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Fortis Inc.

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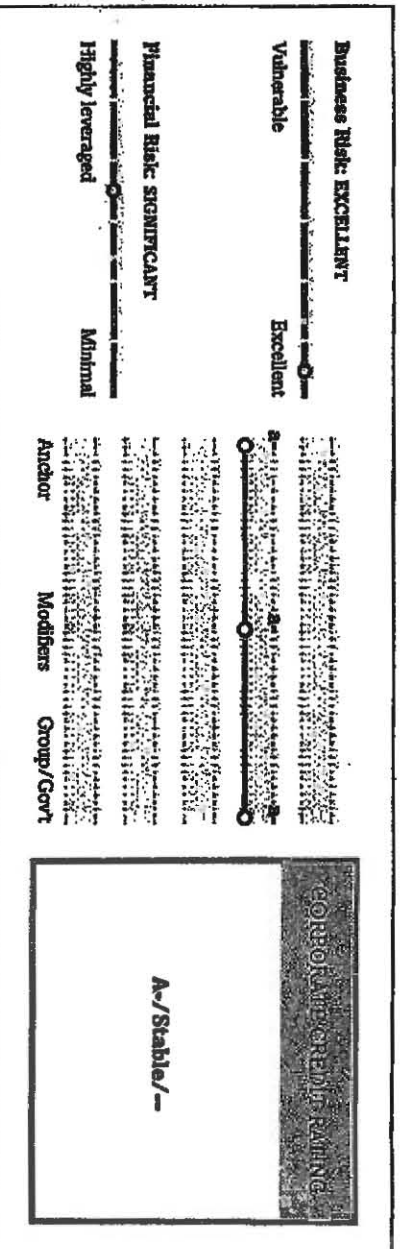
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Fortis Inc.



Rationale

Business Risk	Financial Risk
<ul style="list-style-type: none"> • Low-risk regulated assets with limited commodity price and volume risks • Diversified portfolio of regulated utilities operating as monopoly service providers • Minimal unregulated business and divesting of noncore real estate business 	<ul style="list-style-type: none"> • Stable regulated cash flow • Highly leveraged and downward pressure on credit metrics as a result of large capital programs over the next several years

Outlook
<p>The stable outlook reflects Standard & Poor's Ratings Services' assessment of the underlying operational and financial stability of Fortis Inc.'s operating companies. We expect these operating companies to continue generating stable and predictable cash flow, a key credit strength.</p> <p>Downside scenario</p> <p>We could lower the ratings on Fortis if the company's adjusted funds from operations (AFFO)-to-debt were to fall and stay below 57%. This could happen if Fortis were to employ more leverage or if its larger subsidiaries encountered major financial or operational difficulties or adverse regulatory decisions. Investment in assets with materially higher regulatory risks or cash-flow variability could also lead to a downgrade.</p> <p>Upside scenario</p> <p>A positive outlook or upgrade during our two-year outlook horizon would require Fortis to improve and sustain its credit metrics, specifically AFFO-to-debt above 14%.</p>

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none">• Fortis will continue to focus on regulated business• It will not experience any adverse material regulatory decisions• The company will not acquire regulated assets with materially higher regulatory risk resulting in loss of access to the low-volatility table• The Waneta expansion project will contribute about C\$23 million in annual earnings	2014A	2015E	2016E	
	AFPO/debt	10-14%	10-12%	10%-12%
	Debt/EBITDA	6-8x	5x-6x	5x-6x
	AFPO—Adjusted funds from operations; A—Actual; E—Estimate			

Company Description

Fortis is a leader in the North American electric and gas utility business, with total assets of more than C\$26 billion and fiscal 2014 revenue of C\$5.4 billion. Its regulated utilities account for approximately 94% of total assets and serve more than 3 million customers across Canada, the U.S., and the Caribbean. Fortis owns unregulated hydroelectric generation assets in Canada, Belize, and Upstate New York.

Business Risk

Fortis' business risk profile is "excellent". In our view, the company continues to benefit from its stable, low-risk, and regulated utility portfolio. Regulation typically involves a cost-of-service methodology that provides an allowed regulated rate of return. The utilities have relatively low levels of volume risk exposure, further reducing cash flow volatility. Fortis' regulated subsidiaries have monopolies as service providers in their respective service areas. They are exposed to limited commodity input price risk as electricity input cost remains a pass-through in many of the company's service territories and are relatively insulated from typical market forces, which we view as a credit strength.

In our view, another key credit strength is the regulatory, geographic, and market diversification of the subsidiaries and their cash flows. Before the acquisition of Central Hudson Gas and Electric Corp. (CHGE) and UniSource Energy Services (UNS), Canadian operations accounted for about 84% of Fortis' operating income, most of which was in British Columbia, making up about 50% of the company's total cash flows. With the acquisition of CHGE and UNS, we now expect U.S. operations to account for approximately 37% of Fortis' operating income and British Columbia accounting for about 30% of total cash flows, reducing the company's exposure in a single jurisdiction.

The diversification effect partially offsets the impact of Fortis' exposure to weaker business risk profiles in some of its subsidiaries such as Tucson Electric Power Co. (TEP), a UNS subsidiary; and Fortis Turks and Caicos Inc. (FTCI), which have a "strong" and "satisfactory" business risk profile, respectively. However, we believe this will only

marginally weaken Fortis' overall business risk profile.

The unregulated businesses make up a small part of Fortis' overall cash flows, at approximately 6%. The size and quality of these cash flows will improve with the Waneta project's completion. This project has limited hydrology and price risk, no dispatch risk, and strong counterparties in British Columbia Hydro & Power Authority and Fortis BC. In addition, Fortis has announced it is divesting its noncore real-estate business and will continue focusing on the regulated business.

S&P Base-Case Operating Scenario

- Fortis will continue to focus on regulated business
- Its subsidiaries will continue to earn close to its allowed return on equity and will not experience any adverse material regulatory decisions
- The company will not acquire assets with a materially higher regulatory risk, resulting in the loss of access to the low-volatility cash flow table

Peer comparison

Table 1

Fortis Inc. -- Peer Comparison

Industry Sector: Electric Utility

	Fortis Inc.	Hydro One Inc.	CU Inc.	ATCO Ltd.
Rating as of April 30, 2015	A-/Stable/-	A/Stable/A-1	A/Stable/A-1	A/Stable/-
	—Average of past three fiscal years—			
(Mil. C\$)				
Revenues	4,367.3	6,116.7	2,043.3	4,425.0
EBITDA	1,502.8	2,077.8	1,017.3	1,769.2
Funds from operations (FFO)	980.7	1,421.7	723.7	1,253.3
Net income from continuing operations	375.3	765.7	369.7	404.3
Cash flow from operations	887.4	1,232.4	671.3	1,198.3
Capital expenditures	1,206.7	1,339.3	1,792.0	2,187.3
Free operating cash flow	(319.3)	(107.0)	(1,120.7)	(989.0)
Discretionary cash flow	(537.9)	(389.6)	(1,130.6)	(1,195.5)
Cash and short-term investments	38.0	71.7	16.9	154.6
Debt	10,227.1	11,123.5	5,696.5	7,301.5
Equity	6,273.2	7,235.8	3,619.0	5,098.7
Adjusted ratios				
EBITDA margin (%)	34.4	34.0	49.8	40.0
Return on capital (%)	5.9	7.6	7.7	9.8
EBITDA interest coverage (x)	3.0	3.6	3.5	4.3
FFO cash interest coverage (x)	3.3	4.7	3.7	5.2
Debt/EBITDA (x)	6.8	5.4	5.6	4.1
FFO/debt (%)	9.6	12.8	12.7	17.2

Table 1

Fortis Inc. -- Peer Comparison (cont.)				
Cash flow from operations/debt (%)	8.7	11.1	11.8	16.4
Free operating cash flow/debt (%)	(3.1)	(1.0)	(19.7)	(13.5)
Discretionary cash flow/debt (%)	(5.3)	(3.5)	(19.8)	(16.4)

Financial Risk

We expect Fortis' cash flows from the regulated utilities to remain very stable, a factor we believe is a key credit strength that offsets the company's high leverage. Regulated utility cash flow is primarily composed of a return of capital (depreciation) and a return on capital, both of which continue to experience limited volatility. Consolidated leverage is a function of the underlying utilities' regulatory capital structure that generally follows levels allowed by regulation. We have assumed that growth in rate base leads to corresponding growth in cash flow.

Due to the business' nature, Fortis needs capital investments to maintain service reliability and accommodate growth. This results in downward pressure on the company's credit metrics. We forecast AFFO-to-total debt of 10%-12% from 2015-2017, which is consistent with our "significant" financial risk assessment.

S&P Base-Case Cash Flow And Capital Structure Scenario

- The Waneta project starts as planned in second quarter 2015
- Consolidated capital expenditures of C\$1.9 billion-C\$2.2 billion in 2015 and C\$1.6 billion-C\$1.8 billion in 2016
- Dividend payments of approximately C\$460 million in 2015
- AFFO-to-debt of 10%-12% from 2015-2017

Financial summary

Table 2

Fortis Inc. -- Financial Summary					
Industry Sector: Electric Utility					
(Mil. C\$)	--Fiscal year ended Dec. 31--				
	2014	2013	2012	2011	2010
Rating history	A-/Stable/--	A-/Negative/--	A-/Stable/--	A-/Stable/--	A-/Stable/--
Revenues	5,401.0	4,047.0	3,654.0	3,738.0	3,664.0
EBITDA	1,760.5	1,432.5	1,315.5	1,249.5	1,188.0
Funds from operations (FFO)	1,116.4	960.1	865.7	765.0	733.7
Net income from continuing operations	374.0	390.0	362.0	357.0	330.0
Cash flow from operations	919.4	828.6	914.2	852.0	708.2
Capital expenditures	1,560.0	1,058.0	1,002.0	1,019.0	947.0
Free operating cash flow	(640.6)	(229.4)	(87.8)	(167.0)	(238.8)
Dividends paid	235.0	219.5	201.5	183.0	224.5
Discretionary cash flow	(875.6)	(448.9)	(289.3)	(350.0)	(463.3)
Debt	13,727.1	9,204.1	7,750.0	7,616.6	6,809.9

Table 2

Fortis Inc. -- Financial Summary (cont.)					
Preferred stock	910.0	614.5	554.0	456.0	456.0
Equity	8,202.0	5,761.5	4,856.0	4,487.0	3,728.5
Debt and equity	21,929.1	14,965.6	12,606.0	12,103.6	10,538.4
Adjusted ratios					
EBITDA margin (%)	32.6	35.4	36.0	33.4	32.4
EBITDA interest coverage (x)	2.8	3.2	3.2	3.0	3.1
FFO cash interest coverage (x)	3.2	3.4	3.4	3.3	3.1
Debt/EBITDA (x)	7.8	6.4	5.9	6.1	5.7
FFO/debt (%)	8.1	10.4	11.2	10.0	10.8
Cash flow from operations/debt (%)	6.7	9.0	11.8	11.2	10.4
Free operating cash flow/debt (%)	(4.7)	(2.5)	(1.1)	(2.2)	(3.5)
Discretionary cash flow/debt (%)	(6.4)	(4.9)	(3.7)	(4.6)	(6.8)
Net cash flow/capex (%)	56.5	70.0	66.3	57.1	53.8
Return on capital (%)	5.5	6.1	6.4	6.9	7.2
Return on common equity (%)	4.7	6.9	7.4	7.8	7.9
Common dividend payout ratio (unadjusted; %)	96.5	78.4	73.3	69.8	85.6

Liquidity

Fortis's liquidity is "adequate." At the holding company level, liquidity sources are likely to exceed uses by more than 1.1x, even in the event of a 10% decline in EBITDA. In our view, the company has sound relationships with its banks and generally satisfactory standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • FFO of about C\$1.5 billion in 2015 • Cash and cash equivalent of about C\$230 million in 2015 • Unused committed revolving credit facilities of about C\$2.2 billion as of Dec. 31, 2014 	<ul style="list-style-type: none"> • Capital expenditures of C\$1.9 billion-C\$2.2 billion in 2015 • Debt maturities of about C\$500 million in 2015 • Dividends of about C\$460 million in 2015

Debt maturities

Table 3

Fortis Inc. -- Long-Term Debt Maturities As Of December 2014	
Year	(Mil. C\$)
2015	505
2016	747
2017	103
2018	741
2019	201
Thereafter	8,204

Other Modifiers

None of the modifiers have any impact on the rating.

Ratings Score Snapshot

Corporate Credit Rating

A-/Stable/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Excellent

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile : a-

Reconciliation

Table 4

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C\$)

—Fiscal year ended Dec. 31, 2014—

Fortis Inc. reported amounts	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Dividends paid	Capital expenditures
Reported	11,534.0	8,691.0	5,401.0	1,711.0	1,023.0	547.0	1,711.0	982.0	266.0	1,587.0
Standard & Poor's adjustments										
Interest expense (reported)	N/A	N/A	N/A	N/A	N/A	N/A	(547.0)	N/A	N/A	N/A
Interest income (reported)	N/A	N/A	N/A	N/A	N/A	N/A	13.0	N/A	N/A	N/A

Table 4

Reconciliation Of Fortis Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C\$) (cont.)										
Current tax expense (reported)	N/A	N/A	N/A	N/A	N/A	N/A	(43.0)	N/A	N/A	N/A
Operating leases	85.8	N/A	N/A	8.5	3.9	3.9	4.6	4.6	N/A	N/A
Intermediate hybrids reported as equity	910.0	(910.0)	N/A	N/A	N/A	N/A	N/A	(31.0)	(31.0)	N/A
Postretirement benefit obligations/deferred compensation	566.6	N/A	N/A	38.0	38.0	40.0	1.7	(9.3)	N/A	N/A
Surplus cash	(172.5)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	27.0	(27.0)	(27.0)	N/A	(27.0)
Share-based compensation expense	N/A	N/A	N/A	3.0	N/A	N/A	3.0	N/A	N/A	N/A
Asset retirement obligations	675.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Non-operating income (expense)	N/A	N/A	N/A	N/A	25.0	N/A	N/A	N/A	N/A	N/A
Noncontrolling interest/minority interest	N/A	421.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt -- accrued interest not included in reported debt	128.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	2,193.1	(489.0)	0.0	49.5	66.9	70.9	(594.6)	(62.6)	(31.0)	(27.0)
Standard & Poor's adjusted amounts	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
Adjusted	13,727.1	8,202.0	5,401.0	1,760.5	1,089.9	617.9	1,116.4	919.4	235.0	1,560.0

N/A--Not applicable.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 30, 2015)

Fortis Inc.	
Corporate Credit Rating	A-/Stable/-
Preference Stock	
Canada National Scale Preferred Share	P-2
Preference Stock	BBB
Preferred Stock	
Canada National Scale Preferred Share	P-2
Preferred Stock	BBB
Senior Unsecured	A-
Corporate Credit Ratings History	
28-Oct-2014	A-/Stable/-
13-Dec-2013	A-/Negative/-
29-May-2012	A-/Stable/-
22-Feb-2012	A-/Watch Neg/-
Related Entities	
Caribbean Utilities Co. Ltd.	
Issuer Credit Rating	A-/Stable/-
Senior Unsecured	A-
Fortis Alberta Inc.	
Issuer Credit Rating	A-/Stable/-
Senior Unsecured	A-
Fortis TCI Ltd.	
Issuer Credit Rating	BBB/Stable/-
Maritime Electric Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/-
Senior Secured	A

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