	Market Price	Market Yield	Market Value (MV) (C$MM)	Amount MV Exceeds BV	30-Jun Spread
FortisBC Inc.										
8.80% due 28Aug2023	Series G	Secured	$25,000	1.278%	CAN 2.75 1JUN22	$145.450	2.578%	$36,363	$11,363	130 bps
8.77% due 01Feb2016	Series H	Unsecured	$25,000	0.573%	CAN 3 1DEC15	$104.020	1.673%	$26,005	$1,005	110 bps
7.81% due 01Dec2021	Series I	Unsecured	$25,000	1.048%	CAN 3.25 1JUN21	$131.950	2.398%	$32,987	$7,987	135 bps
5.60% due 9Nov2035	Public Debt	Unsecured	$100,000	2.310%	CAN 3.5 1DEC45	$122.757	3.960%	$122,757	$22,757	165 bps
6.10% due 2Jun2039	Public Debt	Unsecured	$105,000	2.310%	CAN 3.5 1DEC45	$132.873	3.960%	$139,517	$34,517	165 bps
4% due 28Oct2044	Public Debt	Unsecured	$200,000	2.310%	CAN 3.5 1DEC45	$100.685	3.960%	$201,370	$1,370	165 bps
5.90% due 4Jul2047	Public Debt	Unsecured	$105,000	2.310%	CAN 3.5 1DEC45	$132.794	4.060%	$139,434	$34,434	175 bps
5.00% due 24Nov2050	Public Debt	Unsecured	$100,000	2.310%	CAN 3.5 1DEC45	$117.564	4.060%	$117,564	$17,564	175 bps
FortisBC Energy Inc.										
11.80% due 30Sep2015		Secured	$75,000	0.573%	CAN 3 1DEC15	$102.415	1.273%	$76,811	$1,811	70 bps
10.3% due 30Sep2016		Secured	$200,000	0.543%	CAN 2.75 1SEP16	$110.798	1.443%	$221,596	$21,596	90 bps
6.95% due 21Sep2029		Unsecured	$150,000	2.310%	CAN 3.5 1DEC45	$134.201	3.810%	$201,302	$51,302	150 bps
6.5% due 1May2034		Unsecured	$150,000	2.310%	CAN 3.5 1DEC45	$135.406	3.840%	$203,109	$53,109	153 bps
5.9% due 26Feb2035		Unsecured	$150,000	2.310%	CAN 3.5 1DEC45	$128.225	3.840%	$192,338	$42,338	153 bps
5.55% due 25Sep2036		Unsecured	$120,000	2.310%	CAN 3.5 1DEC45	$123.495	3.910%	$148,194	$28,194	160 bps
6% due 2Oct2037		Unsecured	$250,000	2.310%	CAN 3.5 1DEC45	$130.854	3.910%	$327,135	$77,135	160 bps
6.05% due 15Feb2038		Unsecured	$250,000	2.310%	CAN 3.5 1DEC45	$131.923	3.910%	$329,808	$79,808	160 bps
5.8% due 13May2038		Unsecured	$250,000	2.310%	CAN 3.5 1DEC45	$128.381	3.910%	$320,953	$70,953	160 bps
6.55% due 24Feb2039		Unsecured	$100,000	2.310%	CAN 3.5 1DEC45	$140.476	3.910%	$140,476	$40,476	160 bps
5.2% due 6Dec2040		Unsecured	$100,000	2.310%	CAN 3.5 1DEC45	$120.659	3.910%	$120,659	$20,659	160 bps
4.25% due 9Dec2041		Unsecured	$100,000	2.310%	CAN 3.5 1DEC45	$105.568	3.910%	$105,568	$5,568	160 bps
3.375% due 13Apr45		Unsecured	$150,000	2.310%	CAN 3.5 1DEC45	$90.633	3.910%	$135,950	($14,051)	160 bps
			$2,730,000					$3,339,893		

6. All Prospectuses of Equity Offerings of the utility and/or its corporate parent within the last five years, if applicable:

- FEI is a wholly-owned private entity and only issues equity to its parent, FortisBC Holdings Inc.
- FEI is indirectly and wholly-owned by its ultimate parent, Fortis Inc. (FTS – a TSX listed company)
- See attached for FTS equity offerings
- Details of any new equity issues from the financial market for the utility and/or corporate parent, if applicable

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each province of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

***Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See "Plan of Distribution".*

PRELIMINARY SHORT FORM PROSPECTUS

New Issue June 1, 2011

FORTIS INC.

FORTIS

$300,300,000

9,100,000 COMMON SHARES

This short form prospectus (the "Prospectus") qualifies for distribution (the "Offering") 9,100,000 common shares (the "Offered Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated June 1, 2011 between Fortis and Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBCDS"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), CIBC World Markets Inc. ("CIBCWM"), National Bank Financial Inc. ("NB Financial"), TD Securities Inc. ("TDSI"), HSBC Securities (Canada) Inc. ("HSBC Securities") and Beacon Securities Ltd. (collectively, the "Underwriters"). The Offered Shares will be issued and sold by Fortis to the Underwriters at the price of $33.00 (the "Offering Price") per Offered Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The Underwriters may offer the Offered Shares at a lower price than the Offering Price. See "Plan of Distribution".

The Corporation has applied to list the Offered Shares distributed under this Prospectus on the Toronto Stock Exchange (the "TSX"). Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX. On May 31, 2011, the closing price of the common shares of Fortis on the TSX was $33.01.

Investing in the Offered Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

Price: $33.00 per Common Share

	Price to the Public	Underwriters' Fee	Net Proceeds to Fortis(1)(2)
Per Common Share	$33.00	$1.32	$31.68
Total	$300,300,000	$12,012,000	$288,288,000

(1) Before deducting expenses of the Offering estimated at $600,000 which, together with the Underwriters' Fee (as defined herein), will be paid out of the general funds of Fortis. See "Plan of Distribution".

(2) The Corporation has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the date of closing of the Offering, to purchase at the Offering Price up to 1,365,000 additional Offered Shares (the "Additional Shares") to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to Fortis" will be $345,345,000, $13,813,800 and $331,531,200, respectively. See "Plan of Distribution". This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable on the exercise of the Over-Allotment Option. References to Offered Shares include any Additional Shares unless otherwise noted or unless the context precludes such inclusion.

A purchaser who acquires Offered Shares forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus, regardless of whether the Underwriters' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Underwriters' Position	Number of Shares Available	Exercise Period	Exercise Price
Over-Allotment Option	1,365,000	Within 30 days following the closing of the Offering	$33.00 per share

Each of Scotia Capital, RBCDS, BMO Capital Markets, CIBCWM, NB Financial, TDSI and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. A portion of the net proceeds from the Offering will be used towards repaying indebtedness under a credit facility owing by the Corporation to certain of such banks or their affiliates. **Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".**

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued by Fortis and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, over-allot or effect transactions which stabilize or maintain the market price of the Offered Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on or about June 15, 2011 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 20, 2011. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the "Prospectus"), including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt issues; the expected total capital cost for the construction of the 335-megawatt ("MW") hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia (the "Waneta Expansion") and its expected completion date; the expectation that organic earnings' growth for the Corporation's regulated utilities in Canada will be primarily driven by rate base growth at FortisAlberta Inc. and FortisBC Inc.; the expected timing of the close of the sale of the joint-use poles at Newfoundland Power Inc.; consolidated forecasted gross capital expenditures for 2011 and in total over the five-year period from 2011 through 2015; the expectation that the Corporation's significant capital program should drive growth in earnings and dividends; expected average annual consolidated long-term debt maturities and repayments over the next five years; the expectation that the Corporation and its utilities will continue to have reasonable access to capital in the near to medium terms; the expected 2% growth in electricity sales for 2011 at the Corporation's regulated utilities in the Caribbean; the expected average annual energy production from the Macal River in Belize; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2011 capital expenditure programs; the expectation that there will be no material increase in consolidated interest expense and/or fees associated with renewed and extended credit facilities in 2011; expected earnings' contribution from Belize Electricity Limited ("Belize Electricity") in the course of normal operations to the consolidated earnings of Fortis; the estimated impact a decrease in revenue at Fortis Properties Corporation's Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2011; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; except for debt at Belize Electricity and Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2011; no expected material adverse credit rating actions in the near term; the anticipated completion of the acquisition (the "Acquisition") by the Corporation of Central Vermont Public Service Corporation ("CVPS") (see "Recent Developments — Agreement to Acquire Central Vermont Public Service Corporation"); the expectation of an increase in consolidated defined benefit net pension cost for 2011; the expectation that Fortis will become a U.S. Securities and Exchange issuer by December 31, 2011; and the expected impact of the transition to U.S. generally accepted accounting principles. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no material capital project and financing cost overrun or delay related to the construction of the Waneta Expansion; no significant decline in capital spending in 2011; no severe and prolonged downturn in economic conditions; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates and natural gas commodity prices; no significant variability in interest rates; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas and fuel supply; the continued ability to fund defined benefit pension plans; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; maintenance of information technology infrastructure; the receipt of CVPS shareholder, regulatory and other approvals required in connection with the Acquisition; favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. 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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; operating and maintenance risks; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; economic conditions; capital resources and liquidity risk; weather and seasonality; commodity price risk; derivative financial instruments and hedging; interest rate risk; counterparty risk; competitiveness of natural gas; natural gas and fuel supply; defined benefit pension plan performance and funding requirements; risks related to the development of the FortisBC Energy (Vancouver Island) Inc. franchise; environmental risks; insurance coverage risk; loss of licences and permits; loss of service area; risks relating to the completion of the Acquisition and the realization of the anticipated benefits of the Acquisition; the risk of transition to new accounting standards that do not recognize the impact of rate-regulation; changes in tax legislation; information technology infrastructure; an ultimate resolution of the expropriation of the assets of the Exploits Partnership that differs from what is currently expected by management; an unexpected outcome of legal proceedings currently against the Corporation; relations with First Nations; labour relations; and human resources. For additional information with respect to the Corporation's risk factors and risk factors relating to the Common Shares, reference should be made to the section of this Prospectus entitled "Risk Factors".

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 7, 2011 for the year ended December 31, 2010 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2010 and December 31, 2009 and for the years ended December 31, 2010 and 2009, together with the notes thereto and the auditors' report thereon dated March 2, 2011, as contained in the Corporation's 2010 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2010 as contained in the Corporation's 2010 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at March 31, 2011 and for the three months ended March 31, 2011 and 2010, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2011; and

(f) Management Information Circular dated March 21, 2011 prepared in connection with the Corporation's annual meeting of shareholders held on May 6, 2011.

Any document of the type referred to in the preceding paragraph and any material change report (other than any confidential material change report) or business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, provided that the Offered Shares are listed on a designated stock exchange for purposes of the *Income Tax Act* (Canada) (the "Tax Act") (which currently includes the TSX), the Offered Shares, if issued on the date hereof, would be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan ("DPSP") (other than a trust governed by a DPSP for which any employer is the Corporation or is an employer that does not deal at arm's length with the Corporation for purpose of the Tax Act), registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA"). The Offered Shares will not be "prohibited investments" for a TFSA where the holder of the TFSA is not a "specified shareholder" of the Corporation, and the Corporation deals at arm's length with such holder for purposes of the Tax Act and any person in which such holder has a "significant interest", as each such term is defined in the Tax Act. In the 2011 Canadian federal budget released on March 22, 2011, the Minister of Finance proposed amendments to the Tax Act to extend the "prohibited investment" rules to registered retirement savings plans and registered retirement income funds.

CURRENCY

All dollar amounts in the Prospectus are expressed in Canadian dollars unless otherwise indicated.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to “Fortis Inc.” The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John’s, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of approximately $13 billion and fiscal 2010 revenue totalling approximately $3.7 billion. The Corporation serves approximately 2,100,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas utility in British Columbia, Canada. Regulated utility assets comprise approximately 92% of the Corporation’s total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. (“FortisBC Holdings”) (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. (“FortisAlberta”), a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. (“FortisBC”), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company Limited (“Maritime Electric”), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. (“Newfoundland Power”), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. (“FortisOntario”) and its subsidiaries, Canadian Niagara Power Inc. (“CNPI”) and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation’s regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 70% interest in Belize Electricity Limited (“Belize Electricity”), the principal distributor of electricity in Belize, Central America, and an approximate 59% interest in Caribbean Utilities Company, Ltd. (“Caribbean Utilities”), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, “Fortis Turks and Caicos”), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation’s non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited (“BECOL”), FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties Corporation (“Fortis Properties”) and Fortis.

BECOL owns and operates the 25-megawatt (“MW”) Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the “Waneta Partnership”), which was established in 2010 to construct a 335 MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia (the “Waneta Expansion”).

Through FortisUS Energy Corporation (“FortisUS Energy”), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by Fortis Properties.

Fortis Properties is also the direct owner of a 51% interest in the Exploits River Hydro Partnership (the “Exploits Partnership”). The Exploits Partnership was established with AbitibiBowater Inc., formerly Abitibi-Consolidated Company of Canada (“Abitibi”), which holds the remaining 49% interest. The Exploits Partnership was established to develop additional capacity at Abitibi’s hydroelectric generating plant at Grand Falls-Windsor and redevelop Abitibi’s hydroelectric generating plant at Bishop’s Falls, in central Newfoundland. See “Non-Regulated — Fortis Generation — Central Newfoundland”.

Fortis Properties' assets also include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 21 hotels in eight Canadian provinces and commercial real estate primarily in Atlantic Canada.

Regulated Gas Utilities — Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 950,400 customers as at March 31, 2011, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 847,200 customers as at March 31, 2011 in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia. FortisBC Energy (Vancouver Island) Inc. ("FEVI") (formerly Terasen Gas (Vancouver Island) Inc.) owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast, serving approximately 100,600 customers as at March 31, 2011. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers. The FortisBC Energy companies own and operate almost 46,500 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,421 terajoules for 2010.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 493,000 customers in Alberta as at March 31, 2011, using approximately 112,500 kilometres of distribution lines and met a peak demand of 2,555 MW for 2010. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 161,000 customers, as at March 31, 2011, with residential customers representing the largest customer segment, and met a peak demand of 707 MW for 2010. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served over 244,000 customers as at March 31, 2011, or approximately 86% of electricity consumers in the Province, and met a peak demand of 1,206 MW for 2010. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 74,000 customers as at March 31, 2011, or 90% of electricity consumers on the Island, and met a peak demand of 207 MW for 2010. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served more than 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2011, and met a combined peak demand of 273 MW for 2010. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, serve approximately 38,000 customers.

Regulated Electric Utilities — Caribbean

Belize Electricity

Fortis holds an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. Belize Electricity directly supplied approximately 77,000 customers in Belize, as at March 31, 2011, and met a peak demand of 81 MW for 2010. See "Recent Developments — Belize Electricity".

Caribbean Utilities

Fortis holds an indirect approximate 59% controlling ownership interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 26,000 customers as at March 31, 2011, has approximately 151 MW of installed generating capacity and met a record peak demand of 102 MW for 2010. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the TSX under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,000 customers, or approximately 80% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2011. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed generating capacity of approximately 57 MW and met a record peak demand of approximately 31 MW for 2010.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and five small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits Partnership. The assets generate approximately 610 GWh annually, of which 470 GWh was utilized by Abitibi, while the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement which is exempt from regulation, expiring in 2033.

In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions are ongoing with various parties with respect to matters relating to the expropriation.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $75 million were incurred on this capital project in 2010. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh (and associated capacity required to deliver such energy), from the Waneta Expansion will be sold to BC Hydro under a recently executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, will be sold to FortisBC under a long-term capacity purchase agreement, which was accepted by the British Columbia Utilities Commission in September 2010.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated — Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 21 hotels, with more than 4,100 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial real estate primarily in Atlantic Canada.

CAPITAL RESOURCES

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2011, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.1 billion, of which $1.5 billion was available to be drawn.

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2011, long-term debt maturities over the next five years are expected to average approximately $250 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire Central Vermont Public Service Corporation

On May 27, 2011, Fortis entered into an agreement (the "Merger Agreement") to acquire all of the outstanding common shares of Central Vermont Public Service Corporation ("CVPS"), the largest integrated electric utility in Vermont, for US$35.10 per share in cash, for an aggregate purchase price of approximately US$700 million, including the assumption of approximately US$230 million of debt on closing (the "Acquisition"). The common shares of CVPS are listed on the New York Stock Exchange. The closing of the Acquisition is subject to receipt of the approval of the shareholders of CVPS and regulatory and other approvals, including those of the Vermont Public Service Board ("PSB") and the U.S. Federal Energy Regulatory Commission ("FERC"), and the satisfaction of customary closing conditions. Fortis expects the closing of the Acquisition to occur within six to 12 months.

CVPS is engaged principally in the purchase, production, transmission, distribution and sale of electricity. CVPS serves nearly 160,000 customers in about two-thirds of the cities and towns throughout the State of Vermont. Its electric system consists of approximately 9,000 miles of distribution lines and more than 600 miles of sub-transmission lines. CVPS holds directly and indirectly an approximate 41% ownership interest in Vermont Transco LLC, which owns and operates the high-voltage transmission system in Vermont. In 2010, total assets and rate base assets of CVPS were approximately US$711 million and US$426 million, respectively. For CVPS, the allowed rate of return on common equity for 2011 has been set at 9.45%. The equity level in its capital structure is currently 57%.

CVPS customer rates are among the lowest of major utilities in New England. Approximately 50% and 40% of the energy supply in 2010 for CVPS was derived from nuclear and hydroelectric sources, respectively, making it one of the cleanest energy supplies in the United States. Most of the energy sold by CVPS is acquired from Hydro-Québec and the Vermont Yankee nuclear power plant through power purchase agreements. CVPS participates in the New England regional wholesale electric power markets operated by ISO New England Inc., the regional bulk power transmission organization established to assure reliable and economical power supply in New England.

The Acquisition represents the initial entry by Fortis into the U.S. regulated electric utility marketplace and establishes a foundation for Fortis to grow its utility business in the United States. Fortis believes that CVPS is a well-run utility whose operations are very similar to those of the Corporation's Canadian regulated utilities, allowing Fortis and CVPS to use their collective competencies to further enhance service to customers and returns to the Corporation's shareholders. CVPS will remain autonomous in the Fortis model. The headquarters of CVPS will remain in Rutland, Vermont.

Based on financial information as at March 31, 2011, following the Acquisition, the total assets of Fortis will increase by approximately 7% to approximately $13.9 billion as at March 31, 2011. The Corporation's regulated electric and gas utility operations will account for approximately 55% and 37%, respectively, of the total assets of Fortis. Following the Acquisition, total regulated utility assets will be approximately 92% of the total assets of Fortis. Regulated utility assets in Canada and the United States will account for approximately 85% of the total assets of Fortis.

The business operated by CVPS is attractive to Fortis for the following reasons:

(a) the Acquisition is expected to be accretive to earnings per common share of Fortis in the first full year of ownership;

(b) CVPS operates a well-maintained and efficient electric system in an attractive service franchise area, serving a diversified, mature and primarily residential, customer base;

(c) the Acquisition affords Fortis management an opportunity to deploy its core competencies in regulatory, operating and financial management expertise to a U.S. regulated utility;

(d) similar to the Canadian regulated utilities of Fortis, CVPS operates principally under cost-of-service regulation. The regulatory framework at CVPS enables CVPS to earn stable returns with minimal regulatory lag, while allowing timely recovery of fuel, purchased power and transmission costs, along with capital program costs;

(e) the Acquisition will increase the regulated rate base assets and utility earnings of Fortis and mitigate the business risks associated with regulated utility operations through increased diversification of assets and earnings by geographic location and regulatory environment; and

(f) CVPS expects rate base investment to reach approximately US$650 million by 2015, representing a compound average annual growth rate of approximately 9% from 2010 to 2015.

The management of Fortis has substantial experience integrating newly acquired enterprises into the Fortis group of companies. In 2004, Fortis completed the $1.5 billion acquisition of FortisBC and FortisAlberta, (formerly, Aquila Networks Canada (British Columbia) Ltd. and Aquila Networks Canada (Alberta) Ltd., respectively), two electric utilities that today serve approximately 654,000 electricity customers in Alberta and British Columbia, Canada. In 2007, Fortis completed the $3.7 billion acquisition of FortisBC Energy (formerly known as Terasen), one of the largest natural gas distribution utilities in Canada, serving approximately 950,000 natural gas customers in British Columbia, Canada.

Upon close of the transaction, Fortis expects to purchase CVPS for cash with proceeds from borrowings under its $600 million committed term credit facility.

See “Risk Factors — Failure to Complete Acquisition”; “— Potential Undisclosed Liabilities Associated with the Acquisition”; and “— Realization of Acquisition Benefits”.

Belize Electricity

Belize Electricity represents approximately 2% of the total assets of Fortis. In June 2008, the Public Utilities Commission of Belize (“PUC”) issued a rate order that has had a significant negative impact on the financial condition and operations of Belize Electricity. The order effectively disallowed the recovery of previously incurred fuel and purchased power costs in customer rates and set customer rates at a level that does not allow Belize Electricity to earn a fair and reasonable return. Belize Electricity appealed the PUC rate order to the Supreme Court of Belize. On March 15, 2011, the court rendered its judgment dismissing Belize Electricity’s application and finding that, among other things, the generally accepted concept of Good Utility Practice is not applicable in Belize. Belize Electricity has appealed this judgment to the Court of Appeal of Belize; however, a hearing is not expected until the first quarter of 2012. On May 16, 2011, the Supreme Court of Belize granted Belize Electricity’s application to enjoin the PUC from engaging in any rate making proceedings or taking any enforcement or penal actions against Belize Electricity pending the appeal of its judgment.

Belize Electricity has been in default of covenants under its long-term lending agreements since 2008 and has had no access to credit during this period. Belize Electricity is facing serious cash constraints and is currently unable to pay for energy purchases. It has received some assistance from the Government of Belize. Discussions are continuing with the Government of Belize to address the current financial difficulties facing Belize Electricity pending a commercially acceptable resolution to the regulatory issues currently before the courts.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at March 31, 2011 and after giving effect to the Offering (assuming no exercise of the Over-Allotment Option (as defined herein) and after deducting the Underwriters' Fee (as defined herein) and the expenses of the Offering). The financial information set out below should be read in conjunction with the Corporation's audited consolidated financial statements and unaudited interim consolidated financial statements and the notes thereto incorporated by reference into the Prospectus.

	Outstanding as at March 31, 2011	Pro forma Outstanding as at March 31, 2011(1)
	(unaudited)	(unaudited)
	(in millions of dollars)	
Total debt (net of cash)	5,829	5,542
Preference shares(2)	320	320
Shareholders' equity		
Securities offered hereby	Nil	291
Common shares	2,607	2,607
Preference shares(3)	592	592
Contributed surplus	12	12
Equity portion of convertible debentures	5	5
Accumulated other comprehensive loss	(97)	(97)
Retained earnings	870	870
Total capitalization(4)	10,138	10,142

(1) After giving effect to the net proceeds from the Offering (assuming no exercise of the Over-Allotment Option), determined after deducting the Underwriters' Fee and the expenses of the Offering on an after-tax basis.

(2) First Preference Shares, Series C and First Preference Shares, Series E (as defined below), which are classified as long-term liabilities in the financial statements of Fortis.

(3) First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H (as defined below).

(4) Excludes non-controlling interests.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 30, 2011, 175,476,397 Common Shares; 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"); 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"); 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"); 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G"); and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.12 in 2010, $1.04 in 2009 and $1.00 in 2008. On March 2, 2011, the Board of Directors declared a second quarter dividend of $0.29 per Common Share, payable on June 1, 2011 to holders of record on May 13, 2011. On May 5, 2011, the Board of Directors declared a third quarter dividend of $0.29 per Common Share, payable on September 1, 2011 to holders of record on August 12, 2011.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, respectively. The Board of Directors declared a second quarter dividend on the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on March 2, 2011, in each case in accordance with the applicable prescribed annual rate, payable on June 1, 2011 to holders of record on May 13, 2011. On May 5, 2011, the Board of Directors declared a third quarter dividend on the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2011 to holders of record on August 12, 2011.

DESCRIPTION OF COMMON SHARES

Dividends

Holders of Common Shares are entitled to dividends on a *pro rata* basis if, as and when declared by the Board of Directors. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board of Directors may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

Liquidation, Dissolution or Winding-Up

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of the assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Voting Rights

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and to one vote in respect of each Common Share held at such meetings.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2011:

- During the period from April 1, 2011 up to and including May 30, 2011, Fortis issued an aggregate of 54,740 Common Shares upon the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans, for aggregate consideration of approximately $0.9 million.
- As a result of the proposed issuance of 9,100,000 Offered Shares (assuming no exercise of the Over-Allotment Option), shareholders' equity (excluding non-controlling interests) in the Corporation will increase by approximately $291 million to a total of $4.3 billion.

PRIOR SALES

The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares within the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
June 1, 2010	Common – DRIP(1)	$26.37	23,593
June 1, 2010	Common – ESPP(2)	$26.37	65,219
June 1, 2010	Common – CSPP(3)	$26.37	4,138
June 2010	Common – Exercise of Stock Options(4)	$19.66	10,945
July 2010	Common – Exercise of Stock Options(4)	$13.46	32,360
August 2010	Common – Exercise of Stock Options(4)	$17.10	93,241
September 1, 2010	Common – DRIP(1)	$28.61	534,356
September 1, 2010	Common – CSPP(3)	$29.17	11,006
September 2010	Common – Exercise of Stock Options(4)	$14.03	43,716
October 2010	Common – Exercise of Stock Options(4)	$18.45	110,815
November 2010	Common – Exercise of Stock Options(4)	$24.91	69,945
December 1, 2010	Common – DRIP(1)	$31.39	494,891
December 1, 2010	Common – CSPP(3)	$32.01	12,446
December 2010	Common – Exercise of Stock Options(4)	$18.42	125,271
January 2011	Common – Exercise of Stock Options(4)	$18.31	388,267
February 2011	Common – Exercise of Stock Options(4)	$28.27	11,674
March 1, 2011	Common – DRIP(1)	$32.40	514,542
March 1, 2011	Common – CSPP(3)	$33.04	13,539
March 2, 2011	Issue of Stock Options	$32.95	828,512
March 2011	Common – Exercise of Stock Options(4)	$22.09	100,734
April 2011	Common – Exercise of Stock Options(4)	$12.98	34,216
May 2011	Common – Exercise of Stock Options(4)	$20.68	20,524

(1) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").

(2) Issued pursuant to the Corporation's Employee Share Purchase Plan ("ESPP").

(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").

(4) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares: First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2010 June	28.35	26.51	10,261,047	26.36	25.75	19,692
July	29.37	26.83	7,559,548	27.00	26.20	19,206
August	29.51	28.25	12,267,132	26.60	26.26	6,191
September	32.39	29.45	10,444,191	26.67	26.20	82,791
October	33.34	31.22	7,443,166	27.10	26.20	82,316
November	33.63	30.50	14,538,415	27.90	26.00	55,307
December	34.54	32.27	9,124,490	26.27	25.50	72,697
2011						
January	34.74	33.30	7,432,455	26.89	26.05	161,956
February	35.45	32.30	9,925,791	26.10	25.60	329,057
March	33.59	31.53	10,482,063	25.85	25.63	81,458
April	33.28	31.05	5,367,214	26.33	26.00	71,764
May	33.85	31.98	15,795,186	26.19	25.54	463,532

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2010 June	26.70	26.01	35,587	21.20	20.01	43,550
July	26.85	26.25	233,990	21.90	20.95	47,155
August	27.83	26.15	66,419	21.92	21.54	54,955
September	27.99	26.88	48,182	22.84	21.91	305,678
October	27.40	26.82	176,316	23.49	22.60	49,843
November	27.69	26.90	46,446	23.91	23.01	55,907
December	27.31	26.75	387,978	23.20	22.55	105,720
2011						
January	27.59	26.75	163,482	23.50	22.76	66,772
February	26.87	26.31	236,757	23.75	22.61	59,272
March	27.00	26.21	36,423	23.88	22.90	87,710
April	27.07	26.45	29,389	23.81	23.00	44,696
May	27.34	26.74	272,521	24.00	23.05	87,756

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2010 June	26.24	25.61	67,343	25.10	24.40	157,834
July	26.49	25.75	398,816	25.25	24.80	83,340
August	26.74	25.70	100,414	25.51	24.71	140,492
September	26.72	25.91	92,166	26.00	25.15	141,417
October	26.70	26.00	105,727	26.00	25.45	152,170
November	27.25	25.99	78,194	26.22	25.39	433,361
December	26.74	25.30	103,646	25.61	25.25	510,574
2011						
January	26.62	25.95	51,868	25.90	25.25	192,555
February	26.49	25.53	57,289	25.91	25.25	96,073
March	26.57	25.56	110,302	25.73	24.97	163,231
April	26.58	26.25	94,098	25.52	25.05	101,246
May	26.50	25.88	97,923	26.50	25.14	96,623

USE OF PROCEEDS

The net proceeds of the Offering will be approximately $287.7 million, determined after deducting the Underwriters' Fee (as defined below) and the expenses of the Offering, which are estimated to be $600,000. If the Over-Allotment Option is exercised in full, the net proceeds of the Offering, determined after deducting the Underwriters' Fee and estimated expenses of the Offering, are expected to be approximately $330.9 million. The net proceeds from the Offering will be used to repay indebtedness incurred under the Corporation's existing committed credit facility, finance additional equity injections into the western Canadian regulated utilities and the Waneta Partnership in support of investment in infrastructure, and for general corporate purposes. Indebtedness under the Corporation's credit facility that will be repaid was originally incurred to finance equity injections in certain of the Corporation's subsidiaries and for general corporate purposes.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated June 1, 2011 (the "Underwriting Agreement") between Fortis and Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBCDS"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), CIBC World Markets Inc. ("CIBCWM"), National Bank Financial Inc. ("NB Financial"), TD Securities Inc. ("TDSI"), HSBC Securities (Canada) Inc. ("HSBC Securities") and Beacon Securities Ltd. (collectively, the "Underwriters"), Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on or about June 15, 2011 (the "Closing Date"), the Offered Shares offered hereby at the price of $33.00 per Common Share (the "Offering Price"), payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any of the Offered Shares are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to pay fees to the Underwriters in the amount of $1.32 per Offered Share, in consideration of services rendered by the Underwriters in connection with the Offering (the "Underwriters' Fee"). Assuming that the Over-Allotment Option (as defined below) is not exercised, the total price to the public will be $300,300,000, the Underwriters' Fee will be $12,012,000 and the net proceeds to Fortis will be approximately $287.7 million, after deducting the expenses of the Offering estimated at $600,000 which, together with the Underwriters' Fee, will be paid out of the general funds of the Corporation.

The Corporation has granted the Underwriters the option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the Closing Date, to purchase up to an additional 1,365,000 Offered Shares (the "Additional Shares") at the Offering Price. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, and for market stabilization purposes. This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable upon exercise of the Over-Allotment Option.

A purchaser who acquires Offered Shares forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus, regardless of whether the Underwriters' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on the Closing Date, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 20, 2011. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Offered Shares ends and all stabilization arrangements relating to the Offered Shares are terminated, bid for or purchase Offered Shares. The foregoing restrictions are subject to certain exceptions including: (i) a bid for or purchase of Offered Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada; (ii) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period; and (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Offered Shares is for the purpose of maintaining a fair and orderly market in the Offered Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Offered Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Offered Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The Underwriters propose to offer the Offered Shares initially at the Offering Price set forth on the cover page of this Prospectus. After the Underwriters have made reasonable efforts to sell all the Offered Shares at such price, the Offering Price may be decreased, and further changed from time to time to an amount not greater than the Offering Price specified herein. The compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Corporation.

Each of Scotia Capital, RBCDS, BMO Capital Markets, CIBCWM, NB Financial, TDSI and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). A portion of the net proceeds from the Offering will be used towards repaying indebtedness under a credit facility owing by the Corporation to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' Fee relating to the Offering. The decision to distribute the Offered Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at May 30, 2011, an aggregate of approximately $588 million was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness, other than with respect to certain of Belize Electricity's and the Exploits Partnership's debt as previously disclosed in the Corporation's public disclosure. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

The Corporation has applied to list the Offered Shares distributed under this Prospectus on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

RISK FACTORS

An investment in the Offered Shares involves certain risks. A prospective purchaser of Offered Shares should carefully consider the risk factors described under:

(a) the heading "Risk Factors" found on page 33 of the Corporation's Annual Information Form dated March 7, 2011 for the year ended December 31, 2010;

(b) the heading "Business Risk Management" in the Management Discussion and Analysis of financial condition and results of operations found on pages 44 through 54 of the Corporation's 2010 Annual Report (the "MD&A");

(c) the heading "Business Risk Management" on page 25 of the Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2011; and

(d) Note 18 "Financial Risk Management" found on pages 18 through 21 in the Corporation's unaudited comparative interim consolidated financial statements as at March 31, 2011 and for the three months ended March 31, 2011 and 2010,

each of which is incorporated by reference herein.

In addition, a prospective purchaser of Offered Shares should carefully consider the risk factors described below and in the other information contained in this Prospectus (including the documents incorporated by reference herein).

Failure to Complete Acquisition

The completion of the Acquisition is subject to receipt of CVPS shareholder, regulatory and other approvals, including those of the PSB and FERC, and the satisfaction of certain closing conditions contained in the Merger Agreement. The failure to obtain the required approvals or satisfy the conditions contained in the Merger Agreement may result in the termination of the Merger Agreement. The termination of the Merger Agreement may have a negative effect on the market price of the Common Shares.

Potential Undisclosed Liabilities Associated with the Acquisition

In connection with the Acquisition, there may be liabilities that the Corporation failed to discover or was unable to quantify in the due diligence which it conducted prior to the execution of the Merger Agreement and the Corporation may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities could have a material adverse effect on the Corporation's business, financial condition or future prospects.

Realization of Acquisition Benefits

The Corporation believes that the Acquisition will provide benefits to Fortis as described under the heading "Recent Developments — Agreement to Acquire Central Vermont Public Service Corporation". However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Corporation.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Offered Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Preliminary Short Form Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated June 1, 2011 relating to the issue and sale of 9,100,000 Common Shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2010 and 2009 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two year period then ended. Our report is dated March 2, 2011.

St. John's, Canada
June 1, 2011

(Signed) Ernst & Young LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: June 1, 2011

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL President and Chief Executive Officer	(Signed) BARRY V. PERRY Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

CERTIFICATE OF THE UNDERWRITERS

Dated: June 1, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

SCOTIA CAPITAL INC.	**RBC DOMINION SECURITIES INC.**
(Signed) STEPHEN MACCULLOCH	(Signed) DAVID DAL BELLO

BMO NESBITT BURNS INC.	**CIBC WORLD MARKETS INC.**	**NATIONAL BANK FINANCIAL INC.**	**TD SECURITIES INC.**
(Signed) JAMES A. TOWER	(Signed) DAVID H. WILLIAMS	(Signed) IAIN WATSON	(Signed) HAROLD R. HOLLOWAY

HSBC SECURITIES (CANADA) INC.

(Signed) NICOLE CATY

BEACON SECURITIES LIMITED

(Signed) DANIEL HOLLAND

FORTIS

RR DONNELLEY
O71259

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See "Plan of Distribution".*

SHORT FORM PROSPECTUS

New Issue June 8, 2011

FORTIS INC.

FORTIS

$300,300,000

9,100,000 COMMON SHARES

This short form prospectus (the "Prospectus") qualifies for distribution (the "Offering") 9,100,000 common shares (the "Offered Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated June 1, 2011 between Fortis and Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBCDS"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), CIBC World Markets Inc. ("CIBCWM"), National Bank Financial Inc. ("NB Financial"), TD Securities Inc. ("TDSI"), HSBC Securities (Canada) Inc. ("HSBC Securities") and Beacon Securities Ltd. (collectively, the "Underwriters"). The Offered Shares will be issued and sold by Fortis to the Underwriters at the price of $33.00 (the "Offering Price") per Offered Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The Underwriters may offer the Offered Shares at a lower price than the Offering Price. See "Plan of Distribution".

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing on the TSX of the Offered Shares distributed under this Prospectus. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before August 28, 2011. On June 7, 2011, the closing price of the common shares of Fortis on the TSX was $32.10.

Investing in the Offered Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

Price: $33.00 per Common Share

	Price to the Public	Underwriters' Fee	Net Proceeds to Fortis(1)(2)
Per Common Share	$33.00	$1.32	$31.68
Total	$300,300,000	$12,012,000	$288,288,000

(1) Before deducting expenses of the Offering estimated at $600,000 which, together with the Underwriters' Fee (as defined herein), will be paid out of the general funds of Fortis. See "Plan of Distribution".

(2) The Corporation has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the date of closing of the Offering, to purchase at the Offering Price up to 1,365,000 additional Offered Shares (the "Additional Shares") to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to Fortis" will be $345,345,000, $13,813,800 and $331,531,200, respectively. See "Plan of Distribution". This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable on the exercise of the Over-Allotment Option. References to Offered Shares include any Additional Shares unless otherwise noted or unless the context precludes such inclusion.

A purchaser who acquires Offered Shares forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus, regardless of whether the Underwriters' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Underwriters' Position	Number of Shares Available	Exercise Period	Exercise Price
Over-Allotment Option	1,365,000	Within 30 days following the closing of the Offering	$33.00 per share

Each of Scotia Capital, RBCDS, BMO Capital Markets, CIBCWM, NB Financial, TDSI and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. A portion of the net proceeds from the Offering will be used towards repaying indebtedness under a credit facility owing by the Corporation to certain of such banks or their affiliates. **Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".**

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued by Fortis and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, over-allot or effect transactions which stabilize or maintain the market price of the Offered Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on or about June 15, 2011 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 20, 2011. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus (the "Prospectus"), including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt issues; the expected total capital cost for the construction of the 335-megawatt ("MW") hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia (the "Waneta Expansion") and its expected completion date; the expectation that organic earnings' growth for the Corporation's regulated utilities in Canada will be primarily driven by rate base growth at FortisAlberta Inc. and FortisBC Inc.; the expected timing of the close of the sale of the joint-use poles at Newfoundland Power Inc.; consolidated forecasted gross capital expenditures for 2011 and in total over the five-year period from 2011 through 2015; the expectation that the Corporation's significant capital program should drive growth in earnings and dividends; expected average annual consolidated long-term debt maturities and repayments over the next five years; the expectation that the Corporation and its utilities will continue to have reasonable access to capital in the near to medium terms; the expected 2% growth in electricity sales for 2011 at the Corporation's regulated utilities in the Caribbean; the expected average annual energy production from the Macal River in Belize; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2011 capital expenditure programs; the expectation that there will be no material increase in consolidated interest expense and/or fees associated with renewed and extended credit facilities in 2011; expected earnings' contribution from Belize Electricity Limited ("Belize Electricity") in the course of normal operations to the consolidated earnings of Fortis; the estimated impact a decrease in revenue at Fortis Properties Corporation's Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2011; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; except for debt at Belize Electricity and Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2011; no expected material adverse credit rating actions in the near term; the anticipated completion of the acquisition (the "Acquisition") by the Corporation of Central Vermont Public Service Corporation ("CVPS") (see "Recent Developments — Agreement to Acquire Central Vermont Public Service Corporation"); the expectation of an increase in consolidated defined benefit net pension cost for 2011; the expectation that Fortis will become a U.S. Securities and Exchange issuer by December 31, 2011; and the expected impact of the transition to U.S. generally accepted accounting principles. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no material capital project and financing cost overrun or delay related to the construction of the Waneta Expansion; no significant decline in capital spending in 2011; no severe and prolonged downturn in economic conditions; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates and natural gas commodity prices; no significant variability in interest rates; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas and fuel supply; the continued ability to fund defined benefit pension plans; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; maintenance of information technology infrastructure; the receipt of CVPS shareholder, regulatory and other approvals required in connection with the Acquisition; favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. 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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; operating and maintenance risks; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; economic conditions; capital resources and liquidity risk; weather and seasonality; commodity price risk; derivative financial instruments and hedging; interest rate risk; counterparty risk; competitiveness of natural gas; natural gas and fuel supply; defined benefit pension plan performance and funding requirements; risks related to the development of the FortisBC Energy (Vancouver Island) Inc. franchise; environmental risks; insurance coverage risk; loss of licences and permits; loss of service area; risks relating to the completion of the Acquisition and the realization of the anticipated benefits of the Acquisition; the risk of transition to new accounting standards that do not recognize the impact of rate-regulation; changes in tax legislation; information technology infrastructure; an ultimate resolution of the expropriation of the assets of the Exploits Partnership that differs from what is currently expected by management; an unexpected outcome of legal proceedings currently against the Corporation; relations with First Nations; labour relations; and human resources. For additional information with respect to the Corporation's risk factors and risk factors relating to the Common Shares, reference should be made to the section of this Prospectus entitled "Risk Factors".

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 7, 2011 for the year ended December 31, 2010 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2010 and December 31, 2009 and for the years ended December 31, 2010 and 2009, together with the notes thereto and the auditors' report thereon dated March 2, 2011, as contained in the Corporation's 2010 Annual Report;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2010 as contained in the Corporation's 2010 Annual Report;

(d) unaudited comparative interim consolidated financial statements as at March 31, 2011 and for the three months ended March 31, 2011 and 2010, together with the notes thereto;

(e) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2011; and

(f) Management Information Circular dated March 21, 2011 prepared in connection with the Corporation's annual meeting of shareholders held on May 6, 2011.

Any document of the type referred to in the preceding paragraph and any material change report (other than any confidential material change report) or business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, provided that the Offered Shares are listed on a designated stock exchange for purposes of the *Income Tax Act* (Canada) (the "Tax Act") (which currently includes the TSX), the Offered Shares, if issued on the date hereof, would be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan ("DPSP") (other than a trust governed by a DPSP for which any employer is the Corporation or is an employer that does not deal at arm's length with the Corporation for purpose of the Tax Act), registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA"). The Offered Shares will not be "prohibited investments" for a TFSA where the holder of the TFSA is not a "specified shareholder" of the Corporation, and the Corporation deals at arm's length with such holder for purposes of the Tax Act and any person in which such holder has a "significant interest", as each such term is defined in the Tax Act. In the 2011 Canadian federal budget released on March 22, 2011, the Minister of Finance proposed amendments to the Tax Act to extend the "prohibited investment" rules to registered retirement savings plans and registered retirement income funds.

CURRENCY

All dollar amounts in the Prospectus are expressed in Canadian dollars unless otherwise indicated.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc." The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of approximately $13 billion and fiscal 2010 revenue totalling approximately $3.7 billion. The Corporation serves approximately 2,100,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas utility in British Columbia, Canada. Regulated utility assets comprise approximately 92% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings") (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta Inc. ("FortisAlberta"), a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company, Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 70% interest in Belize Electricity Limited ("Belize Electricity"), the principal distributor of electricity in Belize, Central America, and an approximate 59% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of Belize Electric Company Limited ("BECOL"), FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties Corporation ("Fortis Properties") and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the "Waneta Partnership"), which was established in 2010 to construct a 335 MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia (the "Waneta Expansion").

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by Fortis Properties.

Fortis Properties is also the direct owner of a 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership"). The Exploits Partnership was established with AbitibiBowater Inc., formerly Abitibi-Consolidated Company of Canada ("Abitibi"), which holds the remaining 49% interest. The Exploits Partnership was established to develop additional capacity at Abitibi's hydroelectric generating plant at Grand Falls-Windsor and redevelop Abitibi's hydroelectric generating plant at Bishop's Falls, in central Newfoundland. See "Non-Regulated — Fortis Generation — Central Newfoundland".

Fortis Properties' assets also include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 21 hotels in eight Canadian provinces and commercial real estate primarily in Atlantic Canada.

Regulated Gas Utilities — Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 950,400 customers as at March 31, 2011, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 847,200 customers as at March 31, 2011 in a service area extending from Vancouver to the Fraser Valley and the interior of British Columbia. FortisBC Energy (Vancouver Island) Inc. ("FEVI") (formerly Terasen Gas (Vancouver Island) Inc.) owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast, serving approximately 100,600 customers as at March 31, 2011. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers. The FortisBC Energy companies own and operate almost 46,500 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,421 terajoules for 2010.

Regulated Electric Utilities — Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 493,000 customers in Alberta as at March 31, 2011, using approximately 112,500 kilometres of distribution lines and met a peak demand of 2,555 MW for 2010. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 161,000 customers, as at March 31, 2011, with residential customers representing the largest customer segment, and met a peak demand of 707 MW for 2010. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served over 244,000 customers as at March 31, 2011, or approximately 86% of electricity consumers in the Province, and met a peak demand of 1,206 MW for 2010. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 74,000 customers as at March 31, 2011, or 90% of electricity consumers on the Island, and met a peak demand of 207 MW for 2010. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served more than 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2011, and met a combined peak demand of 273 MW for 2010. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, serve approximately 38,000 customers.

Regulated Electric Utilities — Caribbean

Belize Electricity

Fortis holds an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. Belize Electricity directly supplied approximately 77,000 customers in Belize, as at March 31, 2011, and met a peak demand of 81 MW for 2010. See "Recent Developments — Belize Electricity".

Caribbean Utilities

Fortis holds an indirect approximate 59% controlling ownership interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 26,000 customers as at March 31, 2011, has approximately 151 MW of installed generating capacity and met a record peak demand of 102 MW for 2010. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the TSX under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,000 customers, or approximately 80% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2011. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed generating capacity of approximately 57 MW and met a record peak demand of approximately 31 MW for 2010.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the Government of Belize. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and five small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits Partnership. The assets generate approximately 610 GWh annually, of which 470 GWh was utilized by Abitibi, while the remainder is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement which is exempt from regulation, expiring in 2033.

In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions are ongoing with various parties with respect to matters relating to the expropriation.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $75 million were incurred on this capital project in 2010. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh (and associated capacity required to deliver such energy), from the Waneta Expansion will be sold to BC Hydro under a recently executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, will be sold to FortisBC under a long-term capacity purchase agreement, which was accepted by the British Columbia Utilities Commission in September 2010.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated — Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 21 hotels, with more than 4,100 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial real estate primarily in Atlantic Canada.

CAPITAL RESOURCES

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2011, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.1 billion, of which $1.5 billion was available to be drawn.

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2011, long-term debt maturities over the next five years are expected to average approximately $250 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire Central Vermont Public Service Corporation

On May 27, 2011, Fortis entered into an agreement (the "Merger Agreement") to acquire all of the outstanding common shares of Central Vermont Public Service Corporation ("CVPS"), the largest integrated electric utility in Vermont, for US$35.10 per share in cash, for an aggregate purchase price of approximately US$700 million, including the assumption of approximately US$230 million of debt on closing (the "Acquisition"). The common shares of CVPS are listed on the New York Stock Exchange. The closing of the Acquisition is subject to receipt of the approval of the shareholders of CVPS and regulatory and other approvals, including those of the Vermont Public Service Board ("PSB") and the U.S. Federal Energy Regulatory Commission ("FERC"), and the satisfaction of customary closing conditions. Fortis expects the closing of the Acquisition to occur within six to 12 months.

CVPS is engaged principally in the purchase, production, transmission, distribution and sale of electricity. CVPS serves nearly 160,000 customers in about two-thirds of the cities and towns throughout the State of Vermont. Its electric system consists of approximately 9,000 miles of distribution lines and more than 600 miles of sub-transmission lines. CVPS holds directly and indirectly an approximate 41% ownership interest in Vermont Transco LLC, which owns and operates the high-voltage transmission system in Vermont. In 2010, total assets and rate base assets of CVPS were approximately US$711 million and US$426 million, respectively. For CVPS, the allowed rate of return on common equity for 2011 has been set at 9.45%. The equity level in its capital structure is currently 57%.

CVPS customer rates are among the lowest of major utilities in New England. Approximately 50% and 40% of the energy supply in 2010 for CVPS was derived from nuclear and hydroelectric sources, respectively, making it one of the cleanest energy supplies in the United States. Most of the energy sold by CVPS is acquired from Hydro-Québec and the Vermont Yankee nuclear power plant through power purchase agreements. CVPS participates in the New England regional wholesale electric power markets operated by ISO New England Inc., the regional bulk power transmission organization established to assure reliable and economical power supply in New England.

The Acquisition represents the initial entry by Fortis into the U.S. regulated electric utility marketplace and establishes a foundation for Fortis to grow its utility business in the United States. Fortis believes that CVPS is a well-run utility whose operations are very similar to those of the Corporation's Canadian regulated utilities, allowing Fortis and CVPS to use their collective competencies to further enhance service to customers and returns to the Corporation's shareholders. CVPS will remain autonomous in the Fortis model. The headquarters of CVPS will remain in Rutland, Vermont.

Based on financial information as at March 31, 2011, following the Acquisition, the total assets of Fortis will increase by approximately 7% to approximately $13.9 billion as at March 31, 2011. The Corporation's regulated electric and gas utility operations will account for approximately 55% and 37%, respectively, of the total assets of Fortis. Following the Acquisition, total regulated utility assets will be approximately 92% of the total assets of Fortis. Regulated utility assets in Canada and the United States will account for approximately 85% of the total assets of Fortis.

The business operated by CVPS is attractive to Fortis for the following reasons:

(a) the Acquisition is expected to be accretive to earnings per common share of Fortis in the first full year of ownership;

(b) CVPS operates a well-maintained and efficient electric system in an attractive service franchise area, serving a diversified, mature and primarily residential, customer base;

(c) the Acquisition affords Fortis management an opportunity to deploy its core competencies in regulatory, operating and financial management expertise to a U.S. regulated utility;

(d) similar to the Canadian regulated utilities of Fortis, CVPS operates principally under cost-of-service regulation. The regulatory framework at CVPS enables CVPS to earn stable returns with minimal regulatory lag, while allowing timely recovery of fuel, purchased power and transmission costs, along with capital program costs;

(e) the Acquisition will increase the regulated rate base assets and utility earnings of Fortis and mitigate the business risks associated with regulated utility operations through increased diversification of assets and earnings by geographic location and regulatory environment; and

(f) CVPS expects rate base investment to reach approximately US$650 million by 2015, representing a compound average annual growth rate of approximately 9% from 2010 to 2015.

The management of Fortis has substantial experience integrating newly acquired enterprises into the Fortis group of companies. In 2004, Fortis completed the $1.5 billion acquisition of FortisBC and FortisAlberta, (formerly, Aquila Networks Canada (British Columbia) Ltd. and Aquila Networks Canada (Alberta) Ltd., respectively), two electric utilities that today serve approximately 654,000 electricity customers in Alberta and British Columbia, Canada. In 2007, Fortis completed the $3.7 billion acquisition of FortisBC Energy (formerly known as Terasen), one of the largest natural gas distribution utilities in Canada, serving approximately 950,000 natural gas customers in British Columbia, Canada.

Upon close of the transaction, Fortis expects to purchase CVPS for cash with proceeds from borrowings under its $600 million committed term credit facility.

See "Risk Factors — Failure to Complete Acquisition"; "— Potential Undisclosed Liabilities Associated with the Acquisition"; and "— Realization of Acquisition Benefits".

Belize Electricity

Belize Electricity represents approximately 2% of the total assets of Fortis. In June 2008, the Public Utilities Commission of Belize ("PUC") issued a rate order that has had a significant negative impact on the financial condition and operations of Belize Electricity. The order effectively disallowed the recovery of previously incurred fuel and purchased power costs in customer rates and set customer rates at a level that does not allow Belize Electricity to earn a fair and reasonable return. Belize Electricity appealed the PUC rate order to the Supreme Court of Belize. On March 15, 2011, the court rendered its judgment dismissing Belize Electricity's application and finding that, among other things, the generally accepted concept of Good Utility Practice is not applicable in Belize. Belize Electricity has appealed this judgment to the Court of Appeal of Belize; however, a hearing is not expected until the first quarter of 2012. On May 16, 2011, the Supreme Court of Belize granted Belize Electricity's application to enjoin the PUC from engaging in any rate making proceedings or taking any enforcement or penal actions against Belize Electricity pending the appeal of its judgment.

Belize Electricity has been in default of covenants under its long-term lending agreements since 2008 and has had no access to credit during this period. Belize Electricity is facing serious cash constraints and is currently unable to pay for energy purchases. It has received some assistance from the Government of Belize. Discussions are continuing with the Government of Belize to address the current financial difficulties facing Belize Electricity pending a commercially acceptable resolution to the regulatory issues currently before the courts.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at March 31, 2011, after giving effect to the Offering (assuming no exercise of the Over-Allotment Option (as defined herein) and after deducting the Underwriters' Fee (as defined herein) and the expenses of the Offering), and the change in long-term debt and capital lease obligations from April 1, 2011 to June 6, 2011. See "Changes in Share and Loan Capital Structure". The financial information set out below should be read in conjunction with the Corporation's audited consolidated financial statements and unaudited interim consolidated financial statements and the notes thereto incorporated by reference into the Prospectus.

	Outstanding as at March 31, 2011	Pro forma Outstanding as at March 31, 2011(1)
	(unaudited)	(unaudited)
	(in millions of dollars)	
Total debt (net of cash)	5,829	5,703
Preference shares(2)	320	320
Shareholders' equity		
Securities offered hereby	Nil	291
Common shares	2,607	2,607
Preference shares(3)	592	592
Contributed surplus	12	12
Equity portion of convertible debentures	5	5
Accumulated other comprehensive loss	(97)	(97)
Retained earnings	870	870
Total capitalization(4)	10,138	10,303

(1) After giving effect to the net proceeds from the Offering (assuming no exercise of the Over-Allotment Option), determined after deducting the Underwriters' Fee and the expenses of the Offering on an after-tax basis, and the change in long-term debt and capital lease obligations from April 1, 2011 to June 6, 2011. See "Changes in Share and Loan Capital Structure".

(2) First Preference Shares, Series C and First Preference Shares, Series E (as defined below), which are classified as long-term liabilities in the financial statements of Fortis.

(3) First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H (as defined below).

(4) Excludes non-controlling interests.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at June 6, 2011, 175,942,051 Common Shares; 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"); 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"); 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"); 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G"); and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.12 in 2010, $1.04 in 2009 and $1.00 in 2008. On March 2, 2011, the Board of Directors declared a second quarter dividend of $0.29 per Common Share, payable on June 1, 2011 to holders of record on May 13, 2011. On May 5, 2011, the Board of Directors declared a third quarter dividend of $0.29 per Common Share, payable on September 1, 2011 to holders of record on August 12, 2011.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, respectively. The Board of Directors declared a second quarter dividend on the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on March 2, 2011, in each case in accordance with the applicable prescribed annual rate, payable on June 1, 2011 to holders of record on May 13, 2011. On May 5, 2011, the Board of Directors declared a third quarter dividend on the First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2011 to holders of record on August 12, 2011.

DESCRIPTION OF COMMON SHARES

Dividends

Holders of Common Shares are entitled to dividends on a *pro rata* basis if, as and when declared by the Board of Directors. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board of Directors may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

Liquidation, Dissolution or Winding-Up

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of the assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Voting Rights

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and to one vote in respect of each Common Share held at such meetings.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2011:

- During the period from April 1, 2011 up to and including June 6, 2011, Fortis issued an aggregate of 520,394 Common Shares pursuant to the Corporation's Dividend Reinvestment Plan and Consumer Share Purchase Plan and upon the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans, for aggregate consideration of approximately $16.1 million.
- As a result of the proposed issuance of 9,100,000 Offered Shares (assuming no exercise of the Over-Allotment Option), shareholders' equity (excluding non-controlling interests) in the Corporation will increase by approximately $291 million to a total of $4.3 billion.
- During the period from April 1, 2011 up to and including June 6, 2011, consolidated long-term debt and capital lease obligations (including current portion and borrowings under committed credit facilities classified as long-term) increased by $161 million. The increase in debt was incurred mainly in support of infrastructure investment at the regulated utilities.

PRIOR SALES

The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares within the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
June 2010	Common – Exercise of Stock Options(4)	$19.66	10,945
July 2010	Common – Exercise of Stock Options(4)	$13.46	32,360
August 2010	Common – Exercise of Stock Options(4)	$17.10	93,241
September 1, 2010	Common – DRIP(1)	$28.61	534,356
September 1, 2010	Common – CSPP(3)	$29.17	11,006
September 2010	Common – Exercise of Stock Options(4)	$14.03	43,716
October 2010	Common – Exercise of Stock Options(4)	$18.45	110,815
November 2010	Common – Exercise of Stock Options(4)	$24.91	69,945
December 1, 2010	Common – DRIP(1)	$31.39	494,891
December 1, 2010	Common – CSPP(3)	$32.01	12,446
December 2010	Common – Exercise of Stock Options(4)	$18.42	125,271
January 2011	Common – Exercise of Stock Options(4)	$18.31	388,267
February 2011	Common – Exercise of Stock Options(4)	$28.27	11,674
March 1, 2011	Common – DRIP(1)	$32.40	514,542
March 1, 2011	Common – CSPP(3)	$33.04	13,539
March 2, 2011	Issue of Stock Options	$32.95	828,512
March 2011	Common – Exercise of Stock Options(4)	$22.09	100,734
April 2011	Common – Exercise of Stock Options(4)	$12.98	34,216
May 2011	Common – Exercise of Stock Options(4)	$20.68	20,524
June 1, 2011	Common – DRIP(1)	$32.64	454,874
June 1, 2011	Common – CSPP(3)	$33.29	10,780

(1) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").

(2) Issued pursuant to the Corporation's Employee Share Purchase Plan ("ESPP").

(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").

(4) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares: First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2010 June	28.35	26.51	10,261,047	26.36	25.75	19,692
July	29.37	26.83	7,559,548	27.00	26.20	19,206
August	29.51	28.25	12,267,132	26.60	26.26	6,191
September	32.39	29.45	10,444,191	26.67	26.20	82,791
October	33.34	31.22	7,443,166	27.10	26.20	82,316
November	33.63	30.50	14,538,415	27.90	26.00	55,307
December	34.54	32.27	9,124,490	26.27	25.50	72,697
2011						
January	34.74	33.30	7,432,455	26.89	26.05	161,956
February	35.45	32.30	9,925,791	26.10	25.60	329,057
March	33.59	31.53	10,482,063	25.85	25.63	81,458
April	33.28	31.05	5,367,214	26.33	26.00	71,764
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June 1 to June 7	33.05	32.07	2,065,011	26.04	25.75	231,192

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2010 June	26.70	26.01	35,587	21.20	20.01	43,550
July	26.85	26.25	233,990	21.90	20.95	47,155
August	27.83	26.15	66,419	21.92	21.54	54,955
September	27.99	26.88	48,182	22.84	21.91	305,678
October	27.40	26.82	176,316	23.49	22.60	49,843
November	27.69	26.90	46,446	23.91	23.01	55,907
December	27.31	26.75	387,978	23.20	22.55	105,720
2011						
January	27.59	26.75	163,482	23.50	22.76	66,772
February	26.87	26.31	236,757	23.75	22.61	59,272
March	27.00	26.21	36,423	23.88	22.90	87,710
April	27.07	26.45	29,389	23.81	23.00	44,696
May	27.34	26.74	272,521	24.00	23.05	87,756
June 1 to June 7	27.24	26.87	43,308	24.25	24.00	16,175

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2010 June	26.24	25.61	67,343	25.10	24.40	157,834
July	26.49	25.75	398,816	25.25	24.80	83,340
August	26.74	25.70	100,414	25.51	24.71	140,492
September	26.72	25.91	92,166	26.00	25.15	141,417
October	26.70	26.00	105,727	26.00	25.45	152,170
November	27.25	25.99	78,194	26.22	25.39	433,361
December	26.74	25.30	103,646	25.61	25.25	510,574
2011						
January	26.62	25.95	51,868	25.90	25.25	192,555
February	26.49	25.53	57,289	25.91	25.25	96,073
March	26.57	25.56	110,302	25.73	24.97	163,231
April	26.58	26.25	94,098	25.52	25.05	101,246
May	26.50	25.88	97,923	26.50	25.14	96,623
June 1 to June 7	26.99	25.88	16,880	25.80	25.65	13,080

USE OF PROCEEDS

The net proceeds of the Offering will be approximately $287.7 million, determined after deducting the Underwriters' Fee (as defined below) and the expenses of the Offering, which are estimated to be $600,000. If the Over-Allotment Option is exercised in full, the net proceeds of the Offering, determined after deducting the Underwriters' Fee and estimated expenses of the Offering, are expected to be approximately $330.9 million. The net proceeds from the Offering will be used to repay indebtedness incurred under the Corporation's existing committed credit facility, finance additional equity injections into the western Canadian regulated utilities and the Waneta Partnership in support of investment in infrastructure, and for general corporate purposes. Indebtedness under the Corporation's credit facility that will be repaid was originally incurred to finance equity injections in certain of the Corporation's subsidiaries and for general corporate purposes.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated June 1, 2011 (the "Underwriting Agreement") between Fortis and Scotia Capital Inc. ("Scotia Capital"), RBC Dominion Securities Inc. ("RBCDS"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), CIBC World Markets Inc. ("CIBCWM"), National Bank Financial Inc. ("NB Financial"), TD Securities Inc. ("TDSI"), HSBC Securities (Canada) Inc. ("HSBC Securities") and Beacon Securities Ltd. (collectively, the "Underwriters"), Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on or about June 15, 2011 (the "Closing Date"), the Offered Shares offered hereby at the price of $33.00 per Common Share (the "Offering Price"), payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any of the Offered Shares are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in the Prospectus. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to pay fees to the Underwriters in the amount of $1.32 per Offered Share, in consideration of services rendered by the Underwriters in connection with the Offering (the "Underwriters' Fee"). Assuming that the Over-Allotment Option (as defined below) is not exercised, the total price to the public will be $300,300,000, the Underwriters' Fee will be $12,012,000 and the net proceeds to Fortis will be approximately $287.7 million, after deducting the expenses of the Offering estimated at $600,000 which, together with the Underwriters' Fee, will be paid out of the general funds of the Corporation.

The Corporation has granted the Underwriters the option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the Closing Date, to purchase up to an additional 1,365,000 Offered Shares (the "Additional Shares") at the Offering Price. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, and for market stabilization purposes. This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares issuable upon exercise of the Over-Allotment Option.

A purchaser who acquires Offered Shares forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus, regardless of whether the Underwriters' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering (the "Closing") will take place on the Closing Date, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 20, 2011. Certificates evidencing the Offered Shares will be available for delivery at the Closing or shortly thereafter.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Offered Shares ends and all stabilization arrangements relating to the Offered Shares are terminated, bid for or purchase Offered Shares. The foregoing restrictions are subject to certain exceptions including: (i) a bid for or purchase of Offered Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada; (ii) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period; and (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Offered Shares is for the purpose of maintaining a fair and orderly market in the Offered Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Offered Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Offered Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The Underwriters propose to offer the Offered Shares initially at the Offering Price set forth on the cover page of this Prospectus. After the Underwriters have made reasonable efforts to sell all the Offered Shares at such price, the Offering Price may be decreased, and further changed from time to time to an amount not greater than the Offering Price specified herein. The compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Corporation.

Each of Scotia Capital, RBCDS, BMO Capital Markets, CIBCWM, NB Financial, TDSI and HSBC Securities is a subsidiary of a Canadian chartered bank that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). A portion of the net proceeds from the Offering will be used towards repaying indebtedness under a credit facility owing by the Corporation to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' Fee relating to the Offering. The decision to distribute the Offered Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at June 6, 2011, an aggregate of approximately $630 million was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness, other than with respect to certain of Belize Electricity's and the Exploits Partnership's debt as previously disclosed in the Corporation's public disclosure. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

The TSX has conditionally approved the listing on the TSX of the Offered Shares distributed under this Prospectus. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before August 28, 2011.

RISK FACTORS

An investment in the Offered Shares involves certain risks. A prospective purchaser of Offered Shares should carefully consider the risk factors described under:

(a) the heading "Risk Factors" found on page 33 of the Corporation's Annual Information Form dated March 7, 2011 for the year ended December 31, 2010;

(b) the heading "Business Risk Management" in the Management Discussion and Analysis of financial condition and results of operations found on pages 44 through 54 of the Corporation's 2010 Annual Report (the "MD&A");

(c) the heading "Business Risk Management" on page 25 of the Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2011; and

(d) Note 18 "Financial Risk Management" found on pages 18 through 21 in the Corporation's unaudited comparative interim consolidated financial statements as at March 31, 2011 and for the three months ended March 31, 2011 and 2010,

each of which is incorporated by reference herein.

In addition, a prospective purchaser of Offered Shares should carefully consider the risk factors described below and in the other information contained in this Prospectus (including the documents incorporated by reference herein).

Failure to Complete Acquisition

The completion of the Acquisition is subject to receipt of CVPS shareholder, regulatory and other approvals, including those of the PSB and FERC, and the satisfaction of certain closing conditions contained in the Merger Agreement. The failure to obtain the required approvals or satisfy the conditions contained in the Merger Agreement may result in the termination of the Merger Agreement. The termination of the Merger Agreement may have a negative effect on the market price of the Common Shares.

Potential Undisclosed Liabilities Associated with the Acquisition

In connection with the Acquisition, there may be liabilities that the Corporation failed to discover or was unable to quantify in the due diligence which it conducted prior to the execution of the Merger Agreement and the Corporation may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities could have a material adverse effect on the Corporation's business, financial condition or future prospects.

Realization of Acquisition Benefits

The Corporation believes that the Acquisition will provide benefits to Fortis as described under the heading "Recent Developments — Agreement to Acquire Central Vermont Public Service Corporation". However, there is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Corporation.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Offered Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated June 8, 2011 relating to the issue and sale of 9,100,000 Common Shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2010 and 2009 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two year period then ended. Our report is dated March 2, 2011.

St. John's, Canada
June 8, 2011

(Signed) Ernst & Young LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: June 8, 2011

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. Stanley Marshall President and Chief Executive Officer	(Signed) Barry V. Perry Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) David G. Norris Director	(Signed) Peter E. Case Director

CERTIFICATE OF THE UNDERWRITERS

Dated: June 8, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

SCOTIA CAPITAL INC.	RBC DOMINION SECURITIES INC.
(Signed) STEPHEN MACCULLOCH	(Signed) DAVID DAL BELLO

BMO NESBITT BURNS INC.	CIBC WORLD MARKETS INC.	NATIONAL BANK FINANCIAL INC.	TD SECURITIES INC.
(Signed) JAMES A. TOWER	(Signed) DAVID H. WILLIAMS	(Signed) IAIN WATSON	(Signed) HAROLD R. HOLLOWAY

HSBC SECURITIES (CANADA) INC.

(Signed) NICOLE CATY

BEACON SECURITIES LIMITED

(Signed) DANIEL HOLLAND

FORTIS

A copy of this preliminary short form base shelf prospectus has been filed with the securities regulatory authorities in each province of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form base shelf prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form base shelf prospectus is obtained from the securities regulatory authorities.

This preliminary short form base shelf prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This preliminary short form base shelf prospectus constitutes a public offering of securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

***Information has been incorporated by reference in this preliminary short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada**. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form base shelf prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See "Plan of Distribution".*

New Issue May 4, 2012

PRELIMINARY SHORT FORM BASE SHELF PROSPECTUS

FORTIS INC.

FORTIS

$1,300,000,000

COMMON SHARES
FIRST PREFERENCE SHARES
SECOND PREFERENCE SHARES
SUBSCRIPTION RECEIPTS
DEBENTURES (UNSECURED)

Fortis Inc. ("Fortis" or the "Corporation") may from time to time offer and issue common shares ("Common Shares"), first preference shares (the "First Preference Shares"), second preference shares (the "Second Preference Shares"), subscription receipts ("Subscription Receipts") or unsecured debentures ("Debentures" and together with the Common Shares, First Preference Shares, Second Preference Shares and Subscription Receipts, the "Securities"), having an aggregate offering price of up to $1,300,000,000 (or the equivalent in US dollars or other currencies), during the 25 month period that this short form base shelf prospectus (the "Prospectus"), including any amendments hereto, remains valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement (a "Prospectus Supplement").

The specific variable terms of any offering of Securities will be set out in the applicable Prospectus Supplement including, where applicable: (i) in the case of Common Shares, the number of shares offered and the offering price (or the manner of determination thereof if offered on a non-fixed price basis); (ii) in the case of First Preference Shares and Second Preference Shares, the designation of the particular series, the number of shares offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the currency or currency unit for which such shares may be purchased, any voting rights, any rights to receive dividends, any terms of redemption, any conversion or exchange rights and any other specific terms; (iii) in the case of Subscription Receipts, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the procedures for the exchange of Subscription Receipts for Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, and any other specific terms; and (iv) in the case of Debentures, the designation of the Debentures, the aggregate principal amount of the Debentures being offered, the currency or currency unit for which the Debentures may be purchased, authorized denominations, any limit on the aggregate principal amount of the Debentures of the series being offered, the issue and delivery date, the maturity date, the offering price (at par, at a discount or at a premium), the interest rate or method of determining the interest rate, the interest payment date(s), any conversion or exchange rights that are attached to the Debentures, any redemption provisions, any repayment provisions and any other specific terms. A Prospectus Supplement may include other terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

The Corporation may sell the Securities to or through underwriters or dealers purchasing as principals and may also sell the Securities to one or more purchasers directly subject to obtaining any required exemptive relief or through agents. The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, if any, engaged by the Corporation in connection with the offering and sale of Securities and will set forth the terms of the offering of such Securities, the method of distribution of such Securities including, to the extent applicable, the proceeds to the Corporation and any fees, discounts or any other compensation payable to underwriters, dealers or agents and any other material terms of the plan of distribution. Securities may be sold from time to time in one or more transactions at a fixed price or fixed prices, or at non-fixed prices. If offered on a non-fixed price basis, Securities may be offered at market prices prevailing at the time of sale or at prices to be negotiated with purchasers at the time of sale, which prices may vary as between purchasers and during the period of distribution. If Securities are offered on a non-fixed price basis, the underwriters', dealers' or agents' compensation will be increased or decreased by the amount by which the aggregate price paid for Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to Fortis. See "Plan of Distribution".

No underwriter or dealer has been involved in the preparation of, or has performed any review of, this Prospectus.

The outstanding Common Shares, Cumulative Redeemable First Preference Shares, Series C, Cumulative Redeemable First Preference Shares, Series E, Cumulative Redeemable First Preference Shares, Series F, Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G and Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H of the Corporation are listed on the Toronto Stock Exchange (the "TSX") under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively. **There is currently no market through which the First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures may be sold and purchasers may not be able to resell any First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures purchased under this Prospectus. This may affect the pricing of the Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities and the extent of issuer regulation. See the "Risk Factors" section of the applicable Prospectus Supplement.**

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

Subject to applicable laws, in connection with any offering of Securities the underwriters, dealers or agents may over-allot or effect transactions which stabilize or maintain the market price of the Securities at levels other than those which may prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See "Plan of Distribution".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s ("FortisAlberta") service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's ("Fortis Properties") Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to accounting principles generally accepted in the United States ("US GAAP") (see "Recent Developments – Transition to US GAAP"); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the acquisition (the "Acquisition") of CH Energy Group, Inc. ("CH Energy Group") by Fortis; and the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time transaction expenses (see "Recent Developments – Agreement to Acquire CH Energy Group").

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event

or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. 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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas pricing; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc. ("FEVI"); environmental risks; insurance coverage risk; loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of unexpected outcomes of legal proceedings currently against the Corporation; risk of not being able to access First Nations lands; labour relations risk; and human resources risk. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP");

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012; and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012 (the "Information Circular").

All documents of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition reports, as well as all Prospectus Supplements disclosing additional or updated information subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the distribution under this Prospectus, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

When Fortis files a new annual information form and audited consolidated financial statements and related management's discussion and analysis with, and where required, they are accepted by, the applicable securities regulatory authorities during the time that this Prospectus is valid, the previous annual information form, the previous audited consolidated financial statements and related management's discussion and analysis and all unaudited interim consolidated financial statements and related management's discussion and analysis for such periods, all material change reports and any information circular and business acquisition report filed prior to the commencement of the Corporation's financial year in which the new annual information form is filed will be deemed no longer to be incorporated by reference in this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon new interim financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, all interim financial statements and accompanying management's discussion

and analysis filed prior to the filing of the new interim financial statements shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Investors should rely only on the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. Fortis has not authorized anyone to provide investors with different or additional information. Fortis is not making an offer of Securities in any jurisdiction where the offer is not permitted by law. Prospective investors should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date on the front of the applicable Prospectus Supplement.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars" or "$" are to lawful currency of Canada, and references to "US dollars" or "US$" are to lawful currency of the United States.

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning prior to January 1, 2012 has been prepared using Canadian GAAP. All financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning on or after January 1, 2012 has been prepared using US GAAP. For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation, incorporated by reference in this Prospectus. See "Recent Developments – Transition to US GAAP" below.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of more than $14 billion as at March 31, 2012 and fiscal 2011 revenue totalling approximately $3.7 billion. The Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and two Caribbean countries and a natural gas utility in British Columbia, Canada. As at March 31, 2012, regulated utility assets comprised approximately 91% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings") (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, FortisTCI Limited (formerly P.P.C. Limited) and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of BECOL, FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the "Waneta Partnership"), which was established in 2010 to construct the Waneta Expansion, a 335-MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in Upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by FortisBC.

Fortis Properties' assets include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 22 hotels in eight Canadian provinces and commercial office and retail space primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 939,000 customers as at March 31, 2012, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 837,000 customers as at March 31, 2012. With the implementation of a new Customer Care Enhancement Project on January 1, 2012, the gas utilities adjusted their customer count downwards by approximately 17,000 effective January 1, 2012 as a result of a change in their definition of a "customer". FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI (formerly Terasen Gas (Vancouver Island) Inc.) owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 99,000 customers as at March 31, 2012. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers as at March 31, 2012. The FortisBC Energy companies own and operate almost 47,200 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,210 terajoules for 2011.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 501,000 customers in Alberta as at March 31, 2012, using approximately 114,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,505 MW for 2011. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 162,500 customers, as at March 31, 2012, with residential customers representing the largest customer segment, and met a peak demand of 669 MW for 2011. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served approximately 248,000 customers as at March 31, 2012, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,166 MW for 2011. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 75,000 customers as at March 31, 2012, or 90% of electricity consumers on the Island, and met a peak demand of 224 MW for 2011. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2012, and met a combined peak demand of 276 MW for 2011. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, served approximately 38,000 customers, as at March 31, 2012.

Regulated Electric Utilities – Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities as of March 31, 2012. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 27,000 customers as at March 31, 2012, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 99 MW for 2011. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,600 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2012. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed diesel-powered generating capacity of approximately 65 MW and met a peak demand of approximately 30 MW for 2011.

Expropriated Assets – Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the Government of Belize ("GOB") enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at March 31, 2012, the long-term other asset, including foreign exchange impacts, totalled $104 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation. Pursuant to the expropriation action, Fortis is assessing alternative options for obtaining fair compensation from the GOB.

Non-Regulated – Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership") between AbitibiBowater Inc. ("Abitibi") and Fortis Properties. In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The Government of Newfoundland and Labrador has publically stated that it is not its intention to adversely affect the business interests of lenders or independent partners of Abitibi in the Province. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions between Fortis Properties and Nalcor Energy, acting as agent for the Government of Newfoundland and Labrador, with respect to expropriation matters are ongoing.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $290 million have been incurred on this capital project through March 31, 2012. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy, from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. The BCUC is conducting its usual review process of the executed agreement to determine whether a hearing is necessary to decide whether the agreement is in the public interest.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated – Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 22 hotels, collectively representing approximately 4,300 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial office and retail space primarily in Atlantic Canada.

CAPITAL RESOURCES

This Prospectus will provide the Corporation with the flexibility to access the capital markets in a timely manner. The nature, size and timing of any offering of Securities under this Prospectus will be consistent with the past capital raising practices of the Corporation and will continue to depend upon the Corporation's assessment of its requirements for funding and general market conditions.

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2012, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $2.0 billion was available to be drawn. In May 2012, the Corporation increased the amount available for borrowing under its committed corporate credit facility from $800 million to $1 billion, thereby increasing the aggregate authorized amount available to the Corporation and its subsidiaries under all lines of credit to $2.4 billion. As at May 3, 2012, an aggregate amount of approximately $2.1 billion was unused and available to be drawn under these facilities. See "Recent Developments – Corporate Credit Facility".

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2012, long-term debt maturities over the next five years are expected to average approximately $265 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire CH Energy Group

On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing. The closing of the acquisition, which is expected to occur by the end of the first quarter of 2013, is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The acquisition is expected to be immediately accretive to Fortis' earnings per common share, excluding one-time acquisition-related expenses.

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson accounts for approximately 93% of the total assets of CH Energy Group. CH Energy Group also owns and operates Central Hudson Enterprises Corporation, a non-regulated subsidiary comprised primarily of a fuel delivery business serving approximately 56,000 customers in the Mid-Atlantic Region. As of December 31, 2011, CH Energy Group's total assets were US$1.7 billion and operating revenues and net income for 2011 totalled US$986 million and US$45 million, respectively. In 2011, Central Hudson accounted for approximately 97% of CH Energy Group's net income. Based on the first quarter results filed by CH Energy Group with the U.S. Securities and Exchange Commission ("SEC") on April 26, 2012, CH Energy Group's total assets at March 31, 2012 were approximately US$1.8 billion and operating revenues and net income for the first quarter totalled approximately US$274 million and US$14.6 million, respectively.

Central Hudson's electric assets, which comprise approximately 77% of its total assets, include approximately 7,300 pole miles (11,748 kilometers) of overhead lines and 1,400 trench miles (2,253 kilometers) of underground lines. The electric business met a peak demand of 1,225 MW in 2011. Central Hudson's natural gas assets, which comprise approximately 23% of its total assets, include approximately 1,185 miles (1,907 kilometers) of distribution pipelines and approximately 164 miles (264 kilometers) miles of transmission pipelines. The gas business met a peak day demand of 115,807 thousand cubic feet in 2011. Central Hudson is subject to regulation by the New York State Public Service Commission ("NYPSC") under a traditional cost-of-service model.

Central Hudson primarily relies on purchases from third-party providers and the New York Independent System Operator-administered energy and capacity markets to meet the demands of its full-service electric customers. It purchases its gas supply requirements from a number of suppliers at various receipt points on pipelines that it has contracted with for firm transport capacity.

In April 2012, applications were filed with the NYPSC and the Federal Energy Regulatory Commission seeking approval of the transaction. The CH Energy Group shareholder vote on the transaction is expected to occur mid-2012.

Transition to US GAAP

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, Fortis adopted US GAAP, as opposed to IFRS, effective January 1, 2012.

Canadian securities rules allow a reporting issuer to file its financial statements prepared in accordance with US GAAP by qualifying as a SEC issuer. A SEC issuer is defined under the Canadian rules as an issuer that: (a) has a class of securities registered with the SEC under Section 12 of the *U.S. Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (b) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is not currently a SEC issuer, but on June 9, 2011 was granted exemptive relief by Canadian securities regulators to permit it and its reporting issuer subsidiaries to prepare their financial statements in accordance with US GAAP without qualifying as SEC issuers (the "Exemption"). The Exemption applies to financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

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

The Corporation has prepared and filed its audited Canadian GAAP consolidated financial statements for the year ended December 31, 2011, with 2010 comparatives, in the usual manner. The Corporation has also voluntarily prepared and filed the US GAAP Reconciliation. Beginning with the first quarter of 2012, the Corporation's unaudited interim consolidated financial statements have been prepared in accordance with US GAAP, with the restatement of 2011 comparatives in accordance with US GAAP.

Regulatory Decisions

In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates at the FortisBC Energy companies and 2012 customer electricity distribution rates at FortisAlberta which reduce regulatory risk at the utilities. Effective January 1, 2012, the BCUC had previously approved an approximate 3% interim increase in rates for most residential customers at FEI and an approximate 6% interim increase in rates for residential customers at FEWI. The April 2012 decision at the FortisBC Energy companies is expected to result in a decrease in customer gas delivery rates at FEI and FEWI in the range of 1% – 2% from the January 1, 2012 interim rates. The BCUC also approved, as requested, FEVI's customer rates for 2012 and 2013 to remain unchanged from 2011 customer rates. The decision at FortisAlberta approved an average 5% increase in customer distribution electricity rates, consistent with the interim rate increase that was previously approved by the Alberta Utilities Commission effective January 1, 2012.

Corporate Credit Facility

In May 2012 the amount available for borrowing under the Corporation's committed corporate credit facility was increased from $800 million to $1 billion as permitted under the credit facility agreement. As at May 3, 2012, approximately $160 million was drawn and outstanding under this credit facility.

Approval of the 2012 Stock Option Plan and the 2012 Employee Share Purchase Plan

At the Corporation's annual general meeting held on May 4, 2012, the shareholders of the Corporation approved an amended and restated stock option plan (the "2012 Stock Option Plan") and an amended and restated employee share purchase plan (the "2012 ESPP"). Both the 2012 Stock Option Plan and the 2012 ESPP are described in more detail in the Information Circular which is incorporated by reference into this Prospectus. See "Documents Incorporated by Reference".

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 3, 2012, 189,316,393 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

EARNINGS COVERAGE RATIOS

The following consolidated earnings coverage ratios have been calculated for the 12 months ended December 31, 2011 and the 12 months ended March 31, 2012. The earnings coverage ratios set forth below do not purport to be indicative of earnings coverage ratios for any future periods. The earnings coverage ratios and dividend and interest requirements do not give effect to the issuance of any Securities that may be issued pursuant to this Prospectus and any Prospectus Supplement, since the aggregate principal amounts and the terms of such Securities are not currently known. The financial ratios included below have been calculated based on financial information prepared in accordance with US GAAP. The ratios for the 12 months ended December 31, 2011 are based on audited financial information.

	12 Months Ended December 31, 2011	12 Months Ended March 31, 2012
Dividend and interest requirements ($ millions)	$ 442	$ 439
Earnings before interest expense and taxes ($ millions)	$ 791	$ 790
Earnings coverage	1.79	1.80

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.16 in 2011, $1.12 in 2010 and $1.04 in 2009. On May 3, 2012, the Board of Directors declared a third quarter dividend of $0.30 per Common Share, payable on September 1, 2012 to holders of record of such Common Shares on August 17, 2012.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and

First Preference Shares, Series H, respectively. The Board of Directors declared a third quarter dividend on the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H on May 3, 2012, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2012 to holders of record of such First Preference Shares on August 17, 2012.

RATINGS

Each of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are rated Pfd-2 (low)/Under Review – Developing Implications by DBRS Limited ("DBRS") and P-2/CreditWatch – Negative by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"). The Corporation's unsecured debentures are rated A(low)/Under Review – Developing Implications by DBRS and are rated A-/Credit Watch – Negative by S&P. S&P and DBRS placed the Corporation's credit ratings on "Credit Watch – Negative" and "Under Review – Developing Implications", respectively, in February 2012 after the Corporation announced that it had entered into an agreement to acquire all of the shares of CH Energy Group. Credit ratings relating to the Securities offered pursuant to this Prospectus, where applicable, will be described in the relevant Prospectus Supplement.

The DBRS rating of Pfd-2 (low) is the lowest of three sub-categories within the second highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. The DBRS rating of A(low) is the lowest of three subcategories within the third highest rating of ten major categories for debt securities, ranging from AAA to D. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the five standard categories of ratings utilized by S&P for preferred shares. The S&P rating of A- is the lowest standing within the third highest rating of ten major categories for debt securities, ranging from AAA to D.

According to S&P, the rating action "Credit Watch – Negative" means that the Corporation's credit ratings have been placed under surveillance by S&P and that the ratings may be lowered due to S&P's view that there is at least a 50% probability that the Corporation's non-consolidated credit metrics will fall below thresholds previously established for the Corporation's current credit ratings, following the close of the proposed acquisition of CH Energy Group.

According to DBRS, the rating action "Under Review – Developing Implications" means that the Corporation's credit ratings are under review by DBRS due to the uncertainty of the impact on the Corporation's credit ratings upon close of the proposed acquisition of CH Energy Group, but that DBRS expects the Corporation to finance the acquisition of CH Energy Group such that its non-consolidated debt-to-capital structure remains within the 20% range.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, First Preference Shares, Series H and the Corporation's unsecured debentures by these rating agencies are not recommendations to purchase, hold or sell such securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DESCRIPTION OF SECURITIES OFFERED

Common Shares

Common Shares may be offered separately or together with First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Dividends

Holders of Common Shares are entitled to dividends on a *pro rata* basis if, as and when declared by the Board of Directors. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board of Directors may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

Liquidation, Dissolution or Winding-Up

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Voting Rights

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and to one vote in respect of each Common Share held at such meetings.

First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the First Preference Shares, including the currency in which First Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this section apply to those First Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of First Preference Shares may be sold separately or together with Common Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, in case a part only of the then outstanding First Preference Shares of any particular series is at any time redeemed, the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Second Preference Shares

The rights, privileges, restrictions and conditions attaching to the Second Preference Shares are substantially identical to those attaching to the First Preference Shares, except that the Second Preference Shares are junior to the First Preference Shares with respect to the payment of dividends, repayment of capital and the distribution of assets of the Corporation in the event of a liquidation, dissolution or winding up of the Corporation.

The specific terms of the Second Preference Shares, including the currency in which Second Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this Prospectus apply to those Second Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of Second Preference Shares may be sold separately or together with Common Shares, First Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Subscription Receipts

Subscription Receipts may be offered separately or together with Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be. Subscription Receipts will be issued under a subscription receipt agreement that will be entered into by the Corporation at the time of issuance of the Subscription Receipts.

The applicable Prospectus Supplement will include details of the subscription receipt agreement covering the Subscription Receipts being offered. The specific terms of the Subscription Receipts, and the extent to which the general terms described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. A copy of the subscription receipt agreement will be filed by the Corporation with securities regulatory authorities after it has been entered into by the Corporation.

The particular terms of each issue of Subscription Receipts that will be described in the related Prospectus Supplement will include, where applicable:

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered;

- the procedures for the exchange of the Subscription Receipts into Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be;
- the number of Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, that may be obtained upon exercise of each Subscription Receipt;
- the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- terms relating to the holding and release or return of the gross proceeds from the sale of the Subscription Receipts plus any interest earned thereon;
- material income tax consequences of owning the Subscription Receipts; and
- any other material terms and conditions of the Subscription Receipts.

Debentures

The following sets forth certain general terms and provisions of Debentures. The particular terms and provisions of Debentures offered pursuant to an accompanying Prospectus Supplement, and the extent to which the general terms and provisions described below may apply to such Debentures, will be described in such Prospectus Supplement.

The Debentures may be offered separately or together with the Common Shares, First Preference Shares, Second Preference Shares or Subscription Receipts, as the case may be. The Debentures will be issued in series under the Corporation's existing trust indenture or one or more trust indentures to be entered into between the Company and a financial institution to which the *Trust and Loan Companies Act* (Canada) applies or a financial institution organized under the laws of any province of Canada and authorized to carry on business as a trustee. Each such trust indenture will set out the terms of the applicable series of Debentures. The statements in this Prospectus relating to any trust indenture and the Debentures to be issued under it are summaries of certain anticipated provisions of the trust indenture and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable trust indenture.

Each trust indenture may provide that Debentures may be issued thereunder up to the aggregate principal amount which may be authorized from time to time by the Corporation. Any Prospectus Supplement for Debentures supplementing this Prospectus will contain the terms and other information with respect to the Debentures being offered, including:

- the designation, aggregate principal amount and authorized denominations of such Debentures,
- the currency for which the Debentures may be purchased and the currency in which the principal and any interest is payable (in either case, if other than Canadian dollars),
- the percentage of the principal amount at which such Debentures will be issued,
- the date or dates on which such Debentures will mature,
- the rate or rates at which such Debentures will bear interest (if any), or the method of determination of such rates (if any),
- the dates on which any such interest will be payable and the record dates for such payments,
- any redemption term or terms under which such Debentures may be defeased,
- any exchange or conversion terms, and
- any other specific terms.

Each series of Debentures may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The Debentures will be direct, unsecured obligations of the Company. The Debentures will be senior or subordinated indebtedness of the Company as described in the relevant Prospectus Supplement.

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including May 3, 2012, Fortis issued an aggregate of 41,960 Common Shares upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of $1.1 million.
- During the period from April 1, 2012 up to and including May 3, 2012, the Corporation's consolidated long-term debt and capital lease obligations, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $133 million, largely due to additional borrowings under the Corporation's committed corporate credit facility.

PRIOR SALES

Fortis has not sold or issued any First Preference Shares, Second Preference Shares, Subscription Receipts, Debentures or securities convertible into First Preference Shares, Second Preference Shares or Debentures during the 12 months prior to the date hereof. The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares during the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
May 2011	Common – Exercise of Stock Options[(1)]	$20.68	20,524
June 1, 2011	Common – DRIP[(2)]	$32.64	454,874
June 1, 2011	Common – CSPP[(3)]	$33.29	10,780
June 2011	Common – Exercise of Stock Options[(1)]	$21.60	17,148
June 2011	Common[(4)]	$33.00	9,100,000
July 2011	Common – Exercise of Over-Allotment Option[(4)]	$33.00	1,240,000
July 2011	Common – Exercise of Stock Options[(1)]	$28.19	1,707
August 2011	Common – Exercise of Stock Options[(1)]	$12.04	19,940
September 1, 2011	Common – DRIP[(2)]	$30.69	528,636
September 1, 2011	Common – CSPP[(3)]	$31.30	9,146
September 2011	Common – Exercise of Stock Options[(1)]	$20.68	74,766
October 2011	Common – Exercise of Stock Options[(1)]	$26.46	70,810
November 2011	Common – Exercise of Stock Options[(1)]	$15.10	40,928
November 2011	Common – Conversion of US$40 million of Convertible Debentures[(5)]	$29.63	1,374,098
December 1, 2011	Common – DRIP[(2)]	$31.86	390,303
December 1, 2011	Common – CSPP[(3)]	$32.48	9,332
December 2011	Common – Exercise of Stock Options[(1)]	$23.83	9,413
January 2012	Common – Exercise of Stock Options[(1)]	$25.41	16,012
February 2012	Common – Exercise of Stock Options[(1)]	$22.29	3,870
March 1, 2012	Common – DRIP[(2)]	$31.52	399,640
March 1, 2012	Common – CSPP[(3)]	$32.14	12,994
March 2012	Common – Exercise of Stock Options[(1)]	$25.62	13,639
April 2012	Common – Exercise of Stock Options[(1)]	$25.49	28,290
May 1-3, 2012	Common – Exercise of Stock Options[(1)]	$27.00	13,670
May 4, 2012	Stock Options convertible into Common Shares[(6)]	$34.27	789,220

(1) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.
(2) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").
(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").
(4) Issued to the public pursuant to a short-form prospectus dated June 8, 2011.
(5) Convertible debentures issued pursuant to a debenture purchase agreement dated November 7, 2006.
(6) Options granted under the 2012 Stock Option Plan of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May 1 to 3	34.98	33.76	1,265,512	25.80	25.70	4,005

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	27.34	26.74	272,521	24.00	23.05	87,756
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May 1 to 3	—	—	—	25.32	25.21	11,130

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	26.50	25.88	97,923	26.50	25.14	96,623
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May 1 to 3	25.90	25.73	12,023	26.00	25.85	8,964

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement relating to a particular offering of Securities, the Corporation intends to use the net proceeds from the sale of Securities to repay indebtedness and/or to, directly or indirectly, finance future growth opportunities. Specific information about the use of net proceeds will be set forth in a Prospectus Supplement. The Corporation may invest funds which the Corporation does not immediately use. Such investments may include short-term marketable investment grade securities. The Corporation may, from time to time, issue securities (including debt securities) other than pursuant to this Prospectus.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities, separately or together, to or through one or more underwriters or dealers, purchasing as principals for public offering and sale by them, and also may sell Securities to one or more other purchasers directly or through agents. Each Prospectus Supplement will set out the terms of the offering, including the name or names of any underwriters, dealers or agents, the purchase price or prices of the Securities (or the manner of determination thereof if offered on a non-fixed price basis), and the proceeds to the Corporation from the sale of the Securities. Only underwriters, dealers or agents so named in the Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Securities offered thereby.

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Securities may be offered may vary as between purchasers and during the period of distribution. If, in connection with the offering of Securities at a fixed price or prices, the underwriters have made a *bona fide* effort to sell all of the Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters, dealers or agents will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the gross proceeds paid by the underwriters, dealers or agents to the Corporation.

If underwriters or dealers purchase Securities as principal, the Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase those Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all the Securities offered by the Prospectus Supplement if any of such Securities are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid may be changed from time to time.

The Securities may also be sold directly by the Corporation in accordance with applicable securities laws at prices and upon terms agreed to by the purchaser and the Corporation or through agents designated by the Corporation from time to time. Any agent involved in the offering and sale of the Securities pursuant to a particular Prospectus Supplement will be named, and any commissions payable by the Corporation to that agent will be set forth, in such Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any agent would be acting on a best efforts basis for the period of its appointment.

In connection with the sale of the Securities, underwriters, dealers or agents may receive compensation from the Corporation in the form of commissions, concessions and discounts. Any such commissions may be paid out of the general funds of the Corporation or the proceeds of the sale of the Securities. Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreement to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may engage in transactions with, or perform services for, the Corporation in the ordinary course of business.

In connection with any offering of Securities, the applicable Prospectus Supplement will set forth any intention by the underwriters, dealers or agents to offer, allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be interrupted or discontinued at any time.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe certain material Canadian federal income tax consequences to an investor who is a resident of Canada or who is a non-resident of Canada of the acquisition, ownership and disposition of any Securities offered thereunder, including whether the payment of dividends will be subject to Canadian non-resident withholding tax.

RISK FACTORS

An investment in Securities involves certain risks. A prospective purchaser of Securities should carefully consider the risk factors described under the heading “Business Risk Management” in the MD&A found on pages 48 to 61 of the Corporation’s 2011 Annual Report and on pages 28 to 29 of the Corporation’s Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012, each of which is incorporated by reference herein. In addition, a prospective purchaser of Securities should carefully consider the other information contained in this Prospectus and in all subsequently filed documents incorporated by reference and those described in a Prospectus Supplement relating to a specific offering of Securities.

Completion of the Acquisition of CH Energy Group

The acquisition of CH Energy Group is subject to certain shareholder, regulatory and other approvals. Failure to obtain, or any delay in obtaining, such approvals could adversely impact the Corporation’s ability to close the Acquisition or the timing of such closing. In addition, there is risk that some, or all, of the expected benefits of the acquisition of CH Energy Group may fail to materialize or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be impacted by a number of factors, many of which are beyond the control of Fortis.

No Market for the Securities

There is currently no trading market for the First Preferred Shares, Second Preferred Shares, Subscription Receipts or Debentures that may be offered pursuant to this Prospectus and any Prospectus Supplement. No assurance can be given that an active or liquid trading market for these securities will develop or be sustained. If an active or liquid market for these Securities fails to develop or be sustained, the prices at which the Securities trade may be adversely affected. Whether or not the Securities will trade at lower prices depends on many factors, including liquidity of these Securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation’s financial condition, historic financial performance and future prospects.

AUDITOR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John’s, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement relating to a specific offering of Securities, certain legal matters relating to the offering of Securities will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John’s. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP and McInnes Cooper own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains

a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Preliminary Short Form Base Shelf Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated May 4, 2012 relating to the issue and sale of Common Shares, First Preference Shares, Second Preference Shares, Subscription Receipts and Debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
May 4, 2012

(Signed) ERNST & YOUNG LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: May 4, 2012

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by the prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) H. Stanley Marshall
President and
Chief Executive Officer

(Signed) Barry V. Perry
Vice-President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) David G. Norris
Director

(Signed) Peter E. Case
Director

This short form base shelf prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

***Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada**. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form base shelf prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons.*

New Issue May 10, 2012

SHORT FORM BASE SHELF PROSPECTUS

FORTIS INC.

$1,300,000,000

COMMON SHARES
FIRST PREFERENCE SHARES
SECOND PREFERENCE SHARES
SUBSCRIPTION RECEIPTS
DEBENTURES (UNSECURED)

Fortis Inc. ("Fortis" or the "Corporation") may from time to time offer and issue common shares ("Common Shares"), first preference shares (the "First Preference Shares"), second preference shares (the "Second Preference Shares"), subscription receipts ("Subscription Receipts") or unsecured debentures ("Debentures" and together with the Common Shares, First Preference Shares, Second Preference Shares and Subscription Receipts, the "Securities"), having an aggregate offering price of up to $1,300,000,000 (or the equivalent in US dollars or other currencies), during the 25 month period that this short form base shelf prospectus (the "Prospectus"), including any amendments hereto, remains valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement (a "Prospectus Supplement").

The specific variable terms of any offering of Securities will be set out in the applicable Prospectus Supplement including, where applicable: (i) in the case of Common Shares, the number of shares offered and the offering price (or the manner of determination thereof if offered on a non-fixed price basis); (ii) in the case of First Preference Shares and Second Preference Shares, the designation of the particular series, the number of shares offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the currency or currency unit for which such shares may be purchased, any voting rights, any rights to receive dividends, any terms of redemption, any conversion or exchange rights and any other specific terms; (iii) in the case of Subscription Receipts, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the procedures for the exchange of Subscription Receipts for Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, and any other specific terms; and (iv) in the case of Debentures, the designation of the Debentures, the aggregate principal amount of the Debentures being offered, the currency or currency unit for which the Debentures may be purchased, authorized denominations, any limit on the aggregate principal amount of the Debentures of the series being offered, the issue and delivery date, the maturity date, the offering price (at par, at a discount or at a premium), the interest rate or method of determining the interest rate, the interest payment date(s), any conversion or exchange rights that are attached to the Debentures, any redemption provisions, any repayment provisions and any other specific terms. A Prospectus Supplement may include other terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

The Corporation may sell the Securities to or through underwriters or dealers purchasing as principals and may also sell the Securities to one or more purchasers directly subject to obtaining any required exemptive relief or through agents. The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, if any, engaged by the Corporation in connection with the offering and sale of Securities and will set forth the terms of the offering of such Securities, the method of distribution of such Securities including, to the extent applicable, the proceeds to the Corporation and any fees, discounts or any other compensation payable to underwriters, dealers or agents and any other material terms of the plan of distribution. Securities may be sold from time to time in one or more transactions at a fixed price or fixed prices, or at non-fixed prices. If offered on a non-fixed price basis, Securities may be offered at market prices prevailing at the time of sale or at prices to be negotiated with purchasers at the time of sale, which prices may vary as between purchasers and during the period of distribution. If Securities are offered on a non-fixed price basis, the underwriters', dealers' or agents' compensation will be increased or decreased by the amount by which the aggregate price paid for Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to Fortis. See "Plan of Distribution".

No underwriter or dealer has been involved in the preparation of, or has performed any review of, this Prospectus.

The outstanding Common Shares, Cumulative Redeemable First Preference Shares, Series C, Cumulative Redeemable First Preference Shares, Series E, Cumulative Redeemable First Preference Shares, Series F, Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G and Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H of the Corporation are listed on the Toronto Stock Exchange (the "TSX") under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively. **There is currently no market through which the First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures may be sold and purchasers may not be able to resell any First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures purchased under this Prospectus. This may affect the pricing of the Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities and the extent of issuer regulation. See the "Risk Factors" section of the applicable Prospectus Supplement.**

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

Subject to applicable laws, in connection with any offering of Securities the underwriters, dealers or agents may over-allot or effect transactions which stabilize or maintain the market price of the Securities at levels other than those which may prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See "Plan of Distribution".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s ("FortisAlberta") service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's ("Fortis Properties") Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to accounting principles generally accepted in the United States ("US GAAP") (see "Recent Developments – Transition to US GAAP"); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the acquisition (the "Acquisition") of CH Energy Group, Inc. ("CH Energy Group") by Fortis; and the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time transaction expenses (see "Recent Developments – Agreement to Acquire CH Energy Group").

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event

or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. 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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas pricing; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc. ("FEVI"); environmental risks; insurance coverage risk; loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of unexpected outcomes of legal proceedings currently against the Corporation; risk of not being able to access First Nations lands; labour relations risk; and human resources risk. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP");

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012; and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012 (the "Information Circular").

All documents of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition reports, as well as all Prospectus Supplements disclosing additional or updated information subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the distribution under this Prospectus, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

When Fortis files a new annual information form and audited consolidated financial statements and related management's discussion and analysis with, and where required, they are accepted by, the applicable securities regulatory authorities during the time that this Prospectus is valid, the previous annual information form, the previous audited consolidated financial statements and related management's discussion and analysis and all unaudited interim consolidated financial statements and related management's discussion and analysis for such periods, all material change reports and any information circular and business acquisition report filed prior to the commencement of the Corporation's financial year in which the new annual information form is filed will be deemed no longer to be incorporated by reference in this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon new interim financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, all interim financial statements and accompanying management's discussion

and analysis filed prior to the filing of the new interim financial statements shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Investors should rely only on the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. Fortis has not authorized anyone to provide investors with different or additional information. Fortis is not making an offer of Securities in any jurisdiction where the offer is not permitted by law. Prospective investors should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date on the front of the applicable Prospectus Supplement.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars" or "$" are to lawful currency of Canada, and references to "US dollars" or "US$" are to lawful currency of the United States.

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning prior to January 1, 2012 has been prepared using Canadian GAAP. All financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning on or after January 1, 2012 has been prepared using US GAAP. For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation, incorporated by reference in this Prospectus. See "Recent Developments – Transition to US GAAP" below.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of more than $14 billion as at March 31, 2012 and fiscal 2011 revenue totalling approximately $3.7 billion. The Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and two Caribbean countries and a natural gas utility in British Columbia, Canada. As at March 31, 2012, regulated utility assets comprised approximately 91% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings") (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, FortisTCI Limited (formerly P.P.C. Limited) and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of BECOL, FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the "Waneta Partnership"), which was established in 2010 to construct the Waneta Expansion, a 335-MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in Upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by FortisBC.

Fortis Properties' assets include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 22 hotels in eight Canadian provinces and commercial office and retail space primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 939,000 customers as at March 31, 2012, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 837,000 customers as at March 31, 2012. With the implementation of a new Customer Care Enhancement Project on January 1, 2012, the gas utilities adjusted their customer count downwards by approximately 17,000 effective January 1, 2012 as a result of a change in their definition of a "customer". FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI (formerly Terasen Gas (Vancouver Island) Inc.) owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 99,000 customers as at March 31, 2012. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers as at March 31, 2012. The FortisBC Energy companies own and operate almost 47,200 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,210 terajoules for 2011.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 501,000 customers in Alberta as at March 31, 2012, using approximately 114,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,505 MW for 2011. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 162,500 customers, as at March 31, 2012, with residential customers representing the largest customer segment, and met a peak demand of 669 MW for 2011. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served approximately 248,000 customers as at March 31, 2012, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,166 MW for 2011. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 75,000 customers as at March 31, 2012, or 90% of electricity consumers on the Island, and met a peak demand of 224 MW for 2011. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2012, and met a combined peak demand of 276 MW for 2011. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, served approximately 38,000 customers, as at March 31, 2012.

Regulated Electric Utilities – Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities as of March 31, 2012. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 27,000 customers as at March 31, 2012, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 99 MW for 2011. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,600 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2012. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed diesel-powered generating capacity of approximately 65 MW and met a peak demand of approximately 30 MW for 2011.

Expropriated Assets – Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the Government of Belize ("GOB") enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at March 31, 2012, the long-term other asset, including foreign exchange impacts, totalled $104 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation. Pursuant to the expropriation action, Fortis is assessing alternative options for obtaining fair compensation from the GOB.

Non-Regulated – Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership") between AbitibiBowater Inc. ("Abitibi") and Fortis Properties. In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The Government of Newfoundland and Labrador has publically stated that it is not its intention to adversely affect the business interests of lenders or independent partners of Abitibi in the Province. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions between Fortis Properties and Nalcor Energy, acting as agent for the Government of Newfoundland and Labrador, with respect to expropriation matters are ongoing.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $290 million have been incurred on this capital project through March 31, 2012. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy, from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. The BCUC is conducting its usual review process of the executed agreement to determine whether a hearing is necessary to decide whether the agreement is in the public interest.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated – Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 22 hotels, collectively representing approximately 4,300 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial office and retail space primarily in Atlantic Canada.

CAPITAL RESOURCES

This Prospectus will provide the Corporation with the flexibility to access the capital markets in a timely manner. The nature, size and timing of any offering of Securities under this Prospectus will be consistent with the past capital raising practices of the Corporation and will continue to depend upon the Corporation's assessment of its requirements for funding and general market conditions.

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2012, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $2.0 billion was available to be drawn. In May 2012, the Corporation increased the amount available for borrowing under its committed corporate credit facility from $800 million to $1 billion, thereby increasing the aggregate authorized amount available to the Corporation and its subsidiaries under all lines of credit to $2.4 billion. As at May 9, 2012, an aggregate amount of approximately $2.1 billion was unused and available to be drawn under these facilities. See "Recent Developments – Corporate Credit Facility".

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2012, long-term debt maturities over the next five years are expected to average approximately $265 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire CH Energy Group

On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing. The closing of the acquisition, which is expected to occur by the end of the first quarter of 2013, is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The acquisition is expected to be immediately accretive to Fortis' earnings per common share, excluding one-time acquisition-related expenses.

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson accounts for approximately 93% of the total assets of CH Energy Group. CH Energy Group also owns and operates Central Hudson Enterprises Corporation, a non-regulated subsidiary comprised primarily of a fuel delivery business serving approximately 56,000 customers in the Mid-Atlantic Region. As of December 31, 2011, CH Energy Group's total assets were US$1.7 billion and operating revenues and net income for 2011 totalled US$986 million and US$45 million, respectively. In 2011, Central Hudson accounted for approximately 97% of CH Energy Group's net income. Based on the first quarter results filed by CH Energy Group with the U.S. Securities and Exchange Commission ("SEC") on April 26, 2012, CH Energy Group's total assets at March 31, 2012 were approximately US$1.8 billion and operating revenues and net income for the first quarter totalled approximately US$274 million and US$14.6 million, respectively.

Central Hudson's electric assets, which comprise approximately 77% of its total assets, include approximately 7,300 pole miles (11,748 kilometers) of overhead lines and 1,400 trench miles (2,253 kilometers) of underground lines. The electric business met a peak demand of 1,225 MW in 2011. Central Hudson's natural gas assets, which comprise approximately 23% of its total assets, include approximately 1,185 miles (1,907 kilometers) of distribution pipelines and approximately 164 miles (264 kilometers) of transmission pipelines. The gas business met a peak day demand of 115,807 thousand cubic feet in 2011. Central Hudson is subject to regulation by the New York State Public Service Commission ("NYPSC") under a traditional cost-of-service model.

Central Hudson primarily relies on purchases from third-party providers and the New York Independent System Operator-administered energy and capacity markets to meet the demands of its full-service electric customers. It purchases its gas supply requirements from a number of suppliers at various receipt points on pipelines that it has contracted with for firm transport capacity.

In April 2012, applications were filed with the NYPSC and the Federal Energy Regulatory Commission seeking approval of the transaction. The CH Energy Group shareholder vote on the transaction is expected to occur mid-2012.

Transition to US GAAP

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, Fortis adopted US GAAP, as opposed to IFRS, effective January 1, 2012.

Canadian securities rules allow a reporting issuer to file its financial statements prepared in accordance with US GAAP by qualifying as a SEC issuer. A SEC issuer is defined under the Canadian rules as an issuer that: (a) has a class of securities registered with the SEC under Section 12 of the *U.S. Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (b) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is not currently a SEC issuer, but on June 9, 2011 was granted exemptive relief by Canadian securities regulators to permit it and its reporting issuer subsidiaries to prepare their financial statements in accordance with US GAAP without qualifying as SEC issuers (the "Exemption"). The Exemption applies to financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

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

The Corporation has prepared and filed its audited Canadian GAAP consolidated financial statements for the year ended December 31, 2011, with 2010 comparatives, in the usual manner. The Corporation has also voluntarily prepared and filed the US GAAP Reconciliation. Beginning with the first quarter of 2012, the Corporation's unaudited interim consolidated financial statements have been prepared in accordance with US GAAP, with the restatement of 2011 comparatives in accordance with US GAAP.

Regulatory Decisions

In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates at the FortisBC Energy companies and 2012 customer electricity distribution rates at FortisAlberta which reduce regulatory risk at the utilities. Effective January 1, 2012, the BCUC had previously approved an approximate 3% interim increase in rates for most residential customers at FEI and an approximate 6% interim increase in rates for residential customers at FEWI. The April 2012 decision at the FortisBC Energy companies is expected to result in a decrease in customer gas delivery rates at FEI and FEWI in the range of 1% – 2% from the January 1, 2012 interim rates. The BCUC also approved, as requested, FEVI's customer rates for 2012 and 2013 to remain unchanged from 2011 customer rates. The decision at FortisAlberta approved an average 5% increase in customer distribution electricity rates, consistent with the interim rate increase that was previously approved by the Alberta Utilities Commission effective January 1, 2012.

Corporate Credit Facility

In May 2012 the amount available for borrowing under the Corporation's committed corporate credit facility was increased from $800 million to $1 billion as permitted under the credit facility agreement. As at May 9, 2012, approximately $160 million was drawn and outstanding under this credit facility.

Approval of the 2012 Stock Option Plan and the 2012 Employee Share Purchase Plan

At the Corporation's annual general meeting held on May 4, 2012, the shareholders of the Corporation approved an amended and restated stock option plan (the "2012 Stock Option Plan") and an amended and restated employee share purchase plan (the "2012 ESPP"). Both the 2012 Stock Option Plan and the 2012 ESPP are described in more detail in the Information Circular which is incorporated by reference into this Prospectus. See "Documents Incorporated by Reference".

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 9, 2012, 189,330,675 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

EARNINGS COVERAGE RATIOS

The following consolidated earnings coverage ratios have been calculated for the 12 months ended December 31, 2011 and the 12 months ended March 31, 2012. The earnings coverage ratios set forth below do not purport to be indicative of earnings coverage ratios for any future periods. The earnings coverage ratios and dividend and interest requirements do not give effect to the issuance of any Securities that may be issued pursuant to this Prospectus and any Prospectus Supplement, since the aggregate principal amounts and the terms of such Securities are not currently known. The financial ratios included below have been calculated based on financial information prepared in accordance with US GAAP. The ratios for the 12 months ended December 31, 2011 are based on audited financial information.

	12 Months Ended December 31, 2011	12 Months Ended March 31, 2012
Dividend and interest requirements ($ millions)	$ 442	$ 439
Earnings before interest expense and taxes ($ millions)	$ 791	$ 790
Earnings coverage	1.79	1.80

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.16 in 2011, $1.12 in 2010 and $1.04 in 2009. On May 3, 2012, the Board of Directors declared a third quarter dividend of $0.30 per Common Share, payable on September 1, 2012 to holders of record of such Common Shares on August 17, 2012.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and

First Preference Shares, Series H, respectively. The Board of Directors declared a third quarter dividend on the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H on May 3, 2012, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2012 to holders of record of such First Preference Shares on August 17, 2012.

RATINGS

Each of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are rated Pfd-2 (low)/Under Review – Developing Implications by DBRS Limited ("DBRS") and P-2/CreditWatch – Negative by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"). The Corporation's unsecured debentures are rated A(low)/Under Review – Developing Implications by DBRS and are rated A-/Credit Watch – Negative by S&P. S&P and DBRS placed the Corporation's credit ratings on "Credit Watch – Negative" and "Under Review – Developing Implications", respectively, in February 2012 after the Corporation announced that it had entered into an agreement to acquire all of the shares of CH Energy Group. Credit ratings relating to the Securities offered pursuant to this Prospectus, where applicable, will be described in the relevant Prospectus Supplement.

The DBRS rating of Pfd-2 (low) is the lowest of three sub-categories within the second highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. The DBRS rating of A(low) is the lowest of three subcategories within the third highest rating of ten major categories for debt securities, ranging from AAA to D. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the five standard categories of ratings utilized by S&P for preferred shares. The S&P rating of A- is the lowest standing within the third highest rating of ten major categories for debt securities, ranging from AAA to D.

According to S&P, the rating action "Credit Watch – Negative" means that the Corporation's credit ratings have been placed under surveillance by S&P and that the ratings may be lowered due to S&P's view that there is at least a 50% probability that the Corporation's non-consolidated credit metrics will fall below thresholds previously established for the Corporation's current credit ratings, following the close of the proposed acquisition of CH Energy Group.

According to DBRS, the rating action "Under Review – Developing Implications" means that the Corporation's credit ratings are under review by DBRS due to the uncertainty of the impact on the Corporation's credit ratings upon close of the proposed acquisition of CH Energy Group, but that DBRS expects the Corporation to finance the acquisition of CH Energy Group such that its non-consolidated debt-to-capital structure remains within the 20% range.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, First Preference Shares, Series H and the Corporation's unsecured debentures by these rating agencies are not recommendations to purchase, hold or sell such securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DESCRIPTION OF SECURITIES OFFERED

Common Shares

Common Shares may be offered separately or together with First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Dividends

Holders of Common Shares are entitled to dividends on a *pro rata* basis if, as and when declared by the Board of Directors. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board of Directors may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

Liquidation, Dissolution or Winding-Up

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Voting Rights

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and to one vote in respect of each Common Share held at such meetings.

First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the First Preference Shares, including the currency in which First Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this section apply to those First Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of First Preference Shares may be sold separately or together with Common Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, in case a part only of the then outstanding First Preference Shares of any particular series is at any time redeemed, the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Second Preference Shares

The rights, privileges, restrictions and conditions attaching to the Second Preference Shares are substantially identical to those attaching to the First Preference Shares, except that the Second Preference Shares are junior to the First Preference Shares with respect to the payment of dividends, repayment of capital and the distribution of assets of the Corporation in the event of a liquidation, dissolution or winding up of the Corporation.

The specific terms of the Second Preference Shares, including the currency in which Second Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this Prospectus apply to those Second Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of Second Preference Shares may be sold separately or together with Common Shares, First Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Subscription Receipts

Subscription Receipts may be offered separately or together with Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be. Subscription Receipts will be issued under a subscription receipt agreement that will be entered into by the Corporation at the time of issuance of the Subscription Receipts.

The applicable Prospectus Supplement will include details of the subscription receipt agreement covering the Subscription Receipts being offered. The specific terms of the Subscription Receipts, and the extent to which the general terms described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. A copy of the subscription receipt agreement will be filed by the Corporation with securities regulatory authorities after it has been entered into by the Corporation.

The subscription receipt agreement will provide each initial purchaser of Subscription Receipts with a contractual right of rescission following the issuance of any Common Shares, First Preference Shares, Second Preference Shares or Debentures, as applicable, to such purchaser upon the exchange of the Subscription Receipts if this Prospectus, the Prospectus Supplement under which the Subscription Receipts are offered, or any amendment hereto or thereto contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario). This contractual right of rescission will entitle such initial purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Securities issued in exchange therefor, provided that such remedy for rescission is exercised in the time stipulated in

the subscription receipt agreement. This right of rescission will not extend to any holders of Subscription Receipts who acquire such Subscription Receipts from an initial purchaser on the open market or otherwise.

The particular terms of each issue of Subscription Receipts that will be described in the related Prospectus Supplement will include, where applicable:

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered;
- the procedures for the exchange of the Subscription Receipts into Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be;
- the number of Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, that may be obtained upon exercise of each Subscription Receipt;
- the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- terms relating to the holding and release or return of the gross proceeds from the sale of the Subscription Receipts plus any interest earned thereon;
- material income tax consequences of owning the Subscription Receipts; and
- any other material terms and conditions of the Subscription Receipts.

Securities issued upon the exchange of Subscription Receipts will be issued for no additional consideration.

Debentures

The following sets forth certain general terms and provisions of Debentures. The particular terms and provisions of Debentures offered pursuant to an accompanying Prospectus Supplement, and the extent to which the general terms and provisions described below may apply to such Debentures, will be described in such Prospectus Supplement.

The Debentures may be offered separately or together with the Common Shares, First Preference Shares, Second Preference Shares or Subscription Receipts, as the case may be. The Debentures will be issued in series under the Corporation's existing trust indenture or one or more trust indentures to be entered into between the Company and a financial institution to which the *Trust and Loan Companies Act* (Canada) applies or a financial institution organized under the laws of any province of Canada and authorized to carry on business as a trustee. Each such trust indenture will set out the terms of the applicable series of Debentures. The statements in this Prospectus relating to any trust indenture and the Debentures to be issued under it are summaries of certain anticipated provisions of the trust indenture and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable trust indenture.

Each trust indenture may provide that Debentures may be issued thereunder up to the aggregate principal amount which may be authorized from time to time by the Corporation. Any Prospectus Supplement for Debentures supplementing this Prospectus will contain the terms and other information with respect to the Debentures being offered, including:

- the designation, aggregate principal amount and authorized denominations of such Debentures,
- the currency for which the Debentures may be purchased and the currency in which the principal and any interest is payable (in either case, if other than Canadian dollars),
- the percentage of the principal amount at which such Debentures will be issued,
- the date or dates on which such Debentures will mature,
- the rate or rates at which such Debentures will bear interest (if any), or the method of determination of such rates (if any),
- the dates on which any such interest will be payable and the record dates for such payments,
- any redemption term or terms under which such Debentures may be defeased,

- any exchange or conversion terms, and
- any other specific terms.

Each series of Debentures may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The Debentures will be direct, unsecured obligations of the Company. The Debentures will be senior or subordinated indebtedness of the Company as described in the relevant Prospectus Supplement.

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including May 9, 2012, Fortis issued an aggregate of 56,242 Common Shares upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of $1.4 million.
- During the period from April 1, 2012 up to and including May 9, 2012, the Corporation's consolidated long-term debt and capital lease obligations, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $131 million, largely due to additional borrowings under the Corporation's committed corporate credit facility.

PRIOR SALES

Fortis has not sold or issued any First Preference Shares, Second Preference Shares, Subscription Receipts, Debentures or securities convertible into First Preference Shares, Second Preference Shares or Debentures during the 12 months prior to the date hereof. The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares during the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
May 2011	Common – Exercise of Stock Options[(1)]	$20.68	20,524
June 1, 2011	Common – DRIP[(2)]	$32.64	454,874
June 1, 2011	Common – CSPP[(3)]	$33.29	10,780
June 2011	Common – Exercise of Stock Options[(1)]	$21.60	17,148
June 2011	Common[(4)]	$33.00	9,100,000
July 2011	Common – Exercise of Over-Allotment Option[(4)]	$33.00	1,240,000
July 2011	Common – Exercise of Stock Options[(1)]	$28.19	1,707
August 2011	Common – Exercise of Stock Options[(1)]	$12.04	19,940
September 1, 2011	Common – DRIP[(2)]	$30.69	528,636
September 1, 2011	Common – CSPP[(3)]	$31.30	9,146
September 2011	Common – Exercise of Stock Options[(1)]	$20.68	74,766
October 2011	Common – Exercise of Stock Options[(1)]	$26.46	70,810
November 2011	Common – Exercise of Stock Options[(1)]	$15.10	40,928
November 2011	Common – Conversion of US$40 million of Convertible Debentures[(5)]	$29.63	1,374,098
December 1, 2011	Common – DRIP[(2)]	$31.86	390,303
December 1, 2011	Common – CSPP[(3)]	$32.48	9,332
December 2011	Common – Exercise of Stock Options[(1)]	$23.83	9,413
January 2012	Common – Exercise of Stock Options[(1)]	$25.41	16,012
February 2012	Common – Exercise of Stock Options[(1)]	$22.29	3,870
March 1, 2012	Common – DRIP[(2)]	$31.52	399,640
March 1, 2012	Common – CSPP[(3)]	$32.14	12,994
March 2012	Common – Exercise of Stock Options[(1)]	$25.62	13,639
April 2012	Common – Exercise of Stock Options[(1)]	$25.49	28,290
May 4, 2012	Stock Options convertible into Common Shares[(6)]	$34.27	789,220
May 1-9, 2012	Common – Exercise of Stock Options[(1)]	$23.75	27,952

(1) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.

(2) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").

(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").

(4) Issued to the public pursuant to a short-form prospectus dated June 8, 2011.

(5) Convertible debentures issued pursuant to a debenture purchase agreement dated November 7, 2006.

(6) Options granted under the 2012 Stock Option Plan of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May 1 to 9	34.98	33.55	2,888,641	25.95	25.60	9,625

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	27.34	26.74	272,521	24.00	23.05	87,756
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May 1 to 9	26.66	26.59	1,430	25.60	25.21	25,850

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	26.50	25.88	97,923	26.50	25.14	96,623
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May 1 to 9	25.95	25.73	21,021	26.00	25.61	21,874

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement relating to a particular offering of Securities, the Corporation intends to use the net proceeds from the sale of Securities to repay indebtedness and/or to, directly or indirectly, finance future growth opportunities. Specific information about the use of net proceeds will be set forth in a Prospectus Supplement. The Corporation may invest funds which the Corporation does not immediately use. Such investments may include short-term marketable investment grade securities. The Corporation may, from time to time, issue securities (including debt securities) other than pursuant to this Prospectus.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities, separately or together, to or through one or more underwriters or dealers, purchasing as principals for public offering and sale by them, and also may sell Securities to one or more other purchasers directly or through agents. Each Prospectus Supplement will set out the terms of the offering, including the name or names of any underwriters, dealers or agents, the purchase price or prices of the Securities (or the manner of determination thereof if offered on a non-fixed price basis), and the proceeds to the Corporation from the sale of the Securities. Only underwriters, dealers or agents so named in the Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Securities offered thereby.

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Securities may be offered may vary as between purchasers and during the period of distribution. If, in connection with the offering of Securities at a fixed price or prices, the underwriters have made a *bona fide* effort to sell all of the Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters, dealers or agents will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the gross proceeds paid by the underwriters, dealers or agents to the Corporation.

If underwriters or dealers purchase Securities as principal, the Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase those Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all the Securities offered by the Prospectus Supplement if any of such Securities are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid may be changed from time to time.

The Securities may also be sold directly by the Corporation in accordance with applicable securities laws at prices and upon terms agreed to by the purchaser and the Corporation or through agents designated by the Corporation from time to time. Any agent involved in the offering and sale of the Securities pursuant to a particular Prospectus Supplement will be named, and any commissions payable by the Corporation to that agent will be set forth, in such Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any agent would be acting on a best efforts basis for the period of its appointment.

In connection with the sale of the Securities, underwriters, dealers or agents may receive compensation from the Corporation in the form of commissions, concessions and discounts. Any such commissions may be paid out of the general funds of the Corporation or the proceeds of the sale of the Securities. Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreement to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may engage in transactions with, or perform services for, the Corporation in the ordinary course of business.

In connection with any offering of Securities, the applicable Prospectus Supplement will set forth any intention by the underwriters, dealers or agents to offer, allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be interrupted or discontinued at any time.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe certain material Canadian federal income tax consequences to an investor who is a resident of Canada or who is a non-resident of Canada of the acquisition, ownership and disposition of any Securities offered thereunder, including whether the payment of dividends will be subject to Canadian non-resident withholding tax.

RISK FACTORS

An investment in Securities involves certain risks. A prospective purchaser of Securities should carefully consider the risk factors described under the heading "Business Risk Management" in the MD&A found on pages 48 to 61 of the Corporation's 2011 Annual Report and on pages 28 to 29 of the Corporation's Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012, each of which is incorporated by reference herein. In addition, a prospective purchaser of Securities should carefully consider the other information contained in this Prospectus and in all subsequently filed documents incorporated by reference and those described in a Prospectus Supplement relating to a specific offering of Securities.

Completion of the Acquisition of CH Energy Group

The acquisition of CH Energy Group is subject to certain shareholder, regulatory and other approvals. Failure to obtain, or any delay in obtaining, such approvals could adversely impact the Corporation's ability to close the Acquisition or the timing of such closing. In addition, there is risk that some, or all, of the expected benefits of the acquisition of CH Energy Group may fail to materialize or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be impacted by a number of factors, many of which are beyond the control of Fortis.

No Market for the Securities

There is currently no trading market for the First Preferred Shares, Second Preferred Shares, Subscription Receipts or Debentures that may be offered pursuant to this Prospectus and any Prospectus Supplement. No assurance can be given that an active or liquid trading market for these securities will develop or be sustained. If an active or liquid market for these Securities fails to develop or be sustained, the prices at which the Securities trade may be adversely affected. Whether or not the Securities will trade at lower prices depends on many factors, including liquidity of these Securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects.

AUDITOR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement relating to a specific offering of Securities, certain legal matters relating to the offering of Securities will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP and McInnes Cooper own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains

a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Base Shelf Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated May 10, 2012 relating to the issue and sale of Common Shares, First Preference Shares, Second Preference Shares, Subscription Receipts and Debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
May 10, 2012

(Signed) Ernst & Young LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: May 10, 2012

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by the prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL President and Chief Executive Officer	(Signed) BARRY V. PERRY Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

This prospectus supplement (the "Prospectus Supplement"), together with the accompanying short form base shelf prospectus dated May 10, 2012 (the "Prospectus") to which it relates, as amended or supplemented, and each document incorporated or deemed to be incorporated by reference in this Prospectus Supplement and in the Prospectus constitutes a public offering of these securities only in those jurisdictions where they may lawfully be offered for sale and therein only by persons permitted to sell such securities. See "Plan of Distribution".

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this Prospectus Supplement and the accompanying Prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this Prospectus Supplement and the accompanying Prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons. See "Plan of Distribution".*

New Issue June 20, 2012

PROSPECTUS SUPPLEMENT

TO THE SHORT FORM BASE SHELF PROSPECTUS DATED MAY 10, 2012

FORTIS INC.

$601,250,000

18,500,000 Subscription Receipts, each representing the right to receive one Common Share

Fortis Inc. ("Fortis" or the "Corporation") is hereby qualifying for distribution (the "Offering") 18,500,000 subscription receipts (the "Subscription Receipts"), each of which will entitle the holder thereof to receive, upon satisfaction of the Release Conditions (as defined below), and without payment of additional consideration, one common share of Fortis (a "Common Share"). The gross proceeds from the sale of the Subscription Receipts (the "Escrowed Funds") will be held by Computershare Trust Company of Canada, as escrow agent (the "Escrow Agent"), and invested in short-term interest bearing or discount debt obligations (in either Canadian or U.S. dollars) issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided that in all cases such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending receipt by the Corporation of all regulatory and government approvals required to finalize the acquisition (the "Acquisition") by an indirect wholly-owned subsidiary of the Corporation of all of the issued and outstanding shares of CH Energy Group, Inc. ("CH Energy Group"), and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement (as defined below) (collectively, the "Release Conditions"). See "Recent Developments – Acquisition of CH Energy Group", "CH Energy Group Acquisition Agreement" and "Details of the Offering".

If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on June 30, 2013 (the "Deadline"), the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount per Subscription Receipt equal to the cash dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date (as defined below) to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and yield generated thereon, will be released to Fortis. In the event that the Release Conditions are not satisfied prior to the Deadline, or if the Acquisition Agreement is terminated prior to the Deadline (in either case, the "Termination Time"), holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated on such amount. If, as a result of foreign exchange losses due to U.S. dollar investments, there are insufficient Escrowed Funds to repay to holders of Subscription Receipts the full subscription price thereof, the Corporation will make up any shortfall. See "Details of the Offering".

Price: $32.50 per Subscription Receipt

	Price to the Public	Underwriters' Fee [(1)]	Net Proceeds to the Corporation [(2)]
Per Subscription Receipt	$ 32.50	$ 1.30	$ 31.20
Total[(3)]	$601,250,000	$24,050,000	$577,200,000

(1) One-half of the Underwriters' fee is payable at the closing of the Offering. The other half of the Underwriters' fee is payable only if the Release Conditions have been satisfied prior to the Termination Time and the required notice has been delivered to the Escrow Agent to release the Escrowed Funds to the Corporation. See "Plan of Distribution".

(2) Net proceeds to the Corporation exclude any interest earned and yield generated on the Escrowed Funds and are calculated before deducting the expenses of the Offering, estimated at $600,000, which, together with the Underwriters' fee, will be paid out of the general funds of Fortis. See "Plan of Distribution".

(3) The Corporation has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the Closing Date, to purchase at the Offering Price (as defined below) up to 2,775,000 additional Subscription Receipts to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Corporation" will be $691,437,500, $27,657,500 and $663,780,000, respectively. See "Plan of Distribution". This Prospectus Supplement also qualifies the grant of the Over-Allotment Option and the distribution of the additional Subscription Receipts issuable on the exercise of the Over-Allotment Option. A purchaser who acquires securities forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus Supplement and the Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Underwriters' Position	Maximum Size	Exercise Period	Exercise Price
Over-Allotment Option	2,775,000 Subscription Receipts	Within 30 days following the Closing Date	$32.50 per Subscription Receipt

There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell securities purchased under the Prospectus, as supplemented by this Prospectus Supplement. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".

The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before September 17, 2012. The Corporation's outstanding Common Shares are listed on the TSX under the symbol "FTS". On June 19, 2012, the closing price of the Common Shares on the TSX was $33.08. The Subscription Receipts will be issued and sold by Fortis to the Underwriters (as defined below) at the price of $32.50 (the "Offering Price") per Subscription Receipt. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters. After the Underwriters have made reasonable efforts to sell all the Subscription Receipts at the Offering Price, the Underwriters may sell the Subscription Receipts to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation.

An investment in the Subscription Receipts, and the Common Shares issuable upon the exchange thereof, involves certain risks that should be considered by a prospective purchaser. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

Each of CIBC World Markets Inc. ("CIBC"), Scotia Capital Inc. ("Scotia Capital"), TD Securities Inc. ("TDSI"), Merrill Lynch Canada Inc. ("Merrill Lynch"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), RBC Dominion Securities Inc. ("RBC Capital Markets"), Desjardins Securities Inc. ("Desjardins Securities"), HSBC Securities (Canada) Inc. ("HSBC Securities"), Morgan Stanley Canada Limited ("Morgan Stanley"), National Bank Financial Inc. ("NB Financial") and Beacon Securities Limited are acting as underwriters (collectively, the "Underwriters") of the Offering. The Underwriters, as principals, conditionally offer the Subscription Receipts, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Subscription Receipts or the Common Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Each of CIBC, Scotia Capital, TDSI, Merrill Lynch, BMO Capital Markets, RBC Capital Markets, Desjardins Securities, HSBC Securities, Morgan Stanley and NB Financial is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. **Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Plan of Distribution".**

Subscriptions for the Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about June 27, 2012, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 6, 2012 (the "Closing Date"). A book entry only certificate representing the Subscription Receipts distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or its nominee and will be deposited with CDS on the Closing Date. The Corporation understands that a purchaser of Subscription Receipts will receive only a customer confirmation from the registered dealer (who is a CDS participant) from or through whom the Subscription Receipts are purchased. Except as otherwise stated herein, holders of beneficial interests in the Subscription Receipts will not be entitled to receive physical certificates representing their ownership. See "Details of the Offering".

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IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of the Subscription Receipts and also adds to and updates certain information contained in the Prospectus and the documents incorporated by reference therein. The second part, the Prospectus, gives more general information, some of which may not apply to the Subscription Receipts offered hereunder.

Prospective investors should rely only on the information contained in or incorporated by reference into this Prospectus Supplement and the Prospectus. The Corporation has not authorized any other person to provide prospective investors with additional or different information. If anyone provides prospective investors with different or inconsistent information, prospective investors should not rely on it. The Corporation and the Underwriters are offering to sell, and seeking offers to buy, the Subscription Receipts only in jurisdictions where offers and sales are permitted. Prospective investors should assume that the information appearing in this Prospectus Supplement and the Prospectus, as well as information the Corporation has previously filed with the securities regulatory authority in each of the provinces of Canada that is incorporated herein and in the Prospectus by reference, is accurate as of their respective dates only. The Corporation's business, financial condition, results of operations and prospects may have changed since those dates.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus Supplement and the Prospectus for financial periods beginning prior to January 1, 2012 (other than the US GAAP Reconciliation (as defined below)) has been prepared using Canadian generally accepted accounting principles ("Canadian GAAP"). All financial information included and incorporated by reference in this Prospectus Supplement and the Prospectus for financial periods beginning on or after January 1, 2012 has been prepared using accounting principles generally accepted in the United States ("US GAAP"). For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation incorporated by reference in this Prospectus Supplement.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement and the Prospectus, including the documents incorporated herein and therein by reference, contain forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis, and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus Supplement and the Prospectus, including the documents incorporated herein and therein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to US GAAP (see "Recent Developments – Transition to US GAAP" in the Prospectus); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the Acquisition; the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time acquisition-related expenses (see "Recent Developments – Acquisition of CH Energy Group" and "CH Energy Group Acquisition Agreement"); and the expected closing date of the Offering.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the consolidated capital program. 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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; risk associated with defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc.; environmental risks; insurance coverage risk; risk of loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of not being able to access First Nations lands; labour relations risk; human resources risk; and risk of unexpected outcomes of legal proceedings currently against the Corporation. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus Supplement and the Prospectus entitled "Risk Factors", to the documents incorporated herein and therein by reference and to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities.

All forward-looking information in this Prospectus Supplement and the Prospectus and in the documents incorporated herein and therein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus Supplement is deemed to be incorporated by reference into the Prospectus solely for the purposes of the Offering of Subscription Receipts (including any such Subscription Receipts issued under the Over-Allotment Option) and the Common Shares issuable on exchange of Subscription Receipts offered hereby.

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus Supplement and the Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011;

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian GAAP;

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "Annual MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012 (the "First Quarter MD&A"); and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012.

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus Supplement, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this Prospectus Supplement and the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus Supplement or the Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus Supplement to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus Supplement or the Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into this Prospectus Supplement or the Prospectus and is not, and should not be considered to be, a part of this Prospectus Supplement or the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Subscription Receipts and the Common Shares issuable on the exchange of the Subscription Receipts, if issued on the date hereof, would be qualified investments under the Income Tax Act (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan ("RRSP"), a registered retirement income fund ("RRIF"), a deferred profit sharing plan ("DPSP") (other than a trust governed by a DPSP for which any employer is the Corporation or is an employer that does not deal at arm's length with the Corporation for purposes of the Tax Act), a registered education savings plan, a registered disability savings plan or a tax-free savings account ("TFSA") provided that, in the case of the Subscription Receipts, the Subscription Receipts are listed on a "designated stock exchange" (which includes the TSX) and, in the case of the Common Shares, the Common Shares are listed on a "designated stock exchange" (which includes the TSX) or the Corporation is a "public corporation", as such terms are defined in the Tax Act.

Notwithstanding that the Subscription Receipts and the Common Shares may be qualified investments for a trust governed by a TFSA, RRSP or RRIF, the holder of a TFSA or the annuitant of a RRSP or RRIF, as the case may be, will be subject to a penalty tax in respect of the Subscription Receipts or the Common Shares held in the TFSA, RRSP or RRIF if such Subscription Receipts or Common Shares, as the case may be, are a "prohibited investment" within the meaning of the Tax Act. The Subscription Receipts and the Common Shares will not be a "prohibited investment" under the Tax Act for a TFSA, RRSP or RRIF provided the holder of the TFSA or the annuitant of the RRSP or RRIF, as the case may be, deals at arm's length with the Corporation and does not have a "significant interest" (within the meaning of the prohibited investment rules in the Tax Act) in the Corporation or in a corporation, partnership or trust that does not deal at arm's length with the Corporation. Prospective purchasers of Subscription Receipts should consult with their own tax advisors with respect to the prohibited investment rules (including having regard to any relieving amendments that may be made as a result of a recent comfort letter issued by the Department of Finance).

CURRENCY

In this Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars", "$" or "Cdn$" are to lawful currency of Canada. References to "US Dollars" or "US$" are to lawful currency of the United States of America.

On June 19, 2012, the noon buying rate as reported by the Bank of Canada was US$1.00 = Cdn$1.0178.

DEFINED TERMS

For an explanation of certain terms and abbreviations used in the Prospectus, reference is made to the "Glossary of Terms".

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in this Prospectus Supplement, the Prospectus and in the documents incorporated by reference herein and therein.

The Offering

Issuer:	Fortis Inc. ("Fortis" or the "Corporation").
Offering:	18,500,000 subscription receipts (the "Subscription Receipts"), each representing the right to receive one common share of Fortis (a "Common Share") (the "Offering").
Amount:	$601,250,000 ($691,437,500 if the Over-Allotment Option (as defined below) is exercised in full).
Over-Allotment Option:	The Corporation has granted to each of CIBC World Markets Inc. ("CIBC"), Scotia Capital Inc. ("Scotia Capital"), TD Securities Inc. ("TDSI"), Merrill Lynch Canada Inc. ("Merrill Lynch"), BMO Nesbitt Burns Inc. ("BMO Capital Markets"), RBC Dominion Securities Inc. ("RBC Capital Markets"), Desjardins Securities Inc. ("Desjardins Securities"), HSBC Securities (Canada) Inc. ("HSBC Securities"), Morgan Stanley Canada Limited ("Morgan Stanley"), National Bank Financial Inc. ("NB Financial") and Beacon Securities Limited (collectively, the "Underwriters") an option (the "Over-Allotment Option"), exercisable in whole or in part at any time until 30 days following the Closing Date (as defined below), to purchase at the Offering Price up to 2,775,000 additional Subscription Receipts to cover over-allotments, if any, and for market stabilization purposes. See "Plan of Distribution".
Price:	$32.50 per Subscription Receipt.
Date of Closing:	On or about June 27, 2012 or such other date as may be agreed to by the Corporation and the Underwriters, but not later than July 6, 2012 (the "Closing Date").
Escrow of Proceeds:	The gross proceeds from the sale of the Subscription Receipts (the "Escrowed Funds") will be held by Computershare Trust Company of Canada, as escrow agent (the "Escrow Agent") and invested in short-term interest bearing or discount debt obligations (in either Canadian or U.S. dollars) issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided that in all cases such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending receipt by the Corporation of all regulatory and government approvals required to finalize the acquisition (the "Acquisition") by an indirect wholly-owned subsidiary of the Corporation of all of the issued and outstanding shares of CH Energy Group, Inc. ("CH Energy Group"), and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement (as defined below) (collectively, the "Release Conditions"). If the Release Conditions are satisfied prior to 5:00 p.m. (Toronto time) on June 30, 2013 (the "Deadline"), the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount per Subscription Receipt equal to the cash

dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date (as defined below) to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and yield generated thereon, will be released to Fortis. In the event that the Release Conditions are not satisfied prior to the Deadline, or if the Acquisition Agreement is terminated prior to the Deadline (in either case, the "Termination Time"), holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated on such amount. If, as a result of foreign exchange losses due to U.S. dollar investments, there are insufficient Escrowed Funds to repay to holders of Subscription Receipts the full subscription price thereof, the Corporation will make up any shortfall. See "Details of the Offering".

Use of Proceeds: The net proceeds of the Offering, after deducting the Underwriters' fee and estimated expenses of the Offering, which are estimated to be $600,000, and assuming no exercise of the Over-Allotment Option, together with the cash on hand and/or funds to be drawn down from the Corporation's existing committed corporate credit facility, will be used to finance the cash consideration payable for the Acquisition. If the Over-Allotment Option is exercised in full, the estimated net proceeds of the Offering will be $663,180,000 (after deducting the Underwriters' fee and estimated expenses of the Offering). The gross proceeds from the sale of the Subscription Receipts will be held in escrow by the Escrow Agent pending the satisfaction of the Release Conditions. See "Details of the Offering" and "Use of Proceeds".

Subscription Receipts: Each Subscription Receipt entitles the holder thereof to receive, upon satisfaction of the Release Conditions and without payment of additional consideration, one Common Share, plus an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts. If the Release Conditions are not satisfied prior to the Termination Time, the Corporation will repay to holders of Subscription Receipts an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated on such amount. See "Details of the Offering".

Risk Factors: An investment in the Subscription Receipts and the Common Shares issuable upon exchange thereof involves certain risks which should be carefully considered by prospective investors. See "Risk Factors".

RECENT DEVELOPMENTS

Acquisition of CH Energy Group

On February 20, 2012, Fortis and certain subsidiaries of Fortis entered into an agreement and plan of merger with CH Energy Group which provides for, among other things, the acquisition by an indirect wholly-owned subsidiary of Fortis of all of the issued and outstanding common shares of CH Energy Group for US$65.00 per common share in cash, and the merger of CH Energy Group into the subsidiary of Fortis (the "Acquisition Agreement"). The closing of the Acquisition is expected to occur by the end of the first quarter of 2013. The Acquisition is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The Acquisition is expected to be immediately accretive to Fortis' earnings per Common Share, excluding one-time acquisition-related expenses. See "Recent Developments – Agreement to Acquire CH Energy Group" in the Prospectus.

On June 19, 2012, CH Energy Group held a meeting of its common shareholders to vote on the Acquisition. At the meeting, shareholders of CH Energy Group passed a resolution to approve the Acquisition, thereby satisfying this condition to closing.

The Acquisition is subject to certain governmental approvals, including approval by each of the New York Public Service Commission (the "NYPSC") and the Federal Energy Regulatory Commission (the "FERC"). Applications were filed in April 2012 with the NYPSC and the FERC seeking such approvals. See "CH Energy Group Acquisition Agreement – Closing Conditions".

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley.

The business operated by CH Energy Group is attractive to Fortis for the following reasons:

(a) the Acquisition enables Fortis to enter into the U.S. regulated electric and gas distribution business with a reasonably sized utility;

(b) the Acquisition is expected to be immediately accretive to earnings per Common Share, excluding one-time acquisition-related expenses;

(c) CH Energy Group has a strong balance sheet and Central Hudson has strong investment-grade credit ratings;

(d) Central Hudson, a single-state utility, operates a well-maintained electric and gas distribution system, serving a diversified, primarily residential and commercial customer base;

(e) similar to the electric distribution utilities of Fortis, Central Hudson operates principally under cost-of-service regulation. The utility has earned stable returns and is allowed timely recovery of costs related to purchased electricity and natural gas supply, transmission and capital programs. Other positive mechanisms include full recovery and deferral provisions for pension and other post-retirement benefit expense, manufactured gas plant site remediation and revenue decoupling mechanisms. For the three years beginning on July 1, 2010, Central Hudson's rates have been established using a 10% return on equity and a capital structure containing 48% common equity;

(f) Central Hudson's continued investment in its electric and gas businesses is expected to result in attractive rate base growth; and

(g) the Acquisition increases diversification of the Corporation's regulated assets and earnings by geographic location and regulatory jurisdiction.

See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

S&P Affirms Fortis Credit Rating

On May 23, 2012, Standard & Poor's Ratings Services ("S&P") affirmed its ratings, including its "A-" long-term corporate credit rating for Fortis and its subsidiary FortisAlberta Inc. with a stable outlook. S&P removed the ratings from CreditWatch with negative implications, where they were placed on February 22, 2012. See "Ratings" in the Prospectus.

Regulatory Matters

In May 2012, the British Columbia Utilities Commission (the "BCUC") determined that the executed Waneta Capacity Purchase Agreement for the sale of 234 MW of average capacity from the Waneta Expansion to FortisBC Inc. ("FortisBC") is in the public interest and has been accepted for filing without a hearing.

In June 2012, the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") approved an allowed rate of return on common equity ("ROE") for Newfoundland Power Inc. ("NPI") of 8.8% for 2012. Customer rates and allowed ROE for 2013 are expected to be determined based upon a general rate application that the PUB has directed NPI to file by September 14, 2012.

Legal Matters

In May 2012, CH Energy Group entered into a proposed settlement agreement with CH Energy Group shareholders pertaining to several complaints, which named Fortis and other defendants, and which were filed in, or transferred to, the Supreme Court of the State of New York, County of New York, challenging the proposed Acquisition. The complaints generally alleged that the directors of CH Energy Group breached their fiduciary duties in connection with the proposed Acquisition and that CH Energy Group, Fortis, FortisUS Inc. and Cascade Acquisition Sub Inc. aided and abetted that breach. The settlement agreement is subject to court approval.

Labour Relations Matters

In May 2012, the FortisBC Energy companies applied to the British Columbia Labour Relations Board to have certain work functions designated essential after the International Brotherhood of Electrical Workers ("IBEW"), Local 213, representing employees working primarily in gas distribution and transmission including functions such as installations, emergency response and the repair and maintenance of the gas pipeline system, served the FortisBC Energy companies with strike notice. Until an essential services plan is approved by the British Columbia Labour Relations Board, no strike action can legally occur. The collective agreement between the FortisBC Energy companies and IBEW, Local 213, expired on March 31, 2011. Collective bargaining between the parties has been ongoing over the past year and is continuing.

CH ENERGY GROUP ACQUISITION AGREEMENT

Set forth below is a description of the material terms of the Acquisition Agreement. The description is a summary only and is qualified in its entirety by the full text of the Acquisition Agreement. A copy of the Acquisition Agreement was filed on the Corporation's SEDAR profile at www.sedar.com. This summary is not intended to be, and should not be relied upon as, disclosure of any facts and circumstances relating to Fortis or CH Energy Group.

Purchase Price

Pursuant to the terms of the Acquisition Agreement, Fortis has agreed to acquire CH Energy Group for an aggregate purchase price of approximately US$1.5 billion, comprised of approximately US$1 billion in cash (the "Cash Purchase Price") and the assumption of approximately US$500 million of debt on Closing.

Representations and Warranties

Under the Acquisition Agreement, CH Energy Group and Fortis and certain subsidiaries of Fortis (collectively, the "Purchaser") have made various representations and warranties. CH Energy Group's representations and warranties relate to, among other things: organization and qualification; capitalization; authority to enter into the Acquisition Agreement and no conflict; consents and approvals; possession of permits; compliance with laws; securities regulatory filings; reports and financial statements; internal control and disclosure controls; absence of undisclosed liabilities;

absence of certain material changes or events since December 31, 2011; information in the CH Energy Group proxy statement; employment matters; pension and employee benefits; material contracts; real and personal property; environmental matters; intellectual property; tax matters; opinion of financial advisor; insurance; required shareholder vote; brokers; regulation as a utility; regulatory filings; takeover laws; and trading. The Purchaser's representations and warranties relate to, among other things: organization and qualification; authority to enter into the Acquisition Agreement and no conflict; consents and approvals; information supplied to CH Energy Group for inclusion in its proxy statement; legal proceedings; ownership of CH Energy Group capital stock; availability of funds to consummate the Acquisition; ownership of the merger subsidiary and prior activities of such subsidiary; management agreements; and brokerage fees.

Covenants

CH Energy Group and the Purchaser have made covenants relating to the closing of the Acquisition and related matters. CH Energy Group and the Purchaser have agreed, among other things, to use their reasonable best efforts to take all appropriate action and to do all things necessary to complete and otherwise give effect to the Acquisition, including to satisfy the conditions described below under " – Closing Conditions" and to obtain the regulatory consents and approvals described below under " – Closing Conditions – Governmental Consents and Approvals", including to make all necessary filings with the relevant government authorities as required under the Acquisition Agreement.

During the period from the date of the Acquisition Agreement until the closing of the Acquisition, CH Energy Group will, and CH Energy Group will cause its subsidiaries to: (i) conduct their operations only in the ordinary course of business; (ii) comply in all material respects with applicable laws, orders and permits; and (iii) use their commercially reasonable best efforts (A) to maintain satisfactory relationships with third parties and governmental entities and (B) to preserve their business organization, key officers and employees, except as permitted or required by the Acquisition Agreement, or as required by law, government authority or the New York Stock Exchange.

The Acquisition Agreement also contains specific restrictive covenants with respect to certain non-permissible activities of CH Energy Group and its subsidiaries during the period from the date of the Acquisition Agreement until the closing of the Acquisition. These restrictive covenants provide that, subject to certain exceptions (including as permitted or required by the Acquisition Agreement), CH Energy Group and its subsidiaries will not take certain actions without the prior written approval of the Purchaser (such approval not to be unreasonably withheld, delayed or conditioned), including the following: (i) amend its articles, by-laws or equivalent organizational documents; (ii) issue equity securities other than pursuant to existing security-based compensation arrangements; (iii) sell, pledge or dispose of assets; (iv) pay dividends or make other distributions (other than the payment of regular quarterly cash dividends at the times and in the manner paid in the past, the payment of dividends on preferred stock in accordance with their terms, inter-company dividends between the CH Energy Group of companies and dividend equivalent rights under security-based compensation arrangements); (v) acquire, redeem or amend the terms of its equity securities; (vi) merge or consolidate with another entity, or liquidate, dissolve, restructure, recapitalize or otherwise reorganize (or adopt any resolution related thereto); (vii) acquire (including by merger, consolidation or acquisition of stock or assets) any interest in any entity or any assets; (viii) incur, redeem, repurchase, defease or cancel any indebtedness other than in the ordinary course of business; (ix) make loans, advances or capital contributions to, or investments in, any person other than a wholly-owned subsidiary; (x) increase the compensation payable to directors, officers or employees; (xi) establish or amend any employee compensation plan or collective bargaining agreement; (xii) make or revise a material tax election that is inconsistent with past practices or not in the ordinary course of business; (xiii) change financial or tax accounting methods; (xiv) make or commit to capital expenditures in excess of the capital expenditures budget, other than as required by a governmental entity or as a result of an emergency; (xv) terminate or allow a material permit to lapse; (xvi) enter into, amend or terminate a material contract; (xvii) terminate employees or introduce a program or effort concerning the termination of employment of employees; (xviii) settle any litigation, investigation, proceeding or other claim above certain threshold amounts; (xix) change energy price risk management policies or enter into physical commodity transactions; (xx) change the terms of insurance policies; (xxi) lower pricing for energy or capacity sold wholesale; and (xxii) assign or license any material intellectual property. In addition, from the date of the Acquisition Agreement until the time of closing, CH Energy Group and its subsidiaries must obtain the Purchaser's consent prior to initiating any general rate case and must consult with the Purchaser prior to making any material change to its rates or charges.

Closing Conditions

The Acquisition Agreement provides that the obligation of the Purchaser or CH Energy Group to consummate the Acquisition is subject to the fulfillment of a number of conditions, each of which may be waived by such party, including the following:

(a) Shareholder Approval. CH Energy Group must have obtained approval of the Acquisition Agreement and the transactions contemplated thereby, including the Acquisition, from the holders of CH Energy Group's common shares representing a majority of the votes of all outstanding common shares entitled to vote at a duly convened meeting of CH Energy Group's common shareholders. On June 19, 2012, CH Energy Group held a meeting of its common shareholders and approved the Acquisition, thereby satisfying this condition to closing;

(b) Accuracy of Representations and Warranties. The representations and warranties of the other party under the Acquisition Agreement (other than those made by CH Energy Group with respect to its capitalization and corporate authority and those made by the Purchaser with respect to its corporate authority) are true and correct as of the date of the Acquisition Agreement and as of the closing date, except: (X) in the case of the Purchaser, where the failure of such representations and warranties to be true and correct, individually or in the aggregate, would not reasonably be expected to prevent or materially delay or impair the ability of the Purchaser to consummate the Acquisition; and (Y) in the case of CH Energy Group, where the failure of such representations and warranties to be true and correct, individually or in the aggregate, have not had and would not be reasonably likely to have a Company Material Adverse Effect. "Company Material Adverse Effect" is defined in the Acquisition Agreement to mean any fact, change, event, circumstance, occurrence, effect or development that is materially adverse to: (i) the business, assets, liabilities, financial condition or results of operations of CH Energy Group or its subsidiaries, taken as a whole; or (ii) the ability of CH Energy Group to consummate the Acquisition on a timely basis in accordance with the Acquisition Agreement, provided that certain external events will not constitute a Company Material Adverse Effect unless they have a materially disproportionate effect on CH Energy Group and its subsidiaries, taken as a whole. The representations and warranties made by CH Energy Group and the Purchaser with respect to authority to enter into the Acquisition Agreement must be true and correct in all material respects and those made by CH Energy Group with respect to its capitalization must be true and correct in all respects (except for *de minimus* inaccuracies) as of the date of the Acquisition Agreement and as of the closing date of the Acquisition;

(c) Performance of Covenants. The other party has performed or complied in all material respects with all agreements and covenants required by the Acquisition Agreement to be performed or complied with on or prior to the closing date;

(d) Legal Proceedings. There must not be any order, decree, judgment, injunction or other ruling or law that has the effect of making the merger of CH Energy Group into an indirect wholly-owned subsidiary of Fortis illegal or would otherwise prohibit consummation of the Acquisition;

(e) Governmental Consents and Approvals. Each party has received the governmental and regulatory consents and approvals required to be obtained by it under the Acquisition Agreement. The regulatory approvals that must be obtained prior to the closing of the Acquisition include:

  (i) approval of the Acquisition by the NYPSC and the FERC;

  (ii) the expiration or termination of any applicable waiting period, together with any extensions thereof, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and

  (iii) written confirmation from the Committee on Foreign Investment in the United States ("CFIUS") that CFIUS has reviewed the information provided to it regarding the Acquisition and based on its review and, where applicable, investigation, has determined that there are no unresolved national security concerns with respect to the Acquisition.

Termination

The Acquisition Agreement may be terminated by the Purchaser or CH Energy Group at any time prior to closing in certain circumstances, including:

(a) the mutual written consent of the Purchaser and CH Energy Group;

(b) if the Acquisition has not closed by February 20, 2013 provided, however, that if the only unsatisfied conditions to closing are the obtaining of the regulatory approvals described above under " – Closing Conditions – Governmental Consents and Approvals", then such date shall be extended to August 20, 2013 (subject to any waiting period imposed by law);

(c) if a government authority issues a final order or injunction restraining or prohibiting the Acquisition; or

(d) if the other party fails to comply with any of its covenants and agreements or breaches its representations and warranties, and such failure to comply is not cured within 30 days and results in a failure to satisfy the conditions to closing.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at March 31, 2012 and after giving effect to the net proceeds from the Offering (assuming no exercise of the Over-Allotment Option), determined after deducting the Underwriters' fee and estimated expenses of the Offering on an after-tax basis, and the change in long-term debt and capital lease obligations from April 1, 2012 up to and including June 18, 2012. See "Changes in Share and Loan Capital Structure". The financial information set out below has been prepared in accordance with US GAAP.

	Outstanding at March 31, 2012 (unaudited)	*Pro forma* Outstanding at March 31, 2012 (unaudited)(1)
	(in millions of dollars)	
Total debt and capital lease obligations(2) (net of cash)	6,186	6,337
Shareholders' equity		
Securities offered hereby	Nil	584
Common shares	3,050	3,050
Preference shares	912	912
Additional paid-in capital	15	15
Accumulated other comprehensive loss	(96)	(96)
Retained earnings	932	932
Total capitalization(3)	10,999	11,734

(1) After giving effect to the net proceeds from the Offering (assuming no exercise of the Over-Allotment Option), determined after deducting the Underwriters' fee and estimated expenses of the Offering on an after-tax basis, and the change in long-term debt and capital lease obligations from April 1, 2012 up to and including June 18, 2012. See "Changes in Share and Loan Capital Structure".

(2) Includes long-term debt and capital lease obligations, including current portion, and short-term borrowings.

(3) Excludes non-controlling interests.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at June 19, 2012, 189,967,208 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H, are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including June 18, 2012, Fortis issued an aggregate of 692,775 Common Shares pursuant to the Corporation's Dividend Reinvestment Plan and Consumer Share Purchase Plan and upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of approximately $20.3 million.
- During the period from April 1, 2012 up to and including June 18, 2012, the Corporation's consolidated long-term debt and capital lease obligation, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $151 million, largely due to additional borrowing under the Corporation's committed corporate credit facility.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares: First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May	34.98	32.08	11,877,137	25.95	25.38	135,930
June 1 to June 19	34.00	32.16	8,504,440	25.60	25.42	53,827

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May	26.75	26.16	277,108	25.60	24.54	91,659
June 1 to June 19	26.90	26.40	42,765	25.50	25.18	119,631

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May	25.95	25.52	71,254	26.00	24.95	70,501
June 1 to June 19	25.75	25.42	104,450	25.60	24.84	101,419

DETAILS OF THE OFFERING

The Offering consists of 18,500,000 Subscription Receipts at a price of $32.50 per Subscription Receipt. Each Subscription Receipt represents the right to receive, without payment of additional consideration, one Common Share upon satisfaction of the Release Conditions.

Set forth below is a summary of the material attributes and characteristics of the Subscription Receipts. This summary does not purport to be complete and reference should be made to the subscription receipt agreement to be dated as of the Closing Date among Fortis, CIBC, Scotia Capital, TDSI and the Escrow Agent (the "Subscription Receipt Agreement"). The Subscription Receipt Agreement will be filed with the securities regulatory authorities in Canada on the Closing Date of the Offering.

The Subscription Receipts will be issued on the Closing Date pursuant to the Subscription Receipt Agreement. The Escrowed Funds will be delivered to and held by the Escrow Agent and invested in short-term interest bearing or discount debt obligations (in either Canadian or U.S. dollars) issued or guaranteed by the Government of Canada or a province, or one or more of the five largest Canadian chartered banks, provided in all cases that such obligation is rated at least R1 (middle) by DBRS Limited or an equivalent rating from an equivalent rating service, pending satisfaction of the Release Conditions.

If the Release Conditions are satisfied prior to the Deadline, the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). See "Description of Securities Offered – Common Shares" in the Prospectus. The Common Shares will be available for delivery commencing on the second business day after the delivery of such notice. The holders of Subscription Receipts will receive, without payment of any additional consideration, one Common Share for each Subscription Receipt held plus an amount per Subscription Receipt equal to the cash dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts. Forthwith upon the Release Conditions being satisfied and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned and yield generated thereon, will be released to Fortis.

In the event that the Release Conditions are not satisfied, or if the Acquisition Agreement is terminated, prior to the Termination Time, holders of Subscription Receipts shall, commencing on the second business day following the Termination Time, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated on such amount. The Escrowed Funds will be applied toward payment of such amount. If, as a result of foreign exchange losses due to U.S. dollar investments, there are insufficient Escrowed Funds to repay to holders of Subscription Receipts the full subscription price thereof, the Corporation will make up any shortfall.

In the event that, prior to the date of issue of a Common Share in respect of a Subscription Receipt, there occurs a subdivision, consolidation, reclassification or other change of the Common Shares or any reorganization, amalgamation, merger or sale of all or substantially all of the Corporation's assets, the Subscription Receipts will thereafter evidence the right of the holder to receive the securities, property or cash deliverable in exchange for or on the conversion of or in respect of the Common Shares to which the holder of a Common Share would have been entitled immediately after such event. Similarly, any distribution to all or substantially all of the holders of Common Shares of rights, options, warrants, evidences of indebtedness or assets will result in an adjustment in the number of Common Shares to be issued to holders of Subscription Receipts. Alternatively, such securities, evidences of indebtedness or assets may, at the option of the Corporation, be issued to the Escrow Agent and delivered to holders of Subscription Receipts on exercise thereof. In case the Corporation, after the Closing Date, takes any action affecting the Common Shares, other than the actions described above, which, in the reasonable opinion of the directors of the Corporation, would materially affect the rights of the holders of Subscription Receipts and/or the rights attached to the Subscription Receipts, then the number of Common Shares which are to be received pursuant to the Subscription Receipts shall be adjusted in such manner, if any, and at such time as the directors of the Corporation may, in their discretion, reasonably determine to be equitable to the holders of Subscription Receipts in such circumstances. The adjustments provided for in this paragraph are cumulative and shall apply to successive subdivisions, consolidations, changes, distributions, issues or other events resulting in any adjustment.

Under the Subscription Receipt Agreement, purchasers of Subscription Receipts will have a contractual right of rescission entitling the purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Subscription Receipts or the Common Shares, as applicable, if the Prospectus and any amendment contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario), provided such remedy for rescission is exercised within 180 days of the Closing Date. This contractual right of rescission extends only to initial purchasers of Subscription Receipts and will not extend to any holders of Subscription Receipts who acquire such Subscription Receipts from an initial purchaser in the open market or otherwise. The Corporation will not be liable under this contractual right of rescission if the purchaser of Subscription Receipts had knowledge of the misrepresentation.

Subject to applicable law, the Corporation will be entitled to purchase the Subscription Receipts in the open market or by private agreement or otherwise.

Subscriptions for the Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about June 27, 2012, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 6, 2012 (the "Closing Date"). The Subscription Receipts will be issued in "book entry only" form and must be purchased or transferred through a registered dealer who is a CDS participant (a "CDS Participant"). The Corporation will cause a global certificate or certificates representing newly issued Subscription Receipts to be delivered to and registered in the name of CDS or its nominee. All rights of Subscription Receipt holders must be exercised through, and all payments or other money to which such holders are entitled will be made or delivered by, CDS or the CDS Participant through which the holders hold such Subscription Receipts. Each person who acquires Subscription Receipts will receive only a customer confirmation of purchase from the registered dealer from or through which the Subscription Receipts are acquired in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its CDS Participants having interests in the Subscription Receipts. If the Subscription Receipts are no longer eligible for the book-entry only system or CDS resigns or is removed from its responsibilities as depository and Fortis is unable to locate a qualified successor, beneficial owners of the Subscription Receipts represented by a global certificate at such time will receive definitive certificates representing the Subscription Receipts.

Common Shares issued upon exchange of the Subscription Receipts will be issued and registered to CDS or its nominee under the book-entry only system. Except in limited circumstances, no holder of a Common Share will be entitled to a certificate evidencing that person's interest in or ownership of a Common Share, and a holder of Subscription Receipts will receive only a customer confirmation from the registered dealer (a Participant through which the holder's Subscription Receipts are purchased) that Common Shares have been issued.

None of Fortis, the Underwriters or their respective affiliates will assume any liability for: (i) any aspect of the records relating to the beneficial ownership of the Subscription Receipts held by CDS or its nominee or the payments relating thereto; (ii) maintaining, supervising or reviewing any records relating to the Subscription Receipts; or (iii) any advice or representation made by or with respect to CDS and contained in this Prospectus Supplement or the Prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of a CDS Participant. The rules governing CDS provide that it acts as the agent and depositary for the CDS Participants. As a result, CDS Participants must look solely to CDS and beneficial owners of the Subscription Receipts must look solely to CDS Participants for any payments on the Subscription Receipts paid by, or on behalf of, Fortis to CDS.

The Subscription Receipt Agreement provides for modifications and alterations to the Subscription Receipts issued thereunder by way of an extraordinary resolution. The term "extraordinary resolution" is defined in the Subscription Receipt Agreement to mean, in effect, a resolution proposed at a meeting of holders of Subscription Receipts duly convened for that purpose and held in accordance with the Subscription Receipt Agreement at which there are present in person or by proxy at least two holders of Subscription Receipts entitled to receive more than 25% of the aggregate number of Common Shares issuable upon the exchange of the Subscription Receipts which could be received pursuant to all the then-outstanding Subscription Receipts and passed by the affirmative votes of holders of Subscription Receipts entitled to receive not less than 66⅔% of the aggregate number of such Common Shares which could be received pursuant to all the then-outstanding Subscription Receipts represented at the meeting and voted on the poll upon such resolution.

The holders of Subscription Receipts are not shareholders of the Corporation. Holders of Subscription Receipts are entitled only to receive Common Shares on the exchange of their Subscription Receipts and an amount equal to the dividends declared on the Common Shares by the Corporation, if any, for which record dates have occurred during the period from the Closing Date to the date of issuance of the Common Shares in respect of the Subscription Receipts, or to require the Corporation to purchase the Subscription Receipts at the Offering Price and to be paid a *pro rata* share of interest earned and yield generated thereon as described above.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering, after deducting the Underwriters' fee and estimated expenses of the Offering, are expected to be $576,600,000, assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the estimated net proceeds of the Offering, after deducting the Underwriters' fee and estimated expenses of the Offering, are expected to be $663,180,000.

The net proceeds of the Offering, together with cash on hand and/or funds to be drawn down from the Corporation's existing committed corporate credit facility, will be used to finance the Cash Purchase Price for the Acquisition. See "CH Energy Group Acquisition Agreement". The gross proceeds from the sale of the Subscription Receipts will be held in escrow by the Escrow Agent pending the satisfaction of the Release Conditions. See "Details of the Offering".

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated June 20, 2012 (the "Underwriting Agreement") between Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 18,500,000 Subscription Receipts offered hereby at the Offering Price of $32.50 per Subscription Receipt, subject to compliance with all the necessary legal requirements and to the conditions contained in the Underwriting Agreement. After the Underwriters have made reasonable efforts to sell all the Subscription Receipts at the Offering Price, the Underwriters may sell the Subscription Receipts to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has granted the Underwriters an over-allotment option (the "Over-Allotment Option"), exercisable at any time until 30 days following the Closing Date, to purchase up to an additional 2,775,000 Subscription Receipts at the Offering Price. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, and for market stabilization purposes. This Prospectus Supplement also qualifies the grant of the Over-Allotment Option and the distribution of the securities issuable on the exercise of the Over-Allotment Option. A purchaser who acquires securities forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus Supplement and the Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The Underwriting Agreement provides that the Underwriters will be paid a fee of $24,050,000 (assuming no exercise of the Over-Allotment Option) ($1.30 per Subscription Receipt) in consideration for their services in connection with the Offering. One-half of the Underwriters' fee in respect of the Offering is payable on the Closing Date and the other half of the Underwriters' fee is payable only if the Release Conditions have been satisfied prior to the Termination Time and the required notice has been delivered to the Escrow Agent to release the Escrowed Funds to the Corporation.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Subscription Receipts ends and all stabilization arrangements relating to the Subscription Receipts are terminated, bid for or purchase Subscription Receipts or Common Shares. The foregoing restrictions are subject to certain exceptions including (a) a bid for or purchase of Subscription Receipts or Common Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules administered by the Investment Industry Regulating Organization of Canada relating to market stabilization and passive market making activities; and (b) a bid or purchase made for or on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation did not occur during the period of distribution. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Subscription Receipts or the Common Shares is for the purpose of maintaining a fair and orderly market in the Subscription Receipts or Common Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Subscription Receipts and the Common Shares for which such Subscription Receipts may be exchanged have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and, subject to certain exceptions, may not be offered, or delivered, directly or indirectly, or sold in the United States except in certain transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Subscription Receipts within the United States, its territories, its possessions and other areas subject to its jurisdiction, except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Subscription Receipts or Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in reliance on Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint or joint and several) and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Subscription Receipts if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for misrepresentation in this Prospectus Supplement and the Prospectus.

Each of CIBC, Scotia Capital, TDSI, Merrill Lynch, BMO Capital Markets, RBC Capital Markets, Desjardins Securities, HSBC Securities, Morgan Stanley and NB Financial is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' fee relating to the Offering. The decision to distribute the Subscription Receipts hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. The proceeds of the Offering will be used to finance the Cash Purchase Price for the Acquisition and will not be used to repay the Existing Indebtedness. As at June 18, 2012, an aggregate of approximately $395 million was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell Subscription Receipts purchased under this Prospectus Supplement. This may affect the pricing of the Subscription Receipts in the secondary market, the transparency and availability of trading prices, the liquidity of the Subscription Receipts and the extent of issuer regulation. The TSX has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before September 17, 2012.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires Subscription Receipts pursuant to the Offering who, within the meaning of the *Income Tax Act* (Canada) (the "Tax Act"), and at all relevant times, is or is deemed to be resident in Canada, deals at arm's length with, and is not affiliated with, the Corporation and holds or will hold the Subscription Receipts and any Common Shares as capital property. Generally, the Subscription Receipts and the Common Shares will be considered to be capital property to a holder provided the holder does not hold the Subscription Receipts and the Common Shares in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain holders whose Common Shares might not otherwise qualify as capital property may, in certain circumstances, make the irrevocable election under subsection 39(4) of the Tax Act to have their Common Shares and every "Canadian security" (as defined in the Tax Act) owned by such holder in the taxation year of the election, and in all subsequent years, deemed to be capital property.

This summary does not apply to a purchaser: (i) that is a "financial institution" for the purposes of the "mark-to-market" rules; (ii) that is a "specified financial institution"; (iii) an interest in which is a "tax shelter investment"; or (iv) that has elected to determine its Canadian tax results in accordance with the "functional currency" rules, as each of those terms is defined in the Tax Act. Such purchasers should consult their own tax advisors.

This summary is based upon the provisions of the Tax Act and regulations thereunder (the "Regulations") in force as at the date hereof, all specific proposals (the "Tax Proposals") to amend the Tax Act or Regulations that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any changes in applicable law, whether by legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign tax laws or considerations, which might differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. This summary is not exhaustive of all possible income tax considerations under the Tax Act that may affect a holder. The income tax consequences of acquiring and disposing of Subscription Receipts and Common Shares will vary depending on a number of facts, including the legal status of the holder as an individual, corporation, trust or partnership. Accordingly, prospective holders of Subscription Receipts and Common Shares should consult their own tax advisors with respect to their particular circumstances and the tax consequences to them of holding and disposing of Subscription Receipts and Common Shares.

Exchange of Subscription Receipts

No gain or loss will be realized by a holder on the exchange of Subscription Receipts for Common Shares.

The cost of a Common Share issued to a holder of a Subscription Receipt acquired pursuant to the Offering will be equal to the cost of the Subscription Receipt to the holder. For the purposes of determining the adjusted cost base to the holder of Common Shares so acquired, the cost of such Common Shares will be determined by averaging the cost of such Common Shares with the adjusted cost base of all other Common Shares owned at that time by the holder as capital property.

Termination of Subscription Receipts

As described above under "Details of the Offering", in the event that the Release Conditions are not satisfied or if the Acquisition Agreement is terminated prior to the Termination Time, holders of Subscription Receipts will be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned and yield generated thereon. In that event, the amount of such interest or income received by a holder of Subscription Receipts must be included in the income of the holder.

Payment of Dividend Equivalent

As described above under "Details of the Offering", if Common Shares are issued in exchange for Subscription Receipts, and if dividends have been declared on the Common Shares of the Corporation to holders of record on a date during the period from the Closing Date to the date of such issuance of Common Shares, the Corporation will make a cash payment to the holders of Subscription Receipts in respect of each Subscription Receipt in an amount equal to the per share amount of such dividend. The dividend equivalent amount, if any, paid to a holder of Subscription Receipts by the Corporation must be included in the income of the holder. Any amount so included will be taxed as ordinary income and not as a dividend and, as such, will not be subject to the gross-up and dividend tax credit rules described below.

Other Dispositions of Subscription Receipts

A disposition or deemed disposition by a holder of a Subscription Receipt, other than on the exchange of a Subscription Receipt for a Common Share or a disposition of the Subscription Receipt to the Corporation in the event the Release Conditions are not satisfied or if the Acquisition Agreement is terminated prior to the Termination Time will generally result in the holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the holder's adjusted cost base thereof and any reasonable costs of disposition.

Dividends on Common Shares

Dividends received on Common Shares by a holder who is an individual will be included in the individual's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit for "eligible dividends". A dividend will be eligible for the enhanced gross-up and dividend tax credit if the paying corporation designates the dividend as an eligible dividend. There may be limitations on the ability of a corporation to designate dividends as eligible dividends. The Corporation has advised counsel that it intends to designate all dividends paid on the Common Shares as eligible dividends for these purposes. Taxable dividends received by an individual may give rise to alternative minimum tax under the Tax Act, depending on the individual's circumstances.

Dividends received on Common Shares by a holder that is a corporation will be included in income and normally will be deductible in computing such corporation's taxable income. However, the Tax Act will generally impose a 33⅓% refundable Part IV tax on such dividends received by a corporation that was, at any time in the taxation year in which such dividends were received, a "private corporation" as defined in the Tax Act, or a corporation resident in Canada that is controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), to the extent that such dividends are deductible in computing the corporation's taxable income.

Disposition of Common Shares

In general, a disposition or a deemed disposition of a Common Share will give rise to a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of the Common Share immediately before the disposition.

Tax Treatment of Capital Gains and Losses

Generally, one-half of a capital gain (a "taxable capital gain") will be included in the holder's income, and one-half of a capital loss (an "allowable capital loss") will be deducted against taxable capital gains realized by such holder in the same taxation year. Any excess of allowable capital losses over taxable capital gains may be carried back to prior taxation years or forward to subsequent taxation years and applied against capital gains in those years in accordance with the detailed rules contained in the Tax Act. Capital gains realized by an individual will be relevant in computing possible liability for the alternative minimum tax.

The amount of any capital loss realized on the disposition or deemed disposition of a Common Share by a holder that is a corporation may be reduced by the amount of dividends received by the holder on the Common Share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares and where a trust is a member of a partnership that owns Common Shares or a partnership or trust is a beneficiary of a trust that owns Common Shares. Holders to whom these rules may be relevant should consult their own tax advisors.

Additional Refundable Tax

A holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6⅔% on certain investment income, including amounts in respect of taxable capital gains and interest (but not dividends deductible in computing taxable income).

RISK FACTORS

An investment in the Subscription Receipts offered hereby and the Common Shares issuable upon the exchange thereof involves certain risks in addition to those described in the Corporation's Annual MD&A (at pages 48 to 61) and in the Corporation's First Quarter MD&A (at pages 28 to 29), each of which is incorporated by reference herein. See also "Risk Factors" in the Prospectus. Before investing, prospective purchasers of Subscription Receipts should carefully consider, in light of their own financial circumstances, the factors set out below, as well as the other information contained or incorporated by reference in the Prospectus.

Subscription Receipt Structure

The Subscription Receipts will be automatically exchanged for Common Shares upon the satisfaction of the Release Conditions. The Corporation may, in its sole discretion, waive certain closing conditions in its favour in the Acquisition Agreement or agree with CH Energy Group to amend the Acquisition Agreement and consummate the Acquisition on terms that may be substantially different from those contemplated in this Prospectus Supplement. As a result, the expected benefits of the Acquisition may not be fully realized. See "CH Energy Group Acquisition Agreement". There can be no assurance that the Release Conditions will be satisfied on or prior to the Termination Time. Until the Release Conditions are satisfied and the Common Shares are delivered pursuant to the Subscription Receipt Agreement, holders of Subscription Receipts have the rights as described under "Details of the Offering".

Market for Securities

There is currently no market through which the Subscription Receipts may be sold and purchasers of Subscription Receipts may not be able to resell the Subscription Receipts purchased under this Prospectus Supplement. The price offered to the public for Subscription Receipts and the number of Subscription Receipts to be issued have been determined by negotiations among Fortis and the Underwriters. The price paid for each Subscription Receipt may bear no relationship to the price at which Subscription Receipts will trade in the public market subsequent to this Offering. Fortis cannot predict at what price the Subscription Receipts will trade and there can be no assurance that an active trading market will develop for the Subscription Receipts or, if developed, that such market will be sustained.

The TSX has conditionally approved the listing of the Subscription Receipts, as well as the Common Shares issuable on the exchange of the Subscription Receipts. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before September 17, 2012.

Monies in Escrow

The proceeds of the Offering are being held in escrow by the Escrow Agent pending the closing of the Acquisition or termination of the Acquisition Agreement. There can be no assurance that the conditions for the release of the Escrowed Funds will be satisfied prior to the Termination Time.

Potential Undisclosed Liabilities Associated with the Acquisition

In connection with the Acquisition, there may be liabilities that the Corporation failed to discover or was unable to quantify in the due diligence which it conducted prior to the execution of the Acquisition Agreement and the Corporation may not be indemnified for some or all of these liabilities. The discovery on quantification of any material liabilities could have a material adverse effect on the Corporation's business, financial condition or future prospects.

MATERIAL CONTRACTS

The material contracts and other instruments entered into by, or to be entered into by, or to become binding upon Fortis or its subsidiaries in connection with the Acquisition or the Offering are as follows:

- the Subscription Receipt Agreement referred to under "Details of the Offering"; and
- the Underwriting Agreement referred to under "Plan of Distribution".

Copies of the foregoing agreements as well as the Acquisition Agreement may be inspected during regular business hours at the offices of the Corporation, at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) until the expiry of the 30 day period following the date of this Prospectus Supplement and are also available electronically at www.sedar.com.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador, A1C 1B2. Ernst & Young report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Subscription Receipts and Common Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

GLOSSARY OF TERMS

In the Prospectus Supplement, unless the context otherwise requires, the following terms have the meanings set forth below.

"**1933 Act**" means the United States *Securities Act of 1933*, as amended;

"**Acquisition**" means the acquisition by Fortis of all of the issued and outstanding shares of CH Energy Group;

"**Acquisition Agreement**" means the agreement and plan of merger dated as of February 20, 2012 between Fortis, certain subsidiaries of Fortis and CH Energy Group;

"Cash Purchase Price" means the cash portion of the purchase price for CH Energy Group, which is equal to approximately US$1 billion;

"**CDS**" means CDS Clearing and Depository Services Inc.;

"**CH Energy Group**" means CH Energy Group, Inc.;

"**CFIUS**" means the Committee on Foreign Investment in the United States under Section 721 of Title VII of the Defense Production Act of 1950, as amended by the Omnibus Trade and Competitiveness Act of 1988, as modified by the Foreign Investment and National Security Act of 2007;

"**Closing Date**" means on or about June 27, 2012, or such other date as agreed to by the Corporation and the Underwriters, but not later than July 6, 2012;

"**Common Share**" means a common share in the capital of Fortis;

"**Company Material Adverse Effect**" means any fact, change, event, circumstance, occurrence, effect or development that is materially adverse to (i) the business, assets, liabilities, financial condition or results of operations of CH Energy Group or its subsidiaries, taken as a whole, or (ii) the ability of CH Energy Group to consummate the Acquisition on a timely basis in accordance with the Acquisition Agreement, provided that certain external events will not constitute a Company Material Adverse Effect unless they have a materially disproportionate effect on CH Energy Group and its subsidiaries, taken as a whole;

"**Corporation**" or "**Fortis**" means Fortis Inc.;

"**Deadline**" means 5:00 p.m. (Toronto time) on June 30, 2013;

"**Escrow Agent**" means Computershare Trust Company of Canada or its successor as escrow agent under the Subscription Receipt Agreement;

"**Escrowed Funds**" means the gross proceeds from the sale of the Subscription Receipts to be placed in escrow with the Escrow Agent;

"**FERC**" means the Federal Energy Regulatory Commission;

"**NYPSC**" means the New York Public Service Commission;

"**Offering**" means the distribution of Subscription Receipts pursuant to the Prospectus Supplement;

"**Offering Price**" means the price of $32.50 per Subscription Receipt;

"**Over-Allotment Option**" means the option granted by the Corporation to the Underwriters, exercisable in whole or in part at any time until 30 days following the Closing Date, to purchase at the Offering Price up to 2,775,000 additional Subscription Receipts to cover over-allotments, if any, and for market stabilization purposes;

"**Prospectus**" means the short form base shelf prospectus of the Corporation dated May 10, 2012;

“**Prospectus Supplement**” means this prospectus supplement to the Prospectus;

“**Release Conditions**” means the receipt by the Corporation of all regulatory and government approvals required to finalize the Acquisition, including those of the NYPSC and the FERC, and fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition as itemized in the Acquisition Agreement;

“**SEDAR**” means the Canadian System for Electronic Document Analysis and Retrieval;

“**Subscription Receipt Agreement**” means the agreement dated as of the Closing Date among the Corporation, CIBC, Scotia Capital, TDSI and the Escrow Agent governing the terms of the Subscription Receipts;

“**Subscription Receipts**” means the subscription receipts of the Corporation offered hereby;

“**Termination Time**” means the earlier of 5:00 p.m. (Toronto time) on June 30, 2013 or the date on which the Acquisition Agreement is terminated;

“**TSX**” means the Toronto Stock Exchange;

“**Underwriters**” means, collectively CIBC World Markets Inc., Scotia Capital Inc., TD Securities Inc., Merrill Lynch Canada Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., Desjardins Securities Inc., HSBC Securities (Canada) Inc., Morgan Stanley Canada Limited, National Bank Financial Inc. and Beacon Securities Limited; and

“**Underwriting Agreement**” means the underwriting agreement dated June 20, 2012, between the Corporation and the Underwriters relating to the sale of the Subscription Receipts offered under the Prospectus.

AUDITORS' CONSENT

We have read the prospectus supplement (the "Supplement") of Fortis Inc. (the "Corporation") dated June 20, 2012 to the short form base shelf prospectus dated May 10, 2012 (the "Base Shelf" and together with the Supplement, the "Prospectus"), relating to the issue and sale of 18,500,000 subscription receipts, each representing the right to receive one common share of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
June 20, 2012

(Signed) ERNST & YOUNG LLP
Chartered Accountants

CERTIFICATE OF THE UNDERWRITERS

Dated: June 20, 2012

To the best of our knowledge, information and belief, the short form prospectus dated May 10, 2012, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of Canada.

CIBC World Markets Inc.	Scotia Capital Inc.	TD Securities Inc.
(Signed) David H. Williams	(Signed) Stuart Lochray	(Signed) Harold R. Holloway

Merrill Lynch Canada Inc.	BMO Nesbitt Burns Inc.	RBC Dominion Securities Inc.
(Signed) Eric Giroux	(Signed) James A. Tower	(Signed) David Dal Bello

Desjardins Securities Inc.	HSBC Securities (Canada) Inc.	Morgan Stanley Canada Limited	National Bank Financial Inc.
(Signed) A. Thomas Little	(Signed) Laura McElwain	(Signed) Dougal Macdonald	(Signed) William Tebbutt

Beacon Securities Limited

(Signed) Daniel Holland

This short form base shelf prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada*. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form base shelf prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons.*

New Issue May 10, 2012

SHORT FORM BASE SHELF PROSPECTUS

FORTIS INC.

FORTIS

$1,300,000,000

COMMON SHARES
FIRST PREFERENCE SHARES
SECOND PREFERENCE SHARES
SUBSCRIPTION RECEIPTS
DEBENTURES (UNSECURED)

Fortis Inc. ("Fortis" or the "Corporation") may from time to time offer and issue common shares ("Common Shares"), first preference shares (the "First Preference Shares"), second preference shares (the "Second Preference Shares"), subscription receipts ("Subscription Receipts") or unsecured debentures ("Debentures" and together with the Common Shares, First Preference Shares, Second Preference Shares and Subscription Receipts, the "Securities"), having an aggregate offering price of up to $1,300,000,000 (or the equivalent in US dollars or other currencies), during the 25 month period that this short form base shelf prospectus (the "Prospectus"), including any amendments hereto, remains valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement (a "Prospectus Supplement").

The specific variable terms of any offering of Securities will be set out in the applicable Prospectus Supplement including, where applicable: (i) in the case of Common Shares, the number of shares offered and the offering price (or the manner of determination thereof if offered on a non-fixed price basis); (ii) in the case of First Preference Shares and Second Preference Shares, the designation of the particular series, the number of shares offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the currency or currency unit for which such shares may be purchased, any voting rights, any rights to receive dividends, any terms of redemption, any conversion or exchange rights and any other specific terms; (iii) in the case of Subscription Receipts, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the procedures for the exchange of Subscription Receipts for Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, and any other specific terms; and (iv) in the case of Debentures, the designation of the Debentures, the aggregate principal amount of the Debentures being offered, the currency or currency unit for which the Debentures may be purchased, authorized denominations, any limit on the aggregate principal amount of the Debentures of the series being offered, the issue and delivery date, the maturity date, the offering price (at par, at a discount or at a premium), the interest rate or method of determining the interest rate, the interest payment date(s), any conversion or exchange rights that are attached to the Debentures, any redemption provisions, any repayment provisions and any other specific terms. A Prospectus Supplement may include other terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

The Corporation may sell the Securities to or through underwriters or dealers purchasing as principals and may also sell the Securities to one or more purchasers directly subject to obtaining any required exemptive relief or through agents. The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, if any, engaged by the Corporation in connection with the offering and sale of Securities and will set forth the terms of the offering of such Securities, the method of distribution of such Securities including, to the extent applicable, the proceeds to the Corporation and any fees, discounts or any other compensation payable to underwriters, dealers or agents and any other material terms of the plan of distribution. Securities may be sold from time to time in one or more transactions at a fixed price or fixed prices, or at non-fixed prices. If offered on a non-fixed price basis, Securities may be offered at market prices prevailing at the time of sale or at prices to be negotiated with purchasers at the time of sale, which prices may vary as between purchasers and during the period of distribution. If Securities are offered on a non-fixed price basis, the underwriters', dealers' or agents' compensation will be increased or decreased by the amount by which the aggregate price paid for Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to Fortis. See “Plan of Distribution”.

No underwriter or dealer has been involved in the preparation of, or has performed any review of, this Prospectus.

The outstanding Common Shares, Cumulative Redeemable First Preference Shares, Series C, Cumulative Redeemable First Preference Shares, Series E, Cumulative Redeemable First Preference Shares, Series F, Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G and Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H of the Corporation are listed on the Toronto Stock Exchange (the “TSX”) under the symbols “FTS”, “FTS.PR.C”, “FTS.PR.E”, “FTS.PR.F”, “FTS.PR.G” and “FTS.PR.H”, respectively. **There is currently no market through which the First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures may be sold and purchasers may not be able to resell any First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures purchased under this Prospectus. This may affect the pricing of the Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities and the extent of issuer regulation. See the “Risk Factors” section of the applicable Prospectus Supplement.**

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

Subject to applicable laws, in connection with any offering of Securities the underwriters, dealers or agents may over-allot or effect transactions which stabilize or maintain the market price of the Securities at levels other than those which may prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See “Plan of Distribution”.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s ("FortisAlberta") service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's ("Fortis Properties") Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to accounting principles generally accepted in the United States ("US GAAP") (see "Recent Developments – Transition to US GAAP"); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the acquisition (the "Acquisition") of CH Energy Group, Inc. ("CH Energy Group") by Fortis; and the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time transaction expenses (see "Recent Developments – Agreement to Acquire CH Energy Group").

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event

or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. 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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas pricing; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc. ("FEVI"); environmental risks; insurance coverage risk; loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of unexpected outcomes of legal proceedings currently against the Corporation; risk of not being able to access First Nations lands; labour relations risk; and human resources risk. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP");

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012; and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012 (the "Information Circular").

All documents of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition reports, as well as all Prospectus Supplements disclosing additional or updated information subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the distribution under this Prospectus, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

When Fortis files a new annual information form and audited consolidated financial statements and related management's discussion and analysis with, and where required, they are accepted by, the applicable securities regulatory authorities during the time that this Prospectus is valid, the previous annual information form, the previous audited consolidated financial statements and related management's discussion and analysis and all unaudited interim consolidated financial statements and related management's discussion and analysis for such periods, all material change reports and any information circular and business acquisition report filed prior to the commencement of the Corporation's financial year in which the new annual information form is filed will be deemed no longer to be incorporated by reference in this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon new interim financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, all interim financial statements and accompanying management's discussion

and analysis filed prior to the filing of the new interim financial statements shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Investors should rely only on the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. Fortis has not authorized anyone to provide investors with different or additional information. Fortis is not making an offer of Securities in any jurisdiction where the offer is not permitted by law. Prospective investors should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date on the front of the applicable Prospectus Supplement.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars" or "$" are to lawful currency of Canada, and references to "US dollars" or "US$" are to lawful currency of the United States.

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning prior to January 1, 2012 has been prepared using Canadian GAAP. All financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning on or after January 1, 2012 has been prepared using US GAAP. For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation, incorporated by reference in this Prospectus. See "Recent Developments – Transition to US GAAP" below.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of more than $14 billion as at March 31, 2012 and fiscal 2011 revenue totalling approximately $3.7 billion. The Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and two Caribbean countries and a natural gas utility in British Columbia, Canada. As at March 31, 2012, regulated utility assets comprised approximately 91% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings") (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, FortisTCI Limited (formerly P.P.C. Limited) and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of BECOL, FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the "Waneta Partnership"), which was established in 2010 to construct the Waneta Expansion, a 335-MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in Upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by FortisBC.

Fortis Properties' assets include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 22 hotels in eight Canadian provinces and commercial office and retail space primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 939,000 customers as at March 31, 2012, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 837,000 customers as at March 31, 2012. With the implementation of a new Customer Care Enhancement Project on January 1, 2012, the gas utilities adjusted their customer count downwards by approximately 17,000 effective January 1, 2012 as a result of a change in their definition of a "customer". FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI (formerly Terasen Gas (Vancouver Island) Inc.) owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 99,000 customers as at March 31, 2012. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers as at March 31, 2012. The FortisBC Energy companies own and operate almost 47,200 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,210 terajoules for 2011.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 501,000 customers in Alberta as at March 31, 2012, using approximately 114,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,505 MW for 2011. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 162,500 customers, as at March 31, 2012, with residential customers representing the largest customer segment, and met a peak demand of 669 MW for 2011. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served approximately 248,000 customers as at March 31, 2012, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,166 MW for 2011. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 75,000 customers as at March 31, 2012, or 90% of electricity consumers on the Island, and met a peak demand of 224 MW for 2011. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2012, and met a combined peak demand of 276 MW for 2011. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, served approximately 38,000 customers, as at March 31, 2012.

Regulated Electric Utilities – Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities as of March 31, 2012. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 27,000 customers as at March 31, 2012, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 99 MW for 2011. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,600 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2012. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed diesel-powered generating capacity of approximately 65 MW and met a peak demand of approximately 30 MW for 2011.

Expropriated Assets – Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the Government of Belize ("GOB") enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at March 31, 2012, the long-term other asset, including foreign exchange impacts, totalled $104 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation. Pursuant to the expropriation action, Fortis is assessing alternative options for obtaining fair compensation from the GOB.

Non-Regulated – Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership") between AbitibiBowater Inc. ("Abitibi") and Fortis Properties. In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The Government of Newfoundland and Labrador has publically stated that it is not its intention to adversely affect the business interests of lenders or independent partners of Abitibi in the Province. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions between Fortis Properties and Nalcor Energy, acting as agent for the Government of Newfoundland and Labrador, with respect to expropriation matters are ongoing.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $290 million have been incurred on this capital project through March 31, 2012. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy, from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. The BCUC is conducting its usual review process of the executed agreement to determine whether a hearing is necessary to decide whether the agreement is in the public interest.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated – Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 22 hotels, collectively representing approximately 4,300 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial office and retail space primarily in Atlantic Canada.

CAPITAL RESOURCES

This Prospectus will provide the Corporation with the flexibility to access the capital markets in a timely manner. The nature, size and timing of any offering of Securities under this Prospectus will be consistent with the past capital raising practices of the Corporation and will continue to depend upon the Corporation's assessment of its requirements for funding and general market conditions.

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2012, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $2.0 billion was available to be drawn. In May 2012, the Corporation increased the amount available for borrowing under its committed corporate credit facility from $800 million to $1 billion, thereby increasing the aggregate authorized amount available to the Corporation and its subsidiaries under all lines of credit to $2.4 billion. As at May 9, 2012, an aggregate amount of approximately $2.1 billion was unused and available to be drawn under these facilities. See "Recent Developments – Corporate Credit Facility".

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2012, long-term debt maturities over the next five years are expected to average approximately $265 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire CH Energy Group

On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing. The closing of the acquisition, which is expected to occur by the end of the first quarter of 2013, is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The acquisition is expected to be immediately accretive to Fortis' earnings per common share, excluding one-time acquisition-related expenses.

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson accounts for approximately 93% of the total assets of CH Energy Group. CH Energy Group also owns and operates Central Hudson Enterprises Corporation, a non-regulated subsidiary comprised primarily of a fuel delivery business serving approximately 56,000 customers in the Mid-Atlantic Region. As of December 31, 2011, CH Energy Group's total assets were US$1.7 billion and operating revenues and net income for 2011 totalled US$986 million and US$45 million, respectively. In 2011, Central Hudson accounted for approximately 97% of CH Energy Group's net income. Based on the first quarter results filed by CH Energy Group with the U.S. Securities and Exchange Commission ("SEC") on April 26, 2012, CH Energy Group's total assets at March 31, 2012 were approximately US$1.8 billion and operating revenues and net income for the first quarter totalled approximately US$274 million and US$14.6 million, respectively.

Central Hudson's electric assets, which comprise approximately 77% of its total assets, include approximately 7,300 pole miles (11,748 kilometers) of overhead lines and 1,400 trench miles (2,253 kilometers) of underground lines. The electric business met a peak demand of 1,225 MW in 2011. Central Hudson's natural gas assets, which comprise approximately 23% of its total assets, include approximately 1,185 miles (1,907 kilometers) of distribution pipelines and approximately 164 miles (264 kilometers) of transmission pipelines. The gas business met a peak day demand of 115,807 thousand cubic feet in 2011. Central Hudson is subject to regulation by the New York State Public Service Commission ("NYPSC") under a traditional cost-of-service model.

Central Hudson primarily relies on purchases from third-party providers and the New York Independent System Operator-administered energy and capacity markets to meet the demands of its full-service electric customers. It purchases its gas supply requirements from a number of suppliers at various receipt points on pipelines that it has contracted with for firm transport capacity.

In April 2012, applications were filed with the NYPSC and the Federal Energy Regulatory Commission seeking approval of the transaction. The CH Energy Group shareholder vote on the transaction is expected to occur mid-2012.

Transition to US GAAP

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, Fortis adopted US GAAP, as opposed to IFRS, effective January 1, 2012.

Canadian securities rules allow a reporting issuer to file its financial statements prepared in accordance with US GAAP by qualifying as a SEC issuer. A SEC issuer is defined under the Canadian rules as an issuer that: (a) has a class of securities registered with the SEC under Section 12 of the *U.S. Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (b) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is not currently a SEC issuer, but on June 9, 2011 was granted exemptive relief by Canadian securities regulators to permit it and its reporting issuer subsidiaries to prepare their financial statements in accordance with US GAAP without qualifying as SEC issuers (the "Exemption"). The Exemption applies to financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

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

The Corporation has prepared and filed its audited Canadian GAAP consolidated financial statements for the year ended December 31, 2011, with 2010 comparatives, in the usual manner. The Corporation has also voluntarily prepared and filed the US GAAP Reconciliation. Beginning with the first quarter of 2012, the Corporation's unaudited interim consolidated financial statements have been prepared in accordance with US GAAP, with the restatement of 2011 comparatives in accordance with US GAAP.

Regulatory Decisions

In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates at the FortisBC Energy companies and 2012 customer electricity distribution rates at FortisAlberta which reduce regulatory risk at the utilities. Effective January 1, 2012, the BCUC had previously approved an approximate 3% interim increase in rates for most residential customers at FEI and an approximate 6% interim increase in rates for residential customers at FEWI. The April 2012 decision at the FortisBC Energy companies is expected to result in a decrease in customer gas delivery rates at FEI and FEWI in the range of 1% – 2% from the January 1, 2012 interim rates. The BCUC also approved, as requested, FEVI's customer rates for 2012 and 2013 to remain unchanged from 2011 customer rates. The decision at FortisAlberta approved an average 5% increase in customer distribution electricity rates, consistent with the interim rate increase that was previously approved by the Alberta Utilities Commission effective January 1, 2012.

Corporate Credit Facility

In May 2012 the amount available for borrowing under the Corporation's committed corporate credit facility was increased from $800 million to $1 billion as permitted under the credit facility agreement. As at May 9, 2012, approximately $160 million was drawn and outstanding under this credit facility.

Approval of the 2012 Stock Option Plan and the 2012 Employee Share Purchase Plan

At the Corporation's annual general meeting held on May 4, 2012, the shareholders of the Corporation approved an amended and restated stock option plan (the "2012 Stock Option Plan") and an amended and restated employee share purchase plan (the "2012 ESPP"). Both the 2012 Stock Option Plan and the 2012 ESPP are described in more detail in the Information Circular which is incorporated by reference into this Prospectus. See "Documents Incorporated by Reference".

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 9, 2012, 189,330,675 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

EARNINGS COVERAGE RATIOS

The following consolidated earnings coverage ratios have been calculated for the 12 months ended December 31, 2011 and the 12 months ended March 31, 2012. The earnings coverage ratios set forth below do not purport to be indicative of earnings coverage ratios for any future periods. The earnings coverage ratios and dividend and interest requirements do not give effect to the issuance of any Securities that may be issued pursuant to this Prospectus and any Prospectus Supplement, since the aggregate principal amounts and the terms of such Securities are not currently known. The financial ratios included below have been calculated based on financial information prepared in accordance with US GAAP. The ratios for the 12 months ended December 31, 2011 are based on audited financial information.

	12 Months Ended December 31, 2011	12 Months Ended March 31, 2012
Dividend and interest requirements ($ millions)	$ 442	$ 439
Earnings before interest expense and taxes ($ millions)	$ 791	$ 790
Earnings coverage	1.79	1.80

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.16 in 2011, $1.12 in 2010 and $1.04 in 2009. On May 3, 2012, the Board of Directors declared a third quarter dividend of $0.30 per Common Share, payable on September 1, 2012 to holders of record of such Common Shares on August 17, 2012.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and

First Preference Shares, Series H, respectively. The Board of Directors declared a third quarter dividend on the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H on May 3, 2012, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2012 to holders of record of such First Preference Shares on August 17, 2012.

RATINGS

Each of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are rated Pfd-2 (low)/Under Review – Developing Implications by DBRS Limited ("DBRS") and P-2/CreditWatch – Negative by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"). The Corporation's unsecured debentures are rated A(low)/Under Review – Developing Implications by DBRS and are rated A-/Credit Watch – Negative by S&P. S&P and DBRS placed the Corporation's credit ratings on "Credit Watch – Negative" and "Under Review – Developing Implications", respectively, in February 2012 after the Corporation announced that it had entered into an agreement to acquire all of the shares of CH Energy Group. Credit ratings relating to the Securities offered pursuant to this Prospectus, where applicable, will be described in the relevant Prospectus Supplement.

The DBRS rating of Pfd-2 (low) is the lowest of three sub-categories within the second highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. The DBRS rating of A(low) is the lowest of three subcategories within the third highest rating of ten major categories for debt securities, ranging from AAA to D. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the five standard categories of ratings utilized by S&P for preferred shares. The S&P rating of A- is the lowest standing within the third highest rating of ten major categories for debt securities, ranging from AAA to D.

According to S&P, the rating action "Credit Watch – Negative" means that the Corporation's credit ratings have been placed under surveillance by S&P and that the ratings may be lowered due to S&P's view that there is at least a 50% probability that the Corporation's non-consolidated credit metrics will fall below thresholds previously established for the Corporation's current credit ratings, following the close of the proposed acquisition of CH Energy Group.

According to DBRS, the rating action "Under Review – Developing Implications" means that the Corporation's credit ratings are under review by DBRS due to the uncertainty of the impact on the Corporation's credit ratings upon close of the proposed acquisition of CH Energy Group, but that DBRS expects the Corporation to finance the acquisition of CH Energy Group such that its non-consolidated debt-to-capital structure remains within the 20% range.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, First Preference Shares, Series H and the Corporation's unsecured debentures by these rating agencies are not recommendations to purchase, hold or sell such securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DESCRIPTION OF SECURITIES OFFERED

Common Shares

Common Shares may be offered separately or together with First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Dividends

Holders of Common Shares are entitled to dividends on a *pro rata* basis if, as and when declared by the Board of Directors. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board of Directors may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

Liquidation, Dissolution or Winding-Up

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Voting Rights

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and to one vote in respect of each Common Share held at such meetings.

First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the First Preference Shares, including the currency in which First Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this section apply to those First Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of First Preference Shares may be sold separately or together with Common Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under “Modification”. At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, in case a part only of the then outstanding First Preference Shares of any particular series is at any time redeemed, the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Second Preference Shares

The rights, privileges, restrictions and conditions attaching to the Second Preference Shares are substantially identical to those attaching to the First Preference Shares, except that the Second Preference Shares are junior to the First Preference Shares with respect to the payment of dividends, repayment of capital and the distribution of assets of the Corporation in the event of a liquidation, dissolution or winding up of the Corporation.

The specific terms of the Second Preference Shares, including the currency in which Second Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this Prospectus apply to those Second Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of Second Preference Shares may be sold separately or together with Common Shares, First Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Subscription Receipts

Subscription Receipts may be offered separately or together with Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be. Subscription Receipts will be issued under a subscription receipt agreement that will be entered into by the Corporation at the time of issuance of the Subscription Receipts.

The applicable Prospectus Supplement will include details of the subscription receipt agreement covering the Subscription Receipts being offered. The specific terms of the Subscription Receipts, and the extent to which the general terms described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. A copy of the subscription receipt agreement will be filed by the Corporation with securities regulatory authorities after it has been entered into by the Corporation.

The subscription receipt agreement will provide each initial purchaser of Subscription Receipts with a contractual right of rescission following the issuance of any Common Shares, First Preference Shares, Second Preference Shares or Debentures, as applicable, to such purchaser upon the exchange of the Subscription Receipts if this Prospectus, the Prospectus Supplement under which the Subscription Receipts are offered, or any amendment hereto or thereto contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario). This contractual right of rescission will entitle such initial purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Securities issued in exchange therefor, provided that such remedy for rescission is exercised in the time stipulated in

the subscription receipt agreement. This right of rescission will not extend to any holders of Subscription Receipts who acquire such Subscription Receipts from an initial purchaser on the open market or otherwise.

The particular terms of each issue of Subscription Receipts that will be described in the related Prospectus Supplement will include, where applicable:

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered;
- the procedures for the exchange of the Subscription Receipts into Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be;
- the number of Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, that may be obtained upon exercise of each Subscription Receipt;
- the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- terms relating to the holding and release or return of the gross proceeds from the sale of the Subscription Receipts plus any interest earned thereon;
- material income tax consequences of owning the Subscription Receipts; and
- any other material terms and conditions of the Subscription Receipts.

Securities issued upon the exchange of Subscription Receipts will be issued for no additional consideration.

Debentures

The following sets forth certain general terms and provisions of Debentures. The particular terms and provisions of Debentures offered pursuant to an accompanying Prospectus Supplement, and the extent to which the general terms and provisions described below may apply to such Debentures, will be described in such Prospectus Supplement.

The Debentures may be offered separately or together with the Common Shares, First Preference Shares, Second Preference Shares or Subscription Receipts, as the case may be. The Debentures will be issued in series under the Corporation's existing trust indenture or one or more trust indentures to be entered into between the Company and a financial institution to which the *Trust and Loan Companies Act* (Canada) applies or a financial institution organized under the laws of any province of Canada and authorized to carry on business as a trustee. Each such trust indenture will set out the terms of the applicable series of Debentures. The statements in this Prospectus relating to any trust indenture and the Debentures to be issued under it are summaries of certain anticipated provisions of the trust indenture and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable trust indenture.

Each trust indenture may provide that Debentures may be issued thereunder up to the aggregate principal amount which may be authorized from time to time by the Corporation. Any Prospectus Supplement for Debentures supplementing this Prospectus will contain the terms and other information with respect to the Debentures being offered, including:

- the designation, aggregate principal amount and authorized denominations of such Debentures,
- the currency for which the Debentures may be purchased and the currency in which the principal and any interest is payable (in either case, if other than Canadian dollars),
- the percentage of the principal amount at which such Debentures will be issued,
- the date or dates on which such Debentures will mature,
- the rate or rates at which such Debentures will bear interest (if any), or the method of determination of such rates (if any),
- the dates on which any such interest will be payable and the record dates for such payments,
- any redemption term or terms under which such Debentures may be defeased,

- any exchange or conversion terms, and
- any other specific terms.

Each series of Debentures may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The Debentures will be direct, unsecured obligations of the Company. The Debentures will be senior or subordinated indebtedness of the Company as described in the relevant Prospectus Supplement.

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including May 9, 2012, Fortis issued an aggregate of 56,242 Common Shares upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of $1.4 million.
- During the period from April 1, 2012 up to and including May 9, 2012, the Corporation's consolidated long-term debt and capital lease obligations, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $131 million, largely due to additional borrowings under the Corporation's committed corporate credit facility.

PRIOR SALES

Fortis has not sold or issued any First Preference Shares, Second Preference Shares, Subscription Receipts, Debentures or securities convertible into First Preference Shares, Second Preference Shares or Debentures during the 12 months prior to the date hereof. The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares during the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
May 2011	Common – Exercise of Stock Options(1)	\$20.68	20,524
June 1, 2011	Common – DRIP(2)	\$32.64	454,874
June 1, 2011	Common – CSPP(3)	\$33.29	10,780
June 2011	Common – Exercise of Stock Options(1)	\$21.60	17,148
June 2011	Common(4)	\$33.00	9,100,000
July 2011	Common – Exercise of Over-Allotment Option(4)	\$33.00	1,240,000
July 2011	Common – Exercise of Stock Options(1)	\$28.19	1,707
August 2011	Common – Exercise of Stock Options(1)	\$12.04	19,940
September 1, 2011	Common – DRIP(2)	\$30.69	528,636
September 1, 2011	Common – CSPP(3)	\$31.30	9,146
September 2011	Common – Exercise of Stock Options(1)	\$20.68	74,766
October 2011	Common – Exercise of Stock Options(1)	\$26.46	70,810
November 2011	Common – Exercise of Stock Options(1)	\$15.10	40,928
November 2011	Common – Conversion of US\$40 million of Convertible Debentures(5)	\$29.63	1,374,098
December 1, 2011	Common – DRIP(2)	\$31.86	390,303
December 1, 2011	Common – CSPP(3)	\$32.48	9,332
December 2011	Common – Exercise of Stock Options(1)	\$23.83	9,413
January 2012	Common – Exercise of Stock Options(1)	\$25.41	16,012
February 2012	Common – Exercise of Stock Options(1)	\$22.29	3,870
March 1, 2012	Common – DRIP(2)	\$31.52	399,640
March 1, 2012	Common – CSPP(3)	\$32.14	12,994
March 2012	Common – Exercise of Stock Options(1)	\$25.62	13,639
April 2012	Common – Exercise of Stock Options(1)	\$25.49	28,290
May 4, 2012	Stock Options convertible into Common Shares(6)	\$34.27	789,220
May 1-9, 2012	Common – Exercise of Stock Options(1)	\$23.75	27,952

(1) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.
(2) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").
(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").
(4) Issued to the public pursuant to a short-form prospectus dated June 8, 2011.
(5) Convertible debentures issued pursuant to a debenture purchase agreement dated November 7, 2006.
(6) Options granted under the 2012 Stock Option Plan of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May 1 to 9	34.98	33.55	2,888,641	25.95	25.60	9,625

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	27.34	26.74	272,521	24.00	23.05	87,756
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May 1 to 9	26.66	26.59	1,430	25.60	25.21	25,850

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	26.50	25.88	97,923	26.50	25.14	96,623
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May 1 to 9	25.95	25.73	21,021	26.00	25.61	21,874

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement relating to a particular offering of Securities, the Corporation intends to use the net proceeds from the sale of Securities to repay indebtedness and/or to, directly or indirectly, finance future growth opportunities. Specific information about the use of net proceeds will be set forth in a Prospectus Supplement. The Corporation may invest funds which the Corporation does not immediately use. Such investments may include short-term marketable investment grade securities. The Corporation may, from time to time, issue securities (including debt securities) other than pursuant to this Prospectus.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities, separately or together, to or through one or more underwriters or dealers, purchasing as principals for public offering and sale by them, and also may sell Securities to one or more other purchasers directly or through agents. Each Prospectus Supplement will set out the terms of the offering, including the name or names of any underwriters, dealers or agents, the purchase price or prices of the Securities (or the manner of determination thereof if offered on a non-fixed price basis), and the proceeds to the Corporation from the sale of the Securities. Only underwriters, dealers or agents so named in the Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Securities offered thereby.

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Securities may be offered may vary as between purchasers and during the period of distribution. If, in connection with the offering of Securities at a fixed price or prices, the underwriters have made a *bona fide* effort to sell all of the Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters, dealers or agents will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the gross proceeds paid by the underwriters, dealers or agents to the Corporation.

If underwriters or dealers purchase Securities as principal, the Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase those Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all the Securities offered by the Prospectus Supplement if any of such Securities are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid may be changed from time to time.

The Securities may also be sold directly by the Corporation in accordance with applicable securities laws at prices and upon terms agreed to by the purchaser and the Corporation or through agents designated by the Corporation from time to time. Any agent involved in the offering and sale of the Securities pursuant to a particular Prospectus Supplement will be named, and any commissions payable by the Corporation to that agent will be set forth, in such Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any agent would be acting on a best efforts basis for the period of its appointment.

In connection with the sale of the Securities, underwriters, dealers or agents may receive compensation from the Corporation in the form of commissions, concessions and discounts. Any such commissions may be paid out of the general funds of the Corporation or the proceeds of the sale of the Securities. Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreement to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may engage in transactions with, or perform services for, the Corporation in the ordinary course of business.

In connection with any offering of Securities, the applicable Prospectus Supplement will set forth any intention by the underwriters, dealers or agents to offer, allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be interrupted or discontinued at any time.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe certain material Canadian federal income tax consequences to an investor who is a resident of Canada or who is a non-resident of Canada of the acquisition, ownership and disposition of any Securities offered thereunder, including whether the payment of dividends will be subject to Canadian non-resident withholding tax.

RISK FACTORS

An investment in Securities involves certain risks. A prospective purchaser of Securities should carefully consider the risk factors described under the heading "Business Risk Management" in the MD&A found on pages 48 to 61 of the Corporation's 2011 Annual Report and on pages 28 to 29 of the Corporation's Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012, each of which is incorporated by reference herein. In addition, a prospective purchaser of Securities should carefully consider the other information contained in this Prospectus and in all subsequently filed documents incorporated by reference and those described in a Prospectus Supplement relating to a specific offering of Securities.

Completion of the Acquisition of CH Energy Group

The acquisition of CH Energy Group is subject to certain shareholder, regulatory and other approvals. Failure to obtain, or any delay in obtaining, such approvals could adversely impact the Corporation's ability to close the Acquisition or the timing of such closing. In addition, there is risk that some, or all, of the expected benefits of the acquisition of CH Energy Group may fail to materialize or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be impacted by a number of factors, many of which are beyond the control of Fortis.

No Market for the Securities

There is currently no trading market for the First Preferred Shares, Second Preferred Shares, Subscription Receipts or Debentures that may be offered pursuant to this Prospectus and any Prospectus Supplement. No assurance can be given that an active or liquid trading market for these securities will develop or be sustained. If an active or liquid market for these Securities fails to develop or be sustained, the prices at which the Securities trade may be adversely affected. Whether or not the Securities will trade at lower prices depends on many factors, including liquidity of these Securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects.

AUDITOR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement relating to a specific offering of Securities, certain legal matters relating to the offering of Securities will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP and McInnes Cooper own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains

a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Base Shelf Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated May 10, 2012 relating to the issue and sale of Common Shares, First Preference Shares, Second Preference Shares, Subscription Receipts and Debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
May 10, 2012

(Signed) Ernst & Young LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: May 10, 2012

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by the prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL
President and
Chief Executive Officer

(Signed) BARRY V. PERRY
Vice-President, Finance and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS
Director

(Signed) PETER E. CASE
Director

FORTIS

RR DONNELLEY
Printed in Canada

This prospectus supplement (the "Prospectus Supplement"), together with the accompanying short form base shelf prospectus dated May 10, 2012 to which it relates, as amended or supplemented (the "Prospectus"), and each document incorporated or deemed to be incorporated by reference in this Prospectus Supplement and in the Prospectus constitutes a public offering of these securities only in those jurisdictions where they may lawfully be offered for sale and therein only by persons permitted to sell such securities. See "Plan of Distribution".

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this Prospectus Supplement and the accompanying Prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this Prospectus Supplement and the accompanying Prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws, and may not be offered or sold within the United States unless the securities are registered under the 1933 Act or an exemption from the registration requirements of the 1933 Act is available. See "Plan of Distribution".*

New Issue November 5, 2012

PROSPECTUS SUPPLEMENT
TO THE SHORT FORM BASE SHELF PROSPECTUS DATED MAY 10, 2012

FORTIS INC.

FORTIS

$200,000,000

8,000,000 CUMULATIVE REDEEMABLE FIRST PREFERENCE SHARES, SERIES J

This Prospectus Supplement, together with the Prospectus to which it relates, qualifies for distribution (the "Offering") 8,000,000 Cumulative Redeemable First Preference Shares, Series J (the "Series J First Preference Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated November 5, 2012 between Fortis and BMO Nesbitt Burns Inc. ("BMO Capital Markets"), RBC Dominion Securities Inc. ("RBC Capital Markets"), CIBC World Markets Inc. ("CIBC"), National Bank Financial Inc. ("NB Financial"), Scotia Capital Inc. ("Scotia Capital"), TD Securities Inc. ("TDSI"), Desjardins Securities Inc. ("Desjardins Securities"), HSBC Securities (Canada) Inc. ("HSBC Securities"), Beacon Securities Limited and Canaccord Genuity Corp. (collectively, the "Underwriters"). The Series J First Preference Shares will be issued and sold by Fortis to the Underwriters at the price of $25.00 (the "Offering Price") per Series J First Preference Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The holders of Series J First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") at a rate of $1.1875 per share per annum, to accrue from the date of original issue, payable (other than the first dividend payment) in equal quarterly instalments of $0.2969 per share on the first day of March, June, September and December of each year commencing on March 1, 2013. Assuming an issue date of November 13, 2012, the first dividend will be payable on March 1, 2013 in the amount of $0.35137 per Series J First Preference Share.

On or after December 1, 2017, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, at any time, redeem for cash all or, from time to time, any part of the outstanding Series J First Preference Shares by the payment of $26.00 per share if redeemed before December 1, 2018, at $25.75 per share if redeemed on or after December 1, 2018 but before December 1, 2019, at $25.50 per share if redeemed on or after December 1, 2019 but before December 1, 2020, at $25.25 per share if redeemed on or after December 1, 2020 but before December 1, 2021, and at $25.00 per share if redeemed on or after December 1, 2021, plus in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption. See "Details of the Offering – Specific Provisions of Series J First Preference Shares".

The Series J First Preference Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series J First Preference Shares. See "Risk Factors".

There is currently no market through which the Series J First Preference Shares may be sold and purchasers may not be able to resell Series J First Preference Shares purchased under this Prospectus Supplement. This may affect the pricing of the Series J First Preference Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Series J First Preference Shares and the extent of issuer regulation. See "Risk Factors". The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Series J First Preference Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before January 30, 2013.

An investment in the Series J First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

Price: $25.00 per share to yield 4.75% per annum

	Price to the Public	Underwriters' Fee [(1)]	Net Proceeds to the Corporation [(2)]
Per share	$25.00	$0.75	$24.25
Total	$200,000,000	$6,000,000	$194,000,000

(1) The Underwriters' fee is $0.25 per share for each Series J First Preference Share sold to certain institutions and $0.75 per share for all other Series J First Preference Shares purchased by the Underwriters (the "Underwriters' Fee"). The Underwriters' Fee indicated in the table assumes that no Series J First Preference Shares are sold to such institutions.

(2) Before deducting expenses of the Offering estimated at $650,000 which, together with the Underwriters' Fee, will be paid out of the general funds of Fortis. See "Plan of Distribution".

The Corporation's First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are listed on the TSX under the symbols "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively. On November 2, 2012, the closing price of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H, on the TSX was $26.00, $26.91, $25.90, $25.33 and $25.70, respectively.

Each of BMO Capital Markets, RBC Capital Markets, CIBC, NB Financial, Scotia Capital, TDSI, Desjardins Securities and HSBC Securities is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. All or a portion of the net proceeds from the Offering will be used towards repaying indebtedness of the Corporation, a portion of which may be owing to certain of such banks or their affiliates. **Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".**

The Underwriters, as principals, conditionally offer the Series J First Preference Shares, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Series J First Preference Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. After the Underwriters have made reasonable efforts to sell all the Series J First Preference Shares at the Offering Price, the Underwriters may sell the Series J First Preference Shares to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation. See "Plan of Distribution".

Subscriptions for the Series J First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about November 13, 2012, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than November 23, 2012 (the "Closing Date"). A book entry only certificate representing the Series J First Preference Shares distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or its nominee and will be deposited with CDS on the Closing Date. The Corporation understands that a purchaser of Series J First Preference Shares will receive only a customer confirmation from the registered dealer (who is a CDS participant) from or through whom the Series J First Preference Shares are purchased. Except as otherwise stated herein, holders of beneficial interests in the Series J First Preference Shares will not be entitled to receive physical certificates representing their ownership. See "Book Entry Only System".

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IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of the Series J First Preference Shares and also adds to and updates certain information contained in the Prospectus and the documents incorporated by reference therein. The second part, the Prospectus, gives more general information, some of which may not apply to the Series J First Preference Shares offered hereunder.

Prospective investors should rely only on the information contained in or incorporated by reference into this Prospectus Supplement and the Prospectus. The Corporation has not authorized any other person to provide prospective investors with additional or different information. If anyone provides prospective investors with different or inconsistent information, prospective investors should not rely on it. The Corporation and the Underwriters are offering to sell, and seeking offers to buy, the Series J First Preference Shares only in jurisdictions where offers and sales are permitted. Prospective investors should assume that the information appearing in this Prospectus Supplement and the Prospectus, as well as information the Corporation has previously filed with the securities regulatory authority in each of the provinces of Canada that is incorporated herein and in the Prospectus by reference, is accurate as of their respective dates only. The Corporation's business, financial condition, results of operations and prospects may have changed since those dates.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus Supplement and the Prospectus for financial periods beginning prior to January 1, 2012 (other than the US GAAP Reconciliation (as defined below)) has been prepared using Canadian generally accepted accounting principles ("Canadian GAAP"). All financial information included and incorporated by reference in this Prospectus Supplement and the Prospectus for financial periods beginning on or after January 1, 2012 has been prepared using accounting principles generally accepted in the United States ("US GAAP"). For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation (as defined below) incorporated by reference in this Prospectus Supplement.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement and the Prospectus, including the documents incorporated herein and therein by reference, contain forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis, and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus Supplement and the Prospectus, including the documents incorporated herein and therein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s ("FortisAlberta") service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's Hospitality Division would have on annual basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to US GAAP (see "Recent Developments – Transition to US GAAP" in the Prospectus); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the acquisition (the "Acquisition") of CH Energy Group, Inc. ("CH Energy Group") by Fortis; the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time acquisition-related expenses (see "Recent Developments – Acquisition of CH Energy Group"); an expected favourable impact on the Corporation's earnings in future periods upon final enactment of legislative changes to Part VI.1 taxes; the expectation of greater risk that FortisAlberta's earnings may be negatively impacted under Performance-Based Regulation ("PBR"); the expectation that FortisBC Electric and the City of Kelowna will work towards closing the proposed acquisition of the City of Kelowna's electrical utility assets by FortisBC Electric by the end of the first quarter of 2013; and the expected closing date of the Offering and use of proceeds.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the receipt of regulatory approval from the New York State Public Service Commission, absent material conditions imposed, required in connection with the acquisition of CH Energy Group; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; the absence of significant changes in government energy plans and environmental laws that may materially negatively affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the consolidated capital program. 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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk, including increased risk at FortisAlberta associated with the adoption of PBR under a five-year term commencing in 2013; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of having to raise alternative capital to finance the Acquisition if the closing of the Acquisition occurs subsequent to June 30, 2013; risk associated with defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc.; environmental risks; insurance coverage risk; risk of loss of licences and permits; risk of loss of service area; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of not being able to access First Nations lands; labour relations risk; human resources risk; and risk of unexpected outcomes of legal proceedings currently against the Corporation. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus Supplement and the Prospectus entitled "Risk Factors", to the documents incorporated herein and therein by reference and to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities.

All forward-looking information in this Prospectus Supplement and the Prospectus and in the documents incorporated herein and therein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus Supplement is deemed to be incorporated by reference into the Prospectus solely for the purposes of the Offering of Series J First Preference Shares.

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus Supplement and the Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011;

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian GAAP;

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "Annual MD&A");

(e) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012;

(f) unaudited comparative interim consolidated financial statements as at September 30, 2012 and for the three months and nine months ended September 30, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP; and

(g) Management Discussion and Analysis of financial condition and results of operations for the three and nine months ended September 30, 2012 (the "Third Quarter MD&A").

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus Supplement, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this Prospectus Supplement and the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus Supplement or the Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus Supplement to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus Supplement or the Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into this Prospectus Supplement or the Prospectus and is not, and should not be considered to be, a part of this Prospectus Supplement or the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Series J First Preference Shares, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), deferred profit sharing plan, registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA").

Notwithstanding that the Series J First Preference Shares may be qualified investments for a trust governed by a TFSA, RRSP or RRIF, the holder of a TFSA or the annuitant of a RRSP or RRIF, as the case may be, will be subject to a penalty tax in respect of the Series J First Preference Shares held in the TFSA, RRSP or RRIF if such shares are a "prohibited investment" within the meaning of prohibited investment rules in the Tax Act. The Series J First Preference Shares will not be a "prohibited investment" under the Tax Act for a TFSA, RRSP or RRIF provided the holder of the TFSA or the annuitant of the RRSP or RRIF, as the case may be, deals at arm's length with the Corporation and does not have a "significant interest" (within the meaning of the prohibited investment rules in the Tax Act) in the Corporation or in a corporation, partnership or trust that does not deal at arm's length with the Corporation. Prospective purchasers of Series J First Preference Shares should consult with their own tax advisors with respect to the prohibited investment rules (including having regard to any relieving amendments that may be made as a result of a recent comfort letter issued by the Department of Finance).

CURRENCY

In this Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars", "$" or "Cdn$" are to lawful currency of Canada. References to "US Dollars" or "US$" are to lawful currency of the United States of America.

On November 2, 2012, the noon buying rate as reported by the Bank of Canada was US$1.00 = Cdn$0.9964.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in this Prospectus Supplement, the Prospectus and in the documents incorporated by reference herein and therein.

The Offering

Issuer:	Fortis Inc. ("Fortis" or the "Corporation").
Offering:	8,000,000 Cumulative Redeemable First Preference Shares, Series J (the "Series J First Preference Shares") offered pursuant to this Prospectus Supplement (the "Offering").
Amount:	$200,000,000.
Price:	$25.00 per Series J First Preference Share (the "Offering Price").
Underwriters:	BMO Nesbitt Burns Inc. ("BMO Capital Markets"), RBC Dominion Securities Inc. ("RBC Capital Markets"), CIBC World Markets Inc. ("CIBC"), National Bank Financial Inc. ("NB Financial"), Scotia Capital Inc. ("Scotia Capital"), TD Securities Inc. ("TDSI"), Desjardins Securities Inc. ("Desjardins Securities"), HSBC Securities (Canada) Inc. ("HSBC Securities"), Beacon Securities Limited and Canaccord Genuity Corp. (collectively, the "Underwriters") will act as underwriters in connection with the Offering.
Underwriters' Fee:	$0.25 per share for each Series J First Preference Share sold to certain institutions and $0.75 per share for all other Series J First Preference Shares purchased by the Underwriters (the "Underwriters' Fee").
Date of Closing:	On or about November 13, 2012, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than November 23, 2012 (the "Closing Date").
Use of Proceeds:	The net proceeds from the Offering will be approximately $193,350,000, determined after deducting the Underwriters' Fee and the expenses of the Offering, which are estimated to be $650,000. The net proceeds of the Offering will be used towards repaying borrowings under the Corporation's $1 billion committed corporate credit facility, which borrowings were primarily incurred to support the construction of the non-regulated Waneta Expansion hydroelectric generating facility (the "Waneta Expansion") and for other general corporate purposes. See "Use of Proceeds".
Principal Characteristics of Series J First Preference Shares:	
Dividends:	The holders of Series J First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") in an amount equal to $1.1875 per share per annum, payable (other than the first dividend payment) in equal quarterly instalments of $0.2969 per share on the first day of March, June, September and December of each year commencing on March 1, 2013. Assuming an issue date of November 13, 2012, the first dividend will be payable on March 1, 2013 in the amount of $0.35137 per share.
Redemption:	The Series J First Preference Shares are not redeemable by the Corporation before December 1, 2017. On or after December 1, 2017, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, at any time and from time to time, redeem for cash all or any part of the outstanding Series J First Preference Shares by the payment of $26.00 per share if redeemed before December 1, 2018, at $25.75 per share if redeemed on or after December 1, 2018 but before December 1, 2019, at $25.50 per share if redeemed

on or after December 1, 2019 but before December 1, 2020, at $25.25 per share if redeemed on or after December 1, 2020 but before December 1, 2021, and at $25.00 per share if redeemed on or after December 1, 2021, plus in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

The Series J First Preference Shares are not redeemable at the option of their holders.

Ratings: DBRS Limited: Pfd-2 (low), Standard & Poor's: P-2.

Purchase for Cancellation: Subject to applicable law and any necessary regulatory approvals, the Corporation will be entitled to purchase Series J First Preference Shares for cancellation in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Priority: The Series J First Preference Shares rank on a parity with any other series of First Preference Shares of the Corporation and senior to all other shares of the Corporation with respect to priority to the payment of dividends, return of capital and the distribution of assets on the dissolution, liquidation or winding-up of the Corporation.

Voting Rights: The Series J First Preference Shares are non-voting unless the Corporation fails to pay eight quarterly dividends on the Series J First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment and for only so long as any such dividends remain in arrears, the holders of the Series J First Preference Shares will be entitled to receive notice of and to attend all shareholders' meetings of the Corporation, other than meetings at which only holders of another specified class or series are entitled to vote, and will be entitled to one vote for each Series J First Preference Share held.

Tax on Preference Share Dividends: The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of the tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series J First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares. See "Details of the Offering" and "Canadian Federal Income Tax Considerations".

Listing: The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Series J First Preference Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before January 30, 2013.

Earnings Coverage: Earnings coverage information is provided in this Prospectus Supplement under the heading "Earnings Coverage Ratio".

Risk Factors: An investment in the Series J First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

RECENT DEVELOPMENTS

Acquisition of CH Energy Group

In February 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group, Inc. ("CH Energy Group") for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing. CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution ("T&D") utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. The transaction received CH Energy Group shareholder approval in June 2012 and regulatory approval from the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the United States in July 2012. In addition, the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 expired in October 2012, satisfying another condition necessary for consummation of the transaction.

The transaction remains subject to approval by the New York State Public Service Commission (the "NYSPSC"), and satisfaction of customary closing conditions. The application for approval of the transaction by the NYSPSC was jointly filed by Fortis and CH Energy Group in April 2012. The acquisition is expected to close by the end of the first quarter of 2013.

The business operated by CH Energy Group is attractive to Fortis for the following reasons:

(a) the Acquisition enables Fortis to enter into the U.S. regulated electric and gas distribution business with a reasonably sized utility;

(b) the Acquisition is expected to be immediately accretive to earnings per common share of Fortis ("Common Shares"), excluding one-time acquisition-related expenses;

(c) CH Energy Group has a strong balance sheet and Central Hudson has strong investment-grade credit ratings;

(d) Central Hudson, a single-state utility, operates a well-maintained electric and gas distribution system, serving a diversified, primarily residential and commercial customer base;

(e) similar to the electric distribution utilities of Fortis, Central Hudson operates principally under cost-of-service regulation. The utility has earned stable returns and is allowed timely recovery of costs related to purchased electricity and natural gas supply, transmission and capital programs. Other positive mechanisms include full recovery and deferral provisions for pension and other post-retirement benefit expense, manufactured gas plant site remediation and revenue decoupling mechanisms. For the three years beginning on July 1, 2010, Central Hudson's rates have been established using a 10% return on common equity and a capital structure containing 48% common equity;

(f) Central Hudson's continued investment in its electric and gas businesses is expected to result in rate base growth; and

(g) the Acquisition increases diversification of the Corporation's regulated assets and earnings by geographic location and regulatory jurisdiction.

See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

On October 29 and 30, 2012, the Central Hudson service territory was impacted by Hurricane Sandy which interrupted electric service to 103,000 Central Hudson customers. Restoration work, with assistance from mutual aid crews and contractors, began as winds subsided on October 30, 2012. As of November 4, 2012, power had been restored to approximately 99% of affected customers. The impact of the storm on Central Hudson is not expected to have any impact on the timing of the closing of the acquisition or the reasons, described above, that the business operated by CH Energy Group is attractive to Fortis.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at September 30, 2012 and after giving effect to the net proceeds from the Offering, determined after deducting the Underwriters' Fee and estimated expenses of the Offering on an after-tax basis and the change in long-term debt, capital lease and finance obligations from October 1, 2012 up to and including November 2, 2012. See "Changes in Share and Loan Capital Structure". The financial information set out below has been prepared in accordance with US GAAP.

	Outstanding at September 30, 2012 (unaudited)	*Pro forma* Outstanding at September 30, 2012 (unaudited) [(1)]
	(in millions of dollars)	
Total debt, capital lease and finance obligations [(2)] (net of cash)	6,328	6,181
Shareholders' equity		
Securities offered hereby	-	195
Common shares [(3)]	3,676	3,676
Preference shares	912	912
Additional paid-in capital	15	15
Accumulated other comprehensive loss	(97)	(97)
Retained earnings	923	923
Total capitalization [(4)]	11,757	11,805

(1) After giving effect to the net proceeds from the Offering, determined after deducting the Underwriters' Fee and estimated expenses of the Offering on an after-tax basis and the change in long-term debt, capital lease and finance obligations from October 1, 2012 up to and including November 2, 2012. See "Changes in Share and Loan Capital Structure".

(2) Includes long-term debt, capital lease and finance obligations, including current portion, and short-term borrowings.

(3) Assumes the conversion of the Subscription Receipts issued on June 27, 2012 into Common Shares of $584 million, net of after-tax expenses.

(4) Excludes non-controlling interests.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at November 2, 2012, 190,681,413 Common Shares, 18,500,000 Subscription Receipts, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares Series H") were issued and outstanding. The Corporation's Common Shares, Subscription Receipts, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H, are listed on the TSX under the symbols "FTS", "FTS.R", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and ""FTS.PR.H", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since September 30, 2012:

- During the period from October 1, 2012 up to and including November 2, 2012, Fortis issued an aggregate of 23,024 Common Shares upon the exercise of options granted pursuant to the 2006 Stock Option Plan, for aggregate consideration of approximately $0.5 million.

- During the period from October 1, 2012 up to and including November 2, 2012, the Corporation's consolidated long-term debt, capital lease and finance obligations, including current portion and committed credit facility borrowings classified as long-term debt, increased by $121 million. On October 23, 2012, FortisAlberta issued $125 million of 40-year 3.98% unsecured debentures, the proceeds of which are being used to repay existing indebtedness incurred under the utility's committed credit facility, to fund future capital expenditures and for general corporate purposes.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; and Subscription Receipts, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High ($)	Low ($)	Volume (#)	High ($)	Low ($)	Volume (#)
2011						
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May	34.98	32.08	11,877,137	25.95	25.38	135,930
June	34.00	32.03	12,638,137	25.80	25.42	62,747
July	33.54	32.37	5,854,206	26.10	25.52	61,688
August	34.03	32.38	7,323,690	25.99	25.52	20,856
September	33.54	32.45	8,714,537	25.70	25.53	24,897
October	33.93	33.01	7,237,611	26.75	25.59	15,786
November 1 to 2	34.04	33.77	785,275	26.00	25.90	3,525

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High ($)	Low ($)	Volume (#)	High ($)	Low ($)	Volume (#)
2011						
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May	26.75	26.16	277,108	25.60	24.54	91,659
June	26.90	26.32	48,465	25.50	25.18	186,354
July	27.69	26.55	330,290	25.78	25.32	98,386
August	27.05	26.65	22,425	26.05	25.75	483,143
September	26.99	26.46	32,099	25.91	24.79	301,603
October	27.20	26.65	140,070	26.25	25.82	50,812
November 1 to 2	27.10	26.81	5,353	26.00	25.85	41,672

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High ($)	Low ($)	Volume (#)	High ($)	Low ($)	Volume (#)
2011						
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May	25.95	25.52	71,254	26.00	24.95	70,501
June	25.75	25.42	125,720	25.88	24.84	123,562
July	25.80	25.31	118,123	25.84	25.32	535,584
August	25.62	25.14	207,283	25.80	25.30	222,408
September	25.40	25.20	127,973	25.85	25.25	122,267
October	25.40	25.15	183,254	25.74	25.10	1,145,687
November 1 to 2	25.33	25.20	24,046	25.70	25.55	108,006

	Trading of Subscription Receipts		
	TSX		
	High ($)	Low ($)	Volume (#)
2012			
June 26 to 30	32.20	31.18	972,550
July	32.49	31.33	1,806,901
August	32.85	31.70	1,035,164
September	32.77	31.68	549,750
October	33.44	32.34	705,085
November 1 to 2	33.70	33.23	36,642

EARNINGS COVERAGE RATIO

The Corporation's dividend requirements on all of its First Preference Shares after giving effect to the issue of 8,000,000 Series J First Preference Shares to be distributed under this Prospectus Supplement, and adjusted to a before-tax equivalent, amounted to $68 million using an effective income tax rate of 18.7%, and $65 million using an effective income tax rate of 14.1% for each of the 12 months ended December 31, 2011 and the 12 months ended September 30, 2012, respectively. The Corporation's interest requirements for the 12 months ended December 31, 2011 and the 12 months ended September 30, 2012 amounted to $386 million and $386 million, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2011 and the 12 months ended September 30, 2012 were $791 million and $783 million, respectively, which is 1.74 times and 1.74 times, respectively, the Corporation's aggregate dividend and interest requirements for the period.

RATINGS

The Series J First Preference Shares are rated Pfd-2 (low) by DBRS Limited ("DBRS"). The Series J First Preference Shares are rated P-2 by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"). In May 2012 and July 2012, S&P and DBRS, respectively, affirmed the Corporation's credit ratings. Due to the Corporation's financing plans for the pending acquisition of CH Energy Group and the expected completion of the Waneta Expansion on time and on budget, S&P and DBRS also removed the ratings from credit watch with negative implications and under review with developing implications, respectively, where the ratings had been placed in February 2012. See "Ratings" in the Prospectus.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the Series J First Preference Shares by these rating agencies are not recommendations to purchase, hold or sell the Series J First Preference Shares, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DETAILS OF THE OFFERING

Specific Provisions of First Preference Shares

A summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class is included in the Prospectus under the heading "Description of the Securities Offered – First Preference Shares".

Specific Provisions of Series J First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series J First Preference Shares.

Issue Price

The Series J First Preference Shares will have an issue price of $25.00 per share.

Dividends

The holders of Series J First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to $1.1875 per share per annum, accruing from the date of original issue, payable (other than the first dividend payment) in equal quarterly instalments of $0.2969 per share on the first day of March, June, September and December of each year (less any tax required to be deducted and withheld by the Corporation under applicable law). Assuming an issue date of November 13, 2012, the first such dividend will be payable on March 1, 2013 in the amount of $0.35137 per share.

Redemption

The Series J First Preference Shares are not redeemable by the Corporation before December 1, 2017. On or after December 1, 2017, subject to the terms of any shares of the Corporation ranking prior to the Series J First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, at any time and from time to time, redeem for cash all or any part of the outstanding Series J First Preference Shares by the payment of $26.00 per share if redeemed before December 1, 2018, at $25.75 per share if redeemed on or after December 1, 2018 but before December 1, 2019, at $25.50 per share if redeemed on or after December 1, 2019 but before December 1, 2020, at $25.25 per share if redeemed on or after December 1, 2020 but before December 1, 2021, and at $25.00 per share if redeemed on or after December 1, 2021, plus in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable law).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series J First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

The Series J First Preference Shares are not redeemable at the option of their holders.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series J First Preference Shares in the open market through or from an investment dealer or any firm holding membership on a recognized stock exchange, or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series J First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation under applicable law), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series J First Preference Shares. The holders of the Series J First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series J First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series J First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series J First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series J First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series J First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series J First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series J First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series J First Preference Shares; or

(e) issue any additional Series J First Preference Shares or any shares ranking as to dividends or capital prior to or on a parity with the Series J First Preference Shares,

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series J First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series J First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series J First Preference Shares as a series and any other approval to be given by the holders of the Series J First Preference Shares may be given in such manner as then required by law, subject to a minimum requirement that such approval be given by a resolution in writing signed by all the holders of the Series J First Preference Shares or by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series J First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series J First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series J First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series J First Preference Share held.

Voting Rights

The holders of the Series J First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series J First Preference Shares as a series) to receive notice of, attend at or vote at any meeting of shareholders of the Corporation, unless and until the Corporation fails to pay eight quarterly dividends on the Series J First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series J First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series J First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series J First Preference Shares in any circumstances. The voting rights of the holders of the Series J First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series J First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series J First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series J First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Business Days

If any action or payment is required to be taken or made by the Corporation on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

BOOK ENTRY ONLY SYSTEM

Except as otherwise provided below, the Series J First Preference Shares will be issued in a "book entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of CDS Clearing and Depository Services Inc. ("CDS") or its nominee which include securities brokers and dealers, banks and trust companies. On the Closing Date, the Corporation will cause a global certificate representing the Series J First Preference Shares to be delivered to, and registered in the name of, CDS or its nominee. Except as otherwise provided below, no purchaser of Series J First Preference Shares will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser's ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Series J First Preference Shares will receive a customer confirmation of purchase from the registered dealer from which the Series J First Preference Shares are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its Participants having interests in the Series J First Preference Shares. Physical certificates evidencing the Series J First Preference Shares will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

None of the Corporation, the Underwriters or their respective affiliates will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Series J First Preference Shares held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Series J First Preference Shares; or (c) any advice or representation made by or with respect to CDS and those contained in this Prospectus Supplement and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Series J First Preference Shares must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Series J First Preference Shares.

The ability of a beneficial owner of Series J First Preference Shares to pledge such shares or otherwise take action with respect to such owner's interest in such shares (other than through a Participant) may be limited due to the lack of a physical certificate.

If (i) required by applicable law, (ii) the book entry system ceases to exist, (iii) CDS advises the Corporation that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Series J First Preference Shares and the Corporation is unable to locate a qualified successor, or (iv) the Corporation, at its option, decides to terminate the book entry system, then certificates representing the Series J First Preference Shares will be made available.

Manner of Effecting Transfer or Redemption

A transfer or redemption of Series J First Preference Shares will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Persons who are holders of Series J First Preference Shares who are not Participants, but who wish to purchase, sell or otherwise transfer ownership of or other interests in Series J First Preference Shares, may do so only through Participants.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering will be approximately $193,350,000, determined after deducting the Underwriters' Fee and the estimated expenses of the Offering, which are estimated to be $650,000. The net proceeds of the Offering will be used towards repaying borrowings under the Corporation's $1 billion committed corporate credit facility, which borrowings were primarily incurred to support the construction of the non-regulated Waneta Expansion and for other general corporate purposes.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated November 5, 2012 (the "Underwriting Agreement") between Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 8,000,000 Series J First Preference Shares offered hereby at the Offering Price of $25.00 per Series J First Preference Share, payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to pay fees to the Underwriters in the amount of $0.25 per Series J First Preference Share sold to certain institutions and $0.75 per Series J First Preference Share for all other Series J First Preference Shares purchased by the Underwriters, in consideration of services rendered by the Underwriters in connection with the Offering (the "Underwriters' Fee"). Assuming that no Series J First Preference Shares are sold to such institutions, the total price to the public will be $200,000,000 million, the Underwriters' Fee will be $6,000,000 million and the net proceeds to Fortis will be approximately $193,350,000, after deducting the expenses of the Offering estimated at $650,000 which, together with the Underwriters' Fee, will be paid out of the general funds of the Corporation.

Subscriptions for the Series J First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about November 13, 2012, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than November 23, 2012.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Series J First Preference Shares ends and all stabilization arrangements relating to the Series J First Preference Shares are terminated, bid for or purchase Series J First Preference Shares. The foregoing restrictions are subject to certain exceptions including: (a) a bid for or purchase of Series J First Preference Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules administered by the Investment Industry Regulating Organization of Canada relating to market stabilization and passive market making activities; and (b) a bid or purchase made for or on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation did not occur during the period of distribution. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Series J First Preference Shares is for the purpose of maintaining a fair and orderly market in the Series J First Preference Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Series J First Preference Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and may not be offered, sold or delivered, directly or indirectly, in the United States unless registered under the 1933 Act or in transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Series J First Preference Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction except in accordance with the Underwriting Agreement pursuant to the exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Series J First Preference Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in accordance with Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Series J First Preference Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for a misrepresentation in this Prospectus Supplement or the Prospectus.

The Underwriters propose to offer the Series J First Preference Shares initially at the Offering Price set forth on the cover page of this Prospectus Supplement. After the Underwriters have made reasonable efforts to sell all the Series J First Preference Shares at the Offering Price, the Underwriters may sell the Series J First Preference Shares to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation.

Each of BMO Capital Markets, RBC Capital Markets, CIBC, NB Financial, Scotia Capital, TDSI, Desjardins Securities and HSBC Securities is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). All or a portion of the net proceeds from the Offering will be used towards repaying indebtedness under credit facilities owing by the Corporation and/or its subsidiaries, a portion of which may be owing to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' Fee relating to the Offering. The decision to distribute the Series J First Preference Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at November 2, 2012, an aggregate of approximately $423 million was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

There is currently no market through which the Series J First Preference Shares may be sold and purchasers may not be able to resell Series J First Preference Shares purchased under this Prospectus Supplement. This may affect the pricing of the Series J First Preference Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Series J First Preference Shares and the extent of issuer regulation. The TSX has conditionally approved the listing of the Series J First Preference Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before January 30, 2013.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis, and, Stikeman Elliott LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Series J First Preference Shares acquired pursuant to this Prospectus Supplement and the Prospectus (a "Holder") who, at all relevant times for purposes of the Tax Act, is or is deemed to be a resident of Canada, deals at arm's length and is not affiliated with Fortis, holds the Series J First Preference Shares as capital property and is not exempt from tax under Part I of the Tax Act. Generally, the Series J First Preference Shares will be considered to be capital property to a Holder provided the Holder does not hold the Series J First Preference Shares in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade. A Holder whose Series J First Preference Shares do not otherwise qualify as capital property may make, in certain circumstances, the irrevocable election under subsection 39(4) of the Tax Act to have such shares and every "Canadian security" (as defined in the Tax Act) owned by such Holder in the taxation year of the election and all subsequent years deemed to be capital property.

This summary does not apply to a Holder: (i) that is a "financial institution" for the purposes of the "mark-to-market" rules; (ii) that is a "specified financial institution"; (iii) an interest in which is a "tax shelter investment"; or (iv) that has elected to determine its "Canadian tax results" in a currency other than Canadian dollars in accordance with the "functional currency" rules, as each of those terms is defined in the Tax Act. Such Holders should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any change in law, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax legislation or considerations.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. This summary is not exhaustive of all possible income tax considerations under the Tax Act that may affect a Holder. The income tax consequences of acquiring and disposing of a Series J First Preference Share will vary depending on a number of facts, including the legal status of the Holder as an individual, corporation, trust or partnership. Accordingly, prospective Holders of Series J First Preference Shares should consult their own tax advisors with respect to their particular circumstances and the tax consequences to them of holding and disposing of a Series J First Preference Share.

Dividends

Dividends, including deemed dividends, received on the Series J First Preference Shares by a Holder who is an individual must be included in the individual's income and generally will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated by Fortis as "eligible dividends". There may be limitations on the ability of a corporation to designate dividends as eligible dividends. Fortis has advised counsel it intends to designate all dividends paid on the Series J First Preference Shares as eligible dividends for these purposes. Taxable dividends received by an individual or a trust (other than certain specified trusts) may give rise to alternative minimum tax under the Tax Act.

Dividends, including deemed dividends, received on the Series J First Preference Shares by a Holder that is a corporation must be included in computing the corporation's income and will generally be deductible in computing the taxable income of the corporation.

The Series J First Preference Shares are "taxable preferred shares" as defined in the Tax Act. The terms of the Series J First Preference Shares require Fortis to make the necessary election under Part VI.1 of the Tax Act so that corporate Holders will not be subject to the 10% tax payable under Part IV.1 of the Tax Act on dividends received, or deemed to be received, on the Series J First Preference Shares.

A "private corporation" (as defined in the Tax Act) or any other corporation controlled (whether by reason of a beneficial interest in one or more trusts or otherwise) by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay refundable tax under Part IV of the Tax Act of 33 1/3% on dividends received, or deemed to be received, on the Series J First Preference Shares to the extent such dividends are deductible in computing its taxable income.

Redemptions

If Fortis redeems or otherwise acquires a Series J First Preference Share from a Holder (otherwise than by a purchase in the open market in the manner in which shares are normally purchased by a member of the public in the open market), the Holder will be deemed to have received a dividend equal to the amount, if any, paid by Fortis in excess of the paid-up capital (as determined for purposes of the Tax Act) of such share at such time. Generally, the difference between the amount paid by Fortis and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such share. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the deemed dividend may be treated as proceeds of disposition and not as a dividend.

Dispositions

A Holder who disposes of, or is deemed to dispose of, Series J First Preference Shares (including on the redemption of the shares or other acquisition of the shares by Fortis) will generally realize a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to such Holder. The amount of any deemed dividend arising on the redemption or other acquisition by Fortis of any such shares (see "Redemptions" above) will not generally be included in computing the proceeds of disposition for such shares.

If the Holder is a corporation, any capital loss arising on the disposition of a Series J First Preference Share may be reduced, in certain circumstances, by the amount of any dividends, including deemed dividends, which have been received on such share to the extent and under the circumstances described in the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Capital Gains and Capital Losses

One-half of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in the Holder's income in that year and one-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year will be deducted from the Holder's taxable capital gains in that year. Allowable capital losses in excess of taxable capital gains generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

Capital gains realized by an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax under the Tax Act. A Canadian-controlled private corporation, as defined in the Tax Act, may be subject to an additional refundable tax of 6⅔% on investment income (including taxable capital gains).

RISK FACTORS

An investment in the Series J First Preference Shares offered hereby involves certain risks in addition to those described in the Corporation's Annual MD&A (at pages 48 to 61) and in the Corporation's Third Quarter MD&A (at pages 43 to 47), each of which is incorporated by reference herein. See also "Risk Factors" in the Prospectus. Before investing, prospective purchasers of Series J First Preference Shares should carefully consider, in light of their own financial circumstances, the factors set out below, as well as the other information contained or incorporated by reference in the Prospectus.

Terms of Series J First Preference Shares

The value of the Series J First Preference Shares will be affected by the general creditworthiness of the Corporation. The Annual MD&A and the Third Quarter MD&A discusses, among other things, known material trends and events, and risks or uncertainties that are reasonably expected to have a material effect on the Corporation's business, financial condition or results of operations.

Real or anticipated changes in credit ratings on the Series J First Preference Shares, if any, may affect the market value of such shares. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can transact or obtain funding, and thereby affect the Corporation's liquidity, business, financial condition or results of operations.

Equity and debt capital market conditions and volatility can affect the market price of the Series J First Preference Shares for reasons unrelated to the Corporation's performance.

Reference is made to "Earnings Coverage" in this Prospectus Supplement, which is relevant to an assessment of the risk that the Corporation will be unable to pay dividends on the Series J First Preference Shares.

The Series J First Preference Shares rank equally with other First Preference Shares of the Corporation in the event of an insolvency or winding-up of the Corporation. If the Corporation becomes insolvent or is wound-up, the Corporation's assets must be used to pay liabilities and other debt, including subordinated debt, before payments may be made on the Series J First Preference Shares.

Prevailing yields on similar securities will affect the market value of the Series J First Preference Shares. Assuming all other factors remain unchanged, the market value of the Series J First Preference Shares will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline.

The Series J First Preference Shares do not have a fixed maturity date and are not redeemable at the option of their holders. As a result, the ability of a holder to liquidate its holdings of Series J First Preference Shares may be limited.

The Corporation may choose to redeem the Series J First Preference Shares from time to time, in accordance with its rights described under "Details of the Offering—Specific Provisions of the Series J First Preference Shares—Redemption", including when prevailing interest rates are lower than yield borne by the Series J First Preference Shares. If prevailing rates are lower at the time of redemption, a purchaser would not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yield on the Series J First Preference Shares being redeemed. The Corporation's redemption right may also adversely impact a purchaser's ability to sell Series J First Preference Shares.

Dividends on the Series J First Preference Shares are payable at the discretion of the Board of Directors. The Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (a) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares.

There is currently no market through which the Series J First Preference Shares may be sold and purchasers of Series J First Preference Shares may not be able to resell the Series J First Preference Shares purchased under this Prospectus Supplement. The price offered to the public for the Series J First Preference Shares and the number of Series J First Preference Shares to be issued have been determined by negotiations between the Corporation and the Underwriters. The price paid for each Series J First Preference Share may bear no relationship to the price at which the Series J First Preference Shares will trade in the public market subsequent to this Offering. The Corporation cannot predict at what price the Series J First Preference Shares will trade and there can be no assurance that an active trading market will develop for the Series J First Preference Shares or, if developed, that such market will be sustained. The TSX has conditionally approved the listing of the Series J First Preference Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before January 30, 2013.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2. Ernst & Young report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Series J First Preference Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the prospectus supplement (the "Supplement") of Fortis Inc. (the "Corporation") dated November 5, 2012 to the short form base shelf prospectus dated May 10, 2012 (the "Base Shelf" and together with the Supplement, the "Prospectus"), relating to the issue and sale of 8,000,000 Cumulative Redeemable First Preference Shares, Series J of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for each of the years in the two year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
November 5, 2012

(Signed) Ernst & Young LLP
Chartered Accountants

CERTIFICATE OF THE UNDERWRITERS

Dated: November 5, 2012

To the best of our knowledge, information and belief, the short form prospectus dated May 10, 2012, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of Canada.

BMO NESBITT BURNS INC.	RBC DOMINION SECURITIES INC.
(Signed) James A. Tower	(Signed) David Dal Bello

CIBC WORLD MARKETS INC.	NATIONAL BANK FINANCIAL INC.	SCOTIA CAPITAL INC.	TD SECURITIES INC.
(Signed) David H. Williams	(Signed) William Tebbutt	(Signed) Stuart Lochray	(Signed) Harold R. Holloway

DESJARDINS SECURITIES INC.	HSBC SECURITIES (CANADA) INC.
(Signed) A. Thomas Little	(Signed) Casey Coates

BEACON SECURITIES LIMITED	CANACCORD GENUITY CORP.
(Signed) Daniel Holland	(Signed) Steven Winokur

This short form base shelf prospectus has been filed under legislation in all provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of securities only in those jurisdictions where they may be lawfully offered for sale and thereby only by persons permitted to sell such securities.

***Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada**. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form base shelf prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws, and, except in limited circumstances, will not be offered or sold within the United States or for the account or benefit of United States persons.*

New Issue May 10, 2012

SHORT FORM BASE SHELF PROSPECTUS

FORTIS INC.

$1,300,000,000

COMMON SHARES
FIRST PREFERENCE SHARES
SECOND PREFERENCE SHARES
SUBSCRIPTION RECEIPTS
DEBENTURES (UNSECURED)

Fortis Inc. ("Fortis" or the "Corporation") may from time to time offer and issue common shares ("Common Shares"), first preference shares (the "First Preference Shares"), second preference shares (the "Second Preference Shares"), subscription receipts ("Subscription Receipts") or unsecured debentures ("Debentures" and together with the Common Shares, First Preference Shares, Second Preference Shares and Subscription Receipts, the "Securities"), having an aggregate offering price of up to $1,300,000,000 (or the equivalent in US dollars or other currencies), during the 25 month period that this short form base shelf prospectus (the "Prospectus"), including any amendments hereto, remains valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement (a "Prospectus Supplement").

The specific variable terms of any offering of Securities will be set out in the applicable Prospectus Supplement including, where applicable: (i) in the case of Common Shares, the number of shares offered and the offering price (or the manner of determination thereof if offered on a non-fixed price basis); (ii) in the case of First Preference Shares and Second Preference Shares, the designation of the particular series, the number of shares offered, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the currency or currency unit for which such shares may be purchased, any voting rights, any rights to receive dividends, any terms of redemption, any conversion or exchange rights and any other specific terms; (iii) in the case of Subscription Receipts, the offering price (or the manner of determination thereof if offered on a non-fixed price basis), the procedures for the exchange of Subscription Receipts for Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, and any other specific terms; and (iv) in the case of Debentures, the designation of the Debentures, the aggregate principal amount of the Debentures being offered, the currency or currency unit for which the Debentures may be purchased, authorized denominations, any limit on the aggregate principal amount of the Debentures of the series being offered, the issue and delivery date, the maturity date, the offering price (at par, at a discount or at a premium), the interest rate or method of determining the interest rate, the interest payment date(s), any conversion or exchange rights that are attached to the Debentures, any redemption provisions, any repayment provisions and any other specific terms. A Prospectus Supplement may include other terms pertaining to the Securities that are not within the alternatives and parameters described in this Prospectus.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

The Corporation may sell the Securities to or through underwriters or dealers purchasing as principals and may also sell the Securities to one or more purchasers directly subject to obtaining any required exemptive relief or through agents. The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, if any, engaged by the Corporation in connection with the offering and sale of Securities and will set forth the terms of the offering of such Securities, the method of distribution of such Securities including, to the extent applicable, the proceeds to the Corporation and any fees, discounts or any other compensation payable to underwriters, dealers or agents and any other material terms of the plan of distribution. Securities may be sold from time to time in one or more transactions at a fixed price or fixed prices, or at non-fixed prices. If offered on a non-fixed price basis, Securities may be offered at market prices prevailing at the time of sale or at prices to be negotiated with purchasers at the time of sale, which prices may vary as between purchasers and during the period of distribution. If Securities are offered on a non-fixed price basis, the underwriters', dealers' or agents' compensation will be increased or decreased by the amount by which the aggregate price paid for Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to Fortis. See "Plan of Distribution".

No underwriter or dealer has been involved in the preparation of, or has performed any review of, this Prospectus.

The outstanding Common Shares, Cumulative Redeemable First Preference Shares, Series C, Cumulative Redeemable First Preference Shares, Series E, Cumulative Redeemable First Preference Shares, Series F, Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G and Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H of the Corporation are listed on the Toronto Stock Exchange (the "TSX") under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively. **There is currently no market through which the First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures may be sold and purchasers may not be able to resell any First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures purchased under this Prospectus. This may affect the pricing of the Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities and the extent of issuer regulation. See the "Risk Factors" section of the applicable Prospectus Supplement.**

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

Subject to applicable laws, in connection with any offering of Securities the underwriters, dealers or agents may over-allot or effect transactions which stabilize or maintain the market price of the Securities at levels other than those which may prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See "Plan of Distribution".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contains forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis Inc. ("Fortis" or the "Corporation"), and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the Corporation's focus on the United States and Canada in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the current environment of low natural gas prices and an abundance of shale gas reserves should help maintain the competitiveness of natural gas versus alternative energy sources in North America; investment to harvest shale oil and gas in Alberta, Canada, is expected to continue and should favourably impact energy sales and rate base investment in FortisAlberta Inc.'s ("FortisAlberta") service territory; the expectation that the Government of British Columbia's new Natural Gas Strategy should favourably impact natural gas throughput at the FortisBC Energy companies; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030; the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2012 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2012 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2012; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2012; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's ("Fortis Properties") Hospitality Division would have on basic earnings per common share; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2012; the expectation that electricity sales growth at the Corporation's regulated utilities in the Caribbean will be minimal for 2012; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that FortisBC will continue efforts in 2012 to further integrate its gas and electricity businesses; the expectation that the Corporation's consolidated earnings and earnings per common share for 2012 will not be materially impacted by the transition to accounting principles generally accepted in the United States ("US GAAP") (see "Recent Developments – Transition to US GAAP"); the expectation of an increase in consolidated defined benefit net pension cost for 2012 and the fact that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; the expected timing of the closing of the acquisition (the "Acquisition") of CH Energy Group, Inc. ("CH Energy Group") by Fortis; and the expectation that the Acquisition will be immediately accretive to earnings per common share, excluding one-time transaction expenses (see "Recent Developments – Agreement to Acquire CH Energy Group").

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event

or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the expectation that the Corporation will receive fair compensation from the Government of Newfoundland and Labrador related to the expropriation of the Exploits Partnership's hydroelectric assets and water rights; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the continued ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in rates; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; the receipt of CH Energy Group shareholder, regulatory and other approvals required in connection with the Acquisition; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital programs. 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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on allowed rates of return on common shareholders' equity of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; an ultimate resolution of the expropriation of the hydroelectric assets and water rights of the Exploits Partnership that differs from that which is currently expected by management; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas pricing; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc. ("FEVI"); environmental risks; insurance coverage risk; loss of licences and permits; risk of loss of service area; risks relating to the ability to close the Acquisition, the timing of such closing and the realization of the anticipated benefits of the Acquisition; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of unexpected outcomes of legal proceedings currently against the Corporation; risk of not being able to access First Nations lands; labour relations risk; and human resources risk. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors" and to the documents incorporated herein by reference.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 15, 2012 for the year ended December 31, 2011 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditors' report thereon dated March 13, 2012, as contained in the Corporation's 2011 Annual Report, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP");

(c) supplemental audited comparative consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, together with the notes thereto and the auditor's report thereon dated March 13, 2012, prepared in accordance with US GAAP (the "US GAAP Reconciliation");

(d) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2011 as contained in the Corporation's 2011 Annual Report (the "MD&A");

(e) unaudited comparative interim consolidated financial statements as at March 31, 2012 and for the three months ended March 31, 2012 and 2011, together with the notes thereon, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012; and

(g) Management Information Circular dated March 19, 2012 prepared in connection with the Corporation's annual meeting of shareholders held on May 4, 2012 (the "Information Circular").

All documents of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition reports, as well as all Prospectus Supplements disclosing additional or updated information subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of this Prospectus, and prior to the termination of the distribution under this Prospectus, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

When Fortis files a new annual information form and audited consolidated financial statements and related management's discussion and analysis with, and where required, they are accepted by, the applicable securities regulatory authorities during the time that this Prospectus is valid, the previous annual information form, the previous audited consolidated financial statements and related management's discussion and analysis and all unaudited interim consolidated financial statements and related management's discussion and analysis for such periods, all material change reports and any information circular and business acquisition report filed prior to the commencement of the Corporation's financial year in which the new annual information form is filed will be deemed no longer to be incorporated by reference in this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon new interim financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, all interim financial statements and accompanying management's discussion

and analysis filed prior to the filing of the new interim financial statements shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Investors should rely only on the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. Fortis has not authorized anyone to provide investors with different or additional information. Fortis is not making an offer of Securities in any jurisdiction where the offer is not permitted by law. Prospective investors should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date on the front of the applicable Prospectus Supplement.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into the Prospectus and is not, and should not be considered to be, a part of the Prospectus, unless it is explicitly so incorporated.

ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars" or "$" are to lawful currency of Canada, and references to "US dollars" or "US$" are to lawful currency of the United States.

Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning prior to January 1, 2012 has been prepared using Canadian GAAP. All financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement for financial periods beginning on or after January 1, 2012 has been prepared using US GAAP. For a discussion of the principal differences between the Corporation's financial results as calculated under Canadian GAAP and US GAAP, prospective investors should refer to the US GAAP Reconciliation, incorporated by reference in this Prospectus. See "Recent Developments – Transition to US GAAP" below.

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned distribution utility in Canada with total assets of more than $14 billion as at March 31, 2012 and fiscal 2011 revenue totalling approximately $3.7 billion. The Corporation serves more than 2,000,000 gas and electricity customers. Its regulated holdings include electric distribution utilities in five Canadian provinces and two Caribbean countries and a natural gas utility in British Columbia, Canada. As at March 31, 2012, regulated utility assets comprised approximately 91% of the Corporation's total assets, with the balance comprised of non-regulated generation assets, commercial office and retail space and hotels. Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings") (formerly Terasen Inc.), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; and Maritime Electric Company Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through its wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway, Light and Power Company, Limited, Fortis provides an integrated electric utility service to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne in Ontario. Through its wholly owned subsidiary Algoma Power Inc., FortisOntario also distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through a wholly owned subsidiary, FortisTCI Limited (formerly P.P.C. Limited) and Atlantic Equipment & Power (Turks and Caicos) Ltd. (together, "Fortis Turks and Caicos"), the principal distributor of electricity on the Turks and Caicos Islands.

The Corporation's non-regulated electricity generation operations consist of its 100% interest in each of BECOL, FortisOntario and non-regulated generation assets owned either directly or indirectly by FortisBC, Fortis Properties and Fortis.

BECOL owns and operates the 25-megawatt ("MW") Mollejon, 7-MW Chalillo and 19-MW Vaca hydroelectric generating facilities, all of which are located on the Macal River in Belize. FortisOntario owns and operates a 5-MW gas-fired cogeneration plant in Cornwall, Ontario. The non-regulated electricity generation operations of FortisBC consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. Fortis owns a 51% controlling ownership interest in the non-regulated Waneta Expansion Limited Partnership (the "Waneta Partnership"), which was established in 2010 to construct the Waneta Expansion, a 335-MW hydroelectric generating facility adjacent to the existing Waneta plant in British Columbia.

Through FortisUS Energy Corporation ("FortisUS Energy"), an indirect wholly owned subsidiary of Fortis, the Corporation owns and operates four hydroelectric generating stations in Upper New York State with a total combined capacity of approximately 23 MW. The operations of FortisUS Energy are managed by FortisBC.

Fortis Properties' assets include six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

Through Fortis Properties, the Corporation owns 22 hotels in eight Canadian provinces and commercial office and retail space primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 939,000 customers as at March 31, 2012, FortisBC Holding's subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") (formerly Terasen Gas Inc.) is the largest of these subsidiaries, serving approximately 837,000 customers as at March 31, 2012. With the implementation of a new Customer Care Enhancement Project on January 1, 2012, the gas utilities adjusted their customer count downwards by approximately 17,000 effective January 1, 2012 as a result of a change in their definition of a "customer". FEI has a service area which includes Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FEVI (formerly Terasen Gas (Vancouver Island) Inc.) owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving approximately 99,000 customers as at March 31, 2012. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") (formerly Terasen Gas (Whistler) Inc.) owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 2,600 residential and commercial customers as at March 31, 2012. The FortisBC Energy companies own and operate almost 47,200 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,210 terajoules for 2011.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta distributed electricity to approximately 501,000 customers in Alberta as at March 31, 2012, using approximately 114,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,505 MW for 2011. FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC served a diverse mix of approximately 162,500 customers, as at March 31, 2012, with residential customers representing the largest customer segment, and met a peak demand of 669 MW for 2011. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 223 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and British Columbia Hydro and Power Authority ("BC Hydro"), the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT"), and the distribution system owned by the City of Kelowna.

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power served approximately 248,000 customers as at March 31, 2012, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,166 MW for 2011. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro"). Currently, Newfoundland Power has an installed generating capacity of 140 MW, of which 97 MW is hydroelectric generation.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplied over 75,000 customers as at March 31, 2012, or 90% of electricity consumers on the Island, and met a peak demand of 224 MW for 2011. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations served approximately 64,000 customers in the Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario, as at March 31, 2012, and met a combined peak demand of 276 MW for 2011. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, served approximately 38,000 customers, as at March 31, 2012.

Regulated Electric Utilities – Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities as of March 31, 2012. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008.

Caribbean Utilities served approximately 27,000 customers as at March 31, 2012, has approximately 151 MW of installed diesel-powered generating capacity and met a peak demand of 99 MW for 2011. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol CUP.U.

Fortis Turks and Caicos

Fortis Turks and Caicos served approximately 9,600 customers, or approximately 85% of electricity consumers, on the Turks and Caicos Islands, as at March 31, 2012. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to two 50-year licences that expire in 2036 and 2037, respectively. Fortis Turks and Caicos has an installed diesel-powered generating capacity of approximately 65 MW and met a peak demand of approximately 30 MW for 2011.

Expropriated Assets – Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the Government of Belize ("GOB") enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on the consolidated balance sheet. As at March 31, 2012, the long-term other asset, including foreign exchange impacts, totalled $104 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation. Pursuant to the expropriation action, Fortis is assessing alternative options for obtaining fair compensation from the GOB.

Non-Regulated – Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19-MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt hours ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Ontario

Non-regulated generation assets in Ontario are owned and operated by FortisOntario and Fortis Properties and include the 5-MW gas-fired cogeneration plant in Cornwall and six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

Central Newfoundland

The non-regulated generation investment in central Newfoundland is held through the Corporation's indirect 51% interest in the Exploits River Hydro Partnership (the "Exploits Partnership") between AbitibiBowater Inc. ("Abitibi") and Fortis Properties. In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The Government of Newfoundland and Labrador has publically stated that it is not its intention to adversely affect the business interests of lenders or independent partners of Abitibi in the Province. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions between Fortis Properties and Nalcor Energy, acting as agent for the Government of Newfoundland and Labrador, with respect to expropriation matters are ongoing.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $290 million have been incurred on this capital project through March 31, 2012. The Waneta Expansion will be included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy, from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. The BCUC is conducting its usual review process of the executed agreement to determine whether a hearing is necessary to decide whether the agreement is in the public interest.

Upper New York State

Non-regulated generation assets in Upper New York State are owned and operated by FortisUS Energy and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the U.S. Federal Energy Regulatory Commission. Since January 1, 2007, all four plants have been selling energy at market rates.

Non-Regulated – Fortis Properties

In addition to its non-regulated generation operations, Fortis Properties owns and operates 22 hotels, collectively representing approximately 4,300 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial office and retail space primarily in Atlantic Canada.

CAPITAL RESOURCES

This Prospectus will provide the Corporation with the flexibility to access the capital markets in a timely manner. The nature, size and timing of any offering of Securities under this Prospectus will be consistent with the past capital raising practices of the Corporation and will continue to depend upon the Corporation's assessment of its requirements for funding and general market conditions.

The Corporation and its subsidiary regulated gas and electric distribution businesses require ongoing access to capital to fund maintenance and expansion of infrastructure, acquisitions and/or repay maturing debt. To meet short-term capital requirements, the Corporation and its larger regulated utility subsidiaries have secured multi-year committed credit facilities. As at March 31, 2012, the Corporation and its subsidiaries had consolidated authorized lines of credit of $2.2 billion, of which $2.0 billion was available to be drawn. In May 2012, the Corporation increased the amount available for borrowing under its committed corporate credit facility from $800 million to $1 billion, thereby increasing the aggregate authorized amount available to the Corporation and its subsidiaries under all lines of credit to $2.4 billion. As at May 9, 2012, an aggregate amount of approximately $2.1 billion was unused and available to be drawn under these facilities. See "Recent Developments – Corporate Credit Facility".

The Corporation and its subsidiaries will require new capital for the repayment of at least a portion of their maturing debt. As at March 31, 2012, long-term debt maturities over the next five years are expected to average approximately $265 million annually.

RECENT DEVELOPMENTS

Agreement to Acquire CH Energy Group

On February 21, 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing. The closing of the acquisition, which is expected to occur by the end of the first quarter of 2013, is subject to receipt of CH Energy Group's common shareholders' approval, regulatory and other approvals, and the satisfaction of customary closing conditions. The acquisition is expected to be immediately accretive to Fortis' earnings per common share, excluding one-time acquisition-related expenses.

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson accounts for approximately 93% of the total assets of CH Energy Group. CH Energy Group also owns and operates Central Hudson Enterprises Corporation, a non-regulated subsidiary comprised primarily of a fuel delivery business serving approximately 56,000 customers in the Mid-Atlantic Region. As of December 31, 2011, CH Energy Group's total assets were US$1.7 billion and operating revenues and net income for 2011 totalled US$986 million and US$45 million, respectively. In 2011, Central Hudson accounted for approximately 97% of CH Energy Group's net income. Based on the first quarter results filed by CH Energy Group with the U.S. Securities and Exchange Commission ("SEC") on April 26, 2012, CH Energy Group's total assets at March 31, 2012 were approximately US$1.8 billion and operating revenues and net income for the first quarter totalled approximately US$274 million and US$14.6 million, respectively.

Central Hudson's electric assets, which comprise approximately 77% of its total assets, include approximately 7,300 pole miles (11,748 kilometers) of overhead lines and 1,400 trench miles (2,253 kilometers) of underground lines. The electric business met a peak demand of 1,225 MW in 2011. Central Hudson's natural gas assets, which comprise approximately 23% of its total assets, include approximately 1,185 miles (1,907 kilometers) of distribution pipelines and approximately 164 miles (264 kilometers) of transmission pipelines. The gas business met a peak day demand of 115,807 thousand cubic feet in 2011. Central Hudson is subject to regulation by the New York State Public Service Commission ("NYPSC") under a traditional cost-of-service model.

Central Hudson primarily relies on purchases from third-party providers and the New York Independent System Operator-administered energy and capacity markets to meet the demands of its full-service electric customers. It purchases its gas supply requirements from a number of suppliers at various receipt points on pipelines that it has contracted with for firm transport capacity.

In April 2012, applications were filed with the NYPSC and the Federal Energy Regulatory Commission seeking approval of the transaction. The CH Energy Group shareholder vote on the transaction is expected to occur mid-2012.

Transition to US GAAP

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board, Fortis adopted US GAAP, as opposed to IFRS, effective January 1, 2012.

Canadian securities rules allow a reporting issuer to file its financial statements prepared in accordance with US GAAP by qualifying as a SEC issuer. A SEC issuer is defined under the Canadian rules as an issuer that: (a) has a class of securities registered with the SEC under Section 12 of the *U.S. Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (b) is required to file reports under Section 15(d) of the Exchange Act. The Corporation is not currently a SEC issuer, but on June 9, 2011 was granted exemptive relief by Canadian securities regulators to permit it and its reporting issuer subsidiaries to prepare their financial statements in accordance with US GAAP without qualifying as SEC issuers (the "Exemption"). The Exemption applies to financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (i) January 1, 2015; or (ii) the date on which the Corporation ceases to have activities subject to rate regulation.

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

The Corporation has prepared and filed its audited Canadian GAAP consolidated financial statements for the year ended December 31, 2011, with 2010 comparatives, in the usual manner. The Corporation has also voluntarily prepared and filed the US GAAP Reconciliation. Beginning with the first quarter of 2012, the Corporation's unaudited interim consolidated financial statements have been prepared in accordance with US GAAP, with the restatement of 2011 comparatives in accordance with US GAAP.

Regulatory Decisions

In April 2012, regulatory decisions were received for 2012/2013 customer gas delivery rates at the FortisBC Energy companies and 2012 customer electricity distribution rates at FortisAlberta which reduce regulatory risk at the utilities. Effective January 1, 2012, the BCUC had previously approved an approximate 3% interim increase in rates for most residential customers at FEI and an approximate 6% interim increase in rates for residential customers at FEWI. The April 2012 decision at the FortisBC Energy companies is expected to result in a decrease in customer gas delivery rates at FEI and FEWI in the range of 1% – 2% from the January 1, 2012 interim rates. The BCUC also approved, as requested, FEVI's customer rates for 2012 and 2013 to remain unchanged from 2011 customer rates. The decision at FortisAlberta approved an average 5% increase in customer distribution electricity rates, consistent with the interim rate increase that was previously approved by the Alberta Utilities Commission effective January 1, 2012.

Corporate Credit Facility

In May 2012 the amount available for borrowing under the Corporation's committed corporate credit facility was increased from $800 million to $1 billion as permitted under the credit facility agreement. As at May 9, 2012, approximately $160 million was drawn and outstanding under this credit facility.

Approval of the 2012 Stock Option Plan and the 2012 Employee Share Purchase Plan

At the Corporation's annual general meeting held on May 4, 2012, the shareholders of the Corporation approved an amended and restated stock option plan (the "2012 Stock Option Plan") and an amended and restated employee share purchase plan (the "2012 ESPP"). Both the 2012 Stock Option Plan and the 2012 ESPP are described in more detail in the Information Circular which is incorporated by reference into this Prospectus. See "Documents Incorporated by Reference".

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of common shares (the "Common Shares"), an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at May 9, 2012, 189,330,675 Common Shares, 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C"), 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G") and 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G" and "FTS.PR.H", respectively.

EARNINGS COVERAGE RATIOS

The following consolidated earnings coverage ratios have been calculated for the 12 months ended December 31, 2011 and the 12 months ended March 31, 2012. The earnings coverage ratios set forth below do not purport to be indicative of earnings coverage ratios for any future periods. The earnings coverage ratios and dividend and interest requirements do not give effect to the issuance of any Securities that may be issued pursuant to this Prospectus and any Prospectus Supplement, since the aggregate principal amounts and the terms of such Securities are not currently known. The financial ratios included below have been calculated based on financial information prepared in accordance with US GAAP. The ratios for the 12 months ended December 31, 2011 are based on audited financial information.

	12 Months Ended December 31, 2011	12 Months Ended March 31, 2012
Dividend and interest requirements ($ millions)	$ 442	$ 439
Earnings before interest expense and taxes ($ millions)	$ 791	$ 790
Earnings coverage	1.79	1.80

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the board of directors of Fortis (the "Board of Directors"). The Corporation paid cash dividends on its Common Shares of $1.16 in 2011, $1.12 in 2010 and $1.04 in 2009. On May 3, 2012, the Board of Directors declared a third quarter dividend of $0.30 per Common Share, payable on September 1, 2012 to holders of record of such Common Shares on August 17, 2012.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and

First Preference Shares, Series H, respectively. The Board of Directors declared a third quarter dividend on the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H on May 3, 2012, in each case in accordance with the applicable prescribed annual rate, payable on September 1, 2012 to holders of record of such First Preference Shares on August 17, 2012.

RATINGS

Each of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G and First Preference Shares, Series H are rated Pfd-2 (low)/Under Review – Developing Implications by DBRS Limited ("DBRS") and P-2/CreditWatch – Negative by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"). The Corporation's unsecured debentures are rated A(low)/Under Review – Developing Implications by DBRS and are rated A-/Credit Watch – Negative by S&P. S&P and DBRS placed the Corporation's credit ratings on "Credit Watch – Negative" and "Under Review – Developing Implications", respectively, in February 2012 after the Corporation announced that it had entered into an agreement to acquire all of the shares of CH Energy Group. Credit ratings relating to the Securities offered pursuant to this Prospectus, where applicable, will be described in the relevant Prospectus Supplement.

The DBRS rating of Pfd-2 (low) is the lowest of three sub-categories within the second highest rating of the six standard categories of ratings utilized by DBRS for preferred shares. The DBRS rating of A(low) is the lowest of three subcategories within the third highest rating of ten major categories for debt securities, ranging from AAA to D. A P-2 rating by S&P is the second of the three sub-categories within the second highest rating of the five standard categories of ratings utilized by S&P for preferred shares. The S&P rating of A- is the lowest standing within the third highest rating of ten major categories for debt securities, ranging from AAA to D.

According to S&P, the rating action "Credit Watch – Negative" means that the Corporation's credit ratings have been placed under surveillance by S&P and that the ratings may be lowered due to S&P's view that there is at least a 50% probability that the Corporation's non-consolidated credit metrics will fall below thresholds previously established for the Corporation's current credit ratings, following the close of the proposed acquisition of CH Energy Group.

According to DBRS, the rating action "Under Review – Developing Implications" means that the Corporation's credit ratings are under review by DBRS due to the uncertainty of the impact on the Corporation's credit ratings upon close of the proposed acquisition of CH Energy Group, but that DBRS expects the Corporation to finance the acquisition of CH Energy Group such that its non-consolidated debt-to-capital structure remains within the 20% range.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F and First Preference Shares, Series G, First Preference Shares, Series H and the Corporation's unsecured debentures by these rating agencies are not recommendations to purchase, hold or sell such securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DESCRIPTION OF SECURITIES OFFERED

Common Shares

Common Shares may be offered separately or together with First Preference Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Dividends

Holders of Common Shares are entitled to dividends on a *pro rata* basis if, as and when declared by the Board of Directors. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board of Directors may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

Liquidation, Dissolution or Winding-Up

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Voting Rights

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and to one vote in respect of each Common Share held at such meetings.

First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the First Preference Shares, including the currency in which First Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this section apply to those First Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of First Preference Shares may be sold separately or together with Common Shares, Second Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of the First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, in case a part only of the then outstanding First Preference Shares of any particular series is at any time redeemed, the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Second Preference Shares

The rights, privileges, restrictions and conditions attaching to the Second Preference Shares are substantially identical to those attaching to the First Preference Shares, except that the Second Preference Shares are junior to the First Preference Shares with respect to the payment of dividends, repayment of capital and the distribution of assets of the Corporation in the event of a liquidation, dissolution or winding up of the Corporation.

The specific terms of the Second Preference Shares, including the currency in which Second Preference Shares may be purchased and redeemed and the currency in which any dividend is payable, if other than Canadian dollars, and the extent to which the general terms described in this Prospectus apply to those Second Preference Shares, will be set forth in the applicable Prospectus Supplement. One or more series of Second Preference Shares may be sold separately or together with Common Shares, First Preference Shares, Subscription Receipts or Debentures under this Prospectus.

Subscription Receipts

Subscription Receipts may be offered separately or together with Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be. Subscription Receipts will be issued under a subscription receipt agreement that will be entered into by the Corporation at the time of issuance of the Subscription Receipts.

The applicable Prospectus Supplement will include details of the subscription receipt agreement covering the Subscription Receipts being offered. The specific terms of the Subscription Receipts, and the extent to which the general terms described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. A copy of the subscription receipt agreement will be filed by the Corporation with securities regulatory authorities after it has been entered into by the Corporation.

The subscription receipt agreement will provide each initial purchaser of Subscription Receipts with a contractual right of rescission following the issuance of any Common Shares, First Preference Shares, Second Preference Shares or Debentures, as applicable, to such purchaser upon the exchange of the Subscription Receipts if this Prospectus, the Prospectus Supplement under which the Subscription Receipts are offered, or any amendment hereto or thereto contains a misrepresentation, as such term is defined in the *Securities Act* (Ontario). This contractual right of rescission will entitle such initial purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Securities issued in exchange therefor, provided that such remedy for rescission is exercised in the time stipulated in

the subscription receipt agreement. This right of rescission will not extend to any holders of Subscription Receipts who acquire such Subscription Receipts from an initial purchaser on the open market or otherwise.

The particular terms of each issue of Subscription Receipts that will be described in the related Prospectus Supplement will include, where applicable:

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered;
- the procedures for the exchange of the Subscription Receipts into Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be;
- the number of Common Shares, First Preference Shares, Second Preference Shares or Debentures, as the case may be, that may be obtained upon exercise of each Subscription Receipt;
- the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- terms relating to the holding and release or return of the gross proceeds from the sale of the Subscription Receipts plus any interest earned thereon;
- material income tax consequences of owning the Subscription Receipts; and
- any other material terms and conditions of the Subscription Receipts.

Securities issued upon the exchange of Subscription Receipts will be issued for no additional consideration.

Debentures

The following sets forth certain general terms and provisions of Debentures. The particular terms and provisions of Debentures offered pursuant to an accompanying Prospectus Supplement, and the extent to which the general terms and provisions described below may apply to such Debentures, will be described in such Prospectus Supplement.

The Debentures may be offered separately or together with the Common Shares, First Preference Shares, Second Preference Shares or Subscription Receipts, as the case may be. The Debentures will be issued in series under the Corporation's existing trust indenture or one or more trust indentures to be entered into between the Company and a financial institution to which the *Trust and Loan Companies Act* (Canada) applies or a financial institution organized under the laws of any province of Canada and authorized to carry on business as a trustee. Each such trust indenture will set out the terms of the applicable series of Debentures. The statements in this Prospectus relating to any trust indenture and the Debentures to be issued under it are summaries of certain anticipated provisions of the trust indenture and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable trust indenture.

Each trust indenture may provide that Debentures may be issued thereunder up to the aggregate principal amount which may be authorized from time to time by the Corporation. Any Prospectus Supplement for Debentures supplementing this Prospectus will contain the terms and other information with respect to the Debentures being offered, including:

- the designation, aggregate principal amount and authorized denominations of such Debentures,
- the currency for which the Debentures may be purchased and the currency in which the principal and any interest is payable (in either case, if other than Canadian dollars),
- the percentage of the principal amount at which such Debentures will be issued,
- the date or dates on which such Debentures will mature,
- the rate or rates at which such Debentures will bear interest (if any), or the method of determination of such rates (if any),
- the dates on which any such interest will be payable and the record dates for such payments,
- any redemption term or terms under which such Debentures may be defeased,

- any exchange or conversion terms, and
- any other specific terms.

Each series of Debentures may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The Debentures will be direct, unsecured obligations of the Company. The Debentures will be senior or subordinated indebtedness of the Company as described in the relevant Prospectus Supplement.

This Prospectus does not qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance Debentures in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal funds rate.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2012:

- During the period from April 1, 2012 up to and including May 9, 2012, Fortis issued an aggregate of 56,242 Common Shares upon the exercise of options granted pursuant to the 2002 and 2006 Stock Option Plans, for aggregate consideration of $1.4 million.
- During the period from April 1, 2012 up to and including May 9, 2012, the Corporation's consolidated long-term debt and capital lease obligations, including the current portion and committed credit facility borrowings classified as long-term debt, increased by $131 million, largely due to additional borrowings under the Corporation's committed corporate credit facility.

PRIOR SALES

Fortis has not sold or issued any First Preference Shares, Second Preference Shares, Subscription Receipts, Debentures or securities convertible into First Preference Shares, Second Preference Shares or Debentures during the 12 months prior to the date hereof. The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares during the 12 months prior to the date of this Prospectus:

Date	Security	Weighted Average Issue Price or Exercise Price per Security, as applicable	Number of Securities
May 2011	Common – Exercise of Stock Options(1)	$20.68	20,524
June 1, 2011	Common – DRIP(2)	$32.64	454,874
June 1, 2011	Common – CSPP(3)	$33.29	10,780
June 2011	Common – Exercise of Stock Options(1)	$21.60	17,148
June 2011	Common(4)	$33.00	9,100,000
July 2011	Common – Exercise of Over-Allotment Option(4)	$33.00	1,240,000
July 2011	Common – Exercise of Stock Options(1)	$28.19	1,707
August 2011	Common – Exercise of Stock Options(1)	$12.04	19,940
September 1, 2011	Common – DRIP(2)	$30.69	528,636
September 1, 2011	Common – CSPP(3)	$31.30	9,146
September 2011	Common – Exercise of Stock Options(1)	$20.68	74,766
October 2011	Common – Exercise of Stock Options(1)	$26.46	70,810
November 2011	Common – Exercise of Stock Options(1)	$15.10	40,928
November 2011	Common – Conversion of US$40 million of Convertible Debentures(5)	$29.63	1,374,098
December 1, 2011	Common – DRIP(2)	$31.86	390,303
December 1, 2011	Common – CSPP(3)	$32.48	9,332
December 2011	Common – Exercise of Stock Options(1)	$23.83	9,413
January 2012	Common – Exercise of Stock Options(1)	$25.41	16,012
February 2012	Common – Exercise of Stock Options(1)	$22.29	3,870
March 1, 2012	Common – DRIP(2)	$31.52	399,640
March 1, 2012	Common – CSPP(3)	$32.14	12,994
March 2012	Common – Exercise of Stock Options(1)	$25.62	13,639
April 2012	Common – Exercise of Stock Options(1)	$25.49	28,290
May 4, 2012	Stock Options convertible into Common Shares(6)	$34.27	789,220
May 1-9, 2012	Common – Exercise of Stock Options(1)	$23.75	27,952

(1) Issued on the exercise of options granted pursuant to the Executive, 2002 and 2006 Stock Option Plans of the Corporation.
(2) Issued pursuant to the Corporation's Dividend Reinvestment Plan ("DRIP").
(3) Issued pursuant to the Corporation's Consumer Share Purchase Plan ("CSPP").
(4) Issued to the public pursuant to a short-form prospectus dated June 8, 2011.
(5) Convertible debentures issued pursuant to a debenture purchase agreement dated November 7, 2006.
(6) Options granted under the 2012 Stock Option Plan of the Corporation.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H, on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series C		
	TSX			TSX		
	High ($)	Low ($)	Volume (#)	High ($)	Low ($)	Volume (#)
2011						
May	33.85	31.98	15,795,186	26.19	25.54	463,532
June	33.05	30.79	9,954,946	26.04	25.75	348,223
July	32.85	31.53	5,183,546	26.49	25.85	80,991
August	32.75	28.24	14,509,526	26.45	25.86	34,748
September	33.78	31.44	11,207,968	26.14	25.55	135,005
October	34.39	31.32	7,950,203	26.26	25.60	75,014
November	34.16	31.32	18,591,643	26.45	25.75	123,447
December	33.62	31.97	9,940,675	26.21	25.65	187,813
2012						
January	33.67	32.66	7,561,933	26.61	25.90	21,229
February	34.31	31.76	19,233,895	26.54	25.50	50,239
March	33.17	31.70	11,072,696	25.90	25.53	35,364
April	34.35	31.88	7,960,525	26.25	25.53	275,288
May 1 to 9	34.98	33.55	2,888,641	25.95	25.60	9,625

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High ($)	Low ($)	Volume (#)	High ($)	Low ($)	Volume (#)
2011						
May	27.34	26.74	272,521	24.00	23.05	87,756
June	27.24	26.61	143,830	24.25	23.16	74,591
July	27.53	26.80	16,908	24.79	24.01	46,339
August	27.86	26.51	367,951	25.10	23.68	67,083
September	27.00	26.59	60,562	25.00	24.33	52,951
October	27.22	26.50	126,929	26.24	24.50	96,924
November	28.12	27.11	114,823	25.69	24.92	56,811
December	27.45	26.98	28,011	26.41	24.98	39,355
2012						
January	27.60	26.97	72,839	25.85	25.05	70,415
February	28.98	26.75	68,038	25.94	25.00	239,924
March	27.58	26.02	53,080	25.60	25.00	328,502
April	26.60	26.05	333,365	25.30	25.00	167,439
May 1 to 9	26.66	26.59	1,430	25.60	25.21	25,850

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2011						
May	26.50	25.88	97,923	26.50	25.14	96,623
June	26.99	25.88	128,971	25.96	25.25	251,857
July	26.30	25.81	68,285	25.95	25.21	67,873
August	26.40	25.34	75,920	26.00	25.14	156,853
September	26.30	25.58	110,543	26.05	25.00	94,461
October	26.58	25.80	69,175	26.00	25.10	48,926
November	26.19	25.43	107,174	25.84	25.10	95,476
December	26.65	25.70	40,271	26.00	25.29	210,693
2012						
January	26.45	25.75	47,858	26.00	25.50	263,320
February	26.50	25.35	88,246	26.72	25.60	111,592
March	25.92	25.46	168,124	25.99	25.45	85,935
April	25.85	25.60	54,552	25.93	25.46	28,764
May 1 to 9	25.95	25.73	21,021	26.00	25.61	21,874

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement relating to a particular offering of Securities, the Corporation intends to use the net proceeds from the sale of Securities to repay indebtedness and/or to, directly or indirectly, finance future growth opportunities. Specific information about the use of net proceeds will be set forth in a Prospectus Supplement. The Corporation may invest funds which the Corporation does not immediately use. Such investments may include short-term marketable investment grade securities. The Corporation may, from time to time, issue securities (including debt securities) other than pursuant to this Prospectus.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities, separately or together, to or through one or more underwriters or dealers, purchasing as principals for public offering and sale by them, and also may sell Securities to one or more other purchasers directly or through agents. Each Prospectus Supplement will set out the terms of the offering, including the name or names of any underwriters, dealers or agents, the purchase price or prices of the Securities (or the manner of determination thereof if offered on a non-fixed price basis), and the proceeds to the Corporation from the sale of the Securities. Only underwriters, dealers or agents so named in the Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Securities offered thereby.

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Securities may be offered may vary as between purchasers and during the period of distribution. If, in connection with the offering of Securities at a fixed price or prices, the underwriters have made a *bona fide* effort to sell all of the Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters, dealers or agents will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the gross proceeds paid by the underwriters, dealers or agents to the Corporation.

If underwriters or dealers purchase Securities as principal, the Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase those Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all the Securities offered by the Prospectus Supplement if any of such Securities are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid may be changed from time to time.

The Securities may also be sold directly by the Corporation in accordance with applicable securities laws at prices and upon terms agreed to by the purchaser and the Corporation or through agents designated by the Corporation from time to time. Any agent involved in the offering and sale of the Securities pursuant to a particular Prospectus Supplement will be named, and any commissions payable by the Corporation to that agent will be set forth, in such Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any agent would be acting on a best efforts basis for the period of its appointment.

In connection with the sale of the Securities, underwriters, dealers or agents may receive compensation from the Corporation in the form of commissions, concessions and discounts. Any such commissions may be paid out of the general funds of the Corporation or the proceeds of the sale of the Securities. Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreement to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may engage in transactions with, or perform services for, the Corporation in the ordinary course of business.

In connection with any offering of Securities, the applicable Prospectus Supplement will set forth any intention by the underwriters, dealers or agents to offer, allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be interrupted or discontinued at any time.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe certain material Canadian federal income tax consequences to an investor who is a resident of Canada or who is a non-resident of Canada of the acquisition, ownership and disposition of any Securities offered thereunder, including whether the payment of dividends will be subject to Canadian non-resident withholding tax.

RISK FACTORS

An investment in Securities involves certain risks. A prospective purchaser of Securities should carefully consider the risk factors described under the heading "Business Risk Management" in the MD&A found on pages 48 to 61 of the Corporation's 2011 Annual Report and on pages 28 to 29 of the Corporation's Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2012, each of which is incorporated by reference herein. In addition, a prospective purchaser of Securities should carefully consider the other information contained in this Prospectus and in all subsequently filed documents incorporated by reference and those described in a Prospectus Supplement relating to a specific offering of Securities.

Completion of the Acquisition of CH Energy Group

The acquisition of CH Energy Group is subject to certain shareholder, regulatory and other approvals. Failure to obtain, or any delay in obtaining, such approvals could adversely impact the Corporation's ability to close the Acquisition or the timing of such closing. In addition, there is risk that some, or all, of the expected benefits of the acquisition of CH Energy Group may fail to materialize or may not occur within the time periods anticipated by the Corporation. The realization of such benefits may be impacted by a number of factors, many of which are beyond the control of Fortis.

No Market for the Securities

There is currently no trading market for the First Preferred Shares, Second Preferred Shares, Subscription Receipts or Debentures that may be offered pursuant to this Prospectus and any Prospectus Supplement. No assurance can be given that an active or liquid trading market for these securities will develop or be sustained. If an active or liquid market for these Securities fails to develop or be sustained, the prices at which the Securities trade may be adversely affected. Whether or not the Securities will trade at lower prices depends on many factors, including liquidity of these Securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects.

AUDITOR

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2.

LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement relating to a specific offering of Securities, certain legal matters relating to the offering of Securities will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP and McInnes Cooper own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment, irrespective of the determination at a later date of the purchase price of the securities distributed. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains

a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Short Form Base Shelf Prospectus (the "Prospectus") of Fortis Inc. (the "Corporation") dated May 10, 2012 relating to the issue and sale of Common Shares, First Preference Shares, Second Preference Shares, Subscription Receipts and Debentures of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the Prospectus, of our reports to the shareholders of the Corporation: (i) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles; and (ii) on the consolidated balance sheets of the Corporation as at December 31, 2011 and 2010 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2011, prepared in accordance with accounting principles generally accepted in the United States. Each such report is dated March 13, 2012.

St. John's, Canada
May 10, 2012

(Signed) ERNST & YOUNG LLP
Chartered Accountants

CERTIFICATE OF FORTIS INC.

Dated: May 10, 2012

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by the prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL President and Chief Executive Officer	(Signed) BARRY V. PERRY Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

FORTIS

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Printed in Canada

This prospectus supplement (the "Prospectus Supplement"), together with the accompanying short form base shelf prospectus dated May 10, 2012 to which it relates, as amended or supplemented (the "Prospectus"), and each document incorporated or deemed to be incorporated by reference in this Prospectus Supplement and in the Prospectus constitutes a public offering of these securities only in those jurisdictions where they may lawfully be offered for sale and therein only by persons permitted to sell such securities. See "Plan of Distribution".

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this Prospectus Supplement and the accompanying Prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this Prospectus Supplement and the accompanying Prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws, and may not be offered or sold within the United States unless the securities are registered under the 1933 Act or an exemption from the registration requirements of the 1933 Act is available. See "Plan of Distribution".*

New Issue July 9, 2013

PROSPECTUS SUPPLEMENT
TO THE SHORT FORM BASE SHELF PROSPECTUS DATED MAY 10, 2012

FORTIS INC.

$250,000,000

10,000,000 CUMULATIVE REDEEMABLE FIXED RATE RESET FIRST PREFERENCE SHARES, SERIES K

This Prospectus Supplement, together with the Prospectus to which it relates, qualifies for distribution (the "Offering") 10,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series K (the "Series K First Preference Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated July 9, 2013 among Fortis and TD Securities Inc. ("TDSI"), CIBC World Markets Inc. ("CIBC"), Scotia Capital Inc. ("Scotia Capital"), BMO Nesbitt Burns Inc. ("BMO"), National Bank Financial Inc. ("NB Financial"), RBC Dominion Securities Inc. ("RBC"), Desjardins Securities Inc. ("Desjardins Securities"), Canaccord Genuity Corp. and HSBC Securities (Canada) Inc. ("HSBC Securities") (collectively, the "Underwriters"). The Series K First Preference Shares will be issued and sold by Fortis to the Underwriters at the price of $25.00 (the "Offering Price") per Series K First Preference Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The holders of Series K First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue to, but excluding March 1, 2019 (the "Initial Fixed Rate Period") at a rate of $1.00 per share per annum payable in equal quarterly instalments of $0.25 per share on the first day of March, June, September and December of each year. Assuming a closing date of July 18, 2013, the first dividend will be payable on September 1, 2013 in the amount of $0.1233 per Series K First Preference Share.

For each five-year period after the Initial Fixed Rate Period (each, a "Subsequent Fixed Rate Period"), the holders of Series K First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by $25.00. The Annual Fixed Dividend Rate for each ensuing Subsequent Fixed Rate Period will be determined by the Corporation on the 30th day prior to the first day of such Subsequent Fixed Rate Period (the "Fixed Rate Calculation Date") and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on the Fixed Rate Calculation Date plus 2.05%. See "Details of the Offering – Specific Provisions of Series K First Preference Shares".

Option to Convert into Series L First Preference Shares

The holders of Series K First Preference Shares will have the right, at their option, to convert any or all of their Series K First Preference Shares into an equal number of Cumulative Redeemable Floating Rate First Preference Shares, Series L of the Corporation (the "Series L First Preference Shares"), subject to certain conditions, on March 1, 2019, and on March 1 every fifth year thereafter (each, a "Series K Conversion Date"). The holders of Series L First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year (the initial quarterly dividend period and each subsequent quarterly dividend period referred to as a "Quarterly Floating Rate Period"), in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by $25.00. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) plus 2.05% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365) determined by the Corporation on the 30th day prior to the first day of the applicable Quarterly Floating Rate Period. See "Details of the Offering – Specific Provisions of Series L First Preference Shares".

On March 1, 2019, and on March 1 every fifth year thereafter, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or, from time to time, any part of the outstanding Series K First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. See "Details of the Offering – Specific Provisions of Series K First Preference Shares".

Holders of Series L First Preference Shares will have the right, at their option, to convert any or all of their Series L First Preference Shares into Series K First Preference Shares, subject to certain conditions, on March 1, 2024 and on March 1 every fifth year thereafter (each, a "Series L Conversion Date"). See "Details of the Offering – Specific Provisions of Series L First Preference Shares".

On each Series L Conversion Date, the Corporation may, at its option, redeem for cash all or any part of the outstanding Series L First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On any date after March 1, 2019 that is not a Series L Conversion Date, the Corporation may, at its option, at any time redeem for cash all or any part of the outstanding Series L First Preference Shares by the payment of $25.50 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. See "Details of the Offering – Specific Provisions of Series L First Preference Shares".

The Series K First Preference Shares and the Series L First Preference Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series K First Preference Shares or Series L First Preference Shares, as applicable. See "Risk Factors".

There is currently no market through which the Series K First Preference Shares may be sold and purchasers may not be able to resell securities purchased under this Prospectus Supplement. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See "Risk Factors". The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Series K First Preference Shares distributed under this Prospectus Supplement and the Prospectus and the Series L First Preference Shares into which the Series K First Preference Shares are convertible. Listing of the Series K First Preference Shares and the Series L First Preference Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before October 6, 2013.

An investment in the Series K First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

Price: $25.00 per share to initially yield 4.00% per annum

	Price to the Public	Underwriters' Fee (1)	Net Proceeds to the Corporation (2)
Per share	$25.00	$0.75	$24.25
Total (3)	$250,000,000	$7,500,000	$242,500,000

(1) The Underwriters' fee is $0.25 per share for each Series K First Preference Share sold to certain institutions and $0.75 per share for all other Series K First Preference Shares purchased by the Underwriters (the "Underwriters' Fee"). The Underwriters' Fee indicated in the table assumes that no Series K First Preference Shares are sold to such institutions.

(2) Before deducting expenses of the Offering estimated at $650,000 which will be paid out of the general funds of Fortis. See "Plan of Distribution".

(3) The Corporation has granted to the Underwriters an option (the "Underwriters' Option"), exercisable in whole or in part at any time up to 48 hours prior to the closing time of the Offering on the Closing Date (as defined below) to purchase up to 2,000,000 additional Series K First Preference Shares (the "Additional Shares") at the Offering Price. If the Underwriters' Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Corporation" will be $300,000,000, $9,000,000 and $291,000,000 respectively. This Prospectus Supplement also qualifies the distribution of the Additional Shares issuable on the exercise of the Underwriters' Option. See "Plan of Distribution".

Underwriters' Position	Maximum Size	Exercise Period	Exercise Price
Underwriters' Option	2,000,000 Series K First Preference Shares	Up to 48 hours prior to the closing time of the Offering on the Closing Date	$25.00 per Series K First Preference Share

The Corporation's First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H and First Preference Shares, Series J are listed on the TSX under the symbols "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G", "FTS.PR.H" and "FTS.PR.J", respectively. On July 8, 2013, the closing price of the First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, and First Preference Shares, Series J on the TSX was $25.19, $26.08, $24.25, $24.72, $24.40 and $24.37, respectively.

Each of TDSI, CIBC, Scotia Capital, BMO, NB Financial, RBC, Desjardins Securities and HSBC Securities is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. All or a portion of the net proceeds from the Offering will be used to repay indebtedness of the Corporation, a portion of which may be owing to certain of such banks or their affiliates. **Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".**

The Underwriters, as principals, conditionally offer the Series K First Preference Shares, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Series K First Preference Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. After the Underwriters have made reasonable efforts to sell all the Series K First Preference Shares at the Offering Price, the Underwriters may sell the Series K First Preference Shares to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation. **See "Plan of Distribution"**.

Subscriptions for the Series K First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about July 18, 2013, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 31, 2013 (the "Closing Date"). A book entry only certificate representing the Series K First Preference Shares distributed hereunder will be issued in registered form only to CDS Clearing and Depository Services Inc. ("CDS") or its nominee and will be deposited with CDS on the Closing Date. The Corporation understands that a purchaser of Series K First Preference Shares will receive only a customer confirmation from the registered dealer (who is a CDS participant) from or through whom the Series K First Preference Shares are purchased. Except as otherwise stated herein, holders of beneficial interests in the Series K First Preference Shares will not be entitled to receive physical certificates representing their ownership. See "Book Entry Only System".

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IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of the Series K First Preference Shares and the Series L First Preference Shares issuable on conversion of the Series K First Preference Shares and also adds to and updates certain information contained in the Prospectus and the documents incorporated by reference therein. The second part, the Prospectus, gives more general information, some of which may not apply to the Series K First Preference Shares and Series L First Preference Shares offered hereunder.

Prospective investors should rely only on the information contained in or incorporated by reference into this Prospectus Supplement and the Prospectus. The Corporation has not authorized any other person to provide prospective investors with additional or different information. If anyone provides prospective investors with different or inconsistent information, prospective investors should not rely on it. The Corporation and the Underwriters are offering to sell, and seeking offers to buy, the Series K First Preference Shares only in jurisdictions where offers and sales are permitted. Prospective investors should assume that the information appearing in this Prospectus Supplement and the Prospectus, as well as information the Corporation has previously filed with the securities regulatory authority in each of the provinces of Canada that is incorporated herein and in the Prospectus by reference, is accurate as of their respective dates only. The Corporation's business, financial condition, results of operations and prospects may have changed since those dates.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement and the Prospectus, including the documents incorporated herein and therein by reference, contain forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis, and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus Supplement and the Prospectus, including the documents incorporated herein and therein by reference, includes, but is not limited to, statements regarding: the principal business of Fortis remaining the ownership and operation of regulated electric and gas utilities; the Corporation's primary focus on the United States in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the expected capital investment in Canada's electricity sector over the 20-year period from 2010 through 2030 to maintain system reliability; the Corporation's expected regulated midyear rate base in 2013 after closing of the acquisition (the "Acquisition") of CH Energy Group, Inc.;

forecasted 2013 midyear rate base for the Corporation's five large regulated utilities, including Central Hudson Gas & Electric Corporation ("Central Hudson"); the Corporation's consolidated forecasted gross capital expenditures for 2013 and in total over the five years 2013 through 2017; the expectation that the Acquisition will be accretive to earnings per Fortis common share beginning in 2015; the expected impact on earnings in the second quarter of 2013 of the Acquisition-related expenses, including commitments, and the reversal of previously expensed Part VI.1 tax; the expected combined compound annual growth rate of utility rate base and hydroelectric generation investment over the next five years; the expectation that FortisAlberta Inc.'s ("FortisAlberta") load and rate base will be positively impacted as a result of continuing economic growth in Alberta; various natural gas and electricity transmission investment opportunities that may be available to the Corporation; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program will support continuing growth in earnings and dividends; there is no assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2013 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2013 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2013; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2013; the expected impact on 2013 earnings for FortisAlberta and FortisBC Inc. ("FortisBC") of changes in the allowed rate of return on common shareholders' equity ("ROE") and common equity component of total capital structure; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties Corporation's Hospitality Division would have on annual basic earnings per common share; no expected material adverse credit rating actions in the near term; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2013; the expectation that counterparties to the FortisBC Energy companies' gas derivative contracts will continue to meet their obligations; the expectation that consolidated defined benefit net pension cost for 2013 will be comparable to that in 2012 and that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; and the expected closing date of the Offering and use of proceeds.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no material adverse regulatory decisions being received and the expectation of regulatory stability; FortisAlberta continuing to recover its cost of service and earn its allowed ROE under performance-based rate ("PBR") setting, which commenced for a five-year term effective January 1, 2013; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; FortisAlberta's operations, assets, earnings and cash flows not being materially impacted by the June 2013 floods in Alberta; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun or delay related to the construction of the Waneta expansion hydroelectric generating facility (the "Waneta Expansion"); sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity Limited ("Belize Electricity") that was expropriated by the GOB; the expectation that Belize Electricity Company Limited ("BECOL") will not be expropriated by the GOB; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the ability to hedge exposures to fluctuations in interest rates, foreign exchange rates, natural gas commodity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; the absence of significant changes in government energy plans and environmental laws that may materially negatively affect the operations and cash flows of the Corporation and its subsidiaries; no material change in public policies and directions by governments that could materially negatively affect the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under generally accepted accounting principles in the United States ("US GAAP") beyond 2014 or the adoption of International Financial Reporting Standards ("IFRS") after 2014 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

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. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk, including increased risk at FortisAlberta associated with the adoption of PBR under a five-year term commencing in 2013; interest rate risk, including the uncertainty of the impact a continuation of a low interest rate environment may have on the ROE of the Corporation's regulated utilities; operating and maintenance risks; risks associated with changes in economic conditions; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; capital resources and liquidity risk; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; risk that the GOB may expropriate BECOL; weather and seasonality risk; commodity price risk; the continued ability to hedge foreign exchange risk; counterparty risk; competitiveness of natural gas; natural gas, fuel and electricity supply risk; risk associated with the continuation, renewal, replacement and/or regulatory approval of power supply and capacity purchase contracts; risks relating to the realization of the anticipated benefits of the Acquisition; risk associated with defined benefit pension plan performance and funding requirements; risks related to FortisBC Energy (Vancouver Island) Inc. ("FEVI"); environmental risks; insurance coverage risk; risk of loss of licences and permits; risk of loss of service area; risk of not being able to report under US GAAP beyond 2014 or risk that IFRS does not have an accounting standard for rate-regulated entities by the end of 2014 allowing for the recognition of regulatory assets and liabilities; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of not being able to access First Nations lands; labour relations risk; human resources risk; and risk of unexpected outcomes of legal proceedings currently against the Corporation. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus Supplement and the Prospectus entitled "Risk Factors", to the documents incorporated herein and therein by reference and to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities.

All forward-looking information in this Prospectus Supplement and the Prospectus and in the documents incorporated herein and therein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus Supplement is deemed to be incorporated by reference into the Prospectus solely for the purposes of the Offering of Series K First Preference Shares (including any Series K First Preference Shares issuable on the exercise of the Underwriters' Option).

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus Supplement and the Prospectus:

(a) Annual Information Form dated March 22, 2013 for the year ended December 31, 2012;

(b) audited comparative consolidated financial statements as at December 31, 2012 and December 31, 2011 and for the years ended December 31, 2012 and 2011, together with the notes thereto and the auditors' report thereon dated March 20, 2013, as contained in the Corporation's 2012 Annual Report, prepared in accordance with US GAAP;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2012 as contained in the Corporation's 2012 Annual Report (the "Annual MD&A");

(d) Management Information Circular dated March 21, 2013 prepared in connection with the Corporation's annual meeting of shareholders held on May 9, 2013;

(e) unaudited comparative interim consolidated financial statements as at March 31, 2013 and March 31, 2012 and for the three months ended March 31, 2013 and 2012, together with the notes thereon, prepared in accordance with US GAAP; and

(f) Management Discussion and Analysis of financial condition and results of operations for the three months ended March 31, 2013 (the "First Quarter MD&A").

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus Supplement, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this Prospectus Supplement and the Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus Supplement or the Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus Supplement to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in

which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus Supplement or the Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the Internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into this Prospectus Supplement or the Prospectus and is not, and should not be considered to be, a part of this Prospectus Supplement or the Prospectus, unless it is explicitly so incorporated.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Series K First Preference Shares, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), deferred profit sharing plan, registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA").

Notwithstanding that the Series K First Preference Shares may be qualified investments for a trust governed by a TFSA, RRSP or RRIF, the holder of a TFSA or the annuitant of a RRSP or RRIF, as the case may be, will be subject to a penalty tax in respect of the Series K First Preference Shares held in the TFSA, RRSP or RRIF if such shares are a "prohibited investment" within the meaning of prohibited investment rules in the Tax Act. The Series K First Preference Shares will not be a "prohibited investment" under the Tax Act for a TFSA, RRSP or RRIF provided the holder of the TFSA or the annuitant of the RRSP or RRIF, as the case may be: (i) deals at arm's length with the Corporation; (ii) does not have a "significant interest" (within the meaning of the prohibited investment rules in the Tax Act) in the Corporation; and (iii) does not have a significant interest (within the meaning of the prohibited investment rules in the Tax Act) in a corporation, partnership or trust that does not deal at arm's length with the Corporation. Proposed amendments to the Tax Act released on December 21, 2012 (the "December 2012 Proposals") propose to delete the condition in (iii) above. In addition, pursuant to the December 2012 Proposals, the Series K First Preference Shares will not be a "prohibited investment" if the Series K First Preference Shares are "excluded property" as defined in the December 2012 Proposals for trusts governed by a TFSA, RRSP or RRIF.

Prospective purchasers who intend to hold Series K First Preference Shares in a TFSA, RRSP or RRIF should consult their own tax advisors with respect to whether Series K First Preference Shares would be prohibited investments, including with respect to whether the Series K First Preference Shares would be "excluded property" as defined in the December 2012 Proposals.

CURRENCY

In this Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars", "$" or "Cdn$" are to lawful currency of Canada. References to "US Dollars" or "US$" are to lawful currency of the United States of America.

On July 8, 2013, the noon buying rate as reported by the Bank of Canada was US$1.00 = Cdn$1.0576.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in this Prospectus Supplement, the Prospectus and in the documents incorporated by reference herein and therein.

The Offering

Issuer: Fortis Inc. ("Fortis" or the "Corporation").

Offering: 10,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series K (the "Series K First Preference Shares") offered pursuant to this Prospectus Supplement (the "Offering").

Amount: $250,000,000 ($300,000,000 if the Underwriters' Option (as defined below) is exercised in full).

Underwriters' Option: The Corporation has granted to each of TD Securities Inc. ("TDSI"), CIBC World Markets Inc. ("CIBC"), Scotia Capital Inc. ("Scotia Capital"), BMO Nesbitt Burns Inc. ("BMO"), National Bank Financial Inc. ("NB Financial"), RBC Dominion Securities Inc. ("RBC"), Desjardins Securities Inc. ("Desjardins Securities"), Canaccord Genuity Corp. and HSBC Securities (Canada) Inc. ("HSBC Securities") (collectively, the "Underwriters") an option (the "Underwriters' Option"), exercisable in whole or in part at any time up to 48 hours prior to the closing time of the Offering on the Closing Date (as defined below), to purchase up to 2,000,000 additional Series K First Preference Shares (the "Additional Shares") at the Offering Price. See "Plan of Distribution".

Price: $25.00 per Series K First Preference Share (the "Offering Price").

Underwriters' Fee: $0.25 per share for each Series K First Preference Share sold to certain institutions and $0.75 per share for all other Series K First Preference Shares purchased by the Underwriters (the "Underwriters' Fee").

Date of Closing: On or about July 18, 2013, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 31, 2013 (the "Closing Date").

Use of Proceeds: The net proceeds from the Offering will be approximately $241,850,000, determined after deducting the Underwriters' Fee and the expenses of the Offering, which are estimated to be $650,000, assuming no exercise of the Underwriters' Option. The net proceeds of the Offering will be used towards: (i) repaying borrowings under the Corporation's $1.0 billion committed corporate credit facility, which borrowings have been or will be, prior to the closing of the Offering, incurred primarily in connection with: (a) the redemption of the Corporation's 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C") on July 10, 2013; (b) the construction of the Waneta Expansion; and (c) equity injections into certain of the Corporation's subsidiaries; and (ii) for other general corporate purposes. If the Underwriters' Option is exercised in full, the estimated net proceeds of the Offering will be $290,350,000 (after deducting the Underwriters' fee and estimated expenses of the Offering). See "Use of Proceeds".

Principal Characteristics of Series K First Preference Shares:

Dividends: The holders of Series K First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue of the Series K First Preference Shares which is expected to be on or about July 18, 2013 (the "Closing Date") to, but excluding, March 1, 2019 (the "Initial Fixed Rate Period"), at a rate of $1.00 per share per annum, payable in equal quarterly instalments of $0.25 per share on the first day of March, June, September and December of each year. Assuming an issue date of July 18, 2013, the first dividend will be payable on September 1, 2013 in the amount of $0.1233 per share.

For each five-year period commencing on the first day of March beginning on March 1, 2019 and every fifth year thereafter (each, a "Subsequent Fixed Rate Period"), the holders of Series K First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by $25.00. The Annual Fixed Dividend Rate for each Subsequent Fixed Rate Period will be determined by the Corporation on the 30th day prior to the first day of such Subsequent Fixed Rate Period (the "Fixed Rate Calculation Date") and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on the Fixed Rate Calculation Date plus 2.05%.

Redemption:

The Series K First Preference Shares are not redeemable by the Corporation before March 1, 2019. On March 1, 2019, and on March 1 of every fifth year thereafter (each, a "Series K Conversion Date"), the Corporation may, at its option upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or any part of the outstanding Series K First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

The Series K First Preference Shares are not redeemable at the option of their holders.

Conversion into Series L First Preference Shares:

The holders of Series K First Preference Shares will, subject to the automatic conversion provisions described herein and the right of the Corporation to redeem those shares, have the right, at their option, to convert, on each Series K Conversion Date, any or all of their Series K First Preference Shares into an equal number of Cumulative Redeemable Floating Rate First Preference Shares, Series L (the "Series L First Preference Shares") upon giving to the Corporation written notice thereof not earlier than 30 days prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series K Conversion Date. Once received by the Corporation, such written notice is irrevocable.

Automatic Conversion Provisions:

If the Corporation determines, after having taken into account all shares tendered for conversion by holders of Series K First Preference Shares and Series L First Preference Shares, as the case may be, that there would be outstanding on any Series K Conversion Date less than 1,000,000 Series K First Preference Shares, such remaining number of Series K First Preference Shares will automatically be converted on such Series K Conversion Date into an equal number of Series L First Preference Shares. Additionally, if the Corporation determines that, after conversion, there would be outstanding on such Series K Conversion Date less than 1,000,000 Series L First Preference Shares, then no Series K First Preference Shares will be converted into Series L First Preference Shares.

Ratings:

DBRS Limited ("DBRS"): Pfd-2 (low), Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P"): P-2.

Principal Characteristics of Series L First Preference Shares:

***Dividends*:**

The holders of Series L First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year (the initial quarterly dividend period and each subsequent quarterly dividend period referred to as a "Quarterly Floating Rate Period"), in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by $25.00.

On the 30th day prior to the commencement of the initial Quarterly Floating Rate Period beginning on March 1, 2019, and on the 30th day prior to the first day of each subsequent Quarterly Floating Rate Period, the Corporation will determine the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) as at the 30th day prior to the first day of the applicable Quarterly Floating Rate Period plus 2.05% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365). The T-Bill Rate will be the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the date on which the Floating Quarterly Dividend Rate is determined.

Redemption:

On March 1, 2024, and on March 1 of every fifth year thereafter (each, a "Series L Conversion Date"), the Corporation may, at its option, redeem for cash all or any part of the outstanding Series L First Preference Shares by the payment of $25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

On any date after March 1, 2019, that is not a Series L Conversion Date, the Corporation may at any time, at its option, redeem for cash all or any part of the outstanding Series L First Preference Shares by the payment of $25.50 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption.

The Series L First Preference Shares are not redeemable at the option of their holders.

Conversion into Series K First Preference Shares:

Holders of Series L First Preference Shares will, subject to the automatic conversion provisions described herein and the right of the Corporation to redeem those shares, have the right, at their option, to convert, on each Series L Conversion Date, any or all of their Series L First Preference Shares into an equal number of Series K First Preference Shares upon giving to the Corporation written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series L Conversion Date. Once received by the Corporation, such written notice is irrevocable.

Automatic Conversion Provision:

If the Corporation determines, after having taken into account all shares tendered for conversion by holders of Series L First Preference Shares and Series K First Preference Shares, as the case may be, that there would be outstanding on any Series L Conversion Date less than 1,000,000 Series L First Preference Shares, such remaining number of Series L First Preference Shares will automatically be converted on such Series L Conversion Date into an equal number of Series K First Preference Shares. Additionally, if the Corporation determines that, after conversion, there would be outstanding on such Series L Conversion Date less than 1,000,000 Series K First Preference Shares, then no Series L First Preference Shares will be converted into Series K First Preference Shares.

Rights Applicable to Series K First Preference Shares and Series L First Preference Shares:

Purchase for Cancellation:

Subject to applicable law and any necessary regulatory approvals, the Corporation will be entitled to purchase Series K First Preference Shares and Series L First Preference Shares for cancellation in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Priority:

The Series K First Preference Shares and Series L First Preference Shares rank on a parity with any other series of First Preference Shares of the Corporation and senior to all other shares of the Corporation with respect to priority to the payment of dividends, return of capital and the distribution of assets on the dissolution, liquidation or winding-up of the Corporation.

Voting Rights:	The Series K First Preference Shares and Series L First Preference Shares are non-voting unless the Corporation fails to pay eight quarterly dividends on the Series K First Preference Shares or the Series L First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment and for only so long as any such dividends remain in arrears, the holders of the Series K First Preference Shares or the Series L First Preference Shares, as applicable, will be entitled to receive notice of and to attend all shareholders' meetings of the Corporation which take place more than 60 days after the date on which the failure first occurs, other than meetings at which only holders of another specified class or series are entitled to vote, and will be entitled to one vote for each Series K First Preference Share or Series L First Preference Share held, as applicable.
Tax on Preference Share Dividends:	The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of the tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series K First Preference Shares and Series L First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares. See "Details of the Offering" and "Canadian Federal Income Tax Considerations".
Listing:	The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Series K First Preference Shares distributed under this Prospectus Supplement and the Prospectus and the Series L First Preference Shares into which the Series K First Preference Shares are convertible. Listing of the Series K First Preference Shares and the Series L First Preference Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before October 6, 2013.
Earnings Coverage:	Earnings coverage information is provided in this Prospectus Supplement under the heading "Earnings Coverage Ratio".
Risk Factors:	An investment in the Series K First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

RECENT DEVELOPMENTS

Acquisition of CH Energy Group

In February 2012, Fortis announced that it had entered into an agreement to acquire CH Energy Group, Inc. ("CH Energy Group") for US$65.00 per common share in cash, for an aggregate purchase price of approximately US$1.5 billion, including the assumption of approximately US$500 million of debt on closing (the "Acquisition"). After receiving CH Energy Group shareholder approval in June 2012 and all required regulatory approvals, including the approval of the New York State Public Service Commission ("PSC"), which was effective on June 26, 2013 (the "PSC Order"), the Acquisition was completed on June 27, 2013. The cash purchase price of the Acquisition was financed through the issuance of 18,500,000 common shares of Fortis (each, a "Common Share"), pursuant to the conversion of Subscription Receipts on the closing of the Acquisition, with the balance being initially funded through drawings under the Corporation's $1.0 billion committed credit facility.

CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson Gas & Electric Corporation ("Central Hudson"), is a regulated transmission and distribution utility serving approximately 300,000 electric and 75,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson accounts for approximately 93% of the total assets of CH Energy Group and is subject to regulation by the PSC under a traditional cost-of-service model. CH Energy Group's non-regulated operations primarily consist of Griffith Energy Services, Inc. which is a fuel delivery business serving approximately 56,000 customers in the Mid-Atlantic Region of the United States. As of March 31, 2013, CH Energy Group's total assets were US$1.8 billion and operating revenues and net income for the year ended December 31, 2012 totalled US$924 million and US$40 million, respectively. For the year ended December 31, 2012, Central Hudson accounted for approximately 92% of CH Energy Group's net income, excluding the impact of Acquisition-related expenses.

Central Hudson's electric assets, which comprise approximately 77% of its total assets as of March 31, 2013, include approximately 8,700 miles of distribution lines and more than 600 miles of transmission lines. The electric business met a peak demand of 1,168 megawatts in 2012. Central Hudson's natural gas assets, which comprise approximately 23% of its total assets, include approximately 1,200 miles of distribution pipelines and more than 160 miles of transmission pipelines. The gas business met a peak day demand of 115 terajoules in 2012. Central Hudson primarily relies on purchases from third-party providers and the New York Independent System Operator-administered energy and capacity markets to meet the demands of its full-service electric customers. Central Hudson purchases its gas supply requirements from a number of suppliers at various receipt points on pipelines that it has contracted with for firm transport capacity.

The PSC Order has been granted on conditions that provide approximately US$50 million in financial benefits to fund customer and community benefits in the areas serviced by Central Hudson, including: (i) US$35 million to cover expenses that would normally be recovered in customer rates, for example, storm-restoration expenses; (ii) guaranteed savings to customers of more than US$9 million over five years resulting from the elimination of costs CH Energy Group incurred as a public company; and (iii) the establishment of a US$5 million Community Benefit Fund for economic development and low-income assistance programs for communities and residents of the Mid-Hudson River Valley. Central Hudson has committed to make US$215 million in capital expenditures through June 30, 2015, including an estimated US$50 million which will have a "storm-hardening" effect on its infrastructure. All of the 875 jobs at Central Hudson (both unionized and non-unionized) will be retained for a period of four years, and 35 new jobs will be created during the same period. In addition, electric and natural gas customers of Central Hudson will benefit from a delivery rate freeze through June 30, 2015. The above-referenced commitments of US$35 million and US$5 million, together with transaction costs associated with the Acquisition of approximately US$8 million, will be recognized as expenses in the Corporation's second quarter financial results. The resultant net after-tax charge by the Corporation in the second quarter is expected to be approximately US$32 million.

The Acquisition is now expected to be accretive to earnings per Common Share beginning in 2015, largely due to concessions offered beyond those originally proposed to obtain the approval of the PSC.

See "Risk Factors", "Special Note Regarding Forward-Looking Statements" and "Changes in Share and Loan Capital Structure".

Redemption of First Preference Shares, Series C

On May 8, 2013, the Corporation announced that it will redeem its 5,000,000 Cumulative Redeemable First Preference Shares, Series C (the "First Preference Shares, Series C") on July 10, 2013. The redemption price of $125,000,000 will initially be funded through drawings under the Corporation's $1.0 billion committed credit facility, which drawings are expected to be repaid from the net proceeds of the Offering.

British Columbia Utilities Commission Decision regarding FortisBC Utilities

On May 10, 2013, the British Columbia Utilities Commission ("BCUC") released its decision on the first phase of its generic cost of capital review for British Columbia utilities. Consequently, effective January 1, 2013 and continuing through December 31, 2015, the allowed ROE for FortisBC Energy Inc. ("FEI"), which is the benchmark for calculating the allowed ROE for certain utilities in British Columbia, has been set at 8.75% and the common equity component of capital structure for rate-making purposes has been reduced from 40.0% to 38.5%. For the same period, the allowed ROEs for FortisBC, FEVI and FortisBC Energy (Whistler) Inc. will reflect the benchmark 8.75% allowed ROE and the risk premiums associated with each of these utilities. As a result of the BCUC decision, in June 2013, Moody's

Investors Service affirmed the long-term credit ratings of FortisBC Holdings Inc. (Baa2), FEI (A3), FEVI (A3) and FortisBC (Baa1) and changed the rating outlooks to negative from stable.

Part VI.1 Tax

In June 2013 the federal government of Canada enacted new lower income tax rates applicable to Part VI.1 taxes. Under US GAAP, income taxes are required to be recognized based on enacted tax legislation. As a result of the enactment of the new Part VI.1 tax rates, in the second quarter of 2013 the Corporation will recognize a favourable impact on earnings resulting from the reversal of approximately $25 million in previously expensed Part VI.1 tax.

FortisBC – Collective Agreement

The collective agreement between FortisBC and the International Brotherhood of Electrical Workers, Local 213 (the "IBEW"), expired on January 31, 2013. FortisBC and the IBEW have been unsuccessful in collective bargaining efforts to date. As a result, FortisBC activated the essential services order issued in April 2013 by the Labour Relations Board of British Columbia. The IBEW is complying with the order and the Company continues to deliver safe and reliable electricity to its customers and is committed to reaching a fair and reasonable agreement that balances the needs of its employees and customers. Approximately 200 of FortisBC's employees are members of the IBEW.

Alberta Floods

Although the floods in Alberta in June 2013 impacted parts of FortisAlberta's service territory, they are not expected to have a material effect on the operations, assets, earnings or cash flows of FortisAlberta.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at March 31, 2013 and on a *pro forma* basis as of such date after giving effect to the net proceeds from the Offering (assuming no exercise of the Underwriters' Option), determined after deducting the Underwriters' Fee and estimated expenses of the Offering on an after-tax basis, and the changes in Common Shares, long-term debt, capital lease and finance obligations from April 1, 2013 up to and including July 5, 2013. See "Changes in Share and Loan Capital Structure". The financial information set out below has been prepared in accordance with US GAAP.

	Outstanding at March 31, 2013 (unaudited)	***Pro forma* Outstanding at March 31, 2013 (unaudited)** [(1)]
	(in millions of dollars)	
Total debt, capital lease and finance obligations [(2)] (net of cash)	6,376	7,510
Shareholders' equity		
Securities offered hereby	-	244
Common Shares [(3)]	3,149	3,739
Preference shares [(4)]	1,108	985
Additional paid-in capital	15	15
Accumulated other comprehensive loss	(93)	(93)
Retained earnings	1,043	1,043
Total capitalization [(5)]	11,598	13,443

(1) After giving effect to the net proceeds from the Offering (assuming no exercise of the Underwriters' Option), determined after deducting the Underwriters' Fee and estimated expenses of the Offering on an after-tax basis and the changes in Common Shares, long-term debt, capital lease and finance obligations from April 1, 2013 up to and including July 5, 2013. See "Changes in Share and Loan Capital Structure".

(2) Includes long-term debt, capital lease and finance obligations, including current portion, and short-term borrowings.

(3) Includes the exchange of the 18,500,000 subscription receipts (the "Subscription Receipts") into Common Shares (which exchange took place on June 27, 2013) for proceeds of $568 million, net of after-tax expenses.

(4) Reflects the planned redemption of 5,000,000 First Preference Shares, Series C on July 10, 2013.

(5) Excludes non-controlling interests.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of First Preference Shares issuable in series and an unlimited number of Second Preference Shares issuable in series, in each case without nominal or par value. As at July 5, 2013, 211,717,071 Common Shares, 5,000,000 First Preference Shares, Series C, 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G"), 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares Series H") and 8,000,000 Cumulative Redeemable First Preference Shares, Series J (the "First Preference Shares, Series J") were issued and outstanding. The Corporation's Common Shares, First Preference Shares, Series C, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, and First Preference Shares Series J are listed on the TSX under the symbols "FTS", "FTS.PR.C", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G", "FTS.PR.H" and "FTS.PR.J", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since March 31, 2013:

- During the period from April 1, 2013 up to and including July 5, 2013, Fortis issued an aggregate of 19,241,126 Common Shares upon the exchange of 18,500,000 Subscription Receipts in connection with the Acquisition, and pursuant to the Corporation's Dividend Reinvestment, Consumer Share Purchase and Employee Share Purchase plans and upon the exercise of options granted pursuant to the 2006 and 2002 Stock Option Plans, for aggregate consideration of approximately $590 million, net of after-tax expenses.
- During the period from April 1, 2013 up to and including July 5, 2013, the Corporation's consolidated long-term debt, capital lease and finance obligations, including current portions and committed credit facility borrowings classified as long-term debt, increased by $1,134 million, principally due to the following:
    - approximately $522 million borrowed under the Corporation's committed credit facility to fund the Acquisition;
    - approximately $547 million (US$517 million) of CH Energy Group debt indirectly assumed as a result of the Acquisition, which primarily consists of unsecured promissory notes with interest rates ranging from 2.8% to 6.9% and maturity dates ranging from 2013 to 2042; and
    - an increase in credit facility borrowings at FortisAlberta of approximately $46 million.
- On July 10, 2013, Fortis will redeem 5,000,000 First Preference Shares, Series C at a total cost of approximately $126 million.

PRIOR SALES

On November 13, 2012, Fortis completed a public offering of an aggregate of 8,000,000 First Preference Shares, Series J at a price of $25.00 per share.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; and First Preference Shares, Series J, on the TSX.

	Trading of Common Shares TSX			Trading of First Preference Shares, Series C TSX		
	High ($)	Low ($)	Volume (#)	High ($)	Low ($)	Volume (#)
2012						
July	33.54	32.37	5,854,206	26.10	25.52	61,688
August	34.03	32.38	7,323,690	25.99	25.52	20,856
September	33.54	32.45	8,714,537	25.70	25.53	24,897
October	33.93	33.01	7,237,611	26.75	25.59	15,786
November	34.20	32.41	7,284,164	26.26	25.60	35,134
December	34.35	32.83	9,203,571	25.80	25.35	19,055
2013						
January	34.85	33.92	7,028,930	25.80	25.50	37,516
February	34.89	32.89	8,565,427	25.68	25.14	371,329
March	34.29	33.21	9,213,786	25.34	25.15	176,447
April	35.08	33.06	9,634,522	25.50	25.22	263,259
May	35.14	33.00	11,446,339	25.46	25.07	191,089
June	33.32	30.70	13,177,638	25.16	25.10	30,776
July 2 to 5	32.36	31.25	1,145,656	25.24	25.12	4,591

	Trading of First Preference Shares, Series E			Trading of First Preference Shares, Series F		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2012						
July	27.69	26.55	330,290	25.78	25.32	98,386
August	27.05	26.65	22,425	26.05	25.75	483,143
September	26.99	26.46	32,099	25.91	24.79	301,603
October	27.20	26.65	140,070	26.25	25.82	50,812
November	27.20	26.81	50,121	26.02	25.50	133,113
December	27.33	26.80	25,304	25.96	25.74	46,410
2013						
January	27.19	26.64	38,132	26.05	25.80	63,277
February	27.03	26.30	61,519	26.25	25.74	372,278
March	26.64	26.18	161,461	26.02	25.79	68,561
April	26.83	26.27	62,483	26.17	25.65	49,615
May	26.54	26.08	151,923	26.06	25.08	133,510
June	26.27	25.95	17,127	25.12	22.89	109,880
July 2 to 5	25.95	25.95	4,600	24.76	23.81	18,624

	Trading of First Preference Shares, Series G			Trading of First Preference Shares, Series H		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2012						
July	25.80	25.31	118,123	25.84	25.32	535,584
August	25.62	25.14	207,283	25.80	25.30	222,408
September	25.40	25.20	127,973	25.85	25.25	122,267
October	25.40	25.15	183,254	25.74	25.10	1,145,687
November	25.45	24.62	276,986	25.75	25.30	363,052
December	24.74	24.05	382,796	25.75	25.40	132,976
2013						
January	25.10	24.32	619,282	26.03	25.43	236,790
February	25.31	24.87	462,897	26.25	25.45	232,420
March	25.38	24.99	231,399	26.38	25.80	293,989
April	25.39	25.09	166,680	26.26	25.29	166,015
May	25.78	25.01	233,188	25.92	25.10	142,715
June	25.12	22.33	141,639	25.46	24.05	169,198
July 2 to 5	24.71	24.44	25,392	24.49	24.10	16,826

	Trading of First Preference Shares, Series J		
	TSX		
	High	Low	Volume
	($)	($)	(#)
2012			
November 13 to 30	25.40	25.04	2,091,868
December	25.80	25.23	247,752
2013			
January	26.09	25.54	455,909
February	26.27	25.56	296,524
March	26.12	25.60	307,650
April	26.26	25.85	271,529
May	26.10	25.52	166,192
June	25.60	22.31	206,705
July 2 to 5	24.25	23.68	32,874

EARNINGS COVERAGE RATIO

The Corporation's dividend requirements on all of its First Preference Shares after giving effect to the issue of 10,000,000 Series K First Preference Shares to be distributed under this Prospectus Supplement, and adjusted to a before-tax equivalent, amounted to $66 million using an effective income tax rate of 14.1%, and $71 million using an effective income tax rate of 15.1% for each of the 12 months ended December 31, 2012 and the 12 months ended March 31, 2013, respectively. The Corporation's interest requirements for the 12 months ended December 31, 2012 and the 12 months ended March 31, 2013 amounted to $383 million and $381 million, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2012 and the 12 months ended March 31, 2013 were $782 million and $798 million, respectively, which is 1.74 times and 1.77 times, respectively, the Corporation's aggregate dividend and interest requirements for the period.

RATINGS

The Series K First Preference Shares are rated Pfd-2 (low) by DBRS. The Series K First Preference Shares are rated P-2 by S&P.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the Series K First Preference Shares by these rating agencies are not recommendations to purchase, hold or sell the Series K First Preference Shares, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DETAILS OF THE OFFERING

Specific Provisions of First Preference Shares

A summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class is included in the Prospectus under the heading "Description of the Securities Offered – First Preference Shares".

Specific Provisions of Series K First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series K First Preference Shares.

Definition of Terms

The following definitions are relevant to the Series K First Preference Shares.

"Annual Fixed Dividend Rate" means, for any Subsequent Fixed Rate Period, the rate of interest (expressed as a percentage rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the Government of Canada Bond Yield on the applicable Fixed Rate Calculation Date plus 2.05%.

"Bloomberg Screen GCAN5YR Page" means the display designated as page "GCAN5YR<INDEX>" on the Bloomberg Financial L.P. service (or such other page as may replace the GCAN5YR page on that service) for purposes of displaying the Government of Canada Bond Yield.

"Fixed Rate Calculation Date" means, for any Subsequent Fixed Rate Period, the 30th day prior to the first day of such Subsequent Fixed Rate Period.

"Government of Canada Bond Yield" on any date means the yield to maturity on such date (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years as quoted as of 10:00 a.m. (Toronto time) on such date and which appears on the Bloomberg Screen GCAN5YR Page on such date; provided that, if such rate does not appear on the Bloomberg Screen GCAN5YR Page on such date, the Government of Canada Bond Yield will mean the average of the yields determined by two registered Canadian investment dealers selected by the Corporation as being the yield to maturity on such date (assuming semi-annual compounding) that a Canadian dollar denominated non-callable Government of Canada bond would carry if issued in Canadian dollars at 100% of its principal amount on such date with a term to maturity of five years.

"Initial Fixed Rate Period" means the period commencing on the date of original issue of the Series K First Preference Shares to, but excluding, March 1, 2019.

"Subsequent Fixed Rate Period" means, for the initial Subsequent Fixed Rate Period, the period commencing on March 1, 2019 to, but excluding, March 1, 2024 and, for each succeeding Subsequent Fixed Rate Period, the period commencing on the first day of March immediately following the end of the immediately preceding Subsequent Fixed Rate Period to, but excluding, March 1 in the fifth year thereafter.

Issue Price

The Series K First Preference Shares will have an issue price of $25.00 per share.

Dividends

During the Initial Fixed Rate Period, the holders of Series K First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, at a rate of $1.00 per share per annum, accruing from the date of original issue, payable (other than the first dividend payment) in equal quarterly instalments on the first day of March, June, September and December of each year (less any tax required to be deducted and withheld by the Corporation under applicable laws). The initial dividend, if declared, will be payable on September 1, 2013 and will be $0.1233 per share, based on the anticipated Closing Date of July 18, 2013.

During each Subsequent Fixed Rate Period after the Initial Fixed Rate Period, the holders of the Series K First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable in equal quarterly instalments on the first day of March, June, September and December of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate applicable to such Subsequent Fixed Rate Period by $25.00.

The Annual Fixed Dividend Rate applicable to a Subsequent Fixed Rate Period will be determined by the Corporation on the Fixed Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of the Series K First Preference Shares. The Corporation will, on the Fixed Rate Calculation Date, give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period to the registered holders of the then outstanding Series K First Preference Shares. If the Corporation gives notice to the holders of the Series K First Preference Shares of its intention to redeem all of the Series K First Preference Shares (as described below), the Corporation will not be required to give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period.

Redemption

The Series K First Preference Shares are not redeemable by the Corporation before March 1, 2019. On March 1, 2019, and on March 1 every fifth year thereafter, subject to the terms of any shares of the Corporation ranking prior to the Series K First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, redeem all or any part of the then outstanding Series K First Preference Shares by the payment of an amount in cash for each such share so redeemed of $25.00 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series K First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

The Series K First Preference Shares are not redeemable at the option of their holders.

Conversion of Series K First Preference Shares into Series L First Preference Shares

The holders of Series K First Preference Shares will have the right, at their option, on each Series K Conversion Date, to convert, subject to the restrictions on conversion described below, all or any of the Series K First Preference Shares registered in their name into Series L First Preference Shares, on the basis of one Series L First Preference Share for each Series K First Preference Share. The conversion of the Series K First Preference Shares may be effected by delivery to the Corporation of written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series K Conversion Date. Once received by the Corporation, such written notice is irrevocable.

The Corporation will, not less than 30 days and not more than 60 days prior to the applicable Series K Conversion Date, give notice in writing to the then registered holders of the Series K First Preference Shares of the above-mentioned conversion right. On the 30th day prior to each Series K Conversion Date, the Corporation will give notice in writing to the then registered holders of the Series K First Preference Shares of the Floating Quarterly Dividend Rate (as defined below) applicable to the Series L First Preference Shares for the next succeeding Quarterly Floating Rate Period (as defined below).

The holders of Series K First Preference Shares will not be entitled to convert their shares into Series L First Preference Shares if the Corporation determines that there would remain outstanding on a Series K Conversion Date less than 1,000,000 Series L First Preference Shares, after having taken into account all Series K First Preference Shares tendered for conversion into Series L First Preference Shares and all Series L First Preference Shares tendered for conversion into Series K First Preference Shares. The Corporation will give notice in writing thereof to all affected registered holders of Series K First Preference Shares at least seven days prior to the applicable Series K Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series K Conversion Date less than 1,000,000 Series K First Preference Shares, after having taken into account all Series K First Preference Shares tendered for conversion into Series L First Preference Shares and all Series L First Preference Shares tendered for conversion into Series K First Preference Shares, then all, but not part, of the remaining outstanding Series K First Preference Shares will automatically be converted into Series L First Preference Shares on the basis of one Series L First Preference Share for each Series K First Preference Share on the applicable Series K Conversion Date and the Corporation will give notice in writing thereof to the then registered holders of such remaining Series K First Preference Shares at least seven days prior to the Series K Conversion Date.

If the Corporation gives notice to the registered holders of the Series K First Preference Shares of the redemption of all the Series K First Preference Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series K First Preference Shares of a Floating Quarterly Dividend Rate or the conversion right of holders of Series K First Preference Shares and the right of any holder of Series K First Preference Shares to convert such Series K First Preference Shares will cease and terminate in that event.

A holder of Series K First Preference Shares on the record date for any dividend declared payment on such shares will be entitled to such dividend notwithstanding that such shares are converted into Series L First Preference Shares after such record date and on or before the date of payment of such dividend.

Upon the exercise by a holder of Series K First Preference Shares of its right to convert Series K First Preference Shares into Series L First Preference Shares or upon an automatic conversion of Series K First Preference Shares, the Corporation reserves the right not to issue any Series L First Preference Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside of Canada to the extent that such issue would require the Corporation to take any action to comply with the securities laws or other laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series K First Preference Shares in the open market, through or from an investment dealer or any firm holding membership on a recognized stock exchange, or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series K First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation under applicable laws), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series K First Preference Shares. The holders of the Series K First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series K First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series K First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series K First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series K First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series K First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series K First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series K First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series K First Preference Shares; or

(e) issue any additional Series K First Preference Shares (other than in accordance with the conversion provisions of the Series L First Preference Shares) or any shares ranking as to dividends or capital prior to or on a parity with the Series K First Preference Shares (other than any Series L First Preference Shares issued in accordance with the conversion provisions of the Series K First Preference Shares),

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series K First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series K First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series K First Preference Shares as a series and any other approval to be given by the holders of the Series K First Preference Shares may be given in such manner as then required by law, subject to a minimum requirement that such approval be given by a resolution in writing signed by all the holders of the Series K First Preference Shares or by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series K First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series K First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series K First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series K First Preference Share held.

Voting Rights

The holders of the Series K First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series K First Preference Shares as a series) to receive notice of, attend at or vote at any meeting of shareholders of the Corporation, unless and until the Corporation fails to pay eight quarterly dividends on the Series K First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series K First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series K First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series K First Preference Shares in any circumstances. The voting rights of the holders of the Series K First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series K First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series K First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series K First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Business Days

If any action or payment is required to be taken or made by the Corporation or a holder on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

Specific Provisions of Series L First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series L First Preference Shares.

Definition of Terms

The following definitions are relevant to the Series L First Preference Shares.

"Bloomberg Screen CA3MAY Page" means the display designated as page "CA3MAY<INDEX>" on the Bloomberg Financial L.P. service (or such other page as may replace the CA3MAY page or that service) for purposes of displaying the T-Bill Rate.

"Floating Quarterly Dividend Rate" means, for any Quarterly Floating Rate Period, the rate of interest (expressed as a percentage rate rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the T-Bill Rate on the applicable Floating Rate Calculation Date plus 2.05% (calculated on the basis of the actual number of days elapsed in such Quarterly Floating Rate Period divided by 365).

"Floating Rate Calculation Date" means, for any Quarterly Floating Rate Period, the 30th day prior to the first day of such Quarterly Floating Rate Period.

"Quarterly Commencement Date" means the first day of each of March, June, September and December of each year.

"Quarterly Floating Rate Period" means, for the initial Quarterly Floating Rate Period, the period commencing on March 1, 2019 and ending on and including May 31, 2019, and thereafter the period from and including the day immediately following the end of the immediately preceding Quarterly Floating Rate Period to but excluding the next succeeding Quarterly Commencement Date.

"T-Bill Rate" means, for any Quarterly Floating Rate Period, the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the applicable Floating Rate Calculation Date as quoted on the Bloomberg Screen CA3MAY Page; provided that if such information does not appear on the Bloomberg Screen CA3MAY Page on the applicable Floating Rate Calculation Date, then as determined by the Corporation.

Issue Price

The Series L First Preference Shares will have an issue price of $25.00 per share.

Dividends

The holders of the Series L First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors payable quarterly on the first day of March, June, September and December of each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by $25.00.

The Floating Quarterly Dividend Rate for each Quarterly Floating Rate Period will be determined by the Corporation on the Floating Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of Series L First Preference Shares. The Corporation will, on the Floating Rate Calculation Date, give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period to all registered holders of the then outstanding Series L First Preference Shares. If the Corporation gives notice to the holders of the Series L First Preference Shares of its intention to redeem all of the Series L First Preference Shares (as described below), the Corporation will not be required to give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period.

Redemption

Subject to the terms of any shares of the Corporation ranking prior to the Series L First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, redeem all or any part of the then outstanding Series L First Preference Shares by the payment of an amount in cash for each such share so redeemed of: (i) $25.00 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws), in the case of redemptions on March 1, 2024 and March 1 every fifth year thereafter (each, a "Series L Conversion Date"); or (ii) $25.50 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws), in the case of redemptions on any date after March 1, 2019 that is not a Series L Conversion Date.

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series L First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

The Series L First Preference Shares are not redeemable at the option of their holders.

Conversion of Series L First Preference Shares into Series K First Preference Shares

The holders of Series L First Preference Shares will have the right, at their option, on each Series L Conversion Date, to convert, subject to the restrictions on conversion described below, all or any of the Series L First Preference Shares registered in their name into Series K First Preference Shares on the basis of one Series K First Preference Share for each Series L First Preference Share. The conversion of Series L First Preference Shares may be effected by delivery to the Corporation of written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series L Conversion Date. Once received by the Corporation, such written notice is irrevocable.

The Corporation will, not less than 30 days and not more than 60 days prior to the applicable Series L Conversion Date, give notice in writing to the then registered holders of the Series L First Preference Shares of the above-mentioned conversion right. On the 30th day prior to each Series L Conversion Date, the Corporation will give notice in writing to the then registered holders of the Series L First Preference Shares of the Annual Fixed Dividend Rate applicable to the Series K First Preference Shares for the next succeeding Subsequent Fixed Rate Period.

The holders of Series L First Preference Shares will not be entitled to convert their shares into Series K First Preference Shares if the Corporation determines that there would remain outstanding on a Series L Conversion Date less than 1,000,000 Series K First Preference Shares, after having taken into account all Series L First Preference Shares tendered for conversion into Series K First Preference Shares and all Series K First Preference Shares tendered for conversion into Series L First Preference Shares. The Corporation will give notice in writing thereof to all affected registered holders of Series L First Preference Shares at least seven days prior to the applicable Series L Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series L Conversion Date less than 1,000,000 Series L First Preference Shares, after having taken into account all Series L First Preference Shares tendered for conversion into Series K First Preference Shares and all Series K First Preference Shares tendered for conversion into Series L First Preference Shares, then all, but not part, of the remaining outstanding Series L First Preference Shares will automatically be converted into Series K First Preference Shares on the basis of one Series K First Preference Share for each Series L First Preference Share on the applicable Series L Conversion Date and the Corporation will give notice in writing thereof to the then registered holders of such remaining Series L First Preference Shares at least seven days prior to the Series L Conversion Date.

If the Corporation gives notice to the registered holders of the Series L First Preference Shares of the redemption of all the Series L First Preference Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series L First Preference Shares of an Annual Fixed Dividend Rate or the conversion right of holders of Series L First Preference Shares and the right of any holder of Series L First Preference Shares to convert such Series L First Preference Shares will cease and terminate in that event.

A holder of Series L First Preference Shares on the record date for any dividend declared payable on such shares will be entitled to such dividend notwithstanding that such shares are converted into Series K First Preference Shares after such record date and on or before the date of the payment of such dividend.

Upon the exercise by a holder of Series L First Preference Shares of its right to convert Series L First Preference Shares into Series K First Preference Shares or upon an automatic conversion of Series L First Preference Shares, the Corporation reserves the right not to issue any Series K First Preference Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside of Canada to the extent that such issue would require the Corporation to take any action to comply with the securities laws or other laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series L First Preference Shares in the open market, through or from an investment dealer or any firm holding membership on a recognized stock exchange, or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series L First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation under applicable laws), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series L First Preference Shares. The holders of the Series L First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series L First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series L First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series L First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series L First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series L First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series L First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series L First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series L First Preference Shares; or

(e) issue any additional Series L First Preference Shares (other than in accordance with the conversion provisions of the Series K First Preference Shares) or any shares ranking as to dividends or capital prior to or on a parity with the Series L First Preference Shares (other than any Series K First Preference Shares issued in accordance with the conversion provisions of the Series L First Preference Shares),

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series L First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series L First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series L First Preference Shares as a series and any other approval to be given by the holders of the Series L First Preference Shares may be given in such manner as then required by law, subject to a minimum requirement that such approval be given by a resolution in writing signed by all the holders of the Series L First Preference Shares or by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series L First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series L First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series L First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series L First Preference Share held.

Voting Rights

The holders of the Series L First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series L First Preference Shares as a series) to receive notice of, attend at, or vote at any meeting of shareholders of the Corporation unless and until the Corporation fails to pay eight quarterly dividends on the Series L First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series L First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series L First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series L First Preference Shares in any circumstances. The voting rights of the holders of the Series L First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series L First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series L First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series L First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Business Days

If any action or payment is required to be taken or made by the Corporation or a holder on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

BOOK ENTRY ONLY SYSTEM

Except as otherwise provided below, the Series K First Preference Shares and the Series L First Preference Shares will be issued in a "book entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of CDS Clearing and Depository Services Inc. ("CDS") or its nominee which include securities brokers and dealers, banks and trust companies. On the Closing Date, the Corporation will cause a global certificate representing the Series K First Preference Shares to be delivered to, and registered in the name of, CDS or its nominee. Except as otherwise provided below, no purchaser of Series K First Preference Shares or Series L First Preference Shares will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser's ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Series K First Preference Shares or Series L First Preference Shares will receive a customer confirmation of purchase from the registered dealer from which the Series K First Preference Shares or Series L First Preference Shares are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its Participants having interests in the Series K First Preference Shares or Series L First Preference Shares. Physical certificates evidencing the Series K First Preference Shares and the Series L First Preference Shares will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

None of the Corporation, the Underwriters or their respective affiliates will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Series K First Preference Shares or Series L First Preference Shares, as applicable, held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Series K First Preference Shares or Series L First Preference Shares, as applicable; or (c) any advice or representation made by or with respect to CDS and those contained in this Prospectus Supplement and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Series K First Preference Shares or Series L First Preference Shares must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Series K First Preference Shares or Series L First Preference Shares, as applicable.

The ability of a beneficial owner of Series K First Preference Shares or Series L First Preference Shares to pledge such shares or otherwise take action with respect to such owner's interest in such shares (other than through a Participant) may be limited due to the lack of a physical certificate.

If (i) required by applicable law, (ii) the book entry system ceases to exist, (iii) CDS advises the Corporation that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Series K First Preference Shares or Series L First Preference Shares, as applicable, and the Corporation is unable to locate a qualified successor, or (iv) the Corporation, at its option, decides to terminate the book entry system, then certificates representing the Series K First Preference Shares or Series L First Preference Shares, as applicable, will be made available.

Manner of Effecting Transfer or Redemption

A transfer or redemption of Series K First Preference Shares or Series L First Preference Shares, as applicable, will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Persons who are holders of Series K First Preference Shares or Series L First Preference Shares, as applicable, who are not Participants, but who wish to purchase, sell or otherwise transfer ownership of or other interests in Series K First Preference Shares or Series L First Preference Shares, may do so only through Participants.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering will be approximately $241,850,000, determined after deducting the Underwriters' Fee and the estimated expenses of the Offering, which are estimated to be $650,000, assuming no exercise of the Underwriters' Option. If the Underwriters' Option is exercised in full, the estimated net proceeds of the Offering, after deducting the Underwriters' Fee and estimated expenses of the Offering, are expected to be $290,350,000. The net proceeds of the Offering will be used towards: (i) repaying borrowings under the Corporation's $1.0 billion committed corporate credit facility, which borrowings have been or will be, prior to the closing of the Offering, incurred primarily in connection with: (a) the redemption of the Corporation's 5,000,000 First Preference Shares, Series C on July 10, 2013; (b) the construction of the Waneta Expansion; and (c) equity injections into certain of the Corporation's subsidiaries; and (ii) for other general corporate purposes.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated July 9, 2013 (the "Underwriting Agreement") among Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 10,000,000 Series K First Preference Shares offered hereby at the Offering Price of $25.00 per Series K First Preference Share, payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has granted the Underwriters an Underwriters' Option exercisable in whole or in part at any time up to 48 hours prior to the closing time of the Offering on the Closing Date, to purchase up to 2,000,000 Additional Shares at the Offering Price. This Prospectus Supplement also qualifies the grant of the Underwriters' Option and the distribution of the securities issuable on the exercise of the Underwriters' Option.

The Corporation has agreed to pay fees to the Underwriters in the amount of $0.25 per Series K First Preference Share sold to certain institutions and $0.75 per Series K First Preference Share for all other Series K First Preference Shares purchased by the Underwriters, in consideration of services rendered by the Underwriters in connection with the Offering (the "Underwriters' Fee"). Assuming that no Series K First Preference Shares are sold to such institutions and no exercise of the Underwriters' Option, the total price to the public will be $250,000,000, the Underwriters' Fee will be $7,500,000 and the net proceeds to Fortis will be approximately $241,850,000, after deducting the expenses of the Offering estimated at $650,000 which will be paid out of the general funds of the Corporation. If the Underwriters' Option is exercised in full the total price to the public will be $300,000,000, the Underwriters' Fee will be $9,000,000 and the net proceeds to Fortis will be approximately $290,350,000.

Subscriptions for the Series K First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about July 18, 2013, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than July 31, 2013.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Series K First Preference Shares ends and all stabilization arrangements relating to the Series K First Preference Shares are terminated, bid for or purchase Series K First Preference Shares. The foregoing restrictions are subject to certain exceptions including: (a) a bid for or purchase of Series K First Preference Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules administered by the Investment Industry Regulating Organization of Canada relating to market stabilization and passive market making activities; and (b) a bid or purchase made for or on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation did not occur during the period of distribution. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Series K First Preference Shares is for the purpose of maintaining a fair and orderly market in the Series K First Preference Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Series K First Preference Shares and the Series L First Preference Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and may not be offered, sold or delivered, directly or indirectly, in the United States unless registered under the 1933 Act or in transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Series K First Preference Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction except in accordance with the Underwriting Agreement pursuant to the exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Series K First Preference Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in accordance with Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Series K First Preference Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for a misrepresentation in this Prospectus Supplement or the Prospectus.

The Underwriters propose to offer the Series K First Preference Shares initially at the Offering Price set forth on the cover page of this Prospectus Supplement. After the Underwriters have made reasonable efforts to sell all the Series K First Preference Shares at the Offering Price, the Underwriters may sell the Series K First Preference Shares to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation.

Each of TDSI, CIBC, Scotia Capital, BMO, NB Financial, RBC, Desjardins Securities and HSBC Securities is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). All or a portion of the net proceeds from the Offering will be used towards repaying indebtedness under credit facilities owing by the Corporation and/or its subsidiaries, a portion of which may be owing to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' Fee relating to the Offering. The decision to distribute the Series K First Preference Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at July 5, 2013, an aggregate of approximately $836 million was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

There is currently no market through which the Series K First Preference Shares may be sold and purchasers may not be able to resell Series K First Preference Shares purchased under this Prospectus Supplement. This may affect the pricing of the Series K First Preference Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Series K First Preference Shares and the extent of issuer regulation. The TSX has conditionally approved the listing of the Series K First Preference Shares and the Series L First Preference Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before October 6, 2013.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis, and, Stikeman Elliott LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Series K First Preference Shares acquired pursuant to this Prospectus Supplement and the Prospectus (a "Holder") who, at all relevant times for purposes of the Tax Act: (i) is or is deemed to be a resident of Canada; (ii) deals at arm's length and is not affiliated with Fortis; (iii) holds Series K First Preference Shares and any Series L First Preference Shares acquired upon the conversion of Series K First Preference Shares (collectively, the "Securities") as capital property; (iv) is not exempt from tax under Part I of the Tax Act; and (v) has not entered into, with respect to any Securities, a "derivative forward agreement" as that term is defined in proposed amendments contained in a Notice of Ways and Means Motion that accompanied the federal budget tabled by the Minister of Finance (Canada) on March 21, 2013. Generally, the Securities will be considered to be capital property to a Holder provided the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain Holders whose Securities do not otherwise qualify as capital property may make, in certain circumstances, the irrevocable election under subsection 39(4) of the Tax Act to have such shares and every "Canadian security" (as defined in the Tax Act) owned by such Holder in the taxation year of the election and all subsequent years deemed to be capital property.

This summary does not apply to a Holder: (i) that is a "financial institution" for the purposes of the "mark-to-market" rules; (ii) that is a "specified financial institution"; (iii) an interest in which is a "tax shelter investment"; or (iv) that has elected to determine its "Canadian tax results" in a currency other than Canadian dollars in accordance with the "functional currency" rules, as each of those terms is defined in the Tax Act. Such Holders should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any change in law, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax legislation or considerations.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. This summary is not exhaustive of all possible income tax considerations under the Tax Act that may affect a Holder. The income tax consequences of acquiring and disposing of a Security will vary depending on a number of facts, including the legal status of the Holder as an individual, corporation, trust or partnership. Accordingly, prospective Holders of Securities should consult their own tax advisors with respect to their particular circumstances and the tax consequences to them of holding and disposing of a Securities.

Conversion

The exercise by a Holder of the right to convert such Holder's Series K First Preference Share into a Series L First Preference Share or the automatic conversion of a Series K First Preference Share into a Series L First Preference Share will be deemed not to constitute a disposition of such Series K First Preference Share and will not give rise to a capital gain or capital loss to such Holder. The cost to the Holder of the Series L First Preference Share issued on such conversion will be the adjusted cost base to such Holder of such Series K First Preference Share immediately before such conversion. The adjusted cost base of all Series L First Preference Shares of the Holder will be determined in accordance with the cost averaging rules in the Tax Act.

The exercise by a Holder of the right to convert such Holder's Series L First Preference Share into a Series K First Preference Share or the automatic conversion of a Series L First Preference Share into a Series K First Preference Share will be deemed not to constitute the disposition of such Series L First Preference Share and will not give rise to a capital gain or capital loss to such Holder. The cost to the Holder of the Series K First Preference Share issued on such conversion will be the adjusted cost base to such Holder of such Series L First Preference Share immediately before such conversion. The adjusted cost base of all Series K First Preference Shares of the Holder will be determined in accordance with the cost averaging rules in the Tax Act.

Dividends

Dividends, including deemed dividends, received on the Series K First Preference Shares or the Series L First Preference Shares by a Holder who is an individual must be included in the individual's income and generally will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated by Fortis as "eligible dividends". There may be limitations on the ability of a corporation to designate dividends as eligible dividends. Fortis has advised counsel it intends to designate all dividends paid on the Series K First Preference Shares and Series L First Preference Shares as eligible dividends for these purposes. Taxable dividends received by an individual or a trust (other than certain specified trusts) may give rise to alternative minimum tax under the Tax Act.

Dividends, including deemed dividends, received on the Series K First Preference Shares or the Series L First Preference Shares by a Holder that is a corporation must be included in computing the corporation's income and will generally be deductible in computing the taxable income of the corporation.

The Series K First Preference Shares and the Series L First Preference Shares are "taxable preferred shares" as defined in the Tax Act. The terms of the Series K First Preference Shares and the terms of the Series L First Preference Shares require Fortis to make the necessary election under Part VI.1 of the Tax Act so that corporate Holders will not be subject to the 10% tax payable under Part IV.1 of the Tax Act on dividends received, or deemed to be received, on the Series K First Preference Shares and the Series L First Preference Shares.

A "private corporation" (as defined in the Tax Act) or any other corporation controlled (whether by reason of a beneficial interest in one or more trusts or otherwise) by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay refundable tax under Part IV of the Tax Act of 33 1/3% on dividends received, or deemed to be received, on the Series K First Preference Shares and the Series L First Preference Shares, to the extent such dividends are deductible in computing its taxable income.

Redemptions

If Fortis redeems or otherwise acquires a Series K First Preference Share or a Series L First Preference Share (otherwise than by a purchase in the open market in the manner in which shares are normally purchased by a member of the public in the open market), the Holder will be deemed to have received a dividend equal to the amount, if any, paid by Fortis in excess of the paid-up capital (as determined for purposes of the Tax Act) of such share at such time. Generally, the difference between the amount paid by Fortis and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such share. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the deemed dividend may be treated as proceeds of disposition and not as a dividend.

Dispositions

A Holder who disposes of, or is deemed to dispose of, Series K First Preference Shares or Series L First Preference Shares (either on redemption of the shares or other acquisition by Fortis otherwise than on a conversion) will generally realize a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to such Holder. The amount of any deemed dividend arising on the redemption or acquisition by Fortis of any such shares (see "Redemptions" above) will not generally be included in computing the proceeds of disposition for such shares.

If the Holder is a corporation, any capital loss arising on the disposition of a Series K First Preference Share or Series L First Preference Share, as the case may be, may be reduced, in certain circumstances, by the amount of any dividends, including deemed dividends, which have been received on such share (or the share converted into such share) to the extent and under the circumstances described in the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Capital Gains and Capital Losses

One-half of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in the Holder's income in that year and one-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year will be deducted from the Holder's taxable capital gains in that year. Allowable capital losses in excess of taxable capital gains generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

Capital gains realized by an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax under the Tax Act. A Canadian-controlled private corporation, as defined in the Tax Act, may be subject to an additional refundable tax of 6 2/3% on investment income (including taxable capital gains).

RISK FACTORS

An investment in the Series K First Preference Shares offered hereby involves certain risks in addition to those described in the Corporation's Annual MD&A (at pages 49 to 66) and in the Corporation's First Quarter MD&A (at pages 28 to 30), each of which is incorporated by reference herein. See also "Risk Factors" in the Prospectus. Before investing, prospective purchasers of Series K First Preference Shares should carefully consider, in light of their own financial circumstances, the factors set out below which relate to the Series K First Preference Shares and the Series L First Preference Shares, as well as the other information contained or incorporated by reference in the Prospectus.

Terms of Series K First Preference Shares and Series L First Preference Shares

The value of the Series K First Preference Shares and the Series L First Preference Shares will be affected by the general creditworthiness of the Corporation. The Annual MD&A and the First Quarter MD&A discusses, among other things, known material trends and events, and risks or uncertainties that are reasonably expected to have a material effect on the Corporation's business, financial condition or results of operations.

Real or anticipated changes in credit ratings on the Series K First Preference Shares or the Series L First Preference Shares, if any, may affect the market value of such shares. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can transact or obtain funding, and thereby affect the Corporation's liquidity, business, financial condition or results of operations.

Equity and debt capital market conditions and volatility can affect the market price of the Series K First Preference Shares and the Series L First Preference Shares for reasons unrelated to the Corporation's performance.

Reference is made to "Earnings Coverage Ratio" in this Prospectus Supplement, which is relevant to an assessment of the risk that the Corporation will be unable to pay dividends on the Series K First Preference Shares or the Series L First Preference Shares.

The Series K First Preference Shares rank, and the Series L First Preference Shares will, if and when issued, rank, equally with other First Preference Shares of the Corporation in the event of an insolvency or winding-up of the Corporation. If the Corporation becomes insolvent or is wound-up, the Corporation's assets must be used to pay liabilities and other debt, including subordinated debt, before payments may be made on the Series K First Preference Shares or the Series L First Preference Shares.

Prevailing yields on similar securities will affect the market value of the Series K First Preference Shares and the Series L First Preference Shares. Assuming all other factors remain unchanged, the market value of the Series K First Preference Shares and the Series L First Preference Shares will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Bond Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Series K First Preference Shares and the Series L First Preference Shares in an analogous manner.

Neither the Series K First Preference Shares nor the Series L First Preference Shares have a fixed maturity date, or are redeemable at the option of their holders. As a result, the ability of a holder to liquidate its holdings of Series K First Preference Shares or Series L First Preference Shares, as applicable, may be limited.

The Corporation may choose to redeem the Series K First Preference Shares or the Series L First Preference Shares, in accordance with its rights described under "Details of the Offering—Specific Provisions of the Series K First Preference Shares—Redemption" and "Details of the Offering—Specific Provisions of the Series L First Preference Shares—Redemption", including when prevailing interest rates are lower than the yield borne by the Series K First Preference Shares or Series L First Preference Shares, as applicable. If prevailing rates are lower at the time of redemption, a purchaser would not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yield on the Series K First Preference Shares or Series L First Preference Shares being redeemed. The Corporation's redemption right may also adversely impact a purchaser's ability to sell Series K First Preference Shares or Series L First Preference Shares, as applicable.

The dividend rate in respect of the Series K First Preference Shares and the Series L First Preference Shares will, following the Initial Fixed Rate Period, reset every five years and quarterly, respectively. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

An investment in the Series K First Preference Shares may become an investment in Series L First Preference Shares without the consent of the holder in the event of an automatic conversion in the circumstances described under "Details of the Offering – Specific Provisions of the Series K First Preference Shares – Conversion of Series K First Preference Shares into Series L First Preference Shares" above. Upon the automatic conversion of the Series K First Preference Shares into Series L First Preference Shares, the dividend rate on the Series L First Preference Shares will be a floating rate that is adjusted quarterly by reference to the T-Bill Rate, which may vary from time to time.

Dividends on the Series K First Preference Shares and Series L First Preference Shares are payable at the discretion of the Board of Directors. The Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (a) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares.

There is currently no market through which the Series K First Preference Shares may be sold and purchasers of Series K First Preference Shares may not be able to resell the Series K First Preference Shares purchased under this Prospectus Supplement. The price offered to the public for the Series K First Preference Shares and the number of Series K First Preference Shares to be issued have been determined by negotiations between the Corporation and the Underwriters. The price paid for each Series K First Preference Share may bear no relationship to the price at which the Series K First Preference Shares will trade in the public market subsequent to this Offering. The Corporation cannot predict at what price the Series K First Preference Shares will trade and there can be no assurance that an active trading market will develop for the Series K First Preference Shares after the Offering or for the Series L First Preference Shares following the issuance of any of those shares, or if developed, that such market will be sustained at the Offering Price of the Series K First Preference Shares or the issue price of the Series L First Preference Shares. The TSX has conditionally approved the listing of the Series K First Preference Shares and Series L First Preference Shares. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before October 6, 2013.

The Series L First Preference Shares have not been assigned credit ratings and there can be no assurance that they will, once issued, be assigned credit ratings comparable to the credit ratings of the Series K First Preference Shares.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2. Ernst & Young report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Series K First Preference Shares and the Series L First Preference Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

CERTIFICATE OF THE UNDERWRITERS

Dated: July 9, 2013

To the best of our knowledge, information and belief, the short form prospectus dated May 10, 2012, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of Canada.

TD SECURITIES INC.	**CIBC WORLD MARKETS INC.**	**SCOTIA CAPITAL INC.**
(Signed) Harold R. Holloway	(Signed) David H. Williams	(Signed) Stuart Lochray
BMO NESBITT BURNS INC.	**NATIONAL BANK FINANCIAL INC.**	**RBC DOMINION SECURITIES INC.**
(Signed) James A. Tower	(Signed) Iain Watson	(Signed) David Dal Bello

DESJARDINS SECURITIES INC.

(Signed) A. Thomas Little

CANACCORD GENUITY CORP.	**HSBC SECURITIES (CANADA) INC.**
(Signed) Steve Winokur	(Signed) Laura McElwain

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each province of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws, and may not be offered or sold within the United States unless the securities are registered under the 1933 Act or an exemption from the registration requirements of the 1933 Act is available. See "Plan of Distribution".*

<u>New Issue</u> September 4, 2014

PRELIMINARY SHORT FORM PROSPECTUS

FORTIS INC.

$600,000,000

24,000,000 CUMULATIVE REDEEMABLE FIXED RATE RESET FIRST PREFERENCE SHARES, SERIES M

This short form prospectus (the "Prospectus") qualifies for distribution (the "Offering") 24,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series M (the "Series M First Preference Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated September 4, 2014 among Fortis and Scotia Capital Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., TD Securities Inc., National Bank Financial Inc., Desjardins Securities Inc. and HSBC Securities (Canada) Inc. (collectively, the "Underwriters"). The Series M First Preference Shares will be issued and sold by Fortis to the Underwriters at the price of $25.00 (the "Offering Price") per Series M First Preference Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue to, but excluding December 1, 2019 (the "Initial Fixed Rate Period") at a rate of $1.0250 per Series M First Preference Share per annum payable in equal quarterly instalments of $0.25625 per Series M First Preference Share on the first day of March, June, September and December of each year. Assuming a closing date of September 19, 2014, the first dividend will be payable on December 1, 2014 in the amount of $0.2050 per Series M First Preference Share.

For each five-year period after the Initial Fixed Rate Period (each, a "Subsequent Fixed Rate Period"), the holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year, in the amount per Series M First Preference Share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by $25.00. The Annual Fixed Dividend Rate for each ensuing Subsequent Fixed Rate Period will be determined by the Corporation on the 30th day prior to the first day of such Subsequent Fixed Rate Period (the "Fixed Rate Calculation Date") and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on the Fixed Rate Calculation Date plus 2.48%. See "Details of the Offering – Specific Provisions of Series M First Preference Shares".

Option to Convert into Series N First Preference Shares

The holders of Series M First Preference Shares will have the right, at their option, to convert any or all of their Series M First Preference Shares into an equal number of Cumulative Redeemable Floating Rate First Preference Shares, Series N of the Corporation (the "Series N First Preference Shares"), subject to certain conditions, on December 1, 2019, and on December 1 every fifth year thereafter (each, a "Series M Conversion Date"). The holders of Series N First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year (the initial quarterly dividend period and each subsequent quarterly dividend period referred to as a "Quarterly Floating Rate Period"), in the amount per Series N First Preference Share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by $25.00. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) plus 2.48% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365) determined by the Corporation on the 30th day prior to the first day of the applicable Quarterly Floating Rate Period. See "Details of the Offering – Specific Provisions of Series N First Preference Shares".

On each Series M Conversion Date, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or, from time to time, any part of the outstanding Series M First Preference Shares by the payment of $25.00 per

Series M First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. See "Details of the Offering – Specific Provisions of Series M First Preference Shares".

Holders of Series N First Preference Shares will have the right, at their option, to convert any or all of their Series N First Preference Shares into Series M First Preference Shares, subject to certain conditions, on December 1, 2024 and on December 1 every fifth year thereafter (each, a "Series N Conversion Date"). See "Details of the Offering – Specific Provisions of Series N First Preference Shares".

On each Series N Conversion Date, the Corporation may, at its option, redeem for cash all or any part of the outstanding Series N First Preference Shares by the payment of $25.00 per Series N First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On any date after December 1, 2019 that is not a Series N Conversion Date, the Corporation may, at its option, at any time redeem for cash all or any part of the outstanding Series N First Preference Shares by the payment of $25.50 per Series N First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. See "Details of the Offering – Specific Provisions of Series N First Preference Shares".

The Series M First Preference Shares and the Series N First Preference Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series M First Preference Shares or Series N First Preference Shares, as applicable. See "Risk Factors".

There is currently no market through which the Series M First Preference Shares may be sold and purchasers may not be able to resell securities purchased under this Prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See "Risk Factors". The Corporation has applied to list the Series M First Preference Shares distributed under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares are convertible on the Toronto Stock Exchange (the "TSX"). Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

An investment in the Series M First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

Price: $25.00 per Series M First Preference Share to initially yield 4.10% per annum

	Price to the Public	Underwriters' Fee (1)	Net Proceeds to the Corporation (2)
Per Series M First Preference Share	$25.00	$0.75	$24.25
Total	$600,000,000	$18,000,000	$582,000,000

(1) The Underwriters' fee is $0.25 per Series M First Preference Share for each Series M First Preference Share sold to certain institutions and $0.75 per Series M First Preference Share for all other Series M First Preference Shares purchased by the Underwriters (the "Underwriters' Fee"). The Underwriters' Fee indicated in the table assumes that no Series M First Preference Shares are sold to such institutions.

(2) Before deducting expenses of the Offering estimated at $750,000 which will be paid out of the general funds of Fortis. See "Plan of Distribution".

The Corporation's First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K are listed on the TSX under the symbols "FTS.PR.E", "FTS.PR.F", "FTS.PR.G", "FTS.PR.H", "FTS.PR.J" and "FTS.PR.K", respectively. On September 3, 2014 the closing price of the First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K on the TSX was $25.98, $24.65, $24.84, $21.12, $24.27 and $24.98, respectively.

Each of the Underwriters is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. The net proceeds of the Offering will be used to repay borrowings under the Corporation's Acquisition Credit Facilities (as defined herein), a portion of which may be owing to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".

The Underwriters, as principals, conditionally offer the Series M First Preference Shares, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Series M First Preference Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. After the Underwriters have made reasonable efforts to sell all the Series M First Preference Shares at the Offering Price, the Underwriters may sell the Series M First Preference Shares to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation. See "Plan of Distribution".

Subscriptions for the Series M First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about September 19, 2014, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than October 24, 2014 (the "Closing Date"). On the Closing Date, the Corporation will cause, via its transfer agent, the electronic delivery of the Series M First Preference Shares registered in the name of CDS Clearing and Depository Services Inc. ("CDS") or its nominee. The Corporation understands that a purchaser of Series M First Preference Shares will receive only a customer confirmation from the registered dealer (who is a CDS participant) from or through whom the Series M First Preference Shares are purchased. Beneficial owners of the Series M First Preference Shares distributed hereunder will not, except in certain limited circumstances, be entitled to receive physical certificates evidencing their ownership of the Series M First Preference Shares. See "Book Entry Only System".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contain forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis, and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the principal business of Fortis remaining the ownership and operation of regulated electric and gas utilities; the Corporation's primary focus on Canada and the United States in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the expected capital investment in Canada's electricity sector over the 20-year period through 2030 to maintain system reliability; the expectation that the acquisition (the "Acquisition") by the Corporation of UNS Energy Corporation ("UNS Energy") will be accretive to earnings per common share of Fortis (the "Common Shares") in the first full year after closing, excluding one-time acquisition-related costs; the future performance, business prospects and opportunities of UNS Energy and the integration of its electric and gas utility businesses with the existing operations of Fortis; forecast 2014 midyear rate base for the Corporation's largest regulated utilities; the Corporation's consolidated forecast gross capital expenditures for 2014 and in total over the five years 2014 through 2018; UNS Energy's forecast capital program for 2014 through 2018; the financing costs the Corporation expects to incur in 2014 associated with the Corporation's 4.00% convertible unsecured subordinated debentures (the "Convertible Debentures") represented by instalment receipts (the "Instalment Receipts"); the expected net proceeds from the final instalment of the Convertible Debentures; various natural gas investment opportunities that may be available to the Corporation; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program will support continuing growth in earnings and dividends; the assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2014 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2014 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments beyond 2014 will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2014; the expectation that any increase in interest expense and/or fees associated with credit facilities will not materially impact the Corporation's consolidated financial results for 2014; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties' Hospitality Division would have on annual basic earnings per Common Share; the expectation of no material adverse credit rating actions in the near term; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per Common Share in 2014; the expectation that counterparties to derivative instruments will continue to meet their obligations; the expectation that consolidated defined benefit net pension cost for 2014 will be comparable to that in 2013 and there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; and the expected closing date of the Offering and use of proceeds.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders, no material adverse regulatory decisions being received, and the expectation of regulatory stability; FortisAlberta Inc.'s ("FortisAlberta") continued recovery of its cost of service and ability to earn its allowed rate of return on common shareholder's equity ("ROE") under performance-based rate-setting ("PBR"), which commenced for a five-year term effective January 1, 2013; the receipt of the final instalment of $667 per $1,000 principal amount of the $1.8 billion in outstanding Convertible Debentures; the continued ability of Fortis and its subsidiaries to access capital markets on favourable terms; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun related to the construction of the Waneta Expansion hydroelectric generating facility; sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity that was expropriated by the GOB; the expectation that Belize Electric Company Limited will not be expropriated by the GOB; the continuation of regulator-approved mechanisms to flow through the cost of natural gas and energy supply costs in customer rates; the ability to hedge exposures to fluctuations in foreign exchange rates, natural gas prices, electricity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; no significant changes in government energy plans and environmental laws that may materially negatively affect the operations and cash flows of the Corporation and its subsidiaries; no material change in public policies and directions by governments that could materially negatively affect the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under generally accepted accounting principles in the United States ("US GAAP") beyond 2018 or the adoption of International Financial Reporting Standards after 2018 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

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. Factors which could cause results or events to differ from current expectations include, but are not limited to: risks relating to the realization of the anticipated benefits of the Acquisition and the integration of UNS Energy, including the environmental and regulatory risks associated with TEP's (as defined herein) reliance on coal as its primary fuel for electricity generation (for more information refer to the Business Acquisition Report (as defined herein) incorporated by reference in this Prospectus); uncertainty of the impact a continuation of a low interest rate environment may have on the allowed ROE at certain of the Corporation's regulated utilities in western Canada; uncertainty regarding the treatment of certain capital expenditures at FortisAlberta under the newly implemented PBR mechanism; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; environmental risks; insurance coverage risk; risk of loss of licences and permits; risk of loss of service area; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of not being able to access First Nations lands; labour relations risk; human resources risk; and risk of unexpected outcomes of legal proceedings currently against the Corporation. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors", to the documents incorporated herein by reference and to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 14, 2014 for the year ended December 31, 2013 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2013 and December 31, 2012 and for the years ended December 31, 2013 and 2012, together with the notes thereto and the auditors' report thereon dated March 13, 2014, as contained in the Corporation's 2013 Annual Report, prepared in accordance with US GAAP;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2013 as contained in the Corporation's 2013 Annual Report (the "Annual MD&A");

(d) Management Information Circular dated March 27, 2014 prepared in connection with the Corporation's annual meeting of shareholders held on May 14, 2014;

(e) unaudited comparative interim consolidated financial statements as at June 30, 2014 and for the three and six months ended June 30, 2014 and 2013, together with the notes thereto, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three and six months ended June 30, 2014 (the "Second Quarter MD&A");

(g) Material Change Report dated May 12, 2014, announcing the retirement of H. Stanley Marshall as the President and Chief Executive Officer of the Corporation and announcing Barry Perry as his successor;

(h) Material Change Report dated August 15, 2014, announcing the completion of the acquisition by the Corporation of all of the issued and outstanding shares of UNS Energy and setting October 27, 2014 as the date for payment of the final instalment in respect of the Convertible Debentures represented by Instalment Receipts;

(i) Business Acquisition Report dated September 2, 2014 with respect to the acquisition by the Corporation of all of the issued and outstanding shares of UNS Energy on August 15, 2014 (the "Business Acquisition Report"); and

(j) the template version of the term sheet (the "Term Sheet") dated September 3, 2014 and the template version of the amended and restated term sheet (the "Amended and Restated Term Sheet" and, together with the Term Sheet, the "Marketing Materials") dated September 3, 2014, each filed on SEDAR in connection with the Offering.

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into this Prospectus and is not, and should not be considered to be, a part of this Prospectus, unless it is explicitly so incorporated.

MARKETING MATERIALS

The Marketing Materials are not part of this Prospectus to the extent that the contents of the Marketing Materials have been modified or superseded by a statement contained in this Prospectus. Any template version of "marketing materials" (as defined in National Instrument 41-101 — *General Prospectus Requirements*) filed after the date of this Prospectus and before the termination of the distribution under the Offering (including any amendments to, or an amended version of, the Marketing Materials) are deemed to be incorporated into this Prospectus.

Statements included in the template version of the Term Sheet relating to the details of the Offering have been modified in view of disclosure contained in this Prospectus to reflect changes to the details of the Offering, including:

- to increase the size of the Offering from 12,000,000 Series M First Preference Shares to 24,000,000 Series M First Preference Shares; and
- to remove the Underwriters' option to purchase up to an additional 1,800,000 Series M First Preference Shares within 30 days after the closing of the Offering,

from what was disclosed in the Term Sheet. See "Details of the Offering".

Pursuant to Section 7.6(7)(a) of National Instrument 44-101 – *Short Form Prospectus Distributions*, the Corporation has prepared a blackline of the Amended and Restated Term Sheet against the Term Sheet to show the modified terms of the Offering. The Amended and Restated Term Sheet and blackline can be viewed under the Corporation's profile at www.sedar.com.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Series M First Preference Shares and the Series N First Preference Shares issuable on conversion of the Series M First Preference Shares, if issued on the date hereof, would be qualified investments under the Income Tax Act (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), deferred profit sharing plan, registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA").

Notwithstanding that the Series M First Preference Shares and the Series N First Preference Shares issuable on conversion of the Series M First Preference Shares may be qualified investments for a trust governed by a TFSA, RRSP or RRIF, a share will be "prohibited investment" (within the meaning of prohibited investment rules in the Tax Act) for a TFSA, RRSP or RRIF if the holder of the TFSA or the annuitant of the RRSP or RRIF, as the case may be, does not deal at arm's length (for the purposes of the Tax Act) with the Corporation or has a "significant interest" (within the meaning of the prohibited investment rules in the Tax Act) in the Corporation, unless such shares are "excluded property" (as defined in the Tax Act) for trusts governed by a TFSA, RRSP or RRIF.

Prospective purchasers who intend to hold Series M First Preference Shares in a TFSA, RRSP or RRIF should consult their own tax advisors with respect to whether Series M First Preference Shares would be prohibited investments, including with respect to whether the Series M First Preference Shares would be "excluded property" as defined in the Tax Act.

PRESENTATION OF FINANCIAL INFORMATION

The *pro forma* financial statements of the Corporation included in the Business Acquisition Report incorporated by reference in this Prospectus are reported in Canadian dollars and have been prepared in accordance with US GAAP. All other financial information of UNS Energy and the audited historical financial statements of UNS Energy included in the Business Acquisition Report incorporated by reference in this Prospectus are reported in US dollars and have been prepared in accordance with US GAAP. The assets and liabilities of UNS Energy shown in the unaudited *pro forma* consolidated balance sheet of the Corporation as at June 30, 2014 are reported in Canadian dollars and reflect the US-to-Canadian dollar period-end closing exchange rate. The revenues and expenses of UNS Energy shown in the unaudited *pro forma* consolidated statements of earnings of the Corporation for the six month period ended June 30, 2014 and for the year ended December 31, 2013 are reported in Canadian dollars and reflect the average US-to-Canadian dollar exchange rates for each such period. Certain tables in the Prospectus may not add due to rounding.

CAUTION REGARDING UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The Business Acquisition Report contains and this Prospectus incorporates by reference the unaudited *pro forma* consolidated balance sheet as at June 30, 2014 and consolidated statements of earnings of the Corporation for the six month period ended June 30, 2014 and for the year ended December 31, 2013, giving effect to: (i) the Acquisition; and (ii) assumptions related to the financing of the Acquisition, including drawings under the Acquisition Credit Facilities, the Revolving Facility, the receipt of the net proceeds from the final instalment payable by October 27, 2014 (the "Final Instalment Date") in an aggregate amount of $1.165 billion and the issuance of up to 58,593,750 Common Shares upon the conversion of the Convertible Debentures. Such unaudited *pro forma* consolidated financial statements have been prepared using certain of the Corporation's and UNS Energy's respective financial statements as more particularly described in the notes to such unaudited *pro forma* consolidated financial statements. Such unaudited *pro forma* consolidated financial statements are not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated. Actual amounts recorded upon the finalization of the purchase price allocation under the Acquisition may differ from such unaudited *pro forma* consolidated financial statements. Since the unaudited *pro forma* consolidated financial statements have been developed to retroactively show the effect of a transaction that occurred at a later date (even though this was accomplished by following generally accepted practice using reasonable assumptions), there are limitations inherent in the very nature of *pro forma* data. The data contained in the unaudited *pro forma* consolidated financial statements represents only a simulation of the potential impact of the Acquisition. Undue reliance should not be placed on such unaudited *pro forma* consolidated financial statements. See "Special Note Regarding Forward-Looking Statements" and "Risk Factors".

CURRENCY

In this Prospectus, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars", "$" or "Cdn$" are to lawful currency of Canada. References to "US Dollars" or "US$" are to lawful currency of the United States of America, sometimes referred to herein as the "US".

The following table sets forth, for each of the periods indicated, the period-end closing exchange rate, the average noon exchange rate and the high and low noon exchange rates of one U.S. dollar in exchange for Canadian dollars as reported by the Bank of Canada.

	Year ended December 31,			**Six months ended June 30,**	
	2013	**2012**	**2011**	**2014**	**2013**
High	1.0697	1.0418	1.0604	1.1251	1.0532
Low	0.9839	0.9710	0.9449	1.0614	0.9839
Average	1.0299	0.9996	0.9891	1.0968	1.0159
Period End	1.0636	0.9949	1.0170	1.0676	1.0512

On September 3, 2014, the noon buying rate as reported by the Bank of Canada was US$1.00 = Cdn$1.0873.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in this Prospectus and in the documents incorporated by reference herein.

The Offering

Issuer:	Fortis Inc. ("Fortis" or the "Corporation").
Offering:	24,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series M (the "Series M First Preference Shares") offered pursuant to this Prospectus (the "Offering").
Amount:	$600,000,000.
Price:	$25.00 per Series M First Preference Share (the "Offering Price").
Underwriters' Fee:	$0.25 per share for each Series M First Preference Share sold to certain institutions and $0.75 per share for all other Series M First Preference Shares purchased by Scotia Capital Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., TD Securities Inc., National Bank Financial Inc., Desjardins Securities Inc. and HSBC Securities (Canada) Inc. (collectively, the "Underwriters") (the "Underwriters' Fee").
Date of Closing:	On or about September 19, 2014 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than October 24, 2014.
Use of Proceeds:	The net proceeds from the Offering will be approximately $581,250,000, determined after deducting the Underwriters' Fee, assuming no Series M First Preference Shares are sold to certain institutions, and the expenses of the Offering, which are estimated to be $750,000. The net proceeds of the Offering will be used to repay borrowings under the Corporation's $2.0 billion non-revolving term credit facilities, consisting of a $1.7 billion short-term bridge facility, repayable in full nine months following its advance, and a $300 million medium-term bridge facility, repayable in full on the second anniversary of its advance (together, the "Acquisition Credit Facilities"). See "Recent Developments – Acquisition of UNS Energy Corporation" and "Use of Proceeds".
Principal Characteristics of Series M First Preference Shares:	
Dividends:	The holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue of the Series M First Preference Shares which is expected to be the Closing Date to, but excluding, December 1, 2014 (the "Initial Fixed Rate Period"), at a rate of $1.0250 per Series M First Preference Share per annum, payable in equal quarterly instalments of $0.25625 per Series M First Preference Share on the first day of March, June, September and December of each year. Assuming an issue date of September 19, 2014, the first dividend will be payable on December 1, 2014 in the amount of $0.2050 per Series M First Preference Share. See "Details of the Offering". For each five-year period commencing on the first day of December beginning on December 1, 2019 and every fifth year thereafter (each, a "Subsequent Fixed Rate Period"), the holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year, in the amount per Series M First Preference Share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by $25.00. The Annual Fixed Dividend Rate for each Subsequent Fixed Rate Period will be determined by

the Corporation on the 30th day prior to the first day of such Subsequent Fixed Rate Period (the "Fixed Rate Calculation Date") and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on the Fixed Rate Calculation Date plus 2.48%. See "Details of the Offering".

Redemption:

The Series M First Preference Shares are not redeemable by the Corporation before December 1, 2019. On December 1, 2019, and on December 1 of every fifth year thereafter (each, a "Series M Conversion Date"), the Corporation may, at its option upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or any part of the outstanding Series M First Preference Shares by the payment of $25.00 per Series M First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

The Series M First Preference Shares are not redeemable at the option of their holders. See "Details of the Offering".

Conversion into Series N First Preference Shares:

The holders of Series M First Preference Shares will, subject to the automatic conversion provisions described herein and the right of the Corporation to redeem the Series M First Preference Shares, have the right, at their option, to convert, on each Series M Conversion Date, any or all of their Series M First Preference Shares into an equal number of Cumulative Redeemable Floating Rate First Preference Shares, Series N (the "Series N First Preference Shares") upon giving to the Corporation written notice thereof not earlier than 30 days prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series M Conversion Date. Once received by the Corporation, such written notice is irrevocable. See "Details of the Offering".

Automatic Conversion Provisions:

If the Corporation determines, after having taken into account all shares tendered for conversion by holders of Series M First Preference Shares and Series N First Preference Shares, as the case may be, that there would be outstanding on any Series M Conversion Date fewer than 1,000,000 Series M First Preference Shares, such remaining number of Series M First Preference Shares will automatically be converted on such Series M Conversion Date into an equal number of Series N First Preference Shares. Additionally, if the Corporation determines that, after conversion, there would be outstanding on such Series M Conversion Date fewer than 1,000,000 Series N First Preference Shares, then no Series M First Preference Shares will be converted into Series N First Preference Shares. See "Details of the Offering".

Ratings:

DBRS Limited ("DBRS"): Pfd-2 (low), Standard & Poor's Rating Services, a division of The McGraw Hill Companies (Canada) Corporation ("S&P"): P-2 . For the reasons described under "Ratings", DBRS has placed the rating of the Series M First Preference Shares 'under review with developing implications'. See "Ratings".

Principal Characteristics of Series N First Preference Shares:

***Dividends*:**

The holders of Series N First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year (the initial quarterly dividend period and each subsequent quarterly dividend period referred to as a "Quarterly Floating Rate Period"), in the amount per Series N First Preference Share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by $25.00.

On the 30th day prior to the commencement of the initial Quarterly Floating Rate Period beginning on December 1, 2019, and on the 30th day prior to the first day of each subsequent Quarterly Floating Rate Period, the Corporation will determine the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) as at the 30th day prior to the first day of the applicable Quarterly Floating Rate Period plus 2.48% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365). The T-Bill Rate will be the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the date on which the Floating Quarterly Dividend Rate is determined. See "Details of the Offering".

Redemption:

On December 1, 2024, and on December 1 of every fifth year thereafter (each, a "Series N Conversion Date"), the Corporation may, at its option, redeem for cash all or any part of the outstanding Series N First Preference Shares by the payment of $25.00 per Series N First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

On any date after December 1, 2019 that is not a Series N Conversion Date, the Corporation may at any time, at its option, redeem for cash all or any part of the outstanding Series N First Preference Shares by the payment of $25.50 per Series N First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption.

The Series N First Preference Shares are not redeemable at the option of their holders. See "Details of the Offering".

Conversion into Series M First Preference Shares:

Holders of Series N First Preference Shares will, subject to the automatic conversion provisions described herein and the right of the Corporation to redeem the Series N First Preference Shares, have the right, at their option, to convert, on each Series N Conversion Date, any or all of their Series N First Preference Shares into an equal number of Series M First Preference Shares upon giving to the Corporation written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series N Conversion Date. Once received by the Corporation, such written notice is irrevocable. See "Details of the Offering".

Automatic Conversion Provision:

If the Corporation determines, after having taken into account all shares tendered for conversion by holders of Series N First Preference Shares and Series M First Preference Shares, as the case may be, that there would be outstanding on any Series N Conversion Date fewer than 1,000,000 Series N First Preference Shares, such remaining number of Series N First Preference Shares will automatically be converted on such Series N Conversion Date into an equal number of Series M First Preference Shares. Additionally, if the Corporation determines that, after conversion, there would be outstanding on such Series N Conversion Date fewer than 1,000,000 Series M First Preference Shares, then no Series N First Preference Shares will be converted into Series M First Preference Shares. See "Details of the Offering".

Rights Applicable to Series M First Preference Shares and Series N First Preference Shares:

Purchase for Cancellation:

Subject to applicable law and any necessary regulatory approvals, the Corporation will be entitled to purchase Series M First Preference Shares and Series N First Preference Shares for cancellation in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable. See "Details of the Offering".

Rights on Liquidation:

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series M First Preference Shares and Series N First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation under applicable laws), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series M First Preference Shares or the Series N First Preference Shares. The holders of the Series M First Preference Shares and Series N First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation. See "Details of the Offering".

Priority: The Series M First Preference Shares and Series N First Preference Shares rank on a parity with any other series of First Preference Shares of the Corporation and senior to all other shares of the Corporation with respect to priority to the payment of dividends, return of capital and the distribution of assets on the dissolution, liquidation or winding-up of the Corporation. See "Details of the Offering".

Voting Rights: The Series M First Preference Shares and Series N First Preference Shares are non-voting unless the Corporation fails to pay eight quarterly dividends on the Series M First Preference Shares or the Series N First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment and for only so long as any such dividends remain in arrears, the holders of the Series M First Preference Shares or the Series N First Preference Shares, as applicable, will be entitled to receive notice of and to attend all shareholders' meetings of the Corporation which take place more than 60 days after the date on which the failure first occurs, other than meetings at which only holders of another specified class or series are entitled to vote, and will be entitled to one vote for each Series M First Preference Share or Series N First Preference Share held, as applicable. See "Details of the Offering".

Tax on Preference Share Dividends: The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of the tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series M First Preference Shares and Series N First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares. See "Details of the Offering" and "Canadian Federal Income Tax Considerations".

Listing: The Corporation has applied to list the Series M First Preference Shares distributed under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares are convertible on the Toronto Stock Exchange (the "TSX"). Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

Earnings Coverage: Earnings coverage information is provided in this Prospectus under the heading "Earnings Coverage Ratio".

Risk Factors: An investment in the Series M First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned gas and electric distribution utility in Canada with total assets approaching $25 billion and fiscal 2013 revenue (which excludes the Acquisition) exceeding $4.0 billion. Fortis serves more than 3 million customers across Canada and in the United States and the Caribbean. Its regulated holdings include electric distribution utilities in five Canadian provinces, the state of Arizona, New York State and two Caribbean countries and natural gas utilities in British Columbia, Canada and in the States of Arizona and New York. Regulated utility assets comprise approximately 93% of the Corporation's total assets, with the balance comprised of non-regulated generation assets and hotels and commercial real estate in Canada.

Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings"), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of UNS Energy, a vertically integrated utility services holding company, headquartered in Tucson, Arizona, engaged through three subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona; FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; Central Hudson Gas & Electric Corporation ("Central Hudson"), a regulated transmission and distribution utility serving electricity and natural gas customers in eight counties of New York State's Mid-Hudson River Valley; and Maritime Electric Company, Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through a wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI"), Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric") and Algoma Power Inc. ("Algoma Power"), Fortis provides an integrated electric utility service in Ontario to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne and distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), an integrated electric utility and the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through wholly owned subsidiaries, FortisTCI Limited and Turks and Caicos Utilities Limited (collectively "Fortis Turks and Caicos"), which together are the principal distributors of electricity in the Turks and Caicos Islands.

The Corporation's non-regulated generation operations consist of its 100% interest in each of Belize Electricity Company Limited ("BECOL"), FortisOntario and FortisUS Energy Corporation, as well as non-regulated generation assets owned either directly or indirectly by FortisBC and by Fortis through its 51% controlling ownership interest in the Waneta Expansion Limited Partnership. Fortis Generation East LLP, a limited liability partnership directly held by Fortis, owns six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 megawatts ("MW").

Non-utility operations are conducted through Fortis Properties Corporation ("Fortis Properties"). Through Fortis Properties, the Corporation owns and operates 23 hotels in eight Canadian provinces and owns approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 961,000 customers as at June 30, 2014, FortisBC Holdings' subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") is the largest of these subsidiaries, serving approximately 853,000 customers as at June 30, 2014. FEI has a service area which includes Greater Vancouver, the Fraser Valley and Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FortisBC Energy (Vancouver Island) Inc. ("FEVI") owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island, serving approximately 105,000 customers on Vancouver Island and along the Sunshine Coast of British Columbia as at June 30, 2014. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplied on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and, through FEI's Southern Crossing Pipeline, from Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 3,000 residential and commercial customers as at June 30, 2014. Collectively, FEI, FEVI and FEWI own and operate approximately 46,000 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,341 terajoules in 2013. In February 2014 the FortisBC Energy companies received regulatory approval for the amalgamation of their regulated utilities. The amalgamation received the consent of the Lieutenant Governor in Council in May 2014 and is expected to be effective December 31, 2014.

Regulated Gas & Electric Utilities – United States

UNS Energy

UNS Energy is a vertically integrated utility services holding company, headquartered in Tucson, Arizona, engaged through three subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona. UNS Energy serves approximately 657,000 electricity and gas customers. As of June 30, 2014, UNS Energy's total assets were approximately US$4.5 billion and operating revenues and net income for the year ended December 31, 2013 totalled US$1.5 billion and US$127 million, respectively.

Tucson Electric Power Company ("TEP"), the main business of UNS Energy, is a vertically integrated, regulated electric utility and represented approximately 85% of the total assets of UNS Energy as at June 30, 2014 and approximately 79% of the operating revenues of UNS Energy for the six months ended June 30, 2014. TEP generates, transmits and distributes electricity to approximately 414,000 retail electric customers in southern Arizona as at June 30, 2014. TEP met a retail peak demand of 2,230 MW in 2013 and has sufficient generating capacity which, together with existing power purchase agreements and expected generation plant additions, should satisfy the requirements of its customer base and meet expected future peak demand requirements. In addition, TEP sells electricity to other entities in the western United States. As at June 30, 2014, TEP owned electrical generating capacity of 1,853 MW and leased electrical generating capacity of 387 MW, for total net generating capacity of 2,240 MW. Several of the generating assets which TEP has an interest in are jointly owned. TEP expects to complete the acquisition of a 75% undivided interest (413 MW) in Unit 3 of the Gila River Generating Station in Gila Bend, Arizona in December 2014.

UNS Electric, Inc. ("UNS Electric") is a regulated, vertically integrated electric utility company serving approximately 93,000 retail customers in Arizona's Mohave and Santa Cruz counties as at June 30, 2014. UNS Electric represents approximately 9% of the total assets of UNS Energy as of June 30, 2014 and approximately 12% of the operating revenues of UNS Energy for the six months ended June 30, 2014. UNS Energy met a peak demand of 423 MW in 2013. UNS Electric owns and operates a 90 MW gas-fired facility located near Kingman, Arizona as well as the Valencia Power Plant located in Nogales, Arizona, which consists of four gas and diesel-fueled combustion turbine units and provides approximately 62 MW of peaking resources. UNS Electric expects to complete the acquisition of a 25% undivided interest (137 MW) in Unit 3 of the Gila River Generating Station in Gila Bend, Arizona in December 2014. UNS Electric's generating resources met 152 MW or 36% of its 2013 peak demand and UNS Electric relies on a portfolio of long, intermediate and short-term electricity purchases to meet the remainder of its customer load requirements.

UNS Gas, Inc. ("UNS Gas") is a regulated gas distribution company serving approximately 150,000 retail customers in Arizona's Mohave, Yavapai, Coconino, Navajo and Santa Cruz counties as at June 30, 2014. UNS Gas represented approximately 6% of the total assets of UNS Energy as at June 30, 2014 and approximately 9% of the operating revenues of UNS Energy for the six months ended June 30, 2014. UNS Gas purchases most of the gas that it distributes from the San Juan Basin and this gas is delivered on the El Paso Natural Gas and Transwestern Pipeline Company interstate pipeline system under firm transportation agreements with combined capacity sufficient to meet the demand of the customers of UNS Gas.

Central Hudson

Central Hudson, the main business of the Corporation's indirect subsidiary, CH Energy Group, Inc. ("CH Energy Group"), is a regulated transmission and distribution utility serving approximately 300,000 electricity and 78,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley as at June 30, 2014. Central Hudson's electric assets comprised approximately 74% of its total assets as at June 30, 2014 and include approximately 15,000 kilometres of distribution lines and 1,000 kilometres of transmission lines. The electric business met a peak demand of 1,202 MW in 2013. Central Hudson's natural gas assets comprised the remaining 26% of its total assets and include approximately 1,900 kilometres of distribution pipelines and more than 264 kilometres of transmission pipelines. The gas business met a peak day demand of 125 terajoules in 2013.

Central Hudson primarily relies on electricity purchases from third-party providers and the energy and capacity markets administered by the New York Independent System Operator to meet the demand of its full-service electricity customers. It also generates a small portion of its electricity requirements. Central Hudson purchases its gas supply requirements at various pipeline receipt points from a number of suppliers with whom it has contracted for firm transport capacity.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta distributes electricity to approximately 522,000 customers in Alberta as at June 30, 2014, using approximately 119,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,613 MW in 2013. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 165,000 customers as at June 30, 2014, with residential customers representing the largest customer segment. FortisBC met a peak demand of 699 MW in 2013. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 225 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and BC Hydro, the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant hydroelectric expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT").

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 257,000 customers as at June 30, 2014, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,281 MW in 2013. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. Newfoundland Power operates 28 small generating facilities, which generate the remaining 7% of the electricity it sells. Newfoundland Power's hydroelectric generating plants have a total capacity of 97 MW and its diesel plants and gas turbines have a total capacity of approximately 5 MW and 37 MW, respectively.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplies approximately 77,000 customers as at June 30, 2014, or 90% of electricity consumers on Prince Edward Island, and met a peak demand of 252 MW in 2013. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations serve approximately 65,000 customers in Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario as at June 30, 2014, and met a combined peak demand of 271 MW in 2013. FortisOntario's operations are comprised of CNPI, Cornwall Electric and Algoma Power. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, serve approximately 39,000 customers as at June 30, 2014.

Regulated Electric Utilities — Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008. Caribbean Utilities serves over 27,000 customers as at June 30, 2014, has approximately 150 MW of installed diesel-powered generating capacity and met a peak demand of 97 MW in 2013. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the TSX under the symbol CUP.U.

Fortis Turks and Caicos

Both of the Fortis Turks and Caicos utilities are integrated electric utilities, which collectively serve approximately 13,000 customers, or approximately 98% of electricity consumers on the Turks and Caicos Islands as at June 30, 2014. The utilities met a combined peak demand of approximately 36 MW in 2013. Fortis Turks and Caicos owns and operates approximately 618 kilometres of transmission and distribution lines. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to 50-year licences that expire in 2036 and 2037.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19 MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has indicated it has no intention to expropriate BECOL but there can be no assurance that the GOB will not change its intentions. Fortis continues to control BECOL and to consolidate its financial results in the financial statements of the Corporation.

Ontario

Non-regulated generation operations of FortisOntario are comprised of the operation of a 5-MW gas-powered cogeneration plant in Cornwall. All thermal energy output of this plant is sold to external third parties, while the electricity output is sold to Cornwall Electric. Fortis Generation East LLP owns and operates six small hydroelectric generating facilities in eastern Ontario with a combined capacity of 8 MW. The electricity produced from these facilities is sold to the Ontario Power Authority, via the Hydroelectric Contract Initiative, under fixed-price contracts.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet that sells its entire output to BC Hydro under a contract that expired on December 31, 2013. While no notice of termination has been received from BC Hydro, FortisBC is exposed to the risk that it will not be able to sell the power from this facility on similar terms in the event that the contract is terminated.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is currently expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $633 million have been incurred on this capital project through June 30, 2014. Key construction activities for year-to-date 2014 included (i) the ongoing civil construction of the intake structure, forming of the power tunnel transition and excavation of the tailrace channel, (ii) completion of the 230-kilovolt transmission line which is scheduled for energization in September 2014, (iii) equipment installation and assembly in respect of turbine and generator components and powerhouse mechanical and electrical auxiliary systems and (iv) testing on various components and systems.

The Waneta Expansion is included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. In May 2012, the BCUC determined that the executed agreement was in the public interest and a hearing was not required. The agreement has been accepted for filing as an energy supply contract and FortisBC has been directed by the BCUC to develop a rate-smoothing proposal. A rate-smoothing deferral mechanism has been included as part of FortisBC's 2014-2018 PBR revenue requirements application, which was filed on July 5, 2013 and updated on October 18, 2013, and is currently subject to review by the BCUC.

Upstate New York

Non-regulated generation assets in Upstate New York State are owned and operated by FortisUS Energy Corporation and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the United States Federal Energy Regulatory Commission ("FERC"). All four hydroelectric generating facilities sell energy at market rates through purchase agreements with Niagara Mohawk Power Corporation.

Non-Regulated — Non-Utility

Through Fortis Properties, the Corporation owns and operates 23 hotels, comprised of more than 4,400 rooms, in eight Canadian provinces and owns approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada.

Expropriated Assets — Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the GOB enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on its consolidated balance sheet. As at June 30, 2014, the long-term other asset, including foreign exchange impacts, totalled $108 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation and the book value of Belize Electricity.

In July 2012 the Belize Supreme Court dismissed the Corporation's claim of October 2011. Also in July 2012, Fortis filed its appeal of the above-noted trial judgment in the Belize Court of Appeal. The appeal was heard in October 2012 and a decision was rendered by the Belize Court of Appeal on May 15, 2014. The two Belizean judges found in favour of the GOB; however, the third judge delivered a strong dissenting opinion concluding that the expropriation was contrary to the Belize Constitution. An appeal of the decision to the Caribbean Court of Justice, the final court for appeals arising in Belize, was filed in June 2014 and a hearing is expected in the fourth quarter of 2014. Fortis believes it has a strong, well-positioned case before the Caribbean Court of Justice supporting the unconstitutionality of the expropriation. There exists, however, a reasonable possibility that the outcome of the litigation may be unfavourable to the Corporation and the amount of compensation otherwise to be paid to Fortis under the legislation expropriating Belize Electricity could be lower than the book value of the Corporation's expropriated investment in Belize Electricity.

RECENT DEVELOPMENTS

Acquisition of UNS Energy Corporation

On August 15, 2014, Fortis acquired all of the outstanding common shares of UNS Energy for US$60.25 per common share in cash, representing an aggregate purchase price of approximately US$4.5 billion, including the assumption of approximately US$2.0 billion of debt on closing (the "Acquisition"). The cash portion of the purchase price was initially funded through drawings of an aggregate of $2.0 billion under the Acquisition Credit Facilities and US$265 million under the Corporation's $1.0 billion revolving credit facility (the "Revolving Facility"). Fortis intends to repay a portion of the borrowings under the Acquisition Credit Facilities with the proceeds of this Offering, as well as the $1.165 billion net proceeds of the final instalment under the Corporation's $1.8 billion aggregate principal amount of Convertible Debentures represented by Instalment Receipts, which Fortis expects to receive on the Final Instalment Date of October 27, 2014. See "Use of Proceeds", "Changes in Share and Loan Capital Structure" and "Earnings Coverage Ratio".

The Acquisition is consistent with the Corporation's strategy of investing in high-quality regulated utility assets in Canada and the United States and is expected to be accretive to earnings per Common Share in the first full year after closing, excluding one-time Acquisition-related costs. The Corporation's consolidated rate base increased by approximately US$3.0 billion as a result of the Acquisition. The Acquisition further mitigates business risk of Fortis by enhancing the geographic diversification of the Corporation's regulated assets, resulting in no more than one-third of the Corporation's total assets being located in any one regulated jurisdiction.

The Acquisition was completed following receipt of UNS Energy shareholder approval in March 2014, approval from the FERC in April 2014 and all other required regulatory approvals, including the approval of the Arizona Corporation Commission, which was granted on August 12, 2014. In connection with such regulatory approvals, Fortis has committed to provide UNS Energy's customers and community with certain benefits, including but not limited to: (i) providing the retail consumers of TEP, UNS Gas and UNS Electric (collectively, the "UNS Utilities") with bill credits totalling US$30 million over five years (US$10 million in year one and US$5 million annually in years two through five); (ii) UNS Energy and the UNS Utilities adopting certain ring-fencing and corporate governance provisions, including UNS Energy establishing a board of directors comprised of a majority of independent members, as well as a majority of Arizona residents; (iii) limiting dividends paid from the UNS Utilities to UNS Energy to 60% of the UNS Utilities' respective net income for a period of five years following completion of the Acquisition or until such time that their respective equity capitalization reaches 50% of total capital (excluding any goodwill recorded) as accounted for in accordance with US GAAP; and (iv) Fortis making an equity infusion totalling US$220 million through UNS Energy into the UNS Utilities within 60 days of the date of the closing of the Acquisition.

The Corporation's earnings for the third quarter of 2014 will be impacted by a number of non-recurring Acquisition-related expenses. Investment banking fees, drawdown fees associated with the Acquisition Credit Facilities and legal, tax, accounting and other related expenses for the third quarter of 2014 are currently estimated at approximately $25 million after tax. In addition, the US$30 million (approximately US$18 million after tax) in customer benefits payable to UNS Utility customers will be fully expensed in the third quarter of 2014. The Corporation's earnings in the second half of 2014 will be reduced by interest expense of approximately $38 million ($27 million after tax) associated with the Convertible Debentures to the Final Instalment Date, plus interest that would have accrued on the Convertible Debentures from the day following the Final Instalment Date to and including January 9, 2015. See "Final Instalment Date for Convertible Debentures Represented by Instalment Receipts".

See "Risk Factors", "Special Note Regarding Forward-Looking Statements", "Changes in Share and Loan Capital Structure" and the Business Acquisition Report incorporated by reference in this Prospectus.

Final Instalment Date for Convertible Debentures Represented by Instalment Receipts

To finance a portion of the Acquisition, in January 2014, Fortis, through a direct wholly owned subsidiary, completed the sale of the Convertible Debentures. The offering of the Convertible Debentures consisted of a bought deal offering of $1.594 billion aggregate principal amount of Convertible Debentures underwritten by a syndicate of underwriters and the sale of $206 million aggregate principal amount of Convertible Debentures to certain institutional investors on a private placement basis (together, the "Instalment Receipt Offering").

The Convertible Debentures were sold on an instalment receipt basis at a price of $1,000 per Convertible Debenture, of which $333 was paid on closing of the Instalment Receipt Offering and the remaining $667 is payable on the Final Instalment Date which has been fixed as October 27, 2014. The Instalment Receipts trade on the TSX under the symbol "FTS.IR". The Instalment Receipts will be delisted from the TSX before markets open on the Final Instalment Date. The Convertible Debentures will not be listed on the TSX. The Convertible Debentures will mature on January 9, 2024 and bear interest at an annual rate of 4.00% per $1,000 principal amount of Convertible Debentures until and including the Final Instalment Date. On the Final Instalment Date holders of Convertible Debentures will receive accrued and unpaid interest of $6.2637 per Convertible Debenture. On the day following the Final Instalment Date, the interest rate on the Convertible Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Convertible Debentures. Holders of the Convertible Debentures who have paid the final instalment by the Final Instalment Date will be entitled to receive, in addition to the payment of accrued and unpaid interest, an amount equal to $8.1473 per $1,000 principal amount of Convertible Debentures, which represents the interest that would have accrued on the Convertible Debentures from the day following the Final Instalment Date to and including January 9, 2015, the first anniversary of the closing of the Instalment Receipt Offering.

At the option of the holders of the Convertible Debentures, and provided that payment of the final instalment has been made, each Convertible Debenture will be convertible at the option of the holder into Common Shares concurrently with or after the Final Instalment Date, but prior to their maturity or redemption by Fortis, at a conversion price of $30.72 per Common Share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Convertible Debentures. Fortis will issue up to 58,593,750 Common Shares on conversion of the Convertible Debentures.

The proceeds of the first instalment of the Instalment Receipt Offering were approximately $599 million, or $561 million net of issue costs, and were applied by the Corporation (i) to repay borrowings under the Revolving Facility and (ii) for other general corporate purposes, including to provide financing to the Corporation's regulated utility subsidiaries for capital expenditures. The net proceeds of the final instalment payment of the Instalment Receipt Offering is expected to be, in aggregate, approximately $1.165 billion. Fortis will use the net proceeds of the final instalment to repay a portion of the borrowings under the Acquisition Credit Facilities. See "Use of Proceeds", "Recent Developments – Acquisition of UNS Energy" and the Material Change Report dated August 15, 2014 incorporated by reference in this Prospectus.

Executive Appointments

On May 12, 2014, Fortis announced that H. Stanley Marshall, formerly the Corporation's President and Chief Executive Officer will retire as CEO and a director of the Corporation, effective December 31, 2014. Fortis further announced, that Barry Perry, formerly the Corporation's Vice President, Finance and Chief Financial Officer will succeed Mr. Marshall as Chief Executive Officer, effective December 31, 2014. As part of this transition, Mr. Marshall relinquished his role as President to Mr. Perry on June 30, 2014. See the Material Change Report dated May 12, 2014 incorporated by reference in this Prospectus. As of June 30, 2014, Karl Smith, formerly the President and Chief Executive Officer of FortisAlberta, assumed the role of Executive Vice President, Chief Financial Officer of Fortis.

On August 1, 2014, John Walker, formerly President and Chief Executive Officer of FortisBC, became the Executive Vice President, Western Canadian Operations of the Corporation and Earl Ludlow, formerly President and Chief Executive Officer of Newfoundland Power, became Executive Vice President, Eastern Canadian and Caribbean Operations of the Corporation.

Private Placement of US Notes

In March 2014 Fortis priced a private placement to US-based institutional investors of US$500 million aggregate principal amount of senior unsecured notes (the "US Notes"). The notes 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%. The weighted average term to maturity is approximately 11 years and the weighted average coupon rate is 3.85%.

On June 30, 2014, Fortis issued US$213 million of the US Notes with a weighted average term to maturity of approximately 9 years and a weighted average coupon rate of 3.51%. Net proceeds were used to repay US-dollar denominated borrowings on the Corporation's committed credit facility and for general corporate purposes.

The remaining US$287 million of the US Notes will be issued on September 15, 2014, subject to the satisfaction of customary closing conditions. The remaining US Notes will be issued in multiple tranches with terms to maturity ranging from 7 to 30 years and coupon rates ranging from 3.64% to 5.03%. The weighted average term to maturity will be approximately 12 years and the weighted average coupon rate will be 4.11%. Net proceeds will be used to refinance existing indebtedness, including the US$150 million 5.74% senior unsecured notes of Fortis maturing on October 30, 2014 and $125 million 5.56% unsecured debentures of a subsidiary maturing on September 15, 2014, and other indebtedness.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at June 30, 2014 and on a *pro forma* basis as of such date after giving effect to (i) the net proceeds from the Offering, determined after deducting the Underwriters' Fee, assuming no Series M First Preference Shares are sold to certain institutions, and estimated expenses of the Offering on an after-tax basis, (ii) the Acquisition and the assumption of UNS Energy debt, (iii) the financing of the Acquisition, including drawings under the Acquisition Credit Facilities, the Revolving Facility and receipt of the final instalment in respect of, and the issuance of Common Shares upon the conversion of, the Convertible Debentures (and the application of net proceeds therefrom to repay a portion of the Acquisition Credit Facilities), and (iv) other changes in Common Shares, long-term debt, capital lease and finance obligations from July 1, 2014 up to and including September 3, 2014. See "Changes in Share and Loan Capital Structure". The financial information set out below has been prepared in accordance with US GAAP.

	Outstanding at June 30, 2014 (unaudited)	***Pro forma* Outstanding at June 30, 2014 (unaudited)** (1)
	(in millions of dollars)	
Total debt, capital lease and finance obligations (net of cash)	7,666(2)	10,444
Shareholders' equity		
Securities offered hereby	-	587
Common Shares	3,849	5,620(3)
Preference shares	1,229	1,229
Additional paid-in capital	17	17
Accumulated other comprehensive loss	(69)	(69)
Retained earnings	1,097	1,097
Total capitalization (4)	13,789	18,925

(1) After giving effect to (i) the net proceeds from the Offering, determined after deducting the Underwriters' Fee, assuming no Series M First Preference Shares are sold to certain institutions, and estimated expenses of the Offering on an after-tax basis, (ii) the Acquisition and the assumption of UNS Energy debt, (iii) the financing of the Acquisition, including drawings under the Acquisition Credit Facilities, the Revolving Facility and the receipt of the final instalment in respect of, and the issuance of Common Shares upon the conversion of, the Convertible Debentures, and (iv) other changes in Common Shares, long-term debt, capital lease and finance obligations from July 1, 2014 up to and including September 3, 2014. See "Changes in Share and Loan Capital Structure".

(2) Includes long-term debt, capital lease and finance obligations, including current portion, the Convertible Debentures represented by Instalment Receipts and short-term borrowings.

(3) Assuming the conversion of all outstanding Convertible Debentures into Common Shares.

(4) Excludes non-controlling interests.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of first preference shares issuable in series (the "First Preference Shares") and an unlimited number of second preference shares issuable in series (the "Second Preference Shares"), in each case without nominal or par value. As at September 3, 2014, 215,995,480 Common Shares, 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G"), 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H"), 8,000,000 Cumulative Redeemable First Preference Shares, Series J (the "First Preference Shares, Series J"), 10,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series K (the "First Preference Shares, Series K") and 1,800,000 Instalment Receipts representing the Convertible Debentures (convertible into Common Shares) were issued and outstanding. The Corporation expects to issue up to 58,593,750 additional Common Shares on conversion of the Convertible Debentures concurrent with or after the Final Instalment Date. The Corporation's Common Shares, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J, First Preference Shares, Series K and Instalment Receipts are listed on the TSX under the symbols "FTS", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G", "FTS.PR.H", "FTS.PR.J", "FTS.PR.K" and "FTS.IR", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since June 30, 2014:

(a) During the period from July 1, 2014 up to and including September 3, 2014, the Corporation's consolidated long-term debt, capital lease and finance obligations, including current portions and committed credit facility borrowings classified as long-term debt increased by approximately $4.7 billion, principally due to the following (excluding application of the net proceeds of this Offering):

(i) the assumption of UNS Energy debt of approximately $2.2 billion (US$2.0 billion);

(ii) borrowings of $2.0 billion under the Corporation's Acquisition Credit Facilities;

(iii) borrowings of approximately $288 million (US$265 million) under the Revolving Facility; and

(iv) committed credit facility borrowings in an aggregate amount of approximately $261 million by the FortisBC Energy companies, FortisBC Electric, FortisAlberta and Newfoundland Power, in each case for general corporate purposes.

(b) During the period from July 1, 2014 up to and including September 3, 2014, Fortis issued an aggregate of 659,998 Common Shares pursuant to the Corporation's Dividend Reinvestment Plan, Consumer Share Purchase Plan and Employee Share Purchase Plan and upon the exercise of options granted pursuant to the 2006 and 2002 Stock Option Plans, for aggregate consideration of up to approximately $22 million.

In addition, the Corporation expects to issue up to 58,593,750 additional Common Shares upon the conversion of the Convertible Debentures for aggregate consideration of approximately $1.749 billion, net of after-tax expenses.

PRIOR SALES

No First Preference Shares or securities convertible into First Preference Share have been issued in the previous 12-month period.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; First Preference Shares, Series K; and Instalment Receipts on the TSX.

	Trading of Common Shares			Trading of First Preference Shares, Series E		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2013						
September	31.57	29.78	13,894,725	26.04	25.80	277,950
October	32.80	30.76	9,216,065	26.16	25.90	142,029
November	32.84	31.00	9,871,013	26.22	25.83	110,659
December	31.68	29.51	11,521,039	26.25	25.62	144,603
2014						
January	30.65	29.78	15,427,305	26.14	25.82	55,264
February	31.09	30.20	9,620,655	26.11	25.80	33,747
March	31.56	30.51	12,777,178	26.24	25.81	18,225
April	32.28	31.35	9,813,038	26.20	25.91	247,732
May	32.86	31.26	12,283,732	26.24	25.82	28,942
June	32.58	31.58	11,025,968	26.09	25.80	11,120
July	33.88	32.14	12,902,845	26.27	26.05	33,096
August	33.83	32.98	11,646,542	26.33	25.80	50,911
September 1 to 3	33.95	33.41	1,415,257	25.98	25.97	44,910

	Trading of First Preference Shares, Series F			Trading of First Preference Shares, Series G		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2013						
September…………………….....	24.12	21.67	268,832	23.82	23.20	186,736
October………………………....	24.77	22.87	110,290	24.10	23.35	210,044
November…………………….....	24.05	23.25	83,563	24.19	23.78	166,399
December……………………....	23.51	21.66	235,877	24.13	23.76	235,211
2014						
January………………………....	23.33	22.22	91,267	24.53	23.97	232,756
February………………………..	23.71	22.67	262,017	24.49	24.00	88,365
March…………………………..	24.10	23.01	70,380	24.75	24.25	167,012
April…………………………....	24.60	23.81	81,295	25.20	24.54	276,627
May…………………………….	24.65	23.75	86,608	25.30	24.08	284,273
June…………………………….	24.37	23.67	138,461	24.93	24.26	183,455
July……………………………..	24.83	24.27	147,770	25.15	24.66	145,260
August………………………….	24.88	24.50	28,940	25.36	24.80	205,490
September 1 to 3………….......	24.79	24.61	2,909	25.13	24.62	13,612

	Trading of First Preference Shares, Series H			Trading of First Preference Shares, Series J		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2013						
September…………………….....	22.17	20.68	254,009	23.75	21.13	378,127
October………………………....	22.30	20.12	329,107	23.75	22.33	215,801
November…………………….....	22.38	20.80	447,312	23.59	22.37	252,735
December……………………....	21.55	21.00	587,546	22.70	21.24	378,358
2014						
January………………………....	22.00	21.00	112,390	22.90	21.70	198,292
February………………………..	21.84	20.90	1,039,870	22.76	22.23	340,425
March…………………………..	21.89	21.34	162,043	23.47	22.43	261,486
April…………………………....	22.00	21.59	346,498	24.25	23.20	136,011
May…………………………….	22.40	21.05	305,651	24.40	23.60	260,905
June…………………………….	21.64	21.00	331,098	24.10	23.42	95,978
July……………………………..	21.90	21.21	86,946	24.67	23.85	120,687
August………………………….	21.61	20.75	95,093	24.59	24.03	137,744
September 1 to 3………….......	21.20	20.95	18,368	24.34	24.10	154,393

	Trading of First Preference Shares, Series K			Trading of Instalment Receipts		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2013						
September…………………….....	24.84	24.10	158,746	—	—	—
October………………………....	24.76	24.20	329,716	—	—	—
November……………………....	24.78	23.96	137,442	—	—	—
December……………………....	24.84	24.05	194,721	—	—	—
2014						
January[(1)]……………………….	24.90	24.27	293,987	32.96	29.25	1,301,719
February………………………..	24.84	24.42	108,014	32.75	30.50	792,223
March…………………………..	24.87	24.50	258,033	33.95	31.80	1,613,996
April…………………………....	25.25	24.80	271,649	37.22	33.70	1,350,380
May…………………………….	25.42	24.79	215,657	39.29	35.85	1,237,972
June…………………………….	25.29	24.80	176,452	38.51	35.43	927,018
July……………………………..	25.54	24.85	160,474	43.00	37.50	2,091,274
August………………………….	25.30	24.75	141,563	43.36	39.94	1,150,613
September 1 to 3…………….......	25.21	24.85	63,696	43.75	42.16	39,564

(1) The Instalment Receipts commenced trading on January 9, 2014.

EARNINGS COVERAGE RATIO

The Corporation's dividend requirements on all of its First Preference Shares after giving effect to the issue of 24,000,000 Series M First Preference Shares to be distributed under this Prospectus, and adjusted to a before-tax equivalent, amounted to $88 million using an effective income tax rate of 7.4%, and $97 million using an effective income tax rate of 17.3% for each of the 12 months ended December 31, 2013 and the 12 months ended June 30, 2014, respectively. The Corporation's interest requirements for the 12 months ended December 31, 2013 and the 12 months ended June 30, 2014 amounted to $402 million and $469 million, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2013 and the 12 months ended June 30, 2014 were $803 million and $923 million, respectively, which is 1.64 times and 1.63 times, respectively, the Corporation's aggregate dividend and interest requirements for the period.

The earnings coverage ratios of the Corporation, calculated on a *pro forma* basis after giving effect to (i) the issue of 24,000,000 Series M First Preference Shares to be distributed under this Prospectus and (ii) the Acquisition, including the assumption of approximately $2.2 billion (US$2.0 billion) in UNS Energy debt, and assumptions related to the financing of the Acquisition, including drawings under the Acquisition Credit Facilities and the Revolving Facility and the receipt of the net proceeds from the final instalment payable in respect of, and the issuance of Common Shares upon the conversion of, the Convertible Debentures (and the application of net proceeds therefrom to repay a portion of the borrowings under the Acquisition Credit Facilities), are calculated as follows: (i) the Corporation's dividend requirements on all of its First Preference Shares for the 12 months ended December 31, 2013 and 6 months ended June 30, 2014, adjusted to a before-tax equivalent, amounted to $92 million using an effective income tax rate of 11.7% and $50 million using an effective income tax rate of 21.7%, respectively; (ii) the Corporation's interest requirements on all of its outstanding debt securities amounted to $552 million and $295 million for each of the 12 months ended December 31, 2013 and the 6 months ended June 30, 2014, respectively; and (iii) the Corporation's earnings before interest and income tax for the 12 months ended December 31, 2013 and 6 months ended June 30, 2014 were $1,100 million and $660 million, respectively, which is 1.71 times and 1.91 times, respectively, the Corporation's aggregate interest and dividend requirements for the periods.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the Board of Directors. The Corporation paid cash dividends on its Common Shares of $1.24 in 2013 and $1.20 in 2012. On August 14, 2014, the Board of Directors declared a fourth quarter dividend of $0.32 per Common Share, payable on December 1, 2014 to holders of record of such Common Shares on October 24, 2014.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K, respectively. On August 14, 2014, the Board of Directors declared a fourth quarter dividend on the First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K, in each case in accordance with the applicable prescribed annual rate, payable on December 1, 2014 to holders of record on November 18, 2014.

RATINGS

The Series M First Preference Shares are rated Pfd-2 (low) 'under review with developing implications' by DBRS. The Series M First Preference Shares are rated P-2 by S&P.

On December 11, 2013, DBRS placed the Corporation's issuer rating, unsecured debt rating and preferred share ratings 'under review with developing implications'. The review was prompted by the Corporation's announcement of the acquisition of UNS Energy. The review reflects DBRS' view that the acquisition of UNS Energy will have a modestly negative impact on the Corporation's business risk profile until all acquisition-related financing has been repaid or, in the case of the Convertible Debentures, is converted into Common Shares in accordance with its terms. See "Recent Developments – Acquisition of UNS Energy Corporation" and "Recent Developments – Final Instalment Date for Convertible Debentures Represented by Instalment Receipts".

In addition, on December 12, 2013, S&P revised its outlook on the Corporation to negative from stable following the announcement of the UNS Energy acquisition, on the basis of its expectation that the acquisition would be financed primarily using the Convertible Debentures, which will depress key credit metrics of the Corporation until the conversion thereof to Common Shares. S&P has also revised from stable to negative its outlook on the credit ratings of the Corporation's subsidiaries FortisAlberta, Maritime Electric and Caribbean Utilities using its group rating methodology. See "Recent Developments – Final Instalment Date for Convertible Debentures Represented by Instalment Receipts".

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the Series M First Preference Shares by these rating agencies are not recommendations to purchase, hold or sell the Series M First Preference Shares, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DETAILS OF THE OFFERING

Specific Provisions of First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the Series M First Preference Shares being offered under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares may be converted are outlined below.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and distributions of assets in the event of the liquidations, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, if only a part of the then outstanding First Preference Shares of any particular series is at any time redeemed, then the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Specific Provisions of Series M First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series M First Preference Shares.

Definition of Terms

The following definitions are relevant to the Series M First Preference Shares.

"Annual Fixed Dividend Rate" means, for any Subsequent Fixed Rate Period, the rate of interest (expressed as a percentage rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the Government of Canada Bond Yield on the applicable Fixed Rate Calculation Date plus 2.48%.

"Bloomberg Screen GCAN5YR Page" means the display designated as page "GCAN5YR<INDEX>" on the Bloomberg Financial L.P. service (or such other page as may replace the GCAN5YR page on that service) for purposes of displaying the Government of Canada Bond Yield.

"Fixed Rate Calculation Date" means, for any Subsequent Fixed Rate Period, the 30th day prior to the first day of such Subsequent Fixed Rate Period.

"Government of Canada Bond Yield" on any date means the yield to maturity on such date (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years as quoted as of 10:00 a.m. (Toronto time) on such date and which appears on the Bloomberg Screen GCAN5YR Page on such date; provided that, if such rate does not appear on the Bloomberg Screen GCAN5YR Page on such date, the Government of Canada Bond Yield will mean the average of the yields determined by two registered Canadian investment dealers selected by the Corporation as being the yield to maturity on such date (assuming semi-annual compounding) that a Canadian dollar denominated non-callable Government of Canada bond would carry if issued in Canadian dollars at 100% of its principal amount on such date with a term to maturity of five years.

"Initial Fixed Rate Period" means the period commencing on the date of original issue of the Series M First Preference Shares to, but excluding, December 1, 2019.

"Subsequent Fixed Rate Period" means, for the initial Subsequent Fixed Rate Period, the five-year period commencing on December 1, 2019 to, but excluding, December 1, 2024 and, for each succeeding Subsequent Fixed Rate Period, the five-year period commencing on the first day of December immediately following the end of the immediately preceding Subsequent Fixed Rate Period to, but excluding, December 1 in the fifth year thereafter.

Issue Price

The Series M First Preference Shares will have an issue price of $25.00 per share.

Dividends

During the Initial Fixed Rate Period, the holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, at a rate of $1.0250 per share per annum, accruing from the date of original issue, payable (other than the first dividend payment) in equal quarterly instalments on the first day of March, June, September and December of each year (less any tax required to be deducted and withheld by the Corporation under applicable laws). The initial dividend, if declared, will be payable on December 1, 2014 and will be $0.2050 per share, based on the anticipated Closing Date of September 19, 2014.

During each Subsequent Fixed Rate Period after the Initial Fixed Rate Period, the holders of the Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable in equal quarterly instalments on the first day of March, June, September and December of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate applicable to such Subsequent Fixed Rate Period by $25.00.

The Annual Fixed Dividend Rate applicable to a Subsequent Fixed Rate Period will be determined by the Corporation on the Fixed Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of the Series M First Preference Shares. The Corporation will, on the Fixed Rate Calculation Date, give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period to the registered holders of the then outstanding Series M First Preference Shares. If the Corporation gives notice to the holders of the Series M First Preference Shares of its intention to redeem all of the Series M First Preference Shares (as described below), the Corporation will not be required to give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period.

Redemption

The Series M First Preference Shares are not redeemable by the Corporation before December 1, 2019. On December 1, 2019, and on December 1 every fifth year thereafter, subject to the terms of any shares of the Corporation ranking prior to the Series M First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, redeem all or any part of the then outstanding Series M First Preference Shares by the payment of an amount in cash for each such share so redeemed of $25.00 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series M First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

The Series M First Preference Shares are not redeemable at the option of their holders.

Conversion of Series M First Preference Shares into Series N First Preference Shares

The holders of Series M First Preference Shares will have the right, at their option, on each Series M Conversion Date, to convert, subject to the restrictions on conversion described below, all or any of the Series M First Preference Shares registered in their name into Series N First Preference Shares, on the basis of one Series N First Preference Share for each Series M First Preference Share. The conversion of the Series M First Preference Shares may be effected by delivery to the Corporation of written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series M Conversion Date. Once received by the Corporation, such written notice is irrevocable.

The Corporation will, not less than 30 days and not more than 60 days prior to the applicable Series M Conversion Date, give notice in writing to the then registered holders of the Series M First Preference Shares of the above-mentioned conversion right. On the 30th day prior to each Series M Conversion Date, the Corporation will give notice in writing to the then registered holders of the Series M First Preference Shares of the Floating Quarterly Dividend Rate (as defined below) applicable to the Series N First Preference Shares for the next succeeding Quarterly Floating Rate Period (as defined below).

The holders of Series M First Preference Shares will not be entitled to convert their shares into Series N First Preference Shares if the Corporation determines that there would remain outstanding on a Series M Conversion Date fewer than 1,000,000 Series N First Preference Shares, after having taken into account all Series M First Preference Shares tendered for conversion into Series N First Preference Shares and all Series N First Preference Shares tendered for conversion into Series M First Preference Shares. The Corporation will give notice in writing thereof to all affected registered holders of Series M First Preference Shares at least seven days prior to the applicable Series M Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series M Conversion Date fewer than 1,000,000 Series M First Preference Shares, after having taken into account all Series M First Preference Shares tendered for conversion into Series N First Preference Shares and all Series N First Preference Shares tendered for conversion into Series M First Preference Shares, then all, but not part, of the remaining outstanding Series M First Preference Shares will automatically be converted into Series N First Preference Shares on the basis of one Series N First Preference Share for each Series M First Preference Share on the applicable Series M Conversion Date and the Corporation will give notice in writing thereof to the then registered holders of such remaining Series M First Preference Shares at least seven days prior to the Series M Conversion Date.

If the Corporation gives notice to the registered holders of the Series M First Preference Shares of the redemption of all the Series M First Preference Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series M First Preference Shares of a Floating Quarterly Dividend Rate or the conversion right of holders of Series M First Preference Shares and the right of any holder of Series M First Preference Shares to convert such Series M First Preference Shares will cease and terminate in that event.

A holder of Series M First Preference Shares on the record date for any dividend declared payable on such shares will be entitled to such dividend notwithstanding that such shares are converted into Series N First Preference Shares after such record date and on or before the date of payment of such dividend.

Upon the exercise by a holder of Series M First Preference Shares of its right to convert Series M First Preference Shares into Series N First Preference Shares or upon an automatic conversion of Series M First Preference Shares, the Corporation reserves the right not to issue any Series N First Preference Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside of Canada to the extent that such issue would require the Corporation to take any action to comply with the securities laws or other laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series M First Preference Shares in the open market, through or from an investment dealer or any firm holding membership on a recognized stock exchange, or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series M First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation under applicable laws), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series M First Preference Shares. The holders of the Series M First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series M First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series M First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series M First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series M First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series M First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series M First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series M First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series M First Preference Shares; or

(e) issue any additional Series M First Preference Shares (other than in accordance with the conversion provisions of the Series N First Preference Shares) or any shares ranking as to dividends or capital prior to or on a parity with the Series M First Preference Shares (other than any Series N First Preference Shares issued in accordance with the conversion provisions of the Series M First Preference Shares),

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series M First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series M First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series M First Preference Shares as a series and any other approval to be given by the holders of the Series M First Preference Shares may be given in such manner as then required by law, subject to a minimum requirement that such approval be given by a resolution in writing signed by all the holders of the Series M First Preference Shares or by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series M First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series M First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series M First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series M First Preference Share held.

Voting Rights

The holders of the Series M First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series M First Preference Shares as a series) to receive notice of, attend at or vote at any meeting of shareholders of the Corporation, unless and until the Corporation fails to pay eight quarterly dividends on the Series M First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series M First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series M First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series M First Preference Shares in any circumstances. The voting rights of the holders of the Series M First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series M First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series M First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series M First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Business Days

If any action or payment is required to be taken or made by the Corporation or a holder on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

Specific Provisions of Series N First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series N First Preference Shares.

Definition of Terms

The following definitions are relevant to the Series N First Preference Shares.

"Bloomberg Screen CA3MAY Page" means the display designated as page "CA3MAY<INDEX>" on the Bloomberg Financial L.P. service (or such other page as may replace the CA3MAY page or that service) for purposes of displaying the T-Bill Rate.

"Floating Quarterly Dividend Rate" means, for any Quarterly Floating Rate Period, the rate of interest (expressed as a percentage rate rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the T-Bill Rate on the applicable Floating Rate Calculation Date plus 2.48% (calculated on the basis of the actual number of days elapsed in such Quarterly Floating Rate Period divided by 365).

"Floating Rate Calculation Date" means, for any Quarterly Floating Rate Period, the 30th day prior to the first day of such Quarterly Floating Rate Period.

"Quarterly Commencement Date" means the first day of each of March, June, September and December of each year.

"Quarterly Floating Rate Period" means, for the initial Quarterly Floating Rate Period, the period commencing on December 1, 2019 and ending on and including February 29, 2020, and thereafter the period from and including the day immediately following the end of the immediately preceding Quarterly Floating Rate Period to but excluding the next succeeding Quarterly Commencement Date.

"T-Bill Rate" means, for any Quarterly Floating Rate Period, the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the applicable Floating Rate Calculation Date as quoted on the Bloomberg Screen CA3MAY Page; provided that if such information does not appear on the Bloomberg Screen CA3MAY Page on the applicable Floating Rate Calculation Date, then as determined by the Corporation.

Issue Price

The Series N First Preference Shares will have an issue price of $25.00 per share.

Dividends

The holders of the Series N First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors payable quarterly on the first day of March, June, September and December of each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by $25.00.

The Floating Quarterly Dividend Rate for each Quarterly Floating Rate Period will be determined by the Corporation on the Floating Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of Series N First Preference Shares. The Corporation will, on the Floating Rate Calculation Date, give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period to all registered holders of the then outstanding Series N First Preference Shares. If the Corporation gives notice to the holders of the Series N First Preference Shares of its intention to redeem all of the Series N First Preference Shares (as described below), the Corporation will not be required to give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period.

Redemption

Subject to the terms of any shares of the Corporation ranking prior to the Series N First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, redeem all or any part of the then outstanding Series N First Preference Shares by the payment of an amount in cash for each such share so redeemed of: (i) $25.00 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws), in the case of redemptions on December 1, 2024 and December 1 every fifth year thereafter (each, a "Series N Conversion Date"); or (ii) $25.50 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws), in the case of redemptions on any date after December 1, 2019 that is not a Series N Conversion Date.

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series N First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

The Series N First Preference Shares are not redeemable at the option of their holders.

Conversion of Series N First Preference Shares into Series M First Preference Shares

The holders of Series N First Preference Shares will have the right, at their option, on each Series N Conversion Date, to convert, subject to the restrictions on conversion described below, all or any of the Series N First Preference Shares registered in their name into Series M First Preference Shares on the basis of one Series M First Preference Share for each Series N First Preference Share. The conversion of Series N First Preference Shares may be effected by delivery to the Corporation of written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series N Conversion Date. Once received by the Corporation, such written notice is irrevocable.

The Corporation will, not less than 30 days and not more than 60 days prior to the applicable Series N Conversion Date, give notice in writing to the then registered holders of the Series N First Preference Shares of the above-mentioned conversion right. On the 30th day prior to each Series N Conversion Date, the Corporation will give notice in writing to the then registered holders of the Series N First Preference Shares of the Annual Fixed Dividend Rate applicable to the Series M First Preference Shares for the next succeeding Subsequent Fixed Rate Period.

The holders of Series N First Preference Shares will not be entitled to convert their shares into Series M First Preference Shares if the Corporation determines that there would remain outstanding on a Series N Conversion Date fewer than 1,000,000 Series M First Preference Shares, after having taken into account all Series N First Preference Shares tendered for conversion into Series M First Preference Shares and all Series M First Preference Shares tendered for conversion into Series N First Preference Shares. The Corporation will give notice in writing thereof to all affected registered holders of Series N First Preference Shares at least seven days prior to the applicable Series N Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series N Conversion Date fewer than 1,000,000 Series N First Preference Shares, after having taken into account all Series N First Preference Shares tendered for conversion into Series M First Preference Shares and all Series M First Preference Shares tendered for conversion into Series N First Preference Shares, then all, but not part, of the remaining outstanding Series N First Preference Shares will automatically be converted into Series M First Preference Shares on the basis of one Series M First Preference Share for each Series N First Preference Share on the applicable Series N Conversion Date and the Corporation will give notice in writing thereof to the then registered holders of such remaining Series N First Preference Shares at least seven days prior to the Series N Conversion Date.

If the Corporation gives notice to the registered holders of the Series N First Preference Shares of the redemption of all the Series N First Preference Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series N First Preference Shares of an Annual Fixed Dividend Rate or the conversion right of holders of Series N First Preference Shares and the right of any holder of Series N First Preference Shares to convert such Series N First Preference Shares will cease and terminate in that event.

A holder of Series N First Preference Shares on the record date for any dividend declared payable on such shares will be entitled to such dividend notwithstanding that such shares are converted into Series M First Preference Shares after such record date and on or before the date of the payment of such dividend.

Upon the exercise by a holder of Series N First Preference Shares of its right to convert Series N First Preference Shares into Series M First Preference Shares or upon an automatic conversion of Series N First Preference Shares, the Corporation reserves the right not to issue any Series M First Preference Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside of Canada to the extent that such issue would require the Corporation to take any action to comply with the securities laws or other laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series N First Preference Shares in the open market, through or from an investment dealer or any firm holding membership on a recognized stock exchange, or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series N First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation under applicable laws), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series N First Preference Shares. The holders of the Series N First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series N First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series N First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series N First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series N First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series N First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series N First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series N First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series N First Preference Shares; or

(e) issue any additional Series N First Preference Shares (other than in accordance with the conversion provisions of the Series M First Preference Shares) or any shares ranking as to dividends or capital prior to or on a parity with the Series N First Preference Shares (other than any Series M First Preference Shares issued in accordance with the conversion provisions of the Series N First Preference Shares),

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series N First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series N First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series N First Preference Shares as a series and any other approval to be given by the holders of the Series N First Preference Shares may be given in such manner as then required by law, subject to a minimum requirement that such approval be given by a resolution in writing signed by all the holders of the

Series N First Preference Shares or by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series N First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series N First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series N First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series N First Preference Share held.

Voting Rights

The holders of the Series N First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series N First Preference Shares as a series) to receive notice of, attend at, or vote at any meeting of shareholders of the Corporation unless and until the Corporation fails to pay eight quarterly dividends on the Series N First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series N First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series N First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series N First Preference Shares in any circumstances. The voting rights of the holders of the Series N First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series N First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series N First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series N First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Business Days

If any action or payment is required to be taken or made by the Corporation or a holder on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

BOOK ENTRY ONLY SYSTEM

Except as otherwise provided below, the Series M First Preference Shares and the Series N First Preference Shares will be issued in a "book entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of CDS Clearing and Depository Services Inc. ("CDS") or its nominee which include securities brokers and dealers, banks and trust companies. On the Closing Date, the Corporation will cause, via its transfer agent, the electronic delivery of the Series M First Preference Shares registered in the name of CDS or its nominee. Except as otherwise provided below, no purchaser of Series M First Preference Shares or Series N First Preference Shares will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser's ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Series M First Preference Shares or Series N First Preference Shares will receive a customer confirmation of purchase from the registered dealer from which the Series M First Preference Shares or Series N First Preference Shares are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its Participants having interests in the Series M First Preference Shares or Series N First Preference Shares. Physical certificates evidencing the Series M First Preference Shares and the Series N First Preference Shares will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

None of the Corporation, the Underwriters or their respective affiliates will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Series M First Preference Shares or Series N First Preference Shares, as applicable, held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Series M First Preference Shares or Series N First Preference Shares, as applicable; or (c) any advice or representation made by or with respect to CDS and those contained in this Prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Series M First Preference Shares or Series N First Preference Shares must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Series M First Preference Shares or Series N First Preference Shares, as applicable.

The ability of a beneficial owner of Series M First Preference Shares or Series N First Preference Shares to pledge such shares or otherwise take action with respect to such owner's interest in such shares (other than through a Participant) may be limited due to the lack of a physical certificate.

If (i) required by applicable law, (ii) the book entry system ceases to exist, (iii) CDS advises the Corporation that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Series M First Preference Shares or Series N First Preference Shares, as applicable, and the Corporation is unable to locate a qualified successor, or (iv) the Corporation, at its option, decides to terminate the book entry system, then certificates representing the Series M First Preference Shares or Series N First Preference Shares, as applicable, will be made available.

Manner of Effecting Transfer or Redemption

A transfer or redemption of Series M First Preference Shares or Series N First Preference Shares, as applicable, will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Persons who are holders of Series M First Preference Shares or Series N First Preference Shares, as applicable, who are not Participants, but who wish to purchase, sell or otherwise transfer ownership of or other interests in Series M First Preference Shares or Series N First Preference Shares, may do so only through Participants.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering will be approximately $581,250,000, determined after deducting the estimated Underwriters' Fee, assuming no Series M First Preference Shares are sold to certain institutions, and the estimated expenses of the Offering, which are estimated to be $750,000. The net proceeds of the Offering will be used to repay a portion of the borrowings under the Acquisition Credit Facilities.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated September 4, 2014 (the "Underwriting Agreement") among Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 24,000,000 Series M First Preference Shares offered hereby at the Offering Price of $25.00 per Series M First Preference Share, payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to pay fees to the Underwriters in the amount of $0.25 per Series M First Preference Share sold to certain institutions and $0.75 per Series M First Preference Share for all other Series M First Preference Shares purchased by the Underwriters, in consideration of services rendered by the Underwriters in connection with the Offering (the "Underwriters' Fee"). Assuming that no Series M First Preference Shares are sold to such institutions, the total price to the public will be $600,000,000, the Underwriters' Fee will be $18,000,000 and the net proceeds to Fortis will be approximately $581,250,000, after deducting the expenses of the Offering estimated at $750,000 which will be paid out of the general funds of the Corporation.

Subscriptions for the Series M First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about September 19, 2014, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than October 24, 2014.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Series M First Preference Shares ends and all stabilization arrangements relating to the Series M First Preference Shares are terminated, bid for or purchase Series M First Preference Shares. The foregoing restrictions are subject to certain exceptions including: (a) a bid for or purchase of Series M First Preference Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules administered by the Investment Industry Regulating Organization of Canada relating to market stabilization and passive market making activities; and (b) a bid or purchase made for or on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation did not occur during the period of distribution. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Series M First Preference Shares is for the purpose of maintaining a fair and orderly market in the Series M First Preference Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Series M First Preference Shares and the Series N First Preference Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and may not be offered, sold or delivered, directly or indirectly, in the United States unless registered under the 1933 Act or in transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Series M First Preference Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction except in accordance with the Underwriting Agreement pursuant to the exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Series M First Preference Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in accordance with Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. Under the Underwriting Agreement, the obligations of any Underwriter may be terminated in their discretion if, at or prior to the Closing Date: (a) there should occur or commence, or be announced or threatened, any inquiry, action, suit, investigation or other proceeding (whether formal or informal) other than any inquiry, action, suit, investigation or other proceeding based on alleged activities of the Underwriters, or any order is issued by any governmental authority, other than an order based on the alleged activities of the Underwriters, or any law or regulation is promulgated, changed or announced, which, in the reasonable opinion of the Underwriters (or any of them), is expected to prevent or materially restrict the trading in or the distribution of the Series M First Preference Shares or any other securities of Fortis or would be expected to have a material adverse effect on the market price or value of the Series M First Preference Shares or any other securities of Fortis; (b) there should develop, occur or come into effect or existence any event, action, state, condition or occurrence of national or international consequence, acts of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, or any law, action, regulation or other occurrence of any nature whatsoever which, in the reasonable opinion of the Underwriters (or any of them), materially adversely affects or involves, or is expected to materially adversely affect or involve, financial markets generally or the business, affairs or operations of Fortis; (c) there should occur any material change (financial or otherwise) in the business, affairs or operations of Fortis or any change in any material fact (other than a change related solely to the Underwriters), or the Underwriters become aware of any undisclosed material information, which, in the reasonable opinion of the Underwriters (or any of them), could be expected to have a material adverse effect on the market price or value of the Series M First Preference Shares or any other securities of Fortis; or (d) the Series M First Preference Shares are not rated at least "Pfd 2 (low) 'under review with developing implications'" by DBRS and at least "P-2" by S&P's Ratings Services, or if either or both such rating agencies has imposed (or has informed the Company that it is considering imposing) any condition (financial or otherwise) on Fortis retaining any such rating, or has indicated to Fortis that it is considering the downgrading, suspension or withdrawal of any review for a possible change that does not indicate the direction of the possible change in (such as being placed on "credit watch") any rating so assigned, or any adverse change in the outlook for any rating of the Series M First Preference Shares, Fortis or any other securities issued by Fortis.

The Underwriters are, however, obligated to take up and pay for all of the Series M First Preference Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for a misrepresentation in this Prospectus.

The Underwriters propose to offer the Series M First Preference Shares initially at the Offering Price set forth on the cover page of this Prospectus. After the Underwriters have made reasonable efforts to sell all the Series M First Preference Shares at the Offering Price, the Underwriters may sell the Series M First Preference Shares to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation.

Each of the Underwriters is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). The net proceeds of the Offering will be used to repay borrowings under the Corporation's Acquisition Credit Facilities (as defined herein), a portion of which may be owing to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' Fee relating to the Offering. The decision to distribute the Series M First Preference Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at September 3, 2014, an aggregate of approximately $2.7 billion was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

There is currently no market through which the Series M First Preference Shares may be sold and purchasers may not be able to resell Series M First Preference Shares purchased under this Prospectus. This may affect the pricing of the Series M First Preference Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Series M First Preference Shares and the extent of issuer regulation. The Corporation has applied to list the Series M First Preference Shares distributed under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares are convertible on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis, and, Stikeman Elliott LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Series M First Preference Shares acquired pursuant to this Prospectus (a "Holder") who, at all relevant times for purposes of the Tax Act: (i) is or is deemed to be a resident of Canada; (ii) deals at arm's length and is not affiliated with Fortis; (iii) holds Series M First Preference Shares and any Series N First Preference Shares acquired upon the conversion of Series M First Preference Shares (collectively, the "Securities") as capital property; (iv) is not exempt from tax under Part I of the Tax Act; and (v) has not entered into, with respect to any Securities, a "derivative forward agreement" (as defined in the Tax Act). Generally, the Securities will be considered to be capital property to a Holder provided the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain Holders whose Securities do not otherwise qualify as capital property may make, in certain circumstances, the irrevocable election under subsection 39(4) of the Tax Act to have such shares and every "Canadian security" (as defined in the Tax Act) owned by such Holder in the taxation year of the election and all subsequent years deemed to be capital property.

This summary does not apply to a Holder: (i) that is a "financial institution" for the purposes of the "mark-to-market" rules; (ii) that is a "specified financial institution"; (iii) an interest in which is a "tax shelter investment"; or (iv) that has elected to determine its "Canadian tax results" in a currency other than Canadian dollars in accordance with the "functional currency" rules, as each of those terms is defined in the Tax Act. Such Holders should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any change in law, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax legislation or considerations.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. This summary is not exhaustive of all possible income tax considerations under the Tax Act that may affect a Holder. The income tax consequences of acquiring, holding and disposing of a Security will vary depending on a number of facts, including the legal status of the Holder as an individual, corporation, trust or partnership. Accordingly, prospective Holders of Securities should consult their own tax advisors with respect to their particular circumstances and the tax consequences to them of holding and disposing of a Securities.

Conversion

The exercise by a Holder of the right to convert a Series M First Preference Share into a Series N First Preference Share or the automatic conversion of a Series M First Preference Share into a Series N First Preference Share will be deemed not to constitute a disposition of such Series M First Preference Share and will not give rise to a capital gain or capital loss to such Holder. The cost to the Holder of the Series N First Preference Share issued on such conversion will be the adjusted cost base to such Holder of such Series M First Preference Share immediately before such conversion. The adjusted cost base of all Series N First Preference Shares of the Holder will be determined in accordance with the cost averaging rules in the Tax Act.

The exercise by a Holder of the right to convert a Series N First Preference Share into a Series M First Preference Share or the automatic conversion of a Series N First Preference Share into a Series M First Preference Share will be deemed not to constitute the disposition of such Series N First Preference Share and will not give rise to a capital gain or capital loss to such Holder. The cost to the Holder of the Series M First Preference Share issued on such conversion will be the adjusted cost base to such Holder of such Series N First Preference Share immediately before such conversion. The adjusted cost base of all Series M First Preference Shares of the Holder will be determined in accordance with the cost averaging rules in the Tax Act.

Dividends

Dividends received, or deemed to be received, on the Series M First Preference Shares or the Series N First Preference Shares by a Holder who is an individual must be included in the individual's income and generally will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated by Fortis as "eligible dividends". There may be limitations on the ability of a corporation to designate dividends as eligible dividends. Fortis has advised counsel it intends to designate all dividends on the Series M First Preference Shares and Series N First Preference Shares as eligible dividends for these purposes. Taxable dividends received by an individual or a trust (other than certain specified trusts) may give rise to alternative minimum tax under the Tax Act.

Dividends received, or deemed to be received, on the Series M First Preference Shares or the Series N First Preference Shares by a Holder that is a corporation must be included in computing the corporation's income and will generally be deductible in computing the taxable income of the corporation.

The Series M First Preference Shares and the Series N First Preference Shares are "taxable preferred shares" as defined in the Tax Act. The terms of the Series M First Preference Shares and the terms of the Series N First Preference Shares require Fortis to make the necessary election under Part VI.1 of the Tax Act so that corporate Holders will not be subject to the 10% tax payable under Part IV.1 of the Tax Act on dividends received, or deemed to be received, on the Series M First Preference Shares and the Series N First Preference Shares.

A "private corporation" (as defined in the Tax Act) or any other corporation controlled (whether by reason of a beneficial interest in one or more trusts or otherwise) by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay refundable tax under Part IV of the Tax Act of 33 1/3% on dividends received, or deemed to be received, on the Series M First Preference Shares and the Series N First Preference Shares, to the extent such dividends are deductible in computing its taxable income.

Redemptions

If Fortis redeems or otherwise acquires a Series M First Preference Share or a Series N First Preference Share (otherwise than by a purchase in the open market in the manner in which shares are normally purchased by a member of the public in the open market), the Holder will be deemed to have received a dividend equal to the amount, if any, paid by Fortis in excess of the paid-up capital (as determined for purposes of the Tax Act) of such share at such time. Generally, the difference between the amount paid by Fortis and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such share. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the deemed dividend may be treated as proceeds of disposition and not as a dividend.

Dispositions

A Holder who disposes of, or is deemed to dispose of, Series M First Preference Shares or Series N First Preference Shares (including on redemption of the shares or other acquisition by Fortis otherwise than on a conversion) will generally realize a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to such Holder. The amount of any deemed dividend arising on the redemption or acquisition by Fortis of any such shares (see "Redemptions" above) will not generally be included in computing the proceeds of disposition for such shares.

If the Holder is a corporation, any capital loss arising on the disposition of a Series M First Preference Share or Series N First Preference Share, as the case may be, may be reduced, in certain circumstances, by the amount of any dividends received, or deemed to be received, on such share (or the share converted into such share) to the extent and under the circumstances described in the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Capital Gains and Capital Losses

One-half of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in the Holder's income in that year and one-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year will be deducted from the Holder's taxable capital gains in that year. Allowable capital losses in excess of taxable capital gains generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

Capital gains realized by an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax under the Tax Act. A Canadian-controlled private corporation, as defined in the Tax Act, may be subject to an additional refundable tax of 6 2/3% on investment income (including taxable capital gains).

RISK FACTORS

An investment in the Series M First Preference Shares offered hereby involves certain risks. A prospective purchaser of Series M First Preference Shares should carefully consider the risk factors described under:

(a) the heading "Business Risk Management" on pages 43 to 58 in the Annual MD&A;

(b) note 34 "Financial Risk Management" found on pages 128 to 131 in the Corporation's audited comparative consolidated financial statements as at December 31, 2013 and for the years ended December 31, 2013 and 2012, as contained in the Corporation's 2013 Annual Report;

(c) the heading "Business Risk Management" found on pages 29 to 31 in the Second Quarter MD&A;

(d) note 19 "Financial Risk Management" found on pages F-24 to F-28 in the Corporation's unaudited comparative interim consolidated financial statements as at June 30, 2014 and for the three and six months ended June 30, 2014 and 2013; and

(e) and under the heading "Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy" found on pages A-18 to A-27 of the Corporation's Business Acquisition Report, which include certain risks that are now applicable to Fortis as a result of the Acquisition of UNS Energy,

each of which is incorporated by reference herein. In addition, prospective purchasers of Series M First Preference Shares should carefully consider, in light of their own financial circumstances, the risk factors set out below which relate to the Series M First Preference Shares and the Series N First Preference Shares, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein), before making an investment decision.

No Market for the Securities

There is currently no market through which the Series M First Preference Shares may be sold and purchasers of Series M First Preference Shares may not be able to resell the Series M First Preference Shares purchased under this Prospectus. The price offered to the public for the Series M First Preference Shares and the number of Series M First Preference Shares to be issued have been determined by negotiations between the Corporation and the Underwriters. The price paid for each Series M First Preference Share may bear no relationship to the price at which the Series M First Preference Shares will trade in the public market subsequent to this Offering. The Corporation cannot predict at what price the Series M First Preference Shares will trade and there can be no assurance that an active or liquid trading market will develop for the Series M First Preference Shares after the Offering or for the Series N First Preference Shares following the issuance of any of those shares upon conversion, or if developed, that such market will be sustained at the Offering Price of the Series M First Preference Shares or the issue price of the Series N First Preference Shares. If an active or liquid market for these securities fails to develop or be sustained, the prices at which the securities trade may be adversely affected. Whether or not the Series M First Preference Shares or the Series N First Preference Shares will trade at lower prices depends on many factors, including liquidity of these securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects. The Corporation has applied to list the Series M First Preference Shares distributed under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares are convertible on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

Terms of Series M First Preference Shares and Series N First Preference Shares

The value of the Series M First Preference Shares and the Series N First Preference Shares will be affected by the general creditworthiness of the Corporation. The Annual MD&A and the Second Quarter MD&A discuss, among other things, known material trends and events, and risks or uncertainties that are reasonably expected to have a material effect on the Corporation's business, financial condition or results of operations.

Real or anticipated changes in credit ratings on the Series M First Preference Shares or the Series N First Preference Shares, if any, may affect the market value of such shares. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can transact or obtain funding, and thereby affect the Corporation's liquidity, business, financial condition or results of operations.

Equity and debt capital market conditions and volatility can affect the market price of the Series M First Preference Shares and the Series N First Preference Shares for reasons unrelated to the Corporation's performance.

Reference is made to "Earnings Coverage Ratio" in this Prospectus, which is relevant to an assessment of the risk that the Corporation will be unable to pay dividends on the Series M First Preference Shares or the Series N First Preference Shares.

The Series M First Preference Shares rank, and the Series N First Preference Shares will, if and when issued, rank, equally with other First Preference Shares of the Corporation in the event of an insolvency or winding-up of the Corporation. If the Corporation becomes insolvent or is wound-up, the Corporation's assets must be used to pay liabilities and other debt, including subordinated debt, before payments may be made on the Series M First Preference Shares or the Series N First Preference Shares.

Prevailing yields on similar securities will affect the market value of the Series M First Preference Shares and the Series N First Preference Shares. Assuming all other factors remain unchanged, the market value of the Series M First Preference Shares and the Series N First Preference Shares will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Bond Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Series M First Preference Shares and the Series N First Preference Shares in an analogous manner.

Neither the Series M First Preference Shares nor the Series N First Preference Shares have a fixed maturity date, and they are not redeemable at the option of their holders. As a result, the ability of a holder to liquidate its holdings of Series M First Preference Shares or Series N First Preference Shares, as applicable, may be limited.

The Corporation may choose to redeem the Series M First Preference Shares or the Series N First Preference Shares, in accordance with its rights described under "Details of the Offering—Specific Provisions of the Series M First Preference Shares—Redemption" and "Details of the Offering—Specific Provisions of the Series N First Preference Shares—Redemption", including when prevailing interest rates are lower than the yield borne by the Series M First Preference Shares or Series N First Preference Shares, as applicable. If prevailing rates are lower at the time of redemption, a purchaser would not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yield on the Series M First Preference Shares or Series N First Preference Shares being redeemed. The Corporation's redemption right may also adversely impact a purchaser's ability to sell Series M First Preference Shares or Series N First Preference Shares, as applicable.

The dividend rate in respect of the Series M First Preference Shares and the Series N First Preference Shares will, following the Initial Fixed Rate Period, reset every five years and quarterly, respectively. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

An investment in the Series M First Preference Shares may become an investment in Series N First Preference Shares without the consent of the holder in the event of an automatic conversion in the circumstances described under "Details of the Offering – Specific Provisions of the Series M First Preference Shares – Conversion of Series M First Preference Shares into Series N First Preference Shares" above. Upon the automatic conversion of the Series M First Preference Shares into Series N First Preference Shares, the dividend rate on the

Series N First Preference Shares will be a floating rate that is adjusted quarterly by reference to the T-Bill Rate, which may vary from time to time.

Dividends on the Series M First Preference Shares and Series N First Preference Shares are payable at the discretion of the Board of Directors. The Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (a) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares.

The Series N First Preference Shares have not been assigned credit ratings and there can be no assurance that they will, once issued, be assigned credit ratings comparable to the credit ratings of the Series M First Preference Shares.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2. Ernst & Young report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

The auditors of UNS Energy and TEP are PricewaterhouseCoopers LLP, in Phoenix, Arizona. PricewaterhouseCoopers LLP is an independent registered public accounting firm that audited the financial statements of UNS Energy and TEP included in the Corporation's Business Acquisition Report dated September 2, 2014 which is incorporated by reference in this Prospectus.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Series M First Preference Shares and the Series N First Preference Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

Mr. Frank Crothers, one of the Corporation's directors, resides outside of Canada and has appointed Fortis Inc., Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 as agent for service of process. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person that resides outside of Canada, even if such person has appointed an agent for service of process.

CERTIFICATE OF FORTIS INC.

Dated: September 4, 2014

This short form prospectus, together with the documents incorporated by reference, constitute full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL Chief Executive Officer	(Signed) KARL W. SMITH Executive Vice President, Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

CERTIFICATE OF THE UNDERWRITERS

Dated: September 4, 2014

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitute full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

SCOTIA CAPITAL INC.

(Signed) Stuart Lochray

RBC DOMINION SECURITIES INC.

(Signed) David Dal Bello

BMO NESBITT BURNS INC.

(Signed) Aaron Engen

CIBC WORLD MARKETS INC.

(Signed) David Williams

TD SECURITIES INC.

(Signed) Harold Holloway

NATIONAL BANK FINANCIAL INC.

(Signed) Iain Watson

DESJARDINS SECURITIES INC.

(Signed) A. Thomas Little

HSBC SECURITIES (CANADA) INC.

(Signed) Casey Coates

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800) and are also available electronically at www.sedar.com. The securities being offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws, and may not be offered or sold within the United States unless the securities are registered under the 1933 Act or an exemption from the registration requirements of the 1933 Act is available. See "Plan of Distribution".*

New Issue — September 11, 2014

SHORT FORM PROSPECTUS

FORTIS INC.

$600,000,000

24,000,000 CUMULATIVE REDEEMABLE FIXED RATE RESET FIRST PREFERENCE SHARES, SERIES M

This short form prospectus (the "Prospectus") qualifies for distribution (the "Offering") 24,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series M (the "Series M First Preference Shares") of Fortis Inc. ("Fortis" or the "Corporation") which are being offered and sold pursuant to the provisions of an underwriting agreement (the "Underwriting Agreement") dated September 4, 2014 among Fortis and Scotia Capital Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., TD Securities Inc., National Bank Financial Inc., Desjardins Securities Inc. and HSBC Securities (Canada) Inc. (collectively, the "Underwriters"). The Series M First Preference Shares will be issued and sold by Fortis to the Underwriters at the price of $25.00 (the "Offering Price") per Series M First Preference Share. The Offering Price was determined by negotiation between the Corporation and the Underwriters.

The holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue to, but excluding December 1, 2019 (the "Initial Fixed Rate Period") at a rate of $1.0250 per Series M First Preference Share per annum payable in equal quarterly instalments of $0.25625 per Series M First Preference Share on the first day of March, June, September and December of each year. Assuming a closing date of September 19, 2014, the first dividend will be payable on December 1, 2014 in the amount of $0.2050 per Series M First Preference Share.

For each five-year period after the Initial Fixed Rate Period (each, a "Subsequent Fixed Rate Period"), the holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year, in the amount per Series M First Preference Share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by $25.00. The Annual Fixed Dividend Rate for each ensuing Subsequent Fixed Rate Period will be determined by the Corporation on the 30^{th} day prior to the first day of such Subsequent Fixed Rate Period (the "Fixed Rate Calculation Date") and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on the Fixed Rate Calculation Date plus 2.48%. See "Details of the Offering – Specific Provisions of Series M First Preference Shares".

Option to Convert into Series N First Preference Shares

The holders of Series M First Preference Shares will have the right, at their option, to convert any or all of their Series M First Preference Shares into an equal number of Cumulative Redeemable Floating Rate First Preference Shares, Series N of the Corporation (the "Series N First Preference Shares"), subject to certain conditions, on December 1, 2019, and on December 1 every fifth year thereafter (each, a "Series M Conversion Date"). The holders of Series N First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year (the initial quarterly dividend period and each subsequent quarterly dividend period referred to as a "Quarterly Floating Rate Period"), in the amount per Series N First Preference Share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by $25.00. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) plus 2.48% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365) determined by the Corporation on the 30^{th} day prior to the first day of the applicable Quarterly Floating Rate Period. See "Details of the Offering – Specific Provisions of Series N First Preference Shares".

On each Series M Conversion Date, the Corporation may, at its option, upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or, from time to time, any part of the outstanding Series M First Preference Shares by the payment of $25.00 per Series M First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. See "Details of the Offering – Specific Provisions of Series M First Preference Shares".

Holders of Series N First Preference Shares will have the right, at their option, to convert any or all of their Series N First Preference Shares into Series M First Preference Shares, subject to certain conditions, on December 1, 2024 and on December 1 every fifth year thereafter (each, a "Series N Conversion Date"). See "Details of the Offering – Specific Provisions of Series N First Preference Shares".

On each Series N Conversion Date, the Corporation may, at its option, redeem for cash all or any part of the outstanding Series N First Preference Shares by the payment of $25.00 per Series N First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On any date after December 1, 2019 that is not a Series N Conversion Date, the Corporation may, at its option, at any time redeem for cash all or any part of the outstanding Series N First Preference Shares by the payment of $25.50 per Series N First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. See "Details of the Offering – Specific Provisions of Series N First Preference Shares".

The Series M First Preference Shares and the Series N First Preference Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series M First Preference Shares or Series N First Preference Shares, as applicable. See "Risk Factors".

There is currently no market through which the Series M First Preference Shares may be sold and purchasers may not be able to resell securities purchased under this Prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See "Risk Factors". The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Series M First Preference Shares distributed under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares are convertible. Listing of the Series M First Preference Shares and the Series N First Preference Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before December 2, 2014.

An investment in the Series M First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

Price: $25.00 per Series M First Preference Share to initially yield 4.10% per annum

	Price to the Public	Underwriters' Fee (1)	Net Proceeds to the Corporation (2)
Per Series M First Preference Share	$25.00	$0.75	$24.25
Total	$600,000,000	$18,000,000	$582,000,000

(1) The Underwriters' fee is $0.25 per Series M First Preference Share for each Series M First Preference Share sold to certain institutions and $0.75 per Series M First Preference Share for all other Series M First Preference Shares purchased by the Underwriters (the "Underwriters' Fee"). The Underwriters' Fee indicated in the table assumes that no Series M First Preference Shares are sold to such institutions.

(2) Before deducting expenses of the Offering estimated at $750,000 which will be paid out of the general funds of Fortis. See "Plan of Distribution".

The Corporation's First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K are listed on the TSX under the symbols "FTS.PR.E", "FTS.PR.F", "FTS.PR.G", "FTS.PR.H", "FTS.PR.J" and "FTS.PR.K", respectively. On September 10, 2014 the closing price of the First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K on the TSX was $26.00, $24.40, $24.75, $20.72, $24.31 and $25.00, respectively.

Each of the Underwriters is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries. The net proceeds of the Offering will be used to repay borrowings under the Corporation's Acquisition Credit Facilities (as defined herein), a portion of which may be owing to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. See "Use of Proceeds" and "Plan of Distribution".

The Underwriters, as principals, conditionally offer the Series M First Preference Shares, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Series M First Preference Shares at levels other than those which may prevail on the open market. Such transactions, if commenced, may be discontinued at any time. After the Underwriters have made reasonable efforts to sell all the Series M First Preference Shares at the Offering Price, the Underwriters may sell the Series M First Preference Shares to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation. See "Plan of Distribution".

Subscriptions for the Series M First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about September 19, 2014, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than October 24, 2014 (the "Closing Date"). On the Closing Date, the Corporation will cause, via its transfer agent, the electronic delivery of the Series M First Preference Shares registered in the name of CDS Clearing and Depository Services Inc. ("CDS") or its nominee. The Corporation understands that a purchaser of Series M First Preference Shares will receive only a customer confirmation from the registered dealer (who is a CDS participant) from or through whom the Series M First Preference Shares are purchased. Beneficial owners of the Series M First Preference Shares distributed hereunder will not, except in certain limited circumstances, be entitled to receive physical certificates evidencing their ownership of the Series M First Preference Shares. See "Book Entry Only System".

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including the documents incorporated herein by reference, contain forward-looking information which reflects management's expectations regarding the future growth, results of operations, performance, business prospects and opportunities of Fortis, and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. 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 this Prospectus, including the documents incorporated herein by reference, includes, but is not limited to, statements regarding: the principal business of Fortis remaining the ownership and operation of regulated electric and gas utilities; the Corporation's primary focus on Canada and the United States in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the expected capital investment in Canada's electricity sector over the 20-year period through 2030 to maintain system reliability; the expectation that the acquisition (the "Acquisition") by the Corporation of UNS Energy Corporation ("UNS Energy") will be accretive to earnings per common share of Fortis (the "Common Shares") in the first full year after closing, excluding one-time acquisition-related costs; the future performance, business prospects and opportunities of UNS Energy and the integration of its electric and gas utility businesses with the existing operations of Fortis; forecast 2014 midyear rate base for the Corporation's largest regulated utilities; the Corporation's consolidated forecast gross capital expenditures for 2014 and in total over the five years 2014 through 2018; UNS Energy's forecast capital program for 2014 through 2018; the financing costs the Corporation expects to incur in 2014 associated with the Corporation's 4.00% convertible unsecured subordinated debentures (the "Convertible Debentures") represented by instalment receipts (the "Instalment Receipts"); the expected net proceeds from the final instalment of the Convertible Debentures; various natural gas investment opportunities that may be available to the Corporation; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program will support continuing growth in earnings and dividends; the assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2014 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2014 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments beyond 2014 will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2014; the expectation that any increase in interest expense and/or fees associated with credit facilities will not materially impact the Corporation's consolidated financial results for 2014; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties' Hospitality Division would have on annual basic earnings per Common Share; the expectation of no material adverse credit rating actions in the near term; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per Common Share in 2014; the expectation that counterparties to derivative instruments will continue to meet their obligations; the expectation that consolidated defined benefit net pension cost for 2014 will be comparable to that in 2013 and there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future; and the expected closing date of the Offering and use of proceeds.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders, no material adverse regulatory decisions being received, and the expectation of regulatory stability; FortisAlberta Inc.'s ("FortisAlberta") continued recovery of its cost of service and ability to earn its allowed rate of return on common shareholder's equity ("ROE") under performance-based rate-setting ("PBR"), which commenced for a five-year term effective January 1, 2013; the receipt of the final instalment of $667 per $1,000 principal amount of the $1.8 billion in outstanding Convertible Debentures; the continued ability of Fortis and its subsidiaries to access capital markets on favourable terms; no significant variability in interest rates; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun related to the construction of the Waneta Expansion hydroelectric generating facility; sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the Government of Belize ("GOB") for fair value of the Corporation's investment in Belize Electricity that was expropriated by the GOB; the expectation that Belize Electric Company Limited will not be expropriated by the GOB; the continuation of regulator-approved mechanisms to flow through the cost of natural gas and energy supply costs in customer rates; the ability to hedge exposures to fluctuations in foreign exchange rates, natural gas prices, electricity prices and fuel prices; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; no significant changes in government energy plans and environmental laws that may materially negatively affect the operations and cash flows of the Corporation and its subsidiaries; no material change in public policies and directions by governments that could materially negatively affect the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under generally accepted accounting principles in the United States ("US GAAP") beyond 2018 or the adoption of International Financial Reporting Standards after 2018 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; continued favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program.

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. Factors which could cause results or events to differ from current expectations include, but are not limited to: risks relating to the realization of the anticipated benefits of the Acquisition and the integration of UNS Energy, including the environmental and regulatory risks associated with TEP's (as defined herein) reliance on coal as its primary fuel for electricity generation (for more information refer to the Business Acquisition Report (as defined herein) incorporated by reference in this Prospectus); uncertainty of the impact a continuation of a low interest rate environment may have on the allowed ROE at certain of the Corporation's regulated utilities in western Canada; uncertainty regarding the treatment of certain capital expenditures at FortisAlberta under the newly implemented PBR mechanism; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis; environmental risks; insurance coverage risk; risk of loss of licences and permits; risk of loss of service area; risks related to changes in tax legislation; risk of failure of information technology infrastructure; risk of not being able to access First Nations lands; labour relations risk; human resources risk; and risk of unexpected outcomes of legal proceedings currently against the Corporation. For additional information with respect to the Corporation's risk factors, reference should be made to the section of this Prospectus entitled "Risk Factors", to the documents incorporated herein by reference and to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities.

All forward-looking information in this Prospectus and in the documents incorporated herein by reference is qualified in its entirety by the above cautionary statements 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.

DOCUMENTS INCORPORATED BY REFERENCE

The disclosure documents of the Corporation listed below and filed with the appropriate securities commissions or similar regulatory authorities in each of the provinces of Canada are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) Annual Information Form dated March 14, 2014 for the year ended December 31, 2013 (the "AIF");

(b) audited comparative consolidated financial statements as at December 31, 2013 and December 31, 2012 and for the years ended December 31, 2013 and 2012, together with the notes thereto and the auditors' report thereon dated March 13, 2014, as contained in the Corporation's 2013 Annual Report, prepared in accordance with US GAAP;

(c) Management Discussion and Analysis of financial condition and results of operations for the year ended December 31, 2013 as contained in the Corporation's 2013 Annual Report (the "Annual MD&A");

(d) Management Information Circular dated March 27, 2014 prepared in connection with the Corporation's annual meeting of shareholders held on May 14, 2014;

(e) unaudited comparative interim consolidated financial statements as at June 30, 2014 and for the three and six months ended June 30, 2014 and 2013, together with the notes thereto, prepared in accordance with US GAAP;

(f) Management Discussion and Analysis of financial condition and results of operations for the three and six months ended June 30, 2014 (the "Second Quarter MD&A");

(g) Material Change Report dated May 12, 2014, announcing the retirement of H. Stanley Marshall as the President and Chief Executive Officer of the Corporation and announcing Barry Perry as his successor;

(h) Material Change Report dated August 15, 2014, announcing the completion of the acquisition by the Corporation of all of the issued and outstanding shares of UNS Energy and setting October 27, 2014 as the date for payment of the final instalment in respect of the Convertible Debentures represented by Instalment Receipts;

(i) Business Acquisition Report dated September 2, 2014 with respect to the acquisition by the Corporation of all of the issued and outstanding shares of UNS Energy on August 15, 2014 (the "Business Acquisition Report"); and

(j) the template version of the term sheet (the "Term Sheet") dated September 3, 2014 and the template version of the amended and restated term sheet (the "Amended and Restated Term Sheet" and, together with the Term Sheet, the "Marketing Materials") dated September 3, 2014, each filed on SEDAR in connection with the Offering.

Any document of the type referred to in the preceding paragraph, any material change report (other than any confidential material change report) and any business acquisition report subsequently filed by the Corporation with such securities commissions or regulatory authorities after the date of the Prospectus, and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 (telephone (709) 737-2800). These documents are also available through the internet on the Corporation's website at www.fortisinc.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. The information contained on, or accessible through, any of these websites is not incorporated by reference into this Prospectus and is not, and should not be considered to be, a part of this Prospectus, unless it is explicitly so incorporated.

MARKETING MATERIALS

The Marketing Materials are not part of this Prospectus to the extent that the contents of the Marketing Materials have been modified or superseded by a statement contained in this Prospectus. Any template version of "marketing materials" (as defined in National Instrument 41-101 — *General Prospectus Requirements*) filed after the date of this Prospectus and before the termination of the distribution under the Offering (including any amendments to, or an amended version of, the Marketing Materials) are deemed to be incorporated into this Prospectus.

Statements included in the template version of the Term Sheet relating to the details of the Offering have been modified in view of disclosure contained in this Prospectus to reflect changes to the details of the Offering, including:

- to increase the size of the Offering from 12,000,000 Series M First Preference Shares to 24,000,000 Series M First Preference Shares; and
- to remove the Underwriters' option to purchase up to an additional 1,800,000 Series M First Preference Shares within 30 days after the closing of the Offering,

from what was disclosed in the Term Sheet. See "Details of the Offering".

Pursuant to Section 7.6(7)(a) of National Instrument 44-101 – *Short Form Prospectus Distributions*, the Corporation has prepared a blackline of the Amended and Restated Term Sheet against the Term Sheet to show the modified terms of the Offering. The Amended and Restated Term Sheet and blackline can be viewed under the Corporation's profile at www.sedar.com.

ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the Corporation, and Stikeman Elliott LLP, counsel to the Underwriters, the Series M First Preference Shares and the Series N First Preference Shares issuable on conversion of the Series M First Preference Shares, if issued on the date hereof, would be qualified investments under the Income Tax Act (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), deferred profit sharing plan, registered education savings plan, registered disability savings plan or a tax-free savings account ("TFSA").

Notwithstanding that the Series M First Preference Shares and the Series N First Preference Shares issuable on conversion of the Series M First Preference Shares may be qualified investments for a trust governed by a TFSA, RRSP or RRIF, a share will be "prohibited investment" (within the meaning of prohibited investment rules in the Tax Act) for a TFSA, RRSP or RRIF if the holder of the TFSA or the annuitant of the RRSP or RRIF, as the case may be, does not deal at arm's length (for the purposes of the Tax Act) with the Corporation or has a "significant interest" (within the meaning of the prohibited investment rules in the Tax Act) in the Corporation, unless such shares are "excluded property" (as defined in the Tax Act) for trusts governed by a TFSA, RRSP or RRIF.

Prospective purchasers who intend to hold Series M First Preference Shares in a TFSA, RRSP or RRIF should consult their own tax advisors with respect to whether Series M First Preference Shares would be prohibited investments, including with respect to whether the Series M First Preference Shares would be "excluded property" as defined in the Tax Act.

PRESENTATION OF FINANCIAL INFORMATION

The *pro forma* financial statements of the Corporation included in the Business Acquisition Report incorporated by reference in this Prospectus are reported in Canadian dollars and have been prepared in accordance with US GAAP. All other financial information of UNS Energy and the audited historical financial statements of UNS Energy included in the Business Acquisition Report incorporated by reference in this Prospectus are reported in US dollars and have been prepared in accordance with US GAAP. The assets and liabilities of UNS Energy shown in the unaudited *pro forma* consolidated balance sheet of the Corporation as at June 30, 2014 are reported in Canadian dollars and reflect the US-to-Canadian dollar period-end closing exchange rate. The revenues and expenses of UNS Energy shown in the unaudited *pro forma* consolidated statements of earnings of the Corporation for the six month period ended June 30, 2014 and for the year ended December 31, 2013 are reported in Canadian dollars and reflect the average US-to-Canadian dollar exchange rates for each such period. Certain tables in the Prospectus may not add due to rounding.

CAUTION REGARDING UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The Business Acquisition Report contains and this Prospectus incorporates by reference the unaudited *pro forma* consolidated balance sheet as at June 30, 2014 and consolidated statements of earnings of the Corporation for the six month period ended June 30, 2014 and for the year ended December 31, 2013, giving effect to: (i) the Acquisition; and (ii) assumptions related to the financing of the Acquisition, including drawings under the Acquisition Credit Facilities, the Revolving Facility, the receipt of the net proceeds from the final instalment payable by October 27, 2014 (the "Final Instalment Date") in an aggregate amount of $1.165 billion and the issuance of up to 58,593,750 Common Shares upon the conversion of the Convertible Debentures. Such unaudited *pro forma* consolidated financial statements have been prepared using certain of the Corporation's and UNS Energy's respective financial statements as more particularly described in the notes to such unaudited *pro forma* consolidated financial statements. Such unaudited *pro forma* consolidated financial statements are not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated. Actual amounts recorded upon the finalization of the purchase price allocation under the Acquisition may differ from such unaudited *pro forma* consolidated financial statements. Since the unaudited *pro forma* consolidated financial statements have been developed to retroactively show the effect of a transaction that occurred at a later date (even though this was accomplished by following generally accepted practice using reasonable assumptions), there are limitations inherent in the very nature of *pro forma* data. The data contained in the unaudited *pro forma* consolidated financial statements represents only a simulation of the potential impact of the Acquisition. Undue reliance should not be placed on such unaudited *pro forma* consolidated financial statements. See "Special Note Regarding Forward-Looking Statements" and "Risk Factors".

CURRENCY

In this Prospectus, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to "dollars", "$" or "Cdn$" are to lawful currency of Canada. References to "US Dollars" or "US$" are to lawful currency of the United States of America, sometimes referred to herein as the "US".

The following table sets forth, for each of the periods indicated, the period-end closing exchange rate, the average noon exchange rate and the high and low noon exchange rates of one U.S. dollar in exchange for Canadian dollars as reported by the Bank of Canada.

	Year ended December 31,			**Six months ended June 30,**	
	2013	**2012**	**2011**	**2014**	**2013**
High	1.0697	1.0418	1.0604	1.1251	1.0532
Low	0.9839	0.9710	0.9449	1.0614	0.9839
Average	1.0299	0.9996	0.9891	1.0968	1.0159
Period End	1.0636	0.9949	1.0170	1.0676	1.0512

On September 10, 2014, the noon buying rate as reported by the Bank of Canada was US$1.00 = Cdn$1.0955.

SUMMARY

The following information is a summary only and is to be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in this Prospectus and in the documents incorporated by reference herein.

The Offering

Issuer:	Fortis Inc. ("Fortis" or the "Corporation").
Offering:	24,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series M (the "Series M First Preference Shares") offered pursuant to this Prospectus (the "Offering").
Amount:	$600,000,000.
Price:	$25.00 per Series M First Preference Share (the "Offering Price").
Underwriters' Fee:	$0.25 per share for each Series M First Preference Share sold to certain institutions and $0.75 per share for all other Series M First Preference Shares purchased by Scotia Capital Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., TD Securities Inc., National Bank Financial Inc., Desjardins Securities Inc. and HSBC Securities (Canada) Inc. (collectively, the "Underwriters") (the "Underwriters' Fee").
Date of Closing:	On or about September 19, 2014 (the "Closing Date"), or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than October 24, 2014.
Use of Proceeds:	The net proceeds from the Offering will be approximately $581,250,000, determined after deducting the Underwriters' Fee, assuming no Series M First Preference Shares are sold to certain institutions, and the expenses of the Offering, which are estimated to be $750,000. The net proceeds of the Offering will be used to repay borrowings under the Corporation's $2.0 billion non-revolving term credit facilities, consisting of a $1.7 billion short-term bridge facility, repayable in full nine months following its advance, and a $300 million medium-term bridge facility, repayable in full on the second anniversary of its advance (together, the "Acquisition Credit Facilities"). See "Recent Developments – Acquisition of UNS Energy Corporation" and "Use of Proceeds".
Principal Characteristics of Series M First Preference Shares:	
Dividends:	The holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the board of directors of the Corporation (the "Board of Directors") for the initial period commencing on the date of original issue of the Series M First Preference Shares which is expected to be the Closing Date to, but excluding, December 1, 2014 (the "Initial Fixed Rate Period"), at a rate of $1.0250 per Series M First Preference Share per annum, payable in equal quarterly instalments of $0.25625 per Series M First Preference Share on the first day of March, June, September and December of each year. Assuming an issue date of September 19, 2014, the first dividend will be payable on December 1, 2014 in the amount of $0.2050 per Series M First Preference Share. See "Details of the Offering". For each five-year period commencing on the first day of December beginning on December 1, 2019 and every fifth year thereafter (each, a "Subsequent Fixed Rate Period"), the holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year, in the amount per Series M First Preference Share per annum determined by multiplying the Annual Fixed Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by $25.00. The Annual Fixed Dividend Rate for each Subsequent Fixed Rate Period will be determined by

the Corporation on the 30th day prior to the first day of such Subsequent Fixed Rate Period (the "Fixed Rate Calculation Date") and will be equal to the sum of the Government of Canada Bond Yield (as defined herein) on the Fixed Rate Calculation Date plus 2.48%. See "Details of the Offering".

Redemption:

The Series M First Preference Shares are not redeemable by the Corporation before December 1, 2019. On December 1, 2019, and on December 1 of every fifth year thereafter (each, a "Series M Conversion Date"), the Corporation may, at its option upon not less than 30 days and not more than 60 days prior written notice, redeem for cash all or any part of the outstanding Series M First Preference Shares by the payment of $25.00 per Series M First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

The Series M First Preference Shares are not redeemable at the option of their holders. See "Details of the Offering".

Conversion into Series N First Preference Shares:

The holders of Series M First Preference Shares will, subject to the automatic conversion provisions described herein and the right of the Corporation to redeem the Series M First Preference Shares, have the right, at their option, to convert, on each Series M Conversion Date, any or all of their Series M First Preference Shares into an equal number of Cumulative Redeemable Floating Rate First Preference Shares, Series N (the "Series N First Preference Shares") upon giving to the Corporation written notice thereof not earlier than 30 days prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series M Conversion Date. Once received by the Corporation, such written notice is irrevocable. See "Details of the Offering".

Automatic Conversion Provisions:

If the Corporation determines, after having taken into account all shares tendered for conversion by holders of Series M First Preference Shares and Series N First Preference Shares, as the case may be, that there would be outstanding on any Series M Conversion Date fewer than 1,000,000 Series M First Preference Shares, such remaining number of Series M First Preference Shares will automatically be converted on such Series M Conversion Date into an equal number of Series N First Preference Shares. Additionally, if the Corporation determines that, after conversion, there would be outstanding on such Series M Conversion Date fewer than 1,000,000 Series N First Preference Shares, then no Series M First Preference Shares will be converted into Series N First Preference Shares. See "Details of the Offering".

Ratings:

DBRS Limited ("DBRS"): Pfd-2 (low), Standard & Poor's Rating Services, a division of The McGraw Hill Companies (Canada) Corporation ("S&P"): P-2 . For the reasons described under "Ratings", DBRS has placed the rating of the Series M First Preference Shares 'under review with developing implications'. See "Ratings".

Principal Characteristics of Series N First Preference Shares:

***Dividends*:**

The holders of Series N First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the first day of March, June, September and December of each year (the initial quarterly dividend period and each subsequent quarterly dividend period referred to as a "Quarterly Floating Rate Period"), in the amount per Series N First Preference Share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by $25.00.

On the 30th day prior to the commencement of the initial Quarterly Floating Rate Period beginning on December 1, 2019, and on the 30th day prior to the first day of each subsequent Quarterly Floating Rate Period, the Corporation will determine the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) as at the 30th day prior to the first day of the applicable Quarterly Floating Rate Period plus 2.48% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365). The T-Bill Rate will be the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the date on which the Floating Quarterly Dividend Rate is determined. See "Details of the Offering".

Redemption:

On December 1, 2024, and on December 1 of every fifth year thereafter (each, a "Series N Conversion Date"), the Corporation may, at its option, redeem for cash all or any part of the outstanding Series N First Preference Shares by the payment of $25.00 per Series N First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

On any date after December 1, 2019 that is not a Series N Conversion Date, the Corporation may at any time, at its option, redeem for cash all or any part of the outstanding Series N First Preference Shares by the payment of $25.50 per Series N First Preference Share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption.

The Series N First Preference Shares are not redeemable at the option of their holders. See "Details of the Offering".

Conversion into Series M First Preference Shares:

Holders of Series N First Preference Shares will, subject to the automatic conversion provisions described herein and the right of the Corporation to redeem the Series N First Preference Shares, have the right, at their option, to convert, on each Series N Conversion Date, any or all of their Series N First Preference Shares into an equal number of Series M First Preference Shares upon giving to the Corporation written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series N Conversion Date. Once received by the Corporation, such written notice is irrevocable. See "Details of the Offering".

Automatic Conversion Provision:

If the Corporation determines, after having taken into account all shares tendered for conversion by holders of Series N First Preference Shares and Series M First Preference Shares, as the case may be, that there would be outstanding on any Series N Conversion Date fewer than 1,000,000 Series N First Preference Shares, such remaining number of Series N First Preference Shares will automatically be converted on such Series N Conversion Date into an equal number of Series M First Preference Shares. Additionally, if the Corporation determines that, after conversion, there would be outstanding on such Series N Conversion Date fewer than 1,000,000 Series M First Preference Shares, then no Series N First Preference Shares will be converted into Series M First Preference Shares. See "Details of the Offering".

Rights Applicable to Series M First Preference Shares and Series N First Preference Shares:

Purchase for Cancellation:

Subject to applicable law and any necessary regulatory approvals, the Corporation will be entitled to purchase Series M First Preference Shares and Series N First Preference Shares for cancellation in the open market or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable. See "Details of the Offering".

Rights on Liquidation:

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series M First Preference Shares and Series N First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation under applicable laws), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series M First Preference Shares or the Series N First Preference Shares. The holders of the Series M First Preference Shares and Series N First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation. See "Details of the Offering".

Priority: The Series M First Preference Shares and Series N First Preference Shares rank on a parity with any other series of First Preference Shares of the Corporation and senior to all other shares of the Corporation with respect to priority to the payment of dividends, return of capital and the distribution of assets on the dissolution, liquidation or winding-up of the Corporation. See "Details of the Offering".

Voting Rights: The Series M First Preference Shares and Series N First Preference Shares are non-voting unless the Corporation fails to pay eight quarterly dividends on the Series M First Preference Shares or the Series N First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment and for only so long as any such dividends remain in arrears, the holders of the Series M First Preference Shares or the Series N First Preference Shares, as applicable, will be entitled to receive notice of and to attend all shareholders' meetings of the Corporation which take place more than 60 days after the date on which the failure first occurs, other than meetings at which only holders of another specified class or series are entitled to vote, and will be entitled to one vote for each Series M First Preference Share or Series N First Preference Share held, as applicable. See "Details of the Offering".

Tax on Preference Share Dividends: The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of the tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series M First Preference Shares and Series N First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares. See "Details of the Offering" and "Canadian Federal Income Tax Considerations".

Listing: The Toronto Stock Exchange (the "TSX") has conditionally approved the listing of the Series M First Preference Shares distributed under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares are convertible. Listing of the Series M First Preference Shares and the Series N First Preference Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before December 2, 2014.

Earnings Coverage: Earnings coverage information is provided in this Prospectus under the heading "Earnings Coverage Ratio".

Risk Factors: An investment in the Series M First Preference Shares involves certain risks that should be considered by a prospective purchaser. See "Risk Factors".

FORTIS

Fortis Inc. was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977. The Corporation was continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987 and on October 13, 1987 the Corporation amended its articles to change its name to "Fortis Inc.". The address of the head office and principal place of business of the Corporation is The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2.

Fortis is the largest investor-owned gas and electric distribution utility in Canada with total assets approaching $25 billion and fiscal 2013 revenue (which excludes the Acquisition) exceeding $4.0 billion. Fortis serves more than 3 million customers across Canada and in the United States and the Caribbean. Its regulated holdings include electric distribution utilities in five Canadian provinces, the state of Arizona, New York State and two Caribbean countries and natural gas utilities in British Columbia, Canada and in the States of Arizona and New York. Regulated utility assets comprise approximately 93% of the Corporation's total assets, with the balance comprised of non-regulated generation assets and hotels and commercial real estate in Canada.

Fortis is the direct owner of all of the common shares of FortisBC Holdings Inc. ("FortisBC Holdings"), a company that, through its subsidiaries, is the principal distributor of natural gas in British Columbia. Fortis is the indirect owner of all of the common shares of UNS Energy, a vertically integrated utility services holding company, headquartered in Tucson, Arizona, engaged through three subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona; FortisAlberta, a regulated electric utility that distributes electricity generated by other market participants in a substantial portion of southern and central Alberta; FortisBC Inc. ("FortisBC"), a regulated electric utility that generates, transmits and distributes electricity in the southern interior of British Columbia; Central Hudson Gas & Electric Corporation ("Central Hudson"), a regulated transmission and distribution utility serving electricity and natural gas customers in eight counties of New York State's Mid-Hudson River Valley; and Maritime Electric Company, Limited ("Maritime Electric"), the principal distributor of electricity on Prince Edward Island. Fortis also holds all of the common shares of Newfoundland Power Inc. ("Newfoundland Power"), the principal distributor of electricity in Newfoundland. As well, through a wholly owned subsidiary FortisOntario Inc. ("FortisOntario") and its subsidiaries, Canadian Niagara Power Inc. ("CNPI"), Cornwall Street Railway, Light and Power Company, Limited ("Cornwall Electric") and Algoma Power Inc. ("Algoma Power"), Fortis provides an integrated electric utility service in Ontario to customers primarily in Fort Erie, Cornwall, Gananoque and Port Colborne and distributes electricity to customers in the district of Algoma in northern Ontario.

The Corporation's regulated electric utility assets in the Caribbean consist of its ownership, through wholly owned subsidiaries, of an approximate 60% interest in Caribbean Utilities Company, Ltd. ("Caribbean Utilities"), an integrated electric utility and the sole provider of electricity on Grand Cayman, Cayman Islands. Fortis also owns, through wholly owned subsidiaries, FortisTCI Limited and Turks and Caicos Utilities Limited (collectively "Fortis Turks and Caicos"), which together are the principal distributors of electricity in the Turks and Caicos Islands.

The Corporation's non-regulated generation operations consist of its 100% interest in each of Belize Electricity Company Limited ("BECOL"), FortisOntario and FortisUS Energy Corporation, as well as non-regulated generation assets owned either directly or indirectly by FortisBC and by Fortis through its 51% controlling ownership interest in the Waneta Expansion Limited Partnership. Fortis Generation East LLP, a limited liability partnership directly held by Fortis, owns six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 megawatts ("MW").

Non-utility operations are conducted through Fortis Properties Corporation ("Fortis Properties"). Through Fortis Properties, the Corporation owns and operates 23 hotels in eight Canadian provinces and owns approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada.

Regulated Gas Utilities – Canadian

FortisBC Energy Companies

The natural gas distribution business of FortisBC Holdings is one of the largest in Canada. With approximately 961,000 customers as at June 30, 2014, FortisBC Holdings' subsidiaries provide service to over 96% of gas users in British Columbia. FortisBC Energy Inc. ("FEI") is the largest of these subsidiaries, serving approximately 853,000 customers as at June 30, 2014. FEI has a service area which includes Greater Vancouver, the Fraser Valley and Thompson, Okanagan, Kootenay and North Central interior regions of British Columbia. FortisBC Energy (Vancouver Island) Inc. ("FEVI") owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island, serving approximately 105,000 customers on Vancouver Island and along the Sunshine Coast of British Columbia as at June 30, 2014. In addition to providing transmission and distribution services to customers, FEI and FEVI also obtain natural gas supplied on behalf of most residential and commercial customers. Gas supplies are sourced primarily from north-eastern British Columbia and, through FEI's Southern Crossing Pipeline, from Alberta. FortisBC Energy (Whistler) Inc. ("FEWI") owns and operates the natural gas distribution system in the Resort Municipality of Whistler, British Columbia, providing service to approximately 3,000 residential and commercial customers as at June 30, 2014. Collectively, FEI, FEVI and FEWI own and operate approximately 46,000 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,341 terajoules in 2013. In February 2014 the FortisBC Energy companies received regulatory approval for the amalgamation of their regulated utilities. The amalgamation received the consent of the Lieutenant Governor in Council in May 2014 and is expected to be effective December 31, 2014.

Regulated Gas & Electric Utilities – United States

UNS Energy

UNS Energy is a vertically integrated utility services holding company, headquartered in Tucson, Arizona, engaged through three subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona. UNS Energy serves approximately 657,000 electricity and gas customers. As of June 30, 2014, UNS Energy's total assets were approximately US$4.5 billion and operating revenues and net income for the year ended December 31, 2013 totalled US$1.5 billion and US$127 million, respectively.

Tucson Electric Power Company ("TEP"), the main business of UNS Energy, is a vertically integrated, regulated electric utility and represented approximately 85% of the total assets of UNS Energy as at June 30, 2014 and approximately 79% of the operating revenues of UNS Energy for the six months ended June 30, 2014. TEP generates, transmits and distributes electricity to approximately 414,000 retail electric customers in southern Arizona as at June 30, 2014. TEP met a retail peak demand of 2,230 MW in 2013 and has sufficient generating capacity which, together with existing power purchase agreements and expected generation plant additions, should satisfy the requirements of its customer base and meet expected future peak demand requirements. In addition, TEP sells electricity to other entities in the western United States. As at June 30, 2014, TEP owned electrical generating capacity of 1,853 MW and leased electrical generating capacity of 387 MW, for total net generating capacity of 2,240 MW. Several of the generating assets which TEP has an interest in are jointly owned. TEP expects to complete the acquisition of a 75% undivided interest (413 MW) in Unit 3 of the Gila River Generating Station in Gila Bend, Arizona in December 2014.

UNS Electric, Inc. ("UNS Electric") is a regulated, vertically integrated electric utility company serving approximately 93,000 retail customers in Arizona's Mohave and Santa Cruz counties as at June 30, 2014. UNS Electric represents approximately 9% of the total assets of UNS Energy as of June 30, 2014 and approximately 12% of the operating revenues of UNS Energy for the six months ended June 30, 2014. UNS Energy met a peak demand of 423 MW in 2013. UNS Electric owns and operates a 90 MW gas-fired facility located near Kingman, Arizona as well as the Valencia Power Plant located in Nogales, Arizona, which consists of four gas and diesel-fueled combustion turbine units and provides approximately 62 MW of peaking resources. UNS Electric expects to complete the acquisition of a 25% undivided interest (137 MW) in Unit 3 of the Gila River Generating Station in Gila Bend, Arizona in December 2014. UNS Electric's generating resources met 152 MW or 36% of its 2013 peak demand and UNS Electric relies on a portfolio of long, intermediate and short-term electricity purchases to meet the remainder of its customer load requirements.

UNS Gas, Inc. ("UNS Gas") is a regulated gas distribution company serving approximately 150,000 retail customers in Arizona's Mohave, Yavapai, Coconino, Navajo and Santa Cruz counties as at June 30, 2014. UNS Gas represented approximately 6% of the total assets of UNS Energy as at June 30, 2014 and approximately 9% of the operating revenues of UNS Energy for the six months ended June 30, 2014. UNS Gas purchases most of the gas that it distributes from the San Juan Basin and this gas is delivered on the El Paso Natural Gas and Transwestern Pipeline Company interstate pipeline system under firm transportation agreements with combined capacity sufficient to meet the demand of the customers of UNS Gas.

Central Hudson

Central Hudson, the main business of the Corporation's indirect subsidiary, CH Energy Group, Inc. ("CH Energy Group"), is a regulated transmission and distribution utility serving approximately 300,000 electricity and 78,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley as at June 30, 2014. Central Hudson's electric assets comprised approximately 74% of its total assets as at June 30, 2014 and include approximately 14,000 kilometres of distribution lines and 1,000 kilometres of transmission lines. The electric business met a peak demand of 1,202 MW in 2013. Central Hudson's natural gas assets comprised the remaining 26% of its total assets and include approximately 1,900 kilometres of distribution pipelines and more than 266 kilometres of transmission pipelines. The gas business met a peak day demand of 125 terajoules in 2013.

Central Hudson primarily relies on electricity purchases from third-party providers and the energy and capacity markets administered by the New York Independent System Operator to meet the demand of its full-service electricity customers. It also generates a small portion of its electricity requirements. Central Hudson purchases its gas supply requirements at various pipeline receipt points from a number of suppliers with whom it has contracted for firm transport capacity.

Regulated Electric Utilities – Canadian

FortisAlberta

FortisAlberta's business is the ownership and operation of regulated electricity distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers in central and southern Alberta. FortisAlberta distributes electricity to approximately 522,000 customers in Alberta as at June 30, 2014, using approximately 119,000 kilometres of owned and/or operated distribution lines and met a peak demand of 2,613 MW in 2013. FortisAlberta is not involved in the generation, transmission or direct sale of electricity.

FortisBC

FortisBC is an integrated, regulated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC serves a diverse mix of approximately 165,000 customers as at June 30, 2014, with residential customers representing the largest customer segment. FortisBC met a peak demand of 699 MW in 2013. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 225 MW that provide approximately 45% of FortisBC's energy and 30% of its peak capacity needs. FortisBC's remaining electricity supply is acquired through long-term power purchase contracts and short-term market purchases. FortisBC's business also includes non-regulated operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generation facility owned by Teck Metals Ltd. and BC Hydro, the 149-MW Brilliant hydroelectric plant, the 120-MW Brilliant hydroelectric expansion plant and the 185-MW Arrow Lakes hydroelectric plant, each owned by Columbia Power Corporation and Columbia Basin Trust ("CPC/CBT").

Newfoundland Power

Newfoundland Power is a regulated electric utility that operates an integrated generation, transmission and distribution system throughout the island portion of the Province of Newfoundland and Labrador. Newfoundland Power serves approximately 257,000 customers as at June 30, 2014, or approximately 87% of electricity consumers in the Province, and met a peak demand of 1,281 MW in 2013. Approximately 93% of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland Hydro. Newfoundland Power operates 28 small generating facilities, which generate the remaining 7% of the electricity it sells. Newfoundland Power's hydroelectric generating plants have a total capacity of 97 MW and its diesel plants and gas turbines have a total capacity of approximately 5 MW and 37 MW, respectively.

Maritime Electric

Maritime Electric is a regulated electric utility that operates an integrated generation, transmission and distribution system on Prince Edward Island. Maritime Electric directly supplies approximately 77,000 customers as at June 30, 2014, or 90% of electricity consumers on Prince Edward Island, and met a peak demand of 252 MW in 2013. Maritime Electric purchases most of the energy it distributes to its customers from New Brunswick Power Corporation under various energy purchase agreements and maintains on-Island generating facilities with an aggregate capacity of 150 MW.

FortisOntario

FortisOntario's regulated distribution operations serve approximately 65,000 customers in Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario as at June 30, 2014, and met a combined peak demand of 271 MW in 2013. FortisOntario's operations are comprised of CNPI, Cornwall Electric and Algoma Power. Through CNPI, FortisOntario owns international transmission facilities at Fort Erie and owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies that, together, serve approximately 39,000 customers as at June 30, 2014.

Regulated Electric Utilities — Caribbean

Caribbean Utilities

Fortis holds an indirect approximate 60% controlling ownership interest in Caribbean Utilities. Caribbean Utilities has the exclusive right to distribute and transmit electricity on the island of Grand Cayman, Cayman Islands, pursuant to a 20-year licence entered into on April 3, 2008. Caribbean Utilities also entered into a non-exclusive 21.5-year power generation licence with the Government of the Cayman Islands on April 3, 2008. Caribbean Utilities serves over 27,000 customers as at June 30, 2014, has approximately 150 MW of installed diesel-powered generating capacity and met a peak demand of 97 MW in 2013. The Class A Ordinary Shares of Caribbean Utilities are listed for trading on the TSX under the symbol CUP.U.

Fortis Turks and Caicos

Both of the Fortis Turks and Caicos utilities are integrated electric utilities, which collectively serve approximately 13,000 customers, or approximately 98% of electricity consumers on the Turks and Caicos Islands as at June 30, 2014. The utilities met a combined peak demand of approximately 36 MW in 2013. Fortis Turks and Caicos owns and operates approximately 618 kilometres of transmission and distribution lines. Fortis Turks and Caicos is the principal distributor of electricity on Turks and Caicos pursuant to 50-year licences that expire in 2036 and 2037.

Non-Regulated — Fortis Generation

Belize

Non-regulated generation operations in Belize are conducted through BECOL under a franchise agreement with the GOB. BECOL owns and operates the 25-MW Mollejon hydroelectric generating facility, the 7-MW Chalillo hydroelectric generating facility and the 19 MW Vaca hydroelectric generating facility. All such facilities are located on the Macal River in Belize. These hydro plants generate average annual energy production of approximately 240 gigawatt ("GWh"). BECOL sells its entire output to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060. In October 2011, the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has indicated it has no intention to expropriate BECOL but there can be no assurance that the GOB will not change its intentions. Fortis continues to control BECOL and to consolidate its financial results in the financial statements of the Corporation.

Ontario

Non-regulated generation operations of FortisOntario are comprised of the operation of a 5-MW gas-powered cogeneration plant in Cornwall. All thermal energy output of this plant is sold to external third parties, while the electricity output is sold to Cornwall Electric. Fortis Generation East LLP owns and operates six small hydroelectric generating facilities in eastern Ontario with a combined capacity of 8 MW. The electricity produced from these facilities is sold to the Ontario Power Authority, via the Hydroelectric Contract Initiative, under fixed-price contracts.

British Columbia

Non-regulated generation operations in British Columbia, conducted through FortisBC, include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet that sells its entire output to BC Hydro under a contract that expired on December 31, 2013. While no notice of termination has been received from BC Hydro, FortisBC is exposed to the risk that it will not be able to sell the power from this facility on similar terms in the event that the contract is terminated.

In October 2010, the Corporation formed the Waneta Partnership with CPC/CBT and concluded definitive agreements to construct the 335-MW Waneta Expansion at an estimated cost of approximately $900 million. The facility is situated adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. CPC/CBT are both 100% owned entities of the Government of British Columbia. Fortis owns a controlling 51% interest in the Waneta Partnership and, through FortisBC, will operate and maintain the Waneta Expansion when it comes into service, which is currently expected in spring 2015. SNC-Lavalin Group Inc. was awarded a contract for approximately $590 million to design and build the Waneta Expansion. Construction began in November 2010 and capital expenditures of approximately $633 million have been incurred on this capital project through June 30, 2014. Key construction activities for year-to-date 2014 included (i) the ongoing civil construction of the intake structure, forming of the power tunnel transition and excavation of the tailrace channel, (ii) completion of the 230-kilovolt transmission line which is scheduled for energization in September 2014, (iii) equipment installation and assembly in respect of turbine and generator components and powerhouse mechanical and electrical auxiliary systems and (iv) testing on various components and systems.

The Waneta Expansion is included in the Canal Plant Agreement (as described in the Corporation's AIF) and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy output, approximately 630 GWh, and associated capacity required to deliver such energy from the Waneta Expansion will be sold to BC Hydro under an executed long-term energy purchase agreement. The surplus capacity, equal to 234 MW on an average annual basis, is expected to be sold to FortisBC under a long-term capacity purchase agreement. In November 2011, FortisBC executed the agreement to purchase the capacity from the Waneta Expansion and filed such executed agreement with the British Columbia Utilities Commission (the "BCUC"). The form of the agreement was originally accepted for filing by the BCUC in September 2010. In May 2012, the BCUC determined that the executed agreement was in the public interest and a hearing was not required. The agreement has been accepted for filing as an energy supply contract and FortisBC has been directed by the BCUC to develop a rate-smoothing proposal. A rate-smoothing deferral mechanism has been included as part of FortisBC's 2014-2018 PBR revenue requirements application, which was filed on July 5, 2013 and updated on October 18, 2013, and is currently subject to review by the BCUC.

Upstate New York

Non-regulated generation assets in Upstate New York State are owned and operated by FortisUS Energy Corporation and include four hydroelectric generating stations with a combined generating capacity of approximately 23 MW operating under licences from the United States Federal Energy Regulatory Commission ("FERC"). All four hydroelectric generating facilities sell energy at market rates through purchase agreements with Niagara Mohawk Power Corporation.

Non-Regulated — Non-Utility

Through Fortis Properties, the Corporation owns and operates 23 hotels, comprised of more than 4,400 rooms, in eight Canadian provinces and owns approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada.

Expropriated Assets — Belize Electricity

Until June 20, 2011, Fortis held an indirect approximate 70% controlling ownership interest in Belize Electricity, the regulated principal distributor of electricity in Belize, Central America. On June 20, 2011, the GOB enacted legislation leading to the expropriation of the Corporation's investment in Belize Electricity. The consequential loss of control over the operations of the utility resulted in the Corporation discontinuing the consolidation method of accounting for Belize Electricity, effective June 20, 2011. The Corporation has classified the book value of the previous investment in Belize Electricity as a long-term other asset on its consolidated balance sheet. As at June 30, 2014, the long-term other asset, including foreign exchange impacts, totalled $108 million.

In October 2011 Fortis commenced an action in the Belize Supreme Court to challenge the legality of the expropriation of its investment in Belize Electricity and court proceedings with respect to the matter are continuing. Fortis commissioned an independent valuation of its expropriated investment in Belize Electricity and submitted its claim for compensation to the GOB in November 2011. The GOB also commissioned a valuation of Belize Electricity and communicated the results of such valuation in its response to the Corporation's claim for compensation. The fair value determined under the GOB's valuation is significantly lower than the fair value determined under the Corporation's valuation and the book value of Belize Electricity.

In July 2012 the Belize Supreme Court dismissed the Corporation's claim of October 2011. Also in July 2012, Fortis filed its appeal of the above-noted trial judgment in the Belize Court of Appeal. The appeal was heard in October 2012 and a decision was rendered by the Belize Court of Appeal on May 15, 2014. The two Belizean judges found in favour of the GOB; however, the third judge delivered a strong dissenting opinion concluding that the expropriation was contrary to the Belize Constitution. An appeal of the decision to the Caribbean Court of Justice, the final court for appeals arising in Belize, was filed in June 2014 and a hearing is expected in the fourth quarter of 2014. Fortis believes it has a strong, well-positioned case before the Caribbean Court of Justice supporting the unconstitutionality of the expropriation. There exists, however, a reasonable possibility that the outcome of the litigation may be unfavourable to the Corporation and the amount of compensation otherwise to be paid to Fortis under the legislation expropriating Belize Electricity could be lower than the book value of the Corporation's expropriated investment in Belize Electricity.

RECENT DEVELOPMENTS

Acquisition of UNS Energy Corporation

On August 15, 2014, Fortis acquired all of the outstanding common shares of UNS Energy for US$60.25 per common share in cash, representing an aggregate purchase price of approximately US$4.5 billion, including the assumption of approximately US$2.0 billion of debt on closing (the "Acquisition"). The cash portion of the purchase price was initially funded through drawings of an aggregate of $2.0 billion under the Acquisition Credit Facilities and US$265 million under the Corporation's $1.0 billion revolving credit facility (the "Revolving Facility"). Fortis intends to repay a portion of the borrowings under the Acquisition Credit Facilities with the proceeds of this Offering, as well as the $1.165 billion net proceeds of the final instalment under the Corporation's $1.8 billion aggregate principal amount of Convertible Debentures represented by Instalment Receipts, which Fortis expects to receive on the Final Instalment Date of October 27, 2014. See "Use of Proceeds", "Changes in Share and Loan Capital Structure" and "Earnings Coverage Ratio".

The Acquisition is consistent with the Corporation's strategy of investing in high-quality regulated utility assets in Canada and the United States and is expected to be accretive to earnings per Common Share in the first full year after closing, excluding one-time Acquisition-related costs. The Corporation's consolidated rate base increased by approximately US$3.0 billion as a result of the Acquisition. The Acquisition further mitigates business risk of Fortis by enhancing the geographic diversification of the Corporation's regulated assets, resulting in no more than one-third of the Corporation's total assets being located in any one regulated jurisdiction.

The Acquisition was completed following receipt of UNS Energy shareholder approval in March 2014, approval from the FERC in April 2014 and all other required regulatory approvals, including the approval of the Arizona Corporation Commission, which was granted on August 12, 2014. In connection with such regulatory approvals, Fortis has committed to provide UNS Energy's customers and community with certain benefits, including but not limited to: (i) providing the retail consumers of TEP, UNS Gas and UNS Electric (collectively, the "UNS Utilities") with bill credits totalling US$30 million over five years (US$10 million in year one and US$5 million annually in years two through five); (ii) UNS Energy and the UNS Utilities adopting certain ring-fencing and corporate governance provisions, including UNS Energy establishing a board of directors comprised of a majority of independent members, as well as a majority of Arizona residents; (iii) limiting dividends paid from the UNS Utilities to UNS Energy to 60% of the UNS Utilities' respective net income for a period of five years following completion of the Acquisition or until such time that their respective equity capitalization reaches 50% of total capital (excluding any goodwill recorded) as accounted for in accordance with US GAAP; and (iv) Fortis making an equity infusion totalling US$220 million through UNS Energy into the UNS Utilities within 60 days of the date of the closing of the Acquisition.

The Corporation's earnings for the third quarter of 2014 will be impacted by a number of non-recurring Acquisition-related expenses. Investment banking fees, drawdown fees associated with the Acquisition Credit Facilities and legal, tax, accounting and other related expenses for the third quarter of 2014 are currently estimated at approximately $25 million after tax. In addition, the US$30 million (approximately US$18 million after tax) in customer benefits payable to UNS Utility customers will be fully expensed in the third quarter of 2014. The Corporation's earnings in the second half of 2014 will be reduced by interest expense of approximately $38 million ($27 million after tax) associated with the Convertible Debentures to the Final Instalment Date, plus interest that would have accrued on the Convertible Debentures from the day following the Final Instalment Date to and including January 9, 2015. See "Final Instalment Date for Convertible Debentures Represented by Instalment Receipts".

See "Risk Factors", "Special Note Regarding Forward-Looking Statements", "Changes in Share and Loan Capital Structure" and the Business Acquisition Report incorporated by reference in this Prospectus.

Final Instalment Date for Convertible Debentures Represented by Instalment Receipts

To finance a portion of the Acquisition, in January 2014, Fortis, through a direct wholly owned subsidiary, completed the sale of the Convertible Debentures. The offering of the Convertible Debentures consisted of a bought deal offering of $1.594 billion aggregate principal amount of Convertible Debentures underwritten by a syndicate of underwriters and the sale of $206 million aggregate principal amount of Convertible Debentures to certain institutional investors on a private placement basis (together, the "Instalment Receipt Offering").

The Convertible Debentures were sold on an instalment receipt basis at a price of $1,000 per Convertible Debenture, of which $333 was paid on closing of the Instalment Receipt Offering and the remaining $667 is payable on the Final Instalment Date which has been fixed as October 27, 2014. The Instalment Receipts trade on the TSX under the symbol "FTS.IR". The Instalment Receipts will be delisted from the TSX before markets open on the Final Instalment Date. The Convertible Debentures will not be listed on the TSX. The Convertible Debentures will mature on January 9, 2024 and bear interest at an annual rate of 4.00% per $1,000 principal amount of Convertible Debentures until and including the Final Instalment Date. On the Final Instalment Date holders of Convertible Debentures will receive accrued and unpaid interest of $6.2637 per Convertible Debenture. On the day following the Final Instalment Date, the interest rate on the Convertible Debentures will fall to an annual rate of 0% and interest will cease to accrue on the Convertible Debentures. Holders of the Convertible Debentures who have paid the final instalment by the Final Instalment Date will be entitled to receive, in addition to the payment of accrued and unpaid interest, an amount equal to $8.1473 per $1,000 principal amount of Convertible Debentures, which represents the interest that would have accrued on the Convertible Debentures from the day following the Final Instalment Date to and including January 9, 2015, the first anniversary of the closing of the Instalment Receipt Offering.

At the option of the holders of the Convertible Debentures, and provided that payment of the final instalment has been made, each Convertible Debenture will be convertible at the option of the holder into Common Shares concurrently with or after the Final Instalment Date, but prior to their maturity or redemption by Fortis, at a conversion price of $30.72 per Common Share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of Convertible Debentures. Fortis will issue up to 58,593,750 Common Shares on conversion of the Convertible Debentures.

The proceeds of the first instalment of the Instalment Receipt Offering were approximately $599 million, or $561 million net of issue costs, and were applied by the Corporation (i) to repay borrowings under the Revolving Facility and (ii) for other general corporate purposes, including to provide financing to the Corporation's regulated utility subsidiaries for capital expenditures. The net proceeds of the final instalment payment of the Instalment Receipt Offering is expected to be, in aggregate, approximately $1.165 billion. Fortis will use the net proceeds of the final instalment to repay a portion of the borrowings under the Acquisition Credit Facilities. See "Use of Proceeds", "Recent Developments – Acquisition of UNS Energy" and the Material Change Report dated August 15, 2014 incorporated by reference in this Prospectus.

Executive Appointments

On May 12, 2014, Fortis announced that H. Stanley Marshall, formerly the Corporation's President and Chief Executive Officer will retire as CEO and a director of the Corporation, effective December 31, 2014. Fortis further announced, that Barry Perry, formerly the Corporation's Vice President, Finance and Chief Financial Officer will succeed Mr. Marshall as Chief Executive Officer, effective December 31, 2014. As part of this transition, Mr. Marshall relinquished his role as President to Mr. Perry on June 30, 2014. See the Material Change Report dated May 12, 2014 incorporated by reference in this Prospectus. As of June 30, 2014, Karl Smith, formerly the President and Chief Executive Officer of FortisAlberta, assumed the role of Executive Vice President, Chief Financial Officer of Fortis.

On August 1, 2014, John Walker, formerly President and Chief Executive Officer of FortisBC, became the Executive Vice President, Western Canadian Operations of the Corporation and Earl Ludlow, formerly President and Chief Executive Officer of Newfoundland Power, became Executive Vice President, Eastern Canadian and Caribbean Operations of the Corporation.

Private Placement of US Notes

In March 2014 Fortis priced a private placement to US-based institutional investors of US$500 million aggregate principal amount of senior unsecured notes (the "US Notes"). The notes 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%. The weighted average term to maturity is approximately 11 years and the weighted average coupon rate is 3.85%.

On June 30, 2014, Fortis issued US$213 million of the US Notes with a weighted average term to maturity of approximately 9 years and a weighted average coupon rate of 3.51%. Net proceeds were used to repay US-dollar denominated borrowings on the Corporation's committed credit facility and for general corporate purposes.

The remaining US$287 million of the US Notes will be issued on September 15, 2014, subject to the satisfaction of customary closing conditions. The remaining US Notes will be issued in multiple tranches with terms to maturity ranging from 7 to 30 years and coupon rates ranging from 3.64% to 5.03%. The weighted average term to maturity will be approximately 12 years and the weighted average coupon rate will be 4.11%. Net proceeds will be used to refinance existing indebtedness, including the US$150 million 5.74% senior unsecured notes of Fortis maturing on October 30, 2014 and $125 million 5.56% unsecured debentures of a subsidiary maturing on September 15, 2014, and other indebtedness.

CAPITALIZATION

The following table sets out the consolidated capitalization of the Corporation as at June 30, 2014 and on a *pro forma* basis as of such date after giving effect to (i) the net proceeds from the Offering, determined after deducting the Underwriters' Fee, assuming no Series M First Preference Shares are sold to certain institutions, and estimated expenses of the Offering on an after-tax basis, (ii) the Acquisition and the assumption of UNS Energy debt, (iii) the financing of the Acquisition, including drawings under the Acquisition Credit Facilities, the Revolving Facility and receipt of the final instalment in respect of, and the issuance of Common Shares upon the conversion of, the Convertible Debentures (and the application of net proceeds therefrom and of this Offering to repay a portion of the Acquisition Credit Facilities), and (iv) other changes in Common Shares, long-term debt, capital lease and finance obligations from July 1, 2014 up to and including September 10, 2014. See "Changes in Share and Loan Capital Structure". The financial information set out below has been prepared in accordance with US GAAP.

	Outstanding at June 30, 2014 (unaudited)	*Pro forma* Outstanding at June 30, 2014 (unaudited) [(1)]
	(in millions of dollars)	
Total debt, capital lease and finance obligations (net of cash)	7,666[(2)]	10,463
Shareholders' equity		
Securities offered hereby	-	587
Common Shares	3,849	5,620[(3)]
Preference shares	1,229	1,229
Additional paid-in capital	17	17
Accumulated other comprehensive loss	(69)	(69)
Retained earnings	1,097	1,097
Total capitalization [(4)]	13,789	18,944

(1) After giving effect to (i) the net proceeds from the Offering, determined after deducting the Underwriters' Fee, assuming no Series M First Preference Shares are sold to certain institutions, and estimated expenses of the Offering on an after-tax basis, (ii) the Acquisition and the assumption of UNS Energy debt, (iii) the financing of the Acquisition, including drawings under the Acquisition Credit Facilities, the Revolving Facility and the receipt of the final instalment in respect of, and the issuance of Common Shares upon the conversion of, the Convertible Debentures (and the application of net proceeds therefrom and of this Offering to repay a portion of the Acquisition Credit Facilities), and (iv) other changes in Common Shares, long-term debt, capital lease and finance obligations from July 1, 2014 up to and including September 10, 2014. See "Changes in Share and Loan Capital Structure".

(2) Includes long-term debt, capital lease and finance obligations, including current portion, the Convertible Debentures represented by Instalment Receipts and short-term borrowings.

(3) Assuming the conversion of all outstanding Convertible Debentures into Common Shares.

(4) Excludes non-controlling interests.

SHARE CAPITAL OF FORTIS

The authorized share capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of first preference shares issuable in series (the "First Preference Shares") and an unlimited number of second preference shares issuable in series (the "Second Preference Shares"), in each case without nominal or par value. As at September 10, 2014, 215,995,480 Common Shares, 7,993,500 Cumulative Redeemable First Preference Shares, Series E (the "First Preference Shares, Series E"), 5,000,000 Cumulative Redeemable First Preference Shares, Series F (the "First Preference Shares, Series F"), 9,200,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series G (the "First Preference Shares, Series G"), 10,000,000 Cumulative Redeemable Five-Year Fixed Rate Reset First Preference Shares, Series H (the "First Preference Shares, Series H"), 8,000,000 Cumulative Redeemable First Preference Shares, Series J (the "First Preference Shares, Series J"), 10,000,000 Cumulative Redeemable Fixed Rate Reset First Preference Shares, Series K (the "First Preference Shares, Series K") and 1,800,000 Instalment Receipts representing the Convertible Debentures (convertible into Common Shares) were issued and outstanding. The Corporation expects to issue up to 58,593,750 additional Common Shares on conversion of the Convertible Debentures concurrent with or after the Final Instalment Date. The Corporation's Common Shares, First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J, First Preference Shares, Series K and Instalment Receipts are listed on the TSX under the symbols "FTS", "FTS.PR.E", "FTS.PR.F", "FTS.PR.G", "FTS.PR.H", "FTS.PR.J", "FTS.PR.K" and "FTS.IR", respectively.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

The following describes the changes in the share and loan capital structure of Fortis since June 30, 2014:

(a) During the period from July 1, 2014 up to and including September 10, 2014, the Corporation's consolidated long-term debt, capital lease and finance obligations, including current portions and committed credit facility borrowings classified as long-term debt increased by approximately $4.7 billion, principally due to the following (excluding application of the net proceeds of this Offering):

(i) the assumption of UNS Energy debt of approximately $2.2 billion (US$2.0 billion);

(ii) borrowings of $2.0 billion under the Corporation's Acquisition Credit Facilities;

(iii) borrowings of approximately $290 million (US$265 million) under the Revolving Facility; and

(iv) committed credit facility borrowings in an aggregate amount of approximately $262 million by the FortisBC Energy companies, FortisBC Electric, FortisAlberta and Newfoundland Power, in each case for general corporate purposes.

(b) During the period from July 1, 2014 up to and including September 10, 2014, Fortis issued an aggregate of 659,998 Common Shares pursuant to the Corporation's Dividend Reinvestment Plan, Consumer Share Purchase Plan and Employee Share Purchase Plan and upon the exercise of options granted pursuant to the 2006 and 2002 Stock Option Plans, for aggregate consideration of up to approximately $22 million.

In addition, the Corporation expects to issue up to 58,593,750 additional Common Shares upon the conversion of the Convertible Debentures for aggregate consideration of approximately $1.749 billion, net of after-tax expenses. Approximately $563 million was received by the Corporation on January 9, 2014 and approximately $1.165 billion is expected to be received by the Corporation on the Final Instalment Date of October 27, 2014. The Corporation will also realize a tax effect of approximately $21 million associated with the expenses incurred to complete the offering of the Convertible Debentures. See "Recent Developments – Final Instalment Date for Convertible Debentures Represented by Instalment Receipts".

PRIOR SALES

No First Preference Shares or securities convertible into First Preference Share have been issued in the previous 12-month period.

TRADING PRICES AND VOLUMES

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Corporation's Common Shares; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; First Preference Shares, Series K; and Instalment Receipts on the TSX.

	Trading of Common Shares TSX			Trading of First Preference Shares, Series E TSX		
	High ($)	Low ($)	Volume (#)	High ($)	Low ($)	Volume (#)
2013						
September……………………....	31.57	29.78	13,894,725	26.04	25.80	277,950
October………………………....	32.80	30.76	9,216,065	26.16	25.90	142,029
November……………………....	32.84	31.00	9,871,013	26.22	25.83	110,659
December…………………….....	31.68	29.51	11,521,039	26.25	25.62	144,603
2014						
January………………………....	30.65	29.78	15,427,305	26.14	25.82	55,264
February………………………..	31.09	30.20	9,620,655	26.11	25.80	33,747
March…………………………..	31.56	30.51	12,777,178	26.24	25.81	18,225
April………………………….....	32.28	31.35	9,813,038	26.20	25.91	247,732
May…………………………….	32.86	31.26	12,283,732	26.24	25.82	28,942
June…………………………….	32.58	31.58	11,025,968	26.09	25.80	11,120
July……………………………..	33.88	32.14	12,902,845	26.27	26.05	33,096
August………………………….	33.83	32.98	11,646,542	26.33	25.80	50,911
September 1 to 10………………	34.35	33.41	3,831,003	26.11	25.91	60,255

	Trading of First Preference Shares, Series F			Trading of First Preference Shares, Series G		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2013						
September…………………….....	24.12	21.67	268,832	23.82	23.20	186,736
October………………………....	24.77	22.87	110,290	24.10	23.35	210,044
November……………………....	24.05	23.25	83,563	24.19	23.78	166,399
December……………………....	23.51	21.66	235,877	24.13	23.76	235,211
2014						
January………………………....	23.33	22.22	91,267	24.53	23.97	232,756
February………………………..	23.71	22.67	262,017	24.49	24.00	88,365
March…………………………..	24.10	23.01	70,380	24.75	24.25	167,012
April…………………………....	24.60	23.81	81,295	25.20	24.54	276,627
May…………………………….	24.65	23.75	86,608	25.30	24.08	284,273
June…………………………….	24.37	23.67	138,461	24.93	24.26	183,455
July……………………………..	24.83	24.27	147,770	25.15	24.66	145,260
August………………………….	24.88	24.50	28,940	25.36	24.80	205,490
September 1 to 10………………	24.79	24.32	30,962	25.13	24.54	42,075

	Trading of First Preference Shares, Series H			Trading of First Preference Shares, Series J		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2013						
September…………………….....	22.17	20.68	254,009	23.75	21.13	378,127
October………………………....	22.30	20.12	329,107	23.75	22.33	215,801
November……………………....	22.38	20.80	447,312	23.59	22.37	252,735
December……………………....	21.55	21.00	587,546	22.70	21.24	378,358
2014						
January………………………....	22.00	21.00	112,390	22.90	21.70	198,292
February………………………..	21.84	20.90	1,039,870	22.76	22.23	340,425
March…………………………..	21.89	21.34	162,043	23.47	22.43	261,486
April…………………………....	22.00	21.59	346,498	24.25	23.20	136,011
May…………………………….	22.40	21.05	305,651	24.40	23.60	260,905
June…………………………….	21.64	21.00	331,098	24.10	23.42	95,978
July……………………………..	21.90	21.21	86,946	24.67	23.85	120,687
August………………………….	21.61	20.75	95,093	24.59	24.03	137,744
September 1 to 10………………	21.25	20.61	57,113	24.34	24.05	173,799

	Trading of First Preference Shares, Series K			Trading of Instalment Receipts		
	TSX			TSX		
	High	Low	Volume	High	Low	Volume
	($)	($)	(#)	($)	($)	(#)
2013						
September…………………….....	24.84	24.10	158,746	—	—	—
October………………………....	24.76	24.20	329,716	—	—	—
November……………………....	24.78	23.96	137,442	—	—	—
December……………………....	24.84	24.05	194,721	—	—	—
2014						
January[(1)]……………………….	24.90	24.27	293,987	32.96	29.25	1,301,719
February………………………..	24.84	24.42	108,014	32.75	30.50	792,223
March…………………………..	24.87	24.50	258,033	33.95	31.80	1,613,996
April…………………………....	25.25	24.80	271,649	37.22	33.70	1,350,380
May…………………………….	25.42	24.79	215,657	39.29	35.85	1,237,972
June…………………………….	25.29	24.80	176,452	38.51	35.43	927,018
July……………………………..	25.54	24.85	160,474	43.00	37.50	2,091,274
August………………………….	25.30	24.75	141,563	43.36	39.94	1,150,613
September 1 to 10………………	25.21	24.85	93,501	45.00	42.16	156,644

(1) The Instalment Receipts commenced trading on January 9, 2014.

EARNINGS COVERAGE RATIO

The Corporation's dividend requirements on all of its First Preference Shares after giving effect to the issue of 24,000,000 Series M First Preference Shares to be distributed under this Prospectus, and adjusted to a before-tax equivalent, amounted to $88 million using an effective income tax rate of 7.4%, and $97 million using an effective income tax rate of 17.3% for each of the 12 months ended December 31, 2013 and the 12 months ended June 30, 2014, respectively. The Corporation's interest requirements for the 12 months ended December 31, 2013 and the 12 months ended June 30, 2014 amounted to $402 million and $469 million, respectively. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2013 and the 12 months ended June 30, 2014 were $803 million and $923 million, respectively, which is 1.64 times and 1.63 times, respectively, the Corporation's aggregate dividend and interest requirements for the period.

The earnings coverage ratios of the Corporation, calculated on a *pro forma* basis after giving effect to (i) the issue of 24,000,000 Series M First Preference Shares to be distributed under this Prospectus and (ii) the Acquisition, including the assumption of approximately $2.2 billion (US$2.0 billion) in UNS Energy debt, and assumptions related to the financing of the Acquisition, including drawings under the Acquisition Credit Facilities and the Revolving Facility and the receipt of the net proceeds from the final instalment payable in respect of, and the issuance of Common Shares upon the conversion of, the Convertible Debentures (and the application of net proceeds therefrom and of this Offering to repay a portion of the borrowings under the Acquisition Credit Facilities), are calculated as follows: (i) the Corporation's dividend requirements on all of its First Preference Shares for the 12 months ended December 31, 2013 and 6 months ended June 30, 2014, adjusted to a before-tax equivalent, amounted to $92 million using an effective income tax rate of 11.7% and $50 million using an effective income tax rate of 21.7%, respectively; (ii) the Corporation's interest requirements on all of its outstanding debt securities amounted to $552 million and $295 million for each of the 12 months ended December 31, 2013 and the 6 months ended June 30, 2014, respectively; and (iii) the Corporation's earnings before interest and income tax for the 12 months ended December 31, 2013 and 6 months ended June 30, 2014 were $1,100 million and $660 million, respectively, which is 1.71 times and 1.91 times, respectively, the Corporation's aggregate interest and dividend requirements for the periods.

DIVIDEND POLICY

Dividends on the Common Shares are declared at the discretion of the Board of Directors. The Corporation paid cash dividends on its Common Shares of $1.24 in 2013 and $1.20 in 2012. On August 14, 2014, the Board of Directors declared a fourth quarter dividend of $0.32 per Common Share, payable on December 1, 2014 to holders of record of such Common Shares on October 24, 2014.

Regular quarterly dividends at the prescribed annual rate have been paid on all of the First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K, respectively. On August 14, 2014, the Board of Directors declared a fourth quarter dividend on the First Preference Shares, Series E, First Preference Shares, Series F, First Preference Shares, Series G, First Preference Shares, Series H, First Preference Shares, Series J and First Preference Shares, Series K, in each case in accordance with the applicable prescribed annual rate, payable on December 1, 2014 to holders of record on November 18, 2014.

RATINGS

The Series M First Preference Shares are rated Pfd-2 (low) 'under review with developing implications' by DBRS. The Series M First Preference Shares are rated P-2 by S&P.

On December 11, 2013, DBRS placed the Corporation's issuer rating, unsecured debt rating and preferred share ratings 'under review with developing implications'. The review was prompted by the Corporation's announcement of the acquisition of UNS Energy. The review reflects DBRS' view that the acquisition of UNS Energy will have a modestly negative impact on the Corporation's business risk profile until all acquisition-related financing has been repaid or, in the case of the Convertible Debentures, is converted into Common Shares in accordance with its terms. See "Recent Developments – Acquisition of UNS Energy Corporation" and "Recent Developments – Final Instalment Date for Convertible Debentures Represented by Instalment Receipts".

In addition, on December 12, 2013, S&P revised its outlook on the Corporation to negative from stable following the announcement of the UNS Energy acquisition, on the basis of its expectation that the acquisition would be financed primarily using the Convertible Debentures, which will depress key credit metrics of the Corporation until the conversion thereof to Common Shares. S&P has also revised from stable to negative its outlook on the credit ratings of the Corporation's subsidiaries FortisAlberta, Maritime Electric and Caribbean Utilities using its group rating methodology. See "Recent Developments – Final Instalment Date for Convertible Debentures Represented by Instalment Receipts".

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings accorded to the Series M First Preference Shares by these rating agencies are not recommendations to purchase, hold or sell the Series M First Preference Shares, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Fortis has paid each of DBRS and S&P their customary fees in connection with the provision of the ratings described herein. Fortis has not made any payments to DBRS or S&P for services unrelated to the provision of such ratings.

DETAILS OF THE OFFERING

Specific Provisions of First Preference Shares

The following is a summary of the material rights, privileges, conditions and restrictions attached to the First Preference Shares as a class. The specific terms of the Series M First Preference Shares being offered under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares may be converted are outlined below.

Issuance in Series

The Board of Directors may from time to time issue First Preference Shares in one or more series. Prior to issuing shares in a series, the Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of First Preference Shares.

Priority

The shares of each series of First Preference Shares rank on a parity with the First Preference Shares of every other series and in priority to all other shares of the Corporation, including the Second Preference Shares, as to the payment of dividends, return of capital and distributions of assets in the event of the liquidations, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs. Each series of First Preference Shares participates rateably with every other series of First Preference Shares in respect of accumulated cumulative dividends and returns of capital if any amount of cumulative dividends, whether or not declared, or amount payable on the return of capital in respect of a series of First Preference Shares, is not paid in full.

Voting

The holders of the First Preference Shares are not entitled to any voting rights as a class except to the extent that voting rights may from time to time be attached to any series of First Preference Shares, and except as provided by law or as described below under "Modification". At any meeting of the holders of First Preference Shares, each holder shall have one vote in respect of each First Preference Share held.

Redemption

Subject to the provisions of the *Corporations Act* (Newfoundland and Labrador) and any provisions relating to any particular series, Fortis, upon giving proper notice, may redeem out of capital or otherwise at any time, or from time to time, the whole or any part of the then outstanding First Preference Shares of any one or more series on payment for each such First Preference Share of such price or prices as may be applicable to such series. Subject to the foregoing, if only a part of the then outstanding First Preference Shares of any particular series is at any time redeemed, then the shares to be redeemed will be selected by lot in such manner as the directors or the transfer agent for the First Preference Shares, if any, decide, or if the directors so determine, may be redeemed *pro rata* disregarding fractions.

Modification

The class provisions attached to the First Preference Shares may only be amended with the prior approval of the holders of the First Preference Shares in addition to any other approvals required by the *Corporations Act* (Newfoundland and Labrador) or any other statutory provisions of like or similar effect in force from time to time. The approval of the holders of the First Preference Shares with respect to any and all matters may be given by at least two-thirds of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose.

Specific Provisions of Series M First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series M First Preference Shares.

Definition of Terms

The following definitions are relevant to the Series M First Preference Shares.

"Annual Fixed Dividend Rate" means, for any Subsequent Fixed Rate Period, the rate of interest (expressed as a percentage rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the Government of Canada Bond Yield on the applicable Fixed Rate Calculation Date plus 2.48%.

"Bloomberg Screen GCAN5YR Page" means the display designated as page "GCAN5YR<INDEX>" on the Bloomberg Financial L.P. service (or such other page as may replace the GCAN5YR page on that service) for purposes of displaying the Government of Canada Bond Yield.

"Fixed Rate Calculation Date" means, for any Subsequent Fixed Rate Period, the 30th day prior to the first day of such Subsequent Fixed Rate Period.

"Government of Canada Bond Yield" on any date means the yield to maturity on such date (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years as quoted as of 10:00 a.m. (Toronto time) on such date and which appears on the Bloomberg Screen GCAN5YR Page on such date; provided that, if such rate does not appear on the Bloomberg Screen GCAN5YR Page on such date, the Government of Canada Bond Yield will mean the average of the yields determined by two registered Canadian investment dealers selected by the Corporation as being the yield to maturity on such date (assuming semi-annual compounding) that a Canadian dollar denominated non-callable Government of Canada bond would carry if issued in Canadian dollars at 100% of its principal amount on such date with a term to maturity of five years.

"Initial Fixed Rate Period" means the period commencing on the date of original issue of the Series M First Preference Shares to, but excluding, December 1, 2019.

"Subsequent Fixed Rate Period" means, for the initial Subsequent Fixed Rate Period, the five-year period commencing on December 1, 2019 to, but excluding, December 1, 2024 and, for each succeeding Subsequent Fixed Rate Period, the five-year period commencing on the first day of December immediately following the end of the immediately preceding Subsequent Fixed Rate Period to, but excluding, December 1 in the fifth year thereafter.

Issue Price

The Series M First Preference Shares will have an issue price of $25.00 per share.

Dividends

During the Initial Fixed Rate Period, the holders of Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, at a rate of $1.0250 per share per annum, accruing from the date of original issue, payable (other than the first dividend payment) in equal quarterly instalments on the first day of March, June, September and December of each year (less any tax required to be deducted and withheld by the Corporation under applicable laws). The initial dividend, if declared, will be payable on December 1, 2014 and will be $0.2050 per share, based on the anticipated Closing Date of September 19, 2014.

During each Subsequent Fixed Rate Period after the Initial Fixed Rate Period, the holders of the Series M First Preference Shares will be entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable in equal quarterly instalments on the first day of March, June, September and December of each year, in the amount per share per annum determined by multiplying the Annual Fixed Dividend Rate applicable to such Subsequent Fixed Rate Period by $25.00.

The Annual Fixed Dividend Rate applicable to a Subsequent Fixed Rate Period will be determined by the Corporation on the Fixed Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of the Series M First Preference Shares. The Corporation will, on the Fixed Rate Calculation Date, give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period to the registered holders of the then outstanding Series M First Preference Shares. If the Corporation gives notice to the holders of the Series M First Preference Shares of its intention to redeem all of the Series M First Preference Shares (as described below), the Corporation will not be required to give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period.

Redemption

The Series M First Preference Shares are not redeemable by the Corporation before December 1, 2019. On December 1, 2019, and on December 1 every fifth year thereafter, subject to the terms of any shares of the Corporation ranking prior to the Series M First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, redeem all or any part of the then outstanding Series M First Preference Shares by the payment of an amount in cash for each such share so redeemed of $25.00 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws).

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series M First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

The Series M First Preference Shares are not redeemable at the option of their holders.

Conversion of Series M First Preference Shares into Series N First Preference Shares

The holders of Series M First Preference Shares will have the right, at their option, on each Series M Conversion Date, to convert, subject to the restrictions on conversion described below, all or any of the Series M First Preference Shares registered in their name into Series N First Preference Shares, on the basis of one Series N First Preference Share for each Series M First Preference Share. The conversion of the Series M First Preference Shares may be effected by delivery to the Corporation of written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series M Conversion Date. Once received by the Corporation, such written notice is irrevocable.

The Corporation will, not less than 30 days and not more than 60 days prior to the applicable Series M Conversion Date, give notice in writing to the then registered holders of the Series M First Preference Shares of the above-mentioned conversion right. On the 30th day prior to each Series M Conversion Date, the Corporation will give notice in writing to the then registered holders of the Series M First Preference Shares of the Floating Quarterly Dividend Rate (as defined below) applicable to the Series N First Preference Shares for the next succeeding Quarterly Floating Rate Period (as defined below).

The holders of Series M First Preference Shares will not be entitled to convert their shares into Series N First Preference Shares if the Corporation determines that there would remain outstanding on a Series M Conversion Date fewer than 1,000,000 Series N First Preference Shares, after having taken into account all Series M First Preference Shares tendered for conversion into Series N First Preference Shares and all Series N First Preference Shares tendered for conversion into Series M First Preference Shares. The Corporation will give notice in writing thereof to all affected registered holders of Series M First Preference Shares at least seven days prior to the applicable Series M Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series M Conversion Date fewer than 1,000,000 Series M First Preference Shares, after having taken into account all Series M First Preference Shares tendered for conversion into Series N First Preference Shares and all Series N First Preference Shares tendered for conversion into Series M First Preference Shares, then all, but not part, of the remaining outstanding Series M First Preference Shares will automatically be converted into Series N First Preference Shares on the basis of one Series N First Preference Share for each Series M First Preference Share on the applicable Series M Conversion Date and the Corporation will give notice in writing thereof to the then registered holders of such remaining Series M First Preference Shares at least seven days prior to the Series M Conversion Date.

If the Corporation gives notice to the registered holders of the Series M First Preference Shares of the redemption of all the Series M First Preference Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series M First Preference Shares of a Floating Quarterly Dividend Rate or the conversion right of holders of Series M First Preference Shares and the right of any holder of Series M First Preference Shares to convert such Series M First Preference Shares will cease and terminate in that event.

A holder of Series M First Preference Shares on the record date for any dividend declared payable on such shares will be entitled to such dividend notwithstanding that such shares are converted into Series N First Preference Shares after such record date and on or before the date of payment of such dividend.

Upon the exercise by a holder of Series M First Preference Shares of its right to convert Series M First Preference Shares into Series N First Preference Shares or upon an automatic conversion of Series M First Preference Shares, the Corporation reserves the right not to issue any Series N First Preference Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside of Canada to the extent that such issue would require the Corporation to take any action to comply with the securities laws or other laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series M First Preference Shares in the open market, through or from an investment dealer or any firm holding membership on a recognized stock exchange, or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series M First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation under applicable laws), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series M First Preference Shares. The holders of the Series M First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series M First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series M First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series M First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series M First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series M First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series M First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series M First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series M First Preference Shares; or

(e) issue any additional Series M First Preference Shares (other than in accordance with the conversion provisions of the Series N First Preference Shares) or any shares ranking as to dividends or capital prior to or on a parity with the Series M First Preference Shares (other than any Series N First Preference Shares issued in accordance with the conversion provisions of the Series M First Preference Shares),

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series M First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series M First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series M First Preference Shares as a series and any other approval to be given by the holders of the Series M First Preference Shares may be given in such manner as then required by law, subject to a minimum requirement that such approval be given by a resolution in writing signed by all the holders of the Series M First Preference Shares or by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series M First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series M First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series M First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series M First Preference Share held.

Voting Rights

The holders of the Series M First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series M First Preference Shares as a series) to receive notice of, attend at or vote at any meeting of shareholders of the Corporation, unless and until the Corporation fails to pay eight quarterly dividends on the Series M First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series M First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series M First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series M First Preference Shares in any circumstances. The voting rights of the holders of the Series M First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series M First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series M First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series M First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Business Days

If any action or payment is required to be taken or made by the Corporation or a holder on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

Specific Provisions of Series N First Preference Shares

The following is a summary of the material rights, privileges, restrictions and conditions attached to the Series N First Preference Shares.

Definition of Terms

The following definitions are relevant to the Series N First Preference Shares.

"Bloomberg Screen CA3MAY Page" means the display designated as page "CA3MAY<INDEX>" on the Bloomberg Financial L.P. service (or such other page as may replace the CA3MAY page or that service) for purposes of displaying the T-Bill Rate.

"Floating Quarterly Dividend Rate" means, for any Quarterly Floating Rate Period, the rate of interest (expressed as a percentage rate rounded to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the T-Bill Rate on the applicable Floating Rate Calculation Date plus 2.48% (calculated on the basis of the actual number of days elapsed in such Quarterly Floating Rate Period divided by 365).

"Floating Rate Calculation Date" means, for any Quarterly Floating Rate Period, the 30th day prior to the first day of such Quarterly Floating Rate Period.

"Quarterly Commencement Date" means the first day of each of March, June, September and December of each year.

"Quarterly Floating Rate Period" means, for the initial Quarterly Floating Rate Period, the period commencing on December 1, 2019 and ending on and including February 29, 2020, and thereafter the period from and including the day immediately following the end of the immediately preceding Quarterly Floating Rate Period to but excluding the next succeeding Quarterly Commencement Date.

"T-Bill Rate" means, for any Quarterly Floating Rate Period, the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the applicable Floating Rate Calculation Date as quoted on the Bloomberg Screen CA3MAY Page; provided that if such information does not appear on the Bloomberg Screen CA3MAY Page on the applicable Floating Rate Calculation Date, then as determined by the Corporation.

Issue Price

The Series N First Preference Shares will have an issue price of $25.00 per share.

Dividends

The holders of the Series N First Preference Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors payable quarterly on the first day of March, June, September and December of each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by $25.00.

The Floating Quarterly Dividend Rate for each Quarterly Floating Rate Period will be determined by the Corporation on the Floating Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of Series N First Preference Shares. The Corporation will, on the Floating Rate Calculation Date, give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period to all registered holders of the then outstanding Series N First Preference Shares. If the Corporation gives notice to the holders of the Series N First Preference Shares of its intention to redeem all of the Series N First Preference Shares (as described below), the Corporation will not be required to give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period.

Redemption

Subject to the terms of any shares of the Corporation ranking prior to the Series N First Preference Shares, to applicable law and to the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at its option, redeem all or any part of the then outstanding Series N First Preference Shares by the payment of an amount in cash for each such share so redeemed of: (i) $25.00 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws), in the case of redemptions on December 1, 2024 and December 1 every fifth year thereafter (each, a "Series N Conversion Date"); or (ii) $25.50 plus all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation under applicable laws), in the case of redemptions on any date after December 1, 2019 that is not a Series N Conversion Date.

Notice of any redemption will be given by the Corporation not less than 30 days and not more than 60 days prior to the date fixed for redemption. If less than all of the outstanding Series N First Preference Shares are at any time to be redeemed, the shares to be redeemed will be redeemed on a *pro rata* basis.

The Series N First Preference Shares are not redeemable at the option of their holders.

Conversion of Series N First Preference Shares into Series M First Preference Shares

The holders of Series N First Preference Shares will have the right, at their option, on each Series N Conversion Date, to convert, subject to the restrictions on conversion described below, all or any of the Series N First Preference Shares registered in their name into Series M First Preference Shares on the basis of one Series M First Preference Share for each Series N First Preference Share. The conversion of Series N First Preference Shares may be effected by delivery to the Corporation of written notice thereof not earlier than the 30th day prior to, but not later than 5:00 p.m. (Toronto time) on the 15th day preceding, a Series N Conversion Date. Once received by the Corporation, such written notice is irrevocable.

The Corporation will, not less than 30 days and not more than 60 days prior to the applicable Series N Conversion Date, give notice in writing to the then registered holders of the Series N First Preference Shares of the above-mentioned conversion right. On the 30th day prior to each Series N Conversion Date, the Corporation will give notice in writing to the then registered holders of the Series N First Preference Shares of the Annual Fixed Dividend Rate applicable to the Series M First Preference Shares for the next succeeding Subsequent Fixed Rate Period.

The holders of Series N First Preference Shares will not be entitled to convert their shares into Series M First Preference Shares if the Corporation determines that there would remain outstanding on a Series N Conversion Date fewer than 1,000,000 Series M First Preference Shares, after having taken into account all Series N First Preference Shares tendered for conversion into Series M First Preference Shares and all Series M First Preference Shares tendered for conversion into Series N First Preference Shares. The Corporation will give notice in writing thereof to all affected registered holders of Series N First Preference Shares at least seven days prior to the applicable Series N Conversion Date. Furthermore, if the Corporation determines that there would remain outstanding on a Series N Conversion Date fewer than 1,000,000 Series N First Preference Shares, after having taken into account all Series N First Preference Shares tendered for conversion into Series M First Preference Shares and all Series M First Preference Shares tendered for conversion into Series N First Preference Shares, then all, but not part, of the remaining outstanding Series N First Preference Shares will automatically be converted into Series M First Preference Shares on the basis of one Series M First Preference Share for each Series N First Preference Share on the applicable Series N Conversion Date and the Corporation will give notice in writing thereof to the then registered holders of such remaining Series N First Preference Shares at least seven days prior to the Series N Conversion Date.

If the Corporation gives notice to the registered holders of the Series N First Preference Shares of the redemption of all the Series N First Preference Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series N First Preference Shares of an Annual Fixed Dividend Rate or the conversion right of holders of Series N First Preference Shares and the right of any holder of Series N First Preference Shares to convert such Series N First Preference Shares will cease and terminate in that event.

A holder of Series N First Preference Shares on the record date for any dividend declared payable on such shares will be entitled to such dividend notwithstanding that such shares are converted into Series M First Preference Shares after such record date and on or before the date of the payment of such dividend.

Upon the exercise by a holder of Series N First Preference Shares of its right to convert Series N First Preference Shares into Series M First Preference Shares or upon an automatic conversion of Series N First Preference Shares, the Corporation reserves the right not to issue any Series M First Preference Shares to any person whose address is in, or whom the Corporation or its transfer agent has reason to believe is a resident of, any jurisdiction outside of Canada to the extent that such issue would require the Corporation to take any action to comply with the securities laws or other laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law, any necessary regulatory approvals and the provisions described under "Restrictions on Dividends and Retirement and Issue of Shares" below, the Corporation may, at any time, purchase for cancellation the whole or any part of the Series N First Preference Shares in the open market, through or from an investment dealer or any firm holding membership on a recognized stock exchange, or by private agreement or otherwise at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

Liquidation, Dissolution and Winding-Up

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series N First Preference Shares will be entitled to payment of an amount equal to $25.00 per share, plus an amount equal to all accrued and unpaid dividends up to but excluding the date fixed for payment or distribution (less any tax required to be deducted and withheld by the Corporation under applicable laws), before any amount is paid or any assets of the Corporation are distributed to the holders of the Common Shares or any other shares ranking junior as to capital to the Series N First Preference Shares. The holders of the Series N First Preference Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series N First Preference Shares are outstanding, the Corporation will not, without the approval of the holders of the Series N First Preference Shares:

(a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series N First Preference Shares) on any shares of the Corporation ranking as to dividends junior to the Series N First Preference Shares;

(b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series N First Preference Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series N First Preference Shares;

(c) redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of less than all of the Series N First Preference Shares then outstanding;

(d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire for value or make any return of capital in respect of any First Preference Shares, ranking as to dividends or capital on a parity with the Series N First Preference Shares; or

(e) issue any additional Series N First Preference Shares (other than in accordance with the conversion provisions of the Series M First Preference Shares) or any shares ranking as to dividends or capital prior to or on a parity with the Series N First Preference Shares (other than any Series M First Preference Shares issued in accordance with the conversion provisions of the Series N First Preference Shares),

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series N First Preference Shares and on all other shares of the Corporation ranking as to dividends prior to or on a parity with the Series N First Preference Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

The approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series N First Preference Shares as a series and any other approval to be given by the holders of the Series N First Preference Shares may be given in such manner as then required by law, subject to a minimum requirement that such approval be given by a resolution in writing signed by all the holders of the

Series N First Preference Shares or by a resolution carried by an affirmative vote of at least two-thirds of the votes cast at a meeting at which the holders of not less than a majority of the outstanding Series N First Preference Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series N First Preference Shares then present would form the necessary quorum. At any meeting of holders of Series N First Preference Shares as a series, each such holder shall be entitled to one vote in respect of each Series N First Preference Share held.

Voting Rights

The holders of the Series N First Preference Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of First Preference Shares as a class and meetings of the holders of Series N First Preference Shares as a series) to receive notice of, attend at, or vote at any meeting of shareholders of the Corporation unless and until the Corporation fails to pay eight quarterly dividends on the Series N First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the Series N First Preference Shares will have the right to receive notice of and to attend each meeting of shareholders of the Corporation which takes place more than 60 days after the date on which the failure first occurs (other than a separate meeting of the holders of another series or class of shares) and such holders shall have the right, at any such meeting, to one vote for each Series N First Preference Share held. Subject to applicable law, no other voting rights shall attach to the Series N First Preference Shares in any circumstances. The voting rights of the holders of the Series N First Preference Shares shall forthwith cease upon payment by the Corporation of any and all such dividends in arrears on the Series N First Preference Shares to which the holders are entitled, until such time as the Corporation may again fail to pay eight quarterly dividends on the Series N First Preference Shares, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any monies of the Corporation properly applicable to the payment of dividends, in which event such voting rights shall become effective again and so on from time to time.

Tax Election

The Corporation will elect, in the manner and within the time provided under subsection 191.2(1) of the Tax Act, to pay or cause payment of tax under Part VI.1 of the Tax Act at a rate such that the corporate holders of Series N First Preference Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Business Days

If any action or payment is required to be taken or made by the Corporation or a holder on a day that is not a business day, then such action will be taken or such payment will be made on the next succeeding day that is a business day.

BOOK ENTRY ONLY SYSTEM

Except as otherwise provided below, the Series M First Preference Shares and the Series N First Preference Shares will be issued in a "book entry only" form and must be purchased or transferred through participants ("Participants") in the depository service of CDS Clearing and Depository Services Inc. ("CDS") or its nominee which include securities brokers and dealers, banks and trust companies. On the Closing Date, the Corporation will cause, via its transfer agent, the electronic delivery of the Series M First Preference Shares registered in the name of CDS or its nominee. Except as otherwise provided below, no purchaser of Series M First Preference Shares or Series N First Preference Shares will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser's ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Series M First Preference Shares or Series N First Preference Shares will receive a customer confirmation of purchase from the registered dealer from which the Series M First Preference Shares or Series N First Preference Shares are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its Participants having interests in the Series M First Preference Shares or Series N First Preference Shares. Physical certificates evidencing the Series M First Preference Shares and the Series N First Preference Shares will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

None of the Corporation, the Underwriters or their respective affiliates will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Series M First Preference Shares or Series N First Preference Shares, as applicable, held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Series M First Preference Shares or Series N First Preference Shares, as applicable; or (c) any advice or representation made by or with respect to CDS and those contained in this Prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Series M First Preference Shares or Series N First Preference Shares must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Series M First Preference Shares or Series N First Preference Shares, as applicable.

The ability of a beneficial owner of Series M First Preference Shares or Series N First Preference Shares to pledge such shares or otherwise take action with respect to such owner's interest in such shares (other than through a Participant) may be limited due to the lack of a physical certificate.

If (i) required by applicable law, (ii) the book entry system ceases to exist, (iii) CDS advises the Corporation that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Series M First Preference Shares or Series N First Preference Shares, as applicable, and the Corporation is unable to locate a qualified successor, or (iv) the Corporation, at its option, decides to terminate the book entry system, then certificates representing the Series M First Preference Shares or Series N First Preference Shares, as applicable, will be made available.

Manner of Effecting Transfer or Redemption

A transfer or redemption of Series M First Preference Shares or Series N First Preference Shares, as applicable, will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Persons who are holders of Series M First Preference Shares or Series N First Preference Shares, as applicable, who are not Participants, but who wish to purchase, sell or otherwise transfer ownership of or other interests in Series M First Preference Shares or Series N First Preference Shares, may do so only through Participants.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering will be approximately $581,250,000, determined after deducting the estimated Underwriters' Fee, assuming no Series M First Preference Shares are sold to certain institutions, and the estimated expenses of the Offering, which are estimated to be $750,000. The net proceeds of the Offering will be used to repay a portion of the borrowings under the Acquisition Credit Facilities.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated September 4, 2014 (the "Underwriting Agreement") among Fortis and the Underwriters, Fortis has agreed to issue and sell, and the Underwriters have agreed to purchase, as principals, on the Closing Date, 24,000,000 Series M First Preference Shares offered hereby at the Offering Price of $25.00 per Series M First Preference Share, payable in cash to Fortis against delivery, subject to compliance with all of the necessary legal requirements and to the conditions contained in the Underwriting Agreement. The Offering Price and other terms of the Offering were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to pay fees to the Underwriters in the amount of $0.25 per Series M First Preference Share sold to certain institutions and $0.75 per Series M First Preference Share for all other Series M First Preference Shares purchased by the Underwriters, in consideration of services rendered by the Underwriters in connection with the Offering (the "Underwriters' Fee"). Assuming that no Series M First Preference Shares are sold to such institutions, the total price to the public will be $600,000,000, the Underwriters' Fee will be $18,000,000 and the net proceeds to Fortis will be approximately $581,250,000, after deducting the expenses of the Offering estimated at $750,000 which will be paid out of the general funds of the Corporation.

Subscriptions for the Series M First Preference Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about September 19, 2014, or such other date as may be agreed upon by the Corporation and the Underwriters, but not later than October 24, 2014.

Pursuant to rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Series M First Preference Shares ends and all stabilization arrangements relating to the Series M First Preference Shares are terminated, bid for or purchase Series M First Preference Shares. The foregoing restrictions are subject to certain exceptions including: (a) a bid for or purchase of Series M First Preference Shares if the bid or purchase is made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules administered by the Investment Industry Regulating Organization of Canada relating to market stabilization and passive market making activities; and (b) a bid or purchase made for or on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriter, or if the client's order was solicited, the solicitation did not occur during the period of distribution. The Underwriters may engage in market stabilization or market balancing activities on the TSX where the bid for or purchase of the Series M First Preference Shares is for the purpose of maintaining a fair and orderly market in the Series M First Preference Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

The Series M First Preference Shares and the Series N First Preference Shares have not been, and will not be, registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any state securities laws and may not be offered, sold or delivered, directly or indirectly, in the United States unless registered under the 1933 Act or in transactions exempt from the registration requirements of the 1933 Act and in compliance with any applicable state securities laws. The Underwriters have agreed that they will not offer or sell the Series M First Preference Shares within the United States, its territories, its possessions and other areas subject to its jurisdiction except in accordance with the Underwriting Agreement pursuant to the exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of Series M First Preference Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in accordance with Rule 144A.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and may be terminated at their discretion in certain circumstances, including upon the occurrence of certain stated events. Under the Underwriting Agreement, the obligations of any Underwriter may be terminated in their discretion if, at or prior to the Closing Date: (a) there should occur or commence, or be announced or threatened, any inquiry, action, suit, investigation or other proceeding (whether formal or informal) other than any inquiry, action, suit, investigation or other proceeding based on alleged activities of the Underwriters, or any order is issued by any governmental authority, other than an order based on the alleged activities of the Underwriters, or any law or regulation is promulgated, changed or announced, which, in the reasonable opinion of the Underwriters (or any of them), is expected to prevent or materially restrict the trading in or the distribution of the Series M First Preference Shares or any other securities of Fortis or would be expected to have a material adverse effect on the market price or value of the Series M First Preference Shares or any other securities of Fortis; (b) there should develop, occur or come into effect or existence any event, action, state, condition or occurrence of national or international consequence, acts of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, or any law, action, regulation or other occurrence of any nature whatsoever which, in the reasonable opinion of the Underwriters (or any of them), materially adversely affects or involves, or is expected to materially adversely affect or involve, financial markets generally or the business, affairs or operations of Fortis; (c) there should occur any material change (financial or otherwise) in the business, affairs or operations of Fortis or any change in any material fact (other than a change related solely to the Underwriters), or the Underwriters become aware of any undisclosed material information, which, in the reasonable opinion of the Underwriters (or any of them), could be expected to have a material adverse effect on the market price or value of the Series M First Preference Shares or any other securities of Fortis; or (d) the Series M First Preference Shares are not rated at least "Pfd 2 (low) 'under review with developing implications'" by DBRS and at least "P-2" by S&P's Ratings Services, or if either or both such rating agencies has imposed (or has informed the Company that it is considering imposing) any condition (financial or otherwise) on Fortis retaining any such rating, or has indicated to Fortis that it is considering the downgrading, suspension or withdrawal of any review for a possible change that does not indicate the direction of the possible change in (such as being placed on "credit watch") any rating so assigned, or any adverse change in the outlook for any rating of the Series M First Preference Shares, Fortis or any other securities issued by Fortis.

The Underwriters are, however, obligated to take up and pay for all of the Series M First Preference Shares if any are purchased under the Underwriting Agreement. Under the terms of the Underwriting Agreement, the Underwriters may be entitled to indemnification by the Corporation against certain liabilities, including liabilities for a misrepresentation in this Prospectus.

The Underwriters propose to offer the Series M First Preference Shares initially at the Offering Price set forth on the cover page of this Prospectus. After the Underwriters have made reasonable efforts to sell all the Series M First Preference Shares at the Offering Price, the Underwriters may sell the Series M First Preference Shares to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Corporation.

Each of the Underwriters is an affiliate of a financial institution that has, either solely or as a member of a syndicate of financial institutions, extended credit facilities to, or holds other indebtedness of, the Corporation and/or its subsidiaries (the "Existing Indebtedness"). The net proceeds of the Offering will be used to repay borrowings under the Corporation's Acquisition Credit Facilities (as defined herein), a portion of which may be owing to certain of such banks or their affiliates. Consequently, the Corporation may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the Underwriters' Fee relating to the Offering. The decision to distribute the Series M First Preference Shares hereunder and the determination of the terms of the Offering were made through negotiation between the Corporation and the Underwriters. No bank had any involvement in such decision or determination. As at September 10, 2014, an aggregate of approximately $2.7 billion was outstanding under the Existing Indebtedness. Fortis and/or its subsidiaries are in compliance with their respective obligations under the Existing Indebtedness. Since the execution of the agreements governing the Existing Indebtedness, no breach thereunder has been waived by the lenders thereunder. See "Use of Proceeds".

There is currently no market through which the Series M First Preference Shares may be sold and purchasers may not be able to resell Series M First Preference Shares purchased under this Prospectus. This may affect the pricing of the Series M First Preference Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Series M First Preference Shares and the extent of issuer regulation. The TSX has conditionally approved the listing of the Series M First Preference Shares distributed under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares are convertible. Listing of the Series M First Preference Shares and the Series N First Preference Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before December 2, 2014.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to Fortis, and, Stikeman Elliott LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Series M First Preference Shares acquired pursuant to this Prospectus (a "Holder") who, at all relevant times for purposes of the Tax Act: (i) is or is deemed to be a resident of Canada; (ii) deals at arm's length and is not affiliated with Fortis; (iii) holds Series M First Preference Shares and any Series N First Preference Shares acquired upon the conversion of Series M First Preference Shares (collectively, the "Securities") as capital property; (iv) is not exempt from tax under Part I of the Tax Act; and (v) has not entered into, with respect to any Securities, a "derivative forward agreement" (as defined in the Tax Act). Generally, the Securities will be considered to be capital property to a Holder provided the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain Holders whose Securities do not otherwise qualify as capital property may make, in certain circumstances, the irrevocable election under subsection 39(4) of the Tax Act to have such shares and every "Canadian security" (as defined in the Tax Act) owned by such Holder in the taxation year of the election and all subsequent years deemed to be capital property.

This summary does not apply to a Holder: (i) that is a "financial institution" for the purposes of the "mark-to-market" rules; (ii) that is a "specified financial institution"; (iii) an interest in which is a "tax shelter investment"; or (iv) that has elected to determine its "Canadian tax results" in a currency other than Canadian dollars in accordance with the "functional currency" rules, as each of those terms is defined in the Tax Act. Such Holders should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act and the regulations publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative practices of the Canada Revenue Agency. This summary does not otherwise take into account or anticipate any change in law, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign income tax legislation or considerations.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. This summary is not exhaustive of all possible income tax considerations under the Tax Act that may affect a Holder. The income tax consequences of acquiring, holding and disposing of a Security will vary depending on a number of facts, including the legal status of the Holder as an individual, corporation, trust or partnership. Accordingly, prospective Holders of Securities should consult their own tax advisors with respect to their particular circumstances and the tax consequences to them of holding and disposing of a Securities.

Conversion

The exercise by a Holder of the right to convert a Series M First Preference Share into a Series N First Preference Share or the automatic conversion of a Series M First Preference Share into a Series N First Preference Share will be deemed not to constitute a disposition of such Series M First Preference Share and will not give rise to a capital gain or capital loss to such Holder. The cost to the Holder of the Series N First Preference Share issued on such conversion will be the adjusted cost base to such Holder of such Series M First Preference Share immediately before such conversion. The adjusted cost base of all Series N First Preference Shares of the Holder will be determined in accordance with the cost averaging rules in the Tax Act.

The exercise by a Holder of the right to convert a Series N First Preference Share into a Series M First Preference Share or the automatic conversion of a Series N First Preference Share into a Series M First Preference Share will be deemed not to constitute the disposition of such Series N First Preference Share and will not give rise to a capital gain or capital loss to such Holder. The cost to the Holder of the Series M First Preference Share issued on such conversion will be the adjusted cost base to such Holder of such Series N First Preference Share immediately before such conversion. The adjusted cost base of all Series M First Preference Shares of the Holder will be determined in accordance with the cost averaging rules in the Tax Act.

Dividends

Dividends received, or deemed to be received, on the Series M First Preference Shares or the Series N First Preference Shares by a Holder who is an individual must be included in the individual's income and generally will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated by Fortis as "eligible dividends". There may be limitations on the ability of a corporation to designate dividends as eligible dividends. Fortis has advised counsel it intends to designate all dividends on the Series M First Preference Shares and Series N First Preference Shares as eligible dividends for these purposes. Taxable dividends received by an individual or a trust (other than certain specified trusts) may give rise to alternative minimum tax under the Tax Act.

Dividends received, or deemed to be received, on the Series M First Preference Shares or the Series N First Preference Shares by a Holder that is a corporation must be included in computing the corporation's income and will generally be deductible in computing the taxable income of the corporation.

The Series M First Preference Shares and the Series N First Preference Shares are "taxable preferred shares" as defined in the Tax Act. The terms of the Series M First Preference Shares and the terms of the Series N First Preference Shares require Fortis to make the necessary election under Part VI.1 of the Tax Act so that corporate Holders will not be subject to the 10% tax payable under Part IV.1 of the Tax Act on dividends received, or deemed to be received, on the Series M First Preference Shares and the Series N First Preference Shares.

A "private corporation" (as defined in the Tax Act) or any other corporation controlled (whether by reason of a beneficial interest in one or more trusts or otherwise) by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay refundable tax under Part IV of the Tax Act of 33 1/3% on dividends received, or deemed to be received, on the Series M First Preference Shares and the Series N First Preference Shares, to the extent such dividends are deductible in computing its taxable income.

Redemptions

If Fortis redeems or otherwise acquires a Series M First Preference Share or a Series N First Preference Share (otherwise than by a purchase in the open market in the manner in which shares are normally purchased by a member of the public in the open market), the Holder will be deemed to have received a dividend equal to the amount, if any, paid by Fortis in excess of the paid-up capital (as determined for purposes of the Tax Act) of such share at such time. Generally, the difference between the amount paid by Fortis and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such share. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the deemed dividend may be treated as proceeds of disposition and not as a dividend.

Dispositions

A Holder who disposes of, or is deemed to dispose of, Series M First Preference Shares or Series N First Preference Shares (including on redemption of the shares or other acquisition by Fortis otherwise than on a conversion) will generally realize a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to such Holder. The amount of any deemed dividend arising on the redemption or acquisition by Fortis of any such shares (see "Redemptions" above) will not generally be included in computing the proceeds of disposition for such shares.

If the Holder is a corporation, any capital loss arising on the disposition of a Series M First Preference Share or Series N First Preference Share, as the case may be, may be reduced, in certain circumstances, by the amount of any dividends received, or deemed to be received, on such share (or the share converted into such share) to the extent and under the circumstances described in the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Capital Gains and Capital Losses

One-half of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in the Holder's income in that year and one-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year will be deducted from the Holder's taxable capital gains in that year. Allowable capital losses in excess of taxable capital gains generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

Capital gains realized by an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax under the Tax Act. A Canadian-controlled private corporation, as defined in the Tax Act, may be subject to an additional refundable tax of 6 2/3% on investment income (including taxable capital gains).

RISK FACTORS

An investment in the Series M First Preference Shares offered hereby involves certain risks. A prospective purchaser of Series M First Preference Shares should carefully consider the risk factors described under:

(a) the heading "Business Risk Management" on pages 43 to 58 in the Annual MD&A;

(b) note 34 "Financial Risk Management" found on pages 128 to 131 in the Corporation's audited comparative consolidated financial statements as at December 31, 2013 and for the years ended December 31, 2013 and 2012, as contained in the Corporation's 2013 Annual Report;

(c) the heading "Business Risk Management" found on pages 29 to 31 in the Second Quarter MD&A;

(d) note 19 "Financial Risk Management" found on pages F-24 to F-28 in the Corporation's unaudited comparative interim consolidated financial statements as at June 30, 2014 and for the three and six months ended June 30, 2014 and 2013; and

(e) and under the heading "Risk Factors Relating to the Post-Acquisition Business and Operations of the Corporation and UNS Energy" found on pages A-18 to A-27 of the Corporation's Business Acquisition Report, which include certain risks that are now applicable to Fortis as a result of the Acquisition of UNS Energy,

each of which is incorporated by reference herein. In addition, prospective purchasers of Series M First Preference Shares should carefully consider, in light of their own financial circumstances, the risk factors set out below which relate to the Series M First Preference Shares and the Series N First Preference Shares, as well as the other information contained in this Prospectus (including the documents incorporated by reference herein), before making an investment decision.

No Market for the Securities

There is currently no market through which the Series M First Preference Shares may be sold and purchasers of Series M First Preference Shares may not be able to resell the Series M First Preference Shares purchased under this Prospectus. The price offered to the public for the Series M First Preference Shares and the number of Series M First Preference Shares to be issued have been determined by negotiations between the Corporation and the Underwriters. The price paid for each Series M First Preference Share may bear no relationship to the price at which the Series M First Preference Shares will trade in the public market subsequent to this Offering. The Corporation cannot predict at what price the Series M First Preference Shares will trade and there can be no assurance that an active or liquid trading market will develop for the Series M First Preference Shares after the Offering or for the Series N First Preference Shares following the issuance of any of those shares upon conversion, or if developed, that such market will be sustained at the Offering Price of the Series M First Preference Shares or the issue price of the Series N First Preference Shares. If an active or liquid market for these securities fails to develop or be sustained, the prices at which the securities trade may be adversely affected. Whether or not the Series M First Preference Shares or the Series N First Preference Shares will trade at lower prices depends on many factors, including liquidity of these securities, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects. The TSX has conditionally approved the listing of the Series M First Preference Shares distributed under this Prospectus and the Series N First Preference Shares into which the Series M First Preference Shares are convertible. Listing of the Series M First Preference Shares and the Series N First Preference Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX on or before December 2, 2014.

Terms of Series M First Preference Shares and Series N First Preference Shares

The value of the Series M First Preference Shares and the Series N First Preference Shares will be affected by the general creditworthiness of the Corporation. The Annual MD&A and the Second Quarter MD&A discuss, among other things, known material trends and events, and risks or uncertainties that are reasonably expected to have a material effect on the Corporation's business, financial condition or results of operations.

Real or anticipated changes in credit ratings on the Series M First Preference Shares or the Series N First Preference Shares, if any, may affect the market value of such shares. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can transact or obtain funding, and thereby affect the Corporation's liquidity, business, financial condition or results of operations.

Equity and debt capital market conditions and volatility can affect the market price of the Series M First Preference Shares and the Series N First Preference Shares for reasons unrelated to the Corporation's performance.

Reference is made to "Earnings Coverage Ratio" in this Prospectus, which is relevant to an assessment of the risk that the Corporation will be unable to pay dividends on the Series M First Preference Shares or the Series N First Preference Shares.

The Series M First Preference Shares rank, and the Series N First Preference Shares will, if and when issued, rank, equally with other First Preference Shares of the Corporation in the event of an insolvency or winding-up of the Corporation. If the Corporation becomes insolvent or is wound-up, the Corporation's assets must be used to pay liabilities and other debt, including subordinated debt, before payments may be made on the Series M First Preference Shares or the Series N First Preference Shares.

Prevailing yields on similar securities will affect the market value of the Series M First Preference Shares and the Series N First Preference Shares. Assuming all other factors remain unchanged, the market value of the Series M First Preference Shares and the Series N First Preference Shares will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Bond Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Series M First Preference Shares and the Series N First Preference Shares in an analogous manner.

Neither the Series M First Preference Shares nor the Series N First Preference Shares have a fixed maturity date, and they are not redeemable at the option of their holders. As a result, the ability of a holder to liquidate its holdings of Series M First Preference Shares or Series N First Preference Shares, as applicable, may be limited.

The Corporation may choose to redeem the Series M First Preference Shares or the Series N First Preference Shares, in accordance with its rights described under "Details of the Offering—Specific Provisions of the Series M First Preference Shares—Redemption" and "Details of the Offering—Specific Provisions of the Series N First Preference Shares—Redemption", including when prevailing interest rates are lower than the yield borne by the Series M First Preference Shares or Series N First Preference Shares, as applicable. If prevailing rates are lower at the time of redemption, a purchaser would not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yield on the Series M First Preference Shares or Series N First Preference Shares being redeemed. The Corporation's redemption right may also adversely impact a purchaser's ability to sell Series M First Preference Shares or Series N First Preference Shares, as applicable.

The dividend rate in respect of the Series M First Preference Shares and the Series N First Preference Shares will, following the Initial Fixed Rate Period, reset every five years and quarterly, respectively. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

An investment in the Series M First Preference Shares may become an investment in Series N First Preference Shares without the consent of the holder in the event of an automatic conversion in the circumstances described under "Details of the Offering – Specific Provisions of the Series M First Preference Shares – Conversion of Series M First Preference Shares into Series N First Preference Shares" above. Upon the automatic conversion of the Series M First Preference Shares into Series N First Preference Shares, the dividend rate on the Series N First Preference Shares will be a floating rate that is adjusted quarterly by reference to the T-Bill Rate, which may vary from time to time.

Dividends on the Series M First Preference Shares and Series N First Preference Shares are payable at the discretion of the Board of Directors. The Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (a) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares.

The Series N First Preference Shares have not been assigned credit ratings and there can be no assurance that they will, once issued, be assigned credit ratings comparable to the credit ratings of the Series M First Preference Shares.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants ("Ernst & Young"), The Fortis Building, 7th Floor, 139 Water Street, St. John's, Newfoundland and Labrador A1C 1B2. Ernst & Young report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

The auditors of UNS Energy and TEP are PricewaterhouseCoopers LLP, in Phoenix, Arizona. PricewaterhouseCoopers LLP is an independent registered public accounting firm that audited the financial statements of UNS Energy and TEP included in the Corporation's Business Acquisition Report dated September 2, 2014 which is incorporated by reference in this Prospectus.

LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Davies Ward Phillips & Vineberg LLP, Toronto and McInnes Cooper, St. John's and on behalf of the Underwriters by Stikeman Elliott LLP, Toronto. At the date hereof, partners and associates of each of Davies Ward Phillips & Vineberg LLP, McInnes Cooper and Stikeman Elliott LLP own beneficially, directly or indirectly, less than 1% of any securities of the Corporation or any associate or affiliate of the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Series M First Preference Shares and the Series N First Preference Shares is Computershare Trust Company of Canada in Toronto and Montréal.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

Mr. Frank Crothers, one of the Corporation's directors, resides outside of Canada and has appointed Fortis Inc., Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2 as agent for service of process. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person that resides outside of Canada, even if such person has appointed an agent for service of process.

CERTIFICATE OF FORTIS INC.

Dated: September 11, 2014

This short form prospectus, together with the documents incorporated by reference, constitute full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

(Signed) H. STANLEY MARSHALL Chief Executive Officer	(Signed) KARL W. SMITH Executive Vice President, Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID G. NORRIS Director	(Signed) PETER E. CASE Director

CERTIFICATE OF THE UNDERWRITERS

Dated: September 11, 2014

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitute full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

SCOTIA CAPITAL INC.

(Signed) Stuart Lochray

RBC DOMINION SECURITIES INC.

(Signed) David Dal Bello

BMO NESBITT BURNS INC.

(Signed) Aaron Engen

CIBC WORLD MARKETS INC.

(Signed) David Williams

TD SECURITIES INC.

(Signed) Harold Holloway

NATIONAL BANK FINANCIAL INC.

(Signed) Iain Watson

DESJARDINS SECURITIES INC.

(Signed) A. Thomas Little

HSBC SECURITIES (CANADA) INC.

(Signed) Casey Coates

7. Historical (2010-2014) regulatory financial information by year:

- Capital Structure Components: Common equity, long and short term debt:
    - Rate Base: opening, closing, and mid-year,
    - Statement of Income
    - ROE and Return on Capital.
- Detail of all rate base deferral accounts.

See attached **electronic** documents for FEI’s financial information.

8. **Full explanation of any significant changes in accounting policy in the last 5 years.**

   - See the attachment for discussion on FEI's accounting policy changes in the last 5 years.

FortisBC Energy Inc.
Five Year Summary of Significant Changes in Accounting Policy included in Regulatory Applications (2010-2015)

2010-2011 Revenue Requirements Application (Order G-141-09)

This application included the following accounting policy changes which were approved:

Training and Feasibility Study Costs to be treated as O&M expense, rather than capital.	Application Page 515 and 516, Item 11
Capitalization of Major Inspection Costs, including the creation of a new Asset Class.	Application Page 515 and 516, Item 11
Capitalization of the Current Service portion of Pensions and OPEBs expense that is applicable to capital projects.	Application Page 515 and 516, Item 11
Capitalization of Deprecation on Assets used in Construction.	Application Page 515 and 516, Item 11
All capital expenditures, including CPCNs, to be included in plant in service (and rate base) in the month following the available-for-use date, with depreciation starting at that time.	Application Page 515 and 516, Item 11
Treatment of Vehicle Lease as a capital lease and inclusion of the NBV of vehicles in rate base.	Application Page 515 and 516, Item 11
Discontinuation the Software Tax Credit as part of the CIAC additions.	Application Page 515 and 516, Item 11

2012-2013 Revenue Requirements Application (Order G-44-12)

This application included the following accounting policy changes which were approved:

Revised depreciation and amortization rates and the creation of a separate sub account to record future additions to Distribution Systems Meters/Regulator Installations with depreciation expense for this sub account calculated using a whole life rate.	Application Sections 5.4.2 and 5.4.5.
The adoption of the net salvage rates and the treatment of net salvage.	Section 5.4.3 of the Application as modified by Directive 34 of Order G-44-12.

2014-2018 PBR Application (Order G-138-14)

This application included the following accounting policy changes which were approved:

Inclusion of the retiree portion of pension and OPEB expenses in benefit loadings for O&M and capital.	Application Section D3.1.
Depreciation of assets to commence January 1 of the year following when they are placed into service.	Application Section D3.3.
Vehicles to be purchased rather than leased with a depreciation rate of 12.5 percent for asset class 484 Vehicles.	Application Section D3.1.
Reduction in the capitalized overhead rate to 12 percent.	Directive 103 of Order G-138-14.

Annual Review for 2015 Rates (Order G-86-15)

No significant changes in accounting policies included in this Application.

FortisBC Energy Inc.
5 Year Summary of Significant Changes in Accounting Policy included in Financial Statements (2010-2015)

<u>December 31, 2010 Terasen Gas Inc. External Financial Statements (Canadian GAAP)</u>

CHANGES TO ACCOUNTING POLICIES

Effective January 1, 2010, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA).

Business Combinations

Business Combinations: The Company early adopted the new CICA Handbook Section 1582, Business Combinations, together with Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. These new standards were issued by the AcSB in January 2009 to be effective for fiscal years beginning on or after January 1, 2011 with early adoption permitted. As a result of adopting Section 1582, changes in the determination of the fair value of the assets and liabilities of the acquiree will result in a different calculation of goodwill. Such changes include the expensing of acquisition-related costs incurred during a business acquisition, rather than recording them as a capital transaction, and the disallowance of recording restructuring accruals. The adoption of these standards did not impact the Company's consolidated financial statements.

Consolidated Financial Statements

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of Section 1601 and 1602 will result in non-controlling interests being presented as a component of equity, rather than as a liability on the consolidated balance sheet. Also, net income and components of other comprehensive income attributable to the owners of the parent and to the non-controlling interests are required to be separately disclosed on the income statement. The adoption of Section 1601 and 1602 did not impact the Company's consolidated financial statements.

2010-2011 Negotiated Settlement Agreement *(Represents combined FEI, FEVI and FEW amounts)*

Effective January 1, 2010, as approved in the Negotiated Settlement Agreement (NSA), the Company adopted the following new accounting policies on a prospective basis.

i. Asset removal costs are recorded in operating and maintenance expense on the consolidated statement of earnings and comprehensive earnings. The annual amount of such costs approved for recovery in customer rates in 2010 is $8.3 million. Actual costs incurred in excess of or below the approved amount are to be recorded in a regulatory deferral account for recovery from, or refund to, customers in future rates starting in 2012. For the year ended December 31, 2010, the Company incurred $10.7 million of actual removal costs, with $2.4 million being recorded in the deferral account. Prior to January 1, 2010, actual asset removal costs were recorded against accumulated amortization on the consolidated balance sheet.

ii. Gains and losses on the sale or removal of utility capital assets are recorded in a regulatory deferral account on the consolidated balance sheet for recovery from, or refund to, customers in future rates, subject to regulatory approval. For the year ended December 31, 2010, $15.6 million of losses were deferred and recorded in the related long-term regulatory asset on the consolidated balance sheet. Prior to January 1, 2010, gains and losses on the sale or disposal of utility capital assets were recorded against accumulated amortization.

iii. Depreciation of utility capital and intangible assets commences the month after the asset is available for use. Prior to January 1, 2010, depreciation commenced in the year after the asset was available for use. As a result, annual 2010 depreciation expense will be $1.8 million higher due the change in commencement of depreciation.

<u>December 31, 2011. FEI External Financial Statements (Canadian GAAP)</u>

No accounting changes.

<u>December 31, 2012 FEI External Financial Statements (US GAAP)</u>

Effective January 1, 2012, FBC Energy adopted US GAAP and filed US GAAP 2011 financials in March 2012.

CHANGES IN ACCOUNTING POLICIES

The following new US GAAP accounting pronouncements that are applicable to, and were adopted by, the Corporation effective beginning January 1, 2012 are described as follows:

Presentation of Comprehensive Income

The Corporation adopted the amendments to ASC Topic 220, *Comprehensive Income.* The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements.

Testing Goodwill and Indefinite-Lived Intangible Assets for Impairment

The Corporation adopted the amendments to ASC Topic 350 related to the testing for impairment of goodwill and early adopted the amendments related to testing for impairment of indefinite-lived intangible assets. The amended standard allows entities testing goodwill and indefinite-lived intangible assets for impairment to have the option, on an annual basis, of performing a qualitative assessment before calculating the fair value. If the qualitative factors indicate that the fair value is 50 per cent or more likely to be greater than the carrying value, calculation of fair value would not be required. Previous guidance in ASC Topic 350 required an entity to test goodwill and indefinite-lived intangible assets for impairment, on at least an annual basis, by calculating their fair value and comparing it to carrying value. If the carrying value exceeds fair value, an impairment charge is required. As at October 1, 2012, 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 as well as the indefinite-lived intangible assets of the Corporation were not impaired.

Fair Value Measurement

The Corporation adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures.* The amended standard improves comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP. The amendment does not change what items are measured at fair value but instead makes various changes to the guidance pertaining to how fair value is measured.

The above-noted changes did not materially impact the Corporation's consolidated financial statements for the years ended December 31, 2012 and 2011.

Change in Accounting Policy as a Result of Regulatory Applications

Effective January 1, 2012, as applied for in its 2012/2013 RRA and approved by the BCUC, the Corporation adopted the following new accounting policy on a prospective basis:

> Prior to 2012, estimated removal costs were recorded as part of operation and maintenance expense with variances versus forecast being recorded in a regulatory deferral account for recovery from, or refund to, customers in future rates starting in 2012. In the 2012/2013 RRA, FEI, FEVI and FEW applied for and received approval to collect removal costs 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.

<u>December 31, 2013 FEI External Financial Statements (US GAAP)</u>

CHANGES IN ACCOUNTING POLICIES

The following new US GAAP accounting pronouncements that are applicable to, and were adopted by, the Corporation effective January 1, 2013 are described as follows:

Disclosures About Offsetting Assets and Liabilities

The Corporation adopted the amendments to ASC Topic 210, *Balance Sheet - Disclosures About Offsetting Assets and Liabilities* as outlined in Accounting Standards Update ("ASU") Nos. 2011-11 and 2013-01. The amendments improve the transparency of the effect or potential effect of netting arrangements on a company's financial position by expanding the level of disclosures required by entities for such arrangements. The amended disclosures are intended to assist financial statement users in understanding significant quantitative differences between balance sheets prepared under US GAAP and International Financial Reporting Standards. ASU No. 2013-01 limits the scope of the new offsetting disclosure requirements previously issued in ASU No. 2011-11, to certain derivative instruments, repurchase and reverse repurchase agreements, and securities borrowing and lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting or similar arrangement. The above-noted amendments were applied retrospectively.

December 31, 2014 FEI External Financial Statements (US GAAP)

Change in Accounting Estimate

As required by the BCUC, FEI 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 pre-amalgamation FEI 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.

June 30, 2015 FEI External Financial Statements (US GAAP)

No accounting changes.