Fortis Inc. 2008 Annual Report

c. *Fortis Turks and Caicos:* Includes P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd. Fortis Turks and Caicos is the principal distributor of electricity on the Turks and Caicos Islands, serving more than 9,000 customers. The Company has a combined diesel-fired generating capacity of 48 MW.

Non-Regulated – Fortis Generation

The following summary describes the Corporation's non-regulated generation assets by location:

a. *Belize:* Operations consist of the 25-MW Mollejon and 7-MW Chalillo hydroelectric generating facilities in Belize. All of the output of these facilities is sold to Belize Electricity under a 50-year power purchase agreement expiring in 2055. The hydroelectric generation operations in Belize are conducted through the Corporation's indirect wholly owned subsidiary Belize Electric Company Limited ("BECOL") under a franchise agreement with the Government of Belize.

b. *Ontario:* Includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement, which expires April 30, 2009; a 5-MW gas-fired cogeneration plant in Cornwall; and six small hydroelectric generating stations in eastern Ontario with a combined capacity of 8 MW.

c. *Central Newfoundland:* Through the Exploits River Hydro Partnership ("Exploits Partnership"), a partnership between the Corporation, through its wholly owned subsidiary, Fortis Properties, and Abitibi-Consolidated Company of Canada ("Abitibi-Consolidated"), 36 MW of additional capacity was developed and installed at two of Abitibi-Consolidated's hydroelectric generating plants in central Newfoundland. Fortis Properties holds directly a 51 per cent interest in the Exploits Partnership and Abitibi-Consolidated holds the remaining 49 per cent interest. The Exploits Partnership sells its output to Newfoundland and Labrador Hydro Corporation ("Newfoundland Hydro") under a 30-year power purchase agreement expiring in 2033. For a further discussion of the Exploits Partnership and pending changes related to it refer to the "Liquidity and Capital Resources – Cash Flow Requirements" and "Critical Accounting Estimates – Contingencies" sections of this MD&A.

d. *British Columbia:* Includes the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a long-term contract expiring in 2013.

e. *Upper New York State:* Includes the operations of four hydroelectric generating stations in Upper New York State, with a combined capacity of approximately 23 MW, operating under licences from the US Federal Energy Regulatory Commission. Hydroelectric operations in Upper New York State are conducted through the Corporation's indirect wholly owned subsidiary FortisUS Energy Corporation ("FortisUS Energy").

Non-Regulated – Fortis Properties

Fortis Properties owns and operates 20 hotels comprised of more than 3,800 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

Corporate and Other

The Corporate and Other segment captures expense and revenue items not specifically related to any reportable segment. This segment includes finance charges, including interest on debt incurred directly by Fortis and Terasen Inc. and dividends on preference shares classified as long-term liabilities; dividends on preference shares classified as equity; other corporate expenses, including Fortis and Terasen Inc. corporate operating costs, net of recoveries from subsidiaries; interest and miscellaneous revenues; and corporate income taxes.

Also included in the Corporate and Other segment are the financial results of CustomerWorks Limited Partnership ("CWLP"). CWLP is a non-regulated shared-services business in which Terasen holds a 30 per cent interest. CWLP operates in partnership with Enbridge Inc. and provides customer service contact, meter reading, billing, credit, support and collection services to the Terasen Gas companies and several smaller third parties. CWLP's financial results are recorded using the proportionate consolidation method of accounting. While currently not significant, financial results of Terasen Energy Services Inc. ("TES") are also reported in the Corporate and Other segment. TES is a non-regulated wholly owned subsidiary of Terasen that provides alternative energy solutions.

Financial Highlights

For the Years Ended December 31	2008	2007	Variance *(%)*
Net Earnings Applicable to Common Shares *($ millions)*	**245**	193	26.9
Basic Earnings per Common Share *($)*	**1.56**	1.40	11.4
Diluted Earnings per Common Share *($)*	**1.52**	1.32	15.2
Weighted Average Number of Common Shares Outstanding *(millions)*	**157.4**	137.6	14.4
Revenue *($ millions)*	**3,903**	2,718	43.6
Dividends Paid per Common Share *($)*	**1.00**	0.82	22.0
Return on Average Common Shareholders' Equity *(%)*	**8.7**	10.0	(13.0)
Total Assets *($ millions)*	**11,178**	10,273	8.8
Cash Flow From Operating Activities *($ millions)*	**663**	373	77.7

Acquisitions: In November 2008, Fortis Properties acquired the Fairmont Newfoundland hotel for approximately $22 million, increasing hospitality operations by 301 rooms and 16,000 square feet of convention space.

On May 17, 2007, Fortis completed the acquisition of all of the issued and outstanding common shares of Terasen, formerly a wholly owned subsidiary of Kinder Morgan, Inc., for aggregate consideration of $3.7 billion, including the assumption of approximately $2.4 billion of consolidated debt. Terasen owns and operates a gas distribution business carried on by TGI, TGVI and TGWI. The acquisition did not include the petroleum transportation assets of Kinder Morgan Canada (formerly Terasen Pipelines), which are comprised primarily of refined and crude oil pipelines.

A significant portion of the net cash purchase price of Terasen was satisfied with the net proceeds of the public offering of Subscription Receipts completed by Fortis on March 15, 2007. Fortis issued approximately 44.3 million Subscription Receipts for gross proceeds of approximately $1.15 billion. Upon closing of the acquisition on May 17, 2007, each Subscription Receipt was automatically exchanged, without payment of additional consideration, for one common share of Fortis. The remaining net cash purchase price was financed, on an interim basis, by drawing $125 million on the Corporation's existing credit facility.

On August 1, 2007, Fortis Properties purchased the Delta Regina, comprised of the 274-room Delta Regina hotel, the Saskatchewan Trade and Convention Centre, 52,000 square feet of commercial office space and a parking garage in Regina, Saskatchewan, for an aggregate cash purchase price of approximately $50 million.

Key Trends and Risks: Terasen improved the risk profile of Fortis by providing the Corporation with a more economically diverse portfolio of assets and earnings. The expansion into natural gas added a new business segment, doubled the regulated rate base of Fortis and was complementary to the Corporation's proven core competencies in managing regulated electric distribution utilities. The distribution franchises of the Terasen Gas companies have a well-diversified, mature, principally residential customer base and operate in a service territory that has experienced steady economic growth and includes substantially all of the service territory of FortisBC. The expansion into natural gas distribution provides Fortis with a platform for future growth in the regulated natural gas business in Canada and the United States.

A large proportion of the businesses of Fortis serve the economies of western Canada, which have been growing faster than other regions of Canada. As at December 31, 2008, regulated utility assets comprised 92 per cent of total assets (December 31, 2007 – 92 per cent) and regulated utility assets in Canada comprised 82 per cent of total assets (December 31, 2007 – 84 per cent).

Declining long-term interest rates in Canada since 2005 have negatively impacted the formula-based allowed rate of return on common shareholders' equity ("ROE") used to set customer rates at each of the Corporation's four largest regulated utilities. The chart below highlights the trend in the regulator-allowed ROEs at each of the Corporation's four largest regulated utilities.

Regulator-Allowed ROE

(%)	2005	2006	2007	2008	2009
Terasen Gas Inc.	9.03	8.80	8.37	8.62	8.47
FortisAlberta	9.50	8.93	8.51	8.75	8.51 (1)
FortisBC	9.43	9.20	8.77	9.02	8.87
Newfoundland Power	9.24	9.24	8.60	8.95	8.95

(1) Interim ROE pending outcome of regulatory proceeding

The impact on the Corporation's consolidated earnings of lower allowed ROEs has been more than offset by earnings derived from increased rate bases and energy sales and the realization of operating cost efficiencies.

Economic growth in the province of Alberta has been robust in the past few years translating into strong customer, energy sales and rate base growth at FortisAlberta. The rate of growth may decrease in 2009 due to the current global economic environment and depressed world oil prices. FortisAlberta's service territory includes the environs of Calgary and Edmonton as well as the corridor between these cities. A healthy British Columbia provincial economy and population growth in the Okanagan region have favourably impacted customer and sales growth at FortisBC and the Terasen Gas companies over the past few years. Sales growth in 2008 at FortisBC was tempered due to decreased activity in the forestry sector. Organic earnings growth from the Corporation's regulated utilities in Canada is expected to be primarily driven by rate base growth at FortisAlberta, FortisBC and the Terasen Gas companies. The Corporation's other Canadian regulated electric utilities, Newfoundland Power, Maritime Electric and FortisOntario, are expected to generate slower earnings' growth.

Regulated assets in the Caribbean region, as a percentage of the Corporation's total regulated assets, were 10 per cent at December 31, 2008 (December 31, 2007 – 8 per cent). The regulated rate of return on rate base assets ("ROA") achieved in the Caribbean is higher than that achieved in Canada. The higher return is correlated with increased operating risks associated with local economic and political factors and weather conditions. However, the allowed ROAs at Caribbean Utilities and Belize Electricity were lowered in 2008 due to the negotiation of new licences at Caribbean Utilities and the impact of a regulatory rate decision at Belize Electricity. Economic growth has been strong in the Corporation's service territories in the Caribbean, positively impacting customer and sales growth. The rate of growth is expected to be lower in 2009 due to the impact of the global economic downturn. The Corporation's operations in the Caribbean are exposed to hurricane risk. Fortis uses external insurance to help mitigate the impact on its operations of potential damage and related business interruption associated with hurricanes.

The key business risk to Fortis is regulatory risk. Except for the Terasen Gas companies and FortisBC, which have the same regulator, the Corporation's other utilities are regulated by different regulatory authorities. Relationships with the regulatory authorities are managed at the local utility level and such relationships have generally been positive. However, the relationship of Belize Electricity with its regulator became tenuous in 2008 when the regulator issued a decision disallowing previously incurred fuel and purchased power costs and lowering the regulated ROA. The decision has negatively impacted Belize Electricity's financial health. Although the receipt of an adverse regulatory decision may materially affect the ability of any utility to recover the cost of providing its services and achieving a reasonable rate of return, the impact on the Corporation as a whole is lessened due to the geographic and regulatory diversity of its operations. The total assets of Belize Electricity comprise approximately 2 per cent of the Corporation's total assets.

In Canada, regulator-approved negotiated settlement agreements were reached at FortisAlberta and FortisBC for 2008 and 2009 electricity rates and at Newfoundland Power for 2008 electricity rates. Achieving regulator-approved negotiated settlement agreements eliminates the cost of full-scale public hearing processes. Customer rates at Newfoundland Power and the Terasen Gas companies have also been set for 2009.

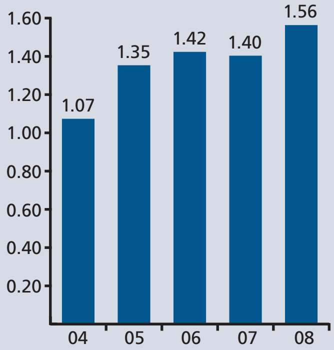
The Corporation's regulated gas and electric utilities require continual access to long-term capital to fund investments in infrastructure necessary to provide service to customers. Long-term capital required to carry out the subsidiary capital expenditure programs is mostly obtained at the regulated utility level. The subsidiaries issue debt mostly at terms ranging between 10 years and 30 years. As at December 31, 2008, approximately 84 per cent of the Corporation's consolidated long-term debt and capital lease obligations had maturities beyond five years. To help ensure uninterrupted access to capital and sufficient liquidity to fund capital programs and working capital requirements, the Corporation and its subsidiaries have $2.2 billion in credit facilities of which approximately $1.5 billion was available as at December 31, 2008. During 2008, Fortis and its subsidiaries issued almost $1.2 billion in equity and long-term debt. With strong credit ratings and conservative capital structures, the Corporation and its subsidiaries expect to continue to have reasonable access to long-term capital in 2009.

Common share dividend payments increased to $1.00 per common share in 2008. Effective for the first quarter of 2009, a 4 per cent increase in the quarterly common share dividend to 26 cents from 25 cents extends the Corporation's record of annual common share dividend increases to 36 consecutive years, the longest record of any public corporation in Canada.

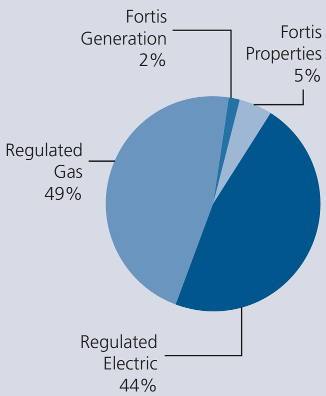
For a complete discussion of the Corporation's business risks, including regulatory risk and the impact on the Corporation and its subsidiaries of recent economic conditions, refer to the "Regulatory Highlights", "Business Risk Management" and "Outlook" sections of this MD&A.

Management Discussion and Analysis

Basic Earnings per Common Share *($)*

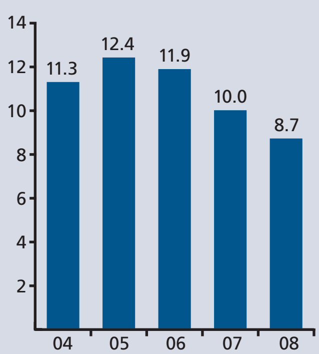


Revenue[(1)]
(year ended December 31, 2008)



[(1)] Excludes Corporate and Other

Return on Average Common Shareholders' Equity *(%)*



Net Earnings Applicable to Common Shares and Earnings per Common Share: Fortis achieved net earnings applicable to common shares of $245 million in 2008, a 26.9 per cent increase over earnings of $193 million in the previous year. The increase in earnings was primarily due to earnings' contributions from the Terasen Gas companies for a full year in 2008 compared to a partial year in 2007, rate base growth and higher allowed ROEs at the Corporation's Canadian regulated utilities, and increased non-regulated hydroelectric production due to higher rainfall. The increase was tempered by a one-time $13 million loss related to a June 2008 regulatory rate decision at Belize Electricity and lower corporate tax recoveries at FortisAlberta. Results for 2008 also reflected a $7.5 million tax reduction ($5.5 million at the Terasen Gas companies and $2 million at Terasen Inc.) associated with the settlement of historical corporate tax matters at Terasen. Results for 2007 reflected a $7 million after-tax gain on the sale of surplus land at TGI.

Basic earnings per common share were $1.56 in 2008, an 11.4 per cent increase over $1.40 in the previous year. The increase was primarily due to growth in earnings associated with the Terasen Gas companies and increased non-regulated hydroelectric production. Basic earnings per common share in 2007 were diluted by the common shares issued to fund the acquisition of Terasen and by the seasonality of earnings at the Terasen Gas companies.

Revenue: Revenue increased 43.6 per cent to approximately $3.9 billion from approximately $2.7 billion in 2007. The increase was driven by contributions from the Terasen Gas companies for a full year in 2008 compared to a partial year in 2007. The remainder of the increase was mainly the result of customer rate increases, which included the impact of higher allowed ROEs for 2008 and the flow through to customers of higher energy supply costs; two additional months of contribution from Caribbean Utilities due to a change in the utility's fiscal year end; and customer growth.

Return on Average Common Shareholders' Equity: Return on average common shareholders' equity was 8.7 per cent in 2008 compared to 10.0 per cent in 2007. The decline largely related to higher average common shareholders' equity associated with the May 2007 acquisition of Terasen.

Cash Flow from Operating Activities: Cash flow from operating activities, after working capital adjustments, was $663 million in 2008, 77.7 per cent higher than $373 million in the previous year. The increase primarily reflected a full year of contributions from the Terasen Gas companies in 2008.

2008 Capital Expenditures: During 2008, consolidated capital expenditures, before customer contributions ("gross capital expenditures"), were $904 million, including capital expenditures of approximately $220 million at the Terasen Gas companies. Total capital investment at FortisAlberta and FortisBC during 2008 was approximately $419 million, representing approximately 46 per cent of total gross capital expenditures. Much of the capital investment was driven by customer growth and the need to enhance the reliability of electricity systems.

Management Discussion and Analysis

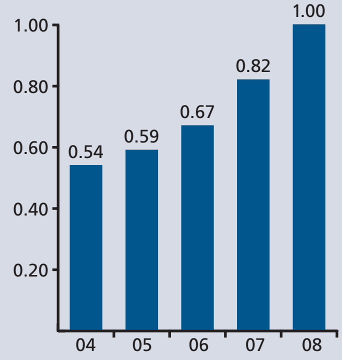
Dividends: Dividends paid per common share increased to $1.00 in 2008, up 22.0 per cent from 82 cents in 2007. Commencing with the first quarter dividend paid on March 1, 2009, Fortis increased its quarterly common share dividend 4 per cent to 26 cents from 25 cents. The Corporation's dividend payout ratio was 64.1 per cent in 2008 compared to 58.6 per cent in 2007.

In December 2008, the Corporation amended and restated its Dividend Reinvestment and Share Purchase Plan to provide a 2 per cent discount on the purchase of common shares issued from treasury, with reinvested dividends, effective March 1, 2009.

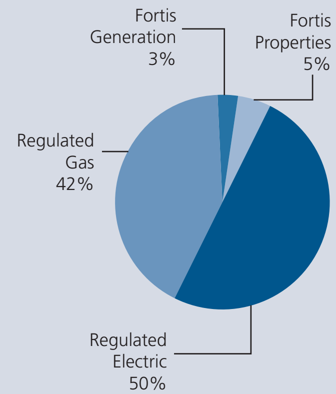
Asset Growth: Total assets increased 8.8 per cent to approximately $11.2 billion at the end of 2008 compared to approximately $10.3 billion at the end of 2007. The increase was primarily due to the Corporation's continued investment in energy systems at FortisAlberta, FortisBC and the Terasen Gas companies, combined with the impact of foreign exchange associated with translation of foreign currency-denominated assets.

Financings: During 2008, Fortis and its utilities raised almost $1.2 billion of capital from a combination of preference share, common share and long-term debt issues. In the second quarter of 2008, the Corporation publicly issued 9.2 million 5.25% Five-Year Fixed-Rate Reset First Preference Shares, Series G ("First Preference Shares, Series G") for gross proceeds of approximately $230 million ($223 million net of costs). The net proceeds were used to repay $170 million under the Corporation's committed credit facility, fund equity requirements of FortisAlberta and the Corporation's regulated electric utilities in the Caribbean, and for general corporate purposes. In December 2008, the Corporation publicly issued 11.7 million common shares for gross proceeds of approximately $300 million ($287 million net of costs). The net proceeds were used to repay short-term debt primarily incurred to retire $200 million of debt at Terasen that matured on December 1, 2008 and for general corporate purposes. At the subsidiary level, TGVI issued $250 million of 30-year 6.05% unsecured debentures in February; FortisAlberta issued $100 million of 30-year 5.85% unsecured debentures in April; Maritime Electric issued $60 million of 30-year 6.05% secured first mortgage bonds in April; and TGI issued $250 million of 30-year 5.80% unsecured debentures in May. Proceeds from the long-term debt issues at the utilities were primarily used to repay indebtedness under credit facilities incurred in support of capital spending. Additionally, partial proceeds from the issuance of the $250 million unsecured debentures by TGI were used to refinance $188 million of debt that matured in May 2008.

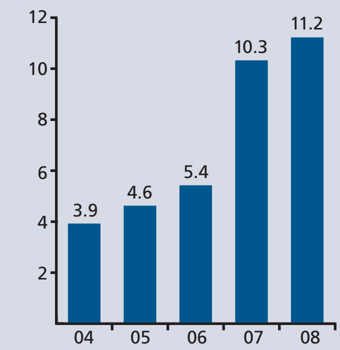
Dividends Paid per Common Share *($)*



Total Assets
(as at December 31, 2008)



Total Assets *($ billions)*
(as at December 31)



Segmented Results of Operations

The segmented results of the Corporation are outlined below.

Segmented Net Earnings

Years Ended December 31

($ millions)	2008	2007	Variance
Regulated Gas Utilities – Canadian			
Terasen Gas Companies [1]	**118**	50	68
Regulated Electric Utilities – Canadian			
FortisAlberta	**46**	48	(2)
FortisBC	**34**	31	3
Newfoundland Power	**32**	30	2
Other Canadian	**14**	16	(2)
	126	125	1
Regulated Electric Utilities – Caribbean [2]	**17**	31	(14)
Non-Regulated – Fortis Generation	**30**	24	6
Non-Regulated – Fortis Properties [3]	**23**	24	(1)
Corporate and Other	**(69)**	(61)	(8)
Net Earnings Applicable to Common Shares	**245**	193	52

(1) Financial results are reported from May 17, 2007, the date of acquisition.

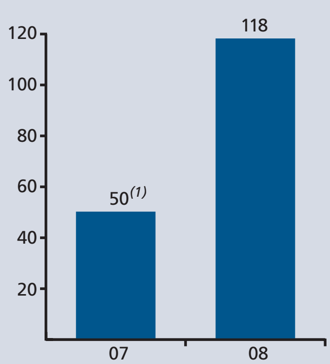
(2) Caribbean Utilities had an April 30 fiscal year end whereby, up to and including the third quarter of 2008, Caribbean Utilities' financial statements were consolidated in the financial statements of Fortis on a two-month lag basis. Caribbean Utilities changed its fiscal year end to December 31, which has resulted in the Corporation consolidating 14 months of financial results of Caribbean Utilities during 2008. Going forward, this change in fiscal year end will eliminate the previous two-month lag in consolidating Caribbean Utilities' financial results.

(3) Includes the results of the Fairmont Newfoundland hotel from November 2008, the date of acquisition

REGULATED UTILITIES

The Corporation's primary business is regulated utilities. In 2008, regulated earnings in Canada and the Caribbean represented approximately 83 per cent (2007 – 81 per cent) of the Corporation's earnings from its operating segments (excluding the Corporate and Other segment). Total regulated assets represented 92 per cent of the Corporation's total assets as at December 31, 2008 (December 31, 2007 – 92 per cent).

Regulated Gas Utilities – Canadian Earnings *($ millions)*



(1) Earnings are from May 17, 2007

Regulated Gas Utilities – Canadian

Regulated Gas Utilities – Canadian earnings for 2008 were $118 million (2007 – $50 million), which represented approximately 45 per cent of the Corporation's total regulated earnings (2007 – 24 per cent). Earnings for 2007 were from May 17, 2007, the date of acquisition of the Regulated Gas Utilities – Canadian. Regulated Gas Utilities – Canadian assets were approximately $4.6 billion as at December 31, 2008 (December 31, 2007 – $4.4 billion), which represented approximately 45 per cent of the Corporation's total regulated assets as at December 31, 2008 (December 31, 2007 – 47 per cent).

Terasen Gas Companies

Financial Highlights

Years Ended December 31	2008	2007 [1]	Variance
Gas Volumes *(TJ)*	**221,122**	118,309	102,813
($ millions)			
Revenue	**1,902**	905	997
Energy Supply Costs	**1,268**	559	709
Operating Expenses	**253**	150	103
Amortization	**97**	58	39
Finance Charges	**129**	80	49
Gain on Sale of Property	**–**	(8)	8
Corporate Taxes	**37**	16	21
Earnings	**118**	50	68

(1) Results are reported from May 17, 2007, the date of acquisition.

Gas Volumes: Gas volumes were 221,122 TJ for 2008 compared to 220,977 TJ reported by the Terasen Gas companies for the full year in 2007. Increased sales volumes to residential customers, as a result of increased consumption due to cooler weather year over year, and higher sales volumes to customers under fixed price contracts, were largely offset by lower transportation volumes to customers sourcing their own gas supplies.

The Terasen Gas companies earn approximately the same margin regardless of whether a customer contracts for the purchase of natural gas or contracts for the transportation of natural gas only.

As a result of the operation of British Columbia Utilities Commission ("BCUC")-approved regulatory deferral mechanisms, changes in consumption levels and energy supply costs from those forecasted to set gas distribution rates do not materially affect earnings.

During 2008, net customer additions at TGI and TGVI totalled approximately 12,800, bringing the total customer count at TGI and TGVI to approximately 929,000 at December 31, 2008. During 2007, net customer additions at TGI and TGVI totalled approximately 13,900. Net customer additions in 2008 were lower than expected, reflecting weakening housing and construction markets and growth in multi-family housing where natural gas use is less prevalent compared to single-family housing.

Revenue: Revenue was approximately $1.9 billion for 2008 compared to $905 million for the partial year in 2007. In addition to the impact of revenue contribution for the full year in 2008, revenue also increased year over year due to: (i) the higher commodity cost of gas charged to customers; (ii) increased residential customer consumption; and (iii) an increase in gas distribution rates, effective January 1, 2008, which included the impact of an increase in the 2008 allowed ROE for TGI and TGVI to 8.62 per cent and 9.32 per cent, respectively, from 8.37 per cent and 9.07 per cent, respectively.

Earnings: Earnings were $118 million for 2008 compared to $50 million for the partial year in 2007. Earnings for 2007 were favourably impacted by a $7 million after-tax gain on the sale of surplus land. Earnings for 2008 included an approximate $5.5 million tax reduction associated with the settlement of historical corporate tax matters. During the third quarter of 2008, Terasen reached a settlement with Revenu Québec and Canada Revenue Agency ("CRA") related to amounts owing as a result of amended Québec tax legislation. The legislation was passed in 2006 for the purpose of challenging certain interprovincial Canadian tax structures.

In addition to earnings' contribution for a full year in 2008 and the one-time tax reduction described above, earnings for 2008 were favourably impacted by the increase in gas distribution rates, effective January 1, 2008, reflecting a higher allowed ROE, partially offset by: (i) higher operating expenses driven by increased labour costs; (ii) higher amortization costs associated with the continued investment in capital assets; and (iii) higher finance charges reflective of higher borrowing rates.

Seasonality materially impacts the earnings of the Terasen Gas companies as a major portion of the gas distributed is used for space heating. Virtually all of the annual earnings of the Terasen Gas companies are generated in the first and fourth quarters.

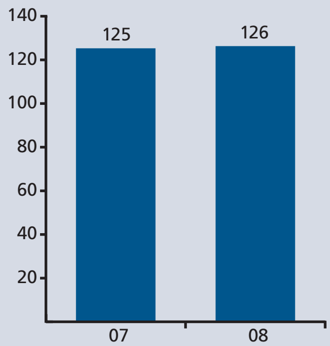
Outlook: TGI's allowed ROE for 2009 has been set at 8.47 per cent, down from 8.62 per cent in 2008. TGVI's allowed ROE for 2009 has been set at 9.17 per cent, down from 9.32 per cent in 2008. TGI and TGVI are currently preparing rate applications related to 2010 which are anticipated to be filed with the regulator in the second quarter of 2009.

In February 2009, TGI issued $100 million of 30-year 6.55% unsecured debentures. The net proceeds are being used to repay credit-facility borrowings incurred in support of working capital requirements and capital expenditures, and to repay $60 million of unsecured debentures that mature in June 2009.

A discussion of the nature of regulation and material regulatory decisions and applications pertaining to the Terasen Gas companies is provided under the heading "Regulatory Highlights". A summary of the forecast gross capital expenditures for 2009 for the Terasen Gas companies is provided under the heading "Liquidity and Capital Resources – Capital Program".

Management Discussion and Analysis

Regulated Electric Utilities – Canadian Earnings *($ millions)*



Regulated Electric Utilities – Canadian

Regulated Electric Utilities – Canadian earnings for 2008 were $126 million (2007 – $125 million), which represented approximately 48 per cent of the Corporation's total regulated earnings (2007 – 61 per cent). Regulated Electric Utilities – Canadian assets were approximately $4.6 billion as at December 31, 2008 (December 31, 2007 – $4.2 billion), which represented approximately 45 per cent of the Corporation's total regulated assets as at December 31, 2008 (December 31, 2007 – 45 per cent).

FortisAlberta

Financial Highlights

Years Ended December 31	2008	2007	Variance
Energy Deliveries *(GWh)*	**15,722**	15,378	344
($ millions)			
Revenue	**300**	270	30
Operating Expenses	**130**	122	8
Amortization	**85**	75	10
Finance Charges	**42**	36	6
Corporate Tax Recovery	**(3)**	(11)	8
Earnings	**46**	48	(2)

Energy Deliveries: Energy deliveries at FortisAlberta increased 344 gigawatt hours ("GWh"), or 2.2 per cent, year over year, mainly due to customer growth. During 2008, the number of customers at FortisAlberta increased by approximately 12,700, bringing the total number of customers at FortisAlberta to approximately 461,000 at the end of 2008.

As a significant portion of the Company's distribution revenue is derived from fixed or largely fixed billing determinants, changes in energy deliveries are not directly correlated with changes in revenue.

Revenue: Revenue was $30 million higher than the previous year, mainly due to: (i) a 6.8 per cent increase in customer distribution rates, effective January 1, 2008; (ii) the impact of customer and load growth; (iii) the accrual for collection in future customer distribution rates of the increase in the 2008 allowed ROE to 8.75 per cent from 8.51 per cent, effective January 1, 2008; and (iv) increased franchise fee revenue.

Earnings: Earnings were $2 million lower than the previous year, driven by lower future income tax recoveries primarily associated with the regulator-approved Alberta Electric System Operator ("AESO") charges deferral account. Additionally, higher revenue was partially offset by: (i) higher operating expenses due to increased contracted manpower costs, higher labour and employee-benefit costs associated with increased salaries and number of employees, and higher general operating expenses; (ii) increased amortization costs associated with continued investment in capital assets and higher amortization rates provided for in the 2008/2009 Negotiated Settlement Agreement ("NSA"); and (iii) increased finance charges driven by higher debt levels in support of the Company's significant capital expenditure program.

FortisAlberta's AESO charges deferral account captures variances between amounts charged by the AESO to FortisAlberta for transmission tariffs and amounts collected by FortisAlberta from customers through the transmission tariff component of basic customer rates. Subject to regulatory approval, amounts charged by the AESO in excess of amounts collected from customers are deferred as a regulatory asset for future recovery from customers, and amounts collected from customers in excess of amounts charged are deferred as a regulatory liability for future refund to customers. Generally, there is a two-year lag between the deferral of amounts in the AESO charges deferral account and their collection from, or refund to, customers in rates.

FortisAlberta records income taxes on the cash taxes payable method, as approved by its regulator, except for certain deferral accounts, including the AESO charges deferral account, whereby income taxes are recorded using the liability method. During the third quarter of 2008, FortisAlberta identified that taxable income from operations, before considering impacts associated with the AESO charges deferral account, could be fully offset by utilizing capital cost allowance deductions. Then, by applying the tax deductions related to transmission tariff payments made to the AESO, a tax loss carryforward could be created and a future income tax recovery could be recorded. Under the liability method of recording income taxes, a future income tax asset associated with the tax loss carryforward may be recorded when there is certainty of recovery. The transmission tariff payments made to the AESO are recoverable from customers in the future; therefore, a future income tax asset and future income tax recovery were recorded in each of the third and fourth quarters of 2008, which offset the future income tax liability and future income tax expense created by the AESO charges deferral as it was incurred.

Prior to the third quarter of 2008, FortisAlberta was not deducting transmission tariff payments made to the AESO to create tax loss carryforwards and was not recording the associated future income tax recoveries. This accounting treatment, in effect, resulted in a two-year lag of recording the future income tax impacts between the payments of transmission tariff amounts to the AESO and the timing of their collection from customers. Going forward, fluctuations in corporate income taxes associated with the operation of the AESO charges deferral account are not expected to occur.

During 2007, net future income tax recoveries of approximately $9 million were recorded, primarily due to the sale of amounts deferred to the AESO charges deferral account. In September 2007, the 2006 deferred AESO charges receivable balance of $28 million and, in December 2007, approximately $38 million of the 2007 deferred AESO charges receivable balance, were sold to a Canadian chartered bank and, as a result, the proceeds were recognized in 2007.

Outlook: During 2008, the Alberta Utilities Commission ("AUC") ruled that a 2009 Generic Cost of Capital Proceeding to review ROE levels, adjustment mechanisms and utility capital structures would be appropriate for all gas, electric and pipeline utilities in Alberta that it regulates. As directed by the AUC, FortisAlberta is to continue using the 2007 allowed ROE of 8.51 per cent for 2009, down from the allowed ROE of 8.75 per cent in 2008, pending the outcome of the AUC's 2009 Generic Cost of Capital Proceeding.

FortisAlberta expects to file a 2010 and 2011 revenue requirements application during the second quarter of 2009.

In December 2008, FortisAlberta filed a short-form base shelf prospectus for the issuance of up to $350 million in debentures. In February 2009, FortisAlberta issued $100 million of 30-year 7.06% unsecured debentures under the shelf prospectus. The net proceeds were used to repay committed credit-facility borrowings incurred in support of the Company's capital expenditure program and for general corporate purposes.

A discussion of the nature of regulation and material regulatory decisions and applications pertaining to FortisAlberta is provided under the heading "Regulatory Highlights". A summary of the forecast gross capital expenditures for 2009 for FortisAlberta is provided under the heading "Liquidity and Capital Resources – Capital Program".

FortisBC

Financial Highlights

Years Ended December 31	2008	2007	Variance
Electricity Sales *(GWh)*	**3,087**	3,091	(4)
($ millions)			
Revenue	**237**	229	8
Energy Supply Costs	**68**	67	1
Operating Expenses	**67**	69	(2)
Amortization	**34**	31	3
Finance Charges	**28**	26	2
Corporate Taxes	**6**	5	1
Earnings	**34**	31	3

Electricity Sales: Electricity sales at FortisBC decreased 4 GWh, or 0.1 per cent, year over year due to reduced industrial customer loads as a result of a general slowdown in the forestry sector, partially offset by the impact of residential, general service and wholesale customer growth.

Revenue: Revenue was $8 million higher than the previous year, driven by the impact of: (i) a 2.9 per cent increase in electricity rates, effective January 1, 2008, which included the impact of an increase in the 2008 allowed ROE to 9.02 per cent from 8.77 per cent; (ii) a 0.8 per cent increase in electricity rates, effective May 1, 2008, as a result of the flow through to customers of increased purchased power costs from BC Hydro; and (iii) a shift in sales mix from lower-rate to higher-rate customer classes. The increase was partially offset by lower revenue contributions from non-regulated operating, maintenance and management services and lower electricity sales.

Earnings: Earnings were $3 million higher than the previous year. The increase was primarily due to the 2.9 per cent increase in electricity rates, partially offset by higher amortization costs and finance charges related to the Company's significant capital expenditure program.

Operating expenses were $2 million lower than the previous year, mainly due to lower operating expenses associated with non-regulated operating, maintenance and management services, partially offset by the impact of higher labour costs and general inflationary cost increases year over year.

Outlook: FortisBC's allowed ROE for 2009 has been set at 8.87 per cent, down from 9.02 per cent in 2008. In December 2008, FortisBC received regulatory approval of the Company's 2009 Revenue Requirements Application, resulting in a general rate increase of 4.6 per cent, effective January 1, 2009. The approval of the 2009 Revenue Requirements Application also included an extension of the performance-based rate-setting ("PBR") mechanism for the years 2009 through 2011 under terms similar to the previous PBR agreement.

A discussion of the nature of regulation and material regulatory decisions and applications pertaining to FortisBC is provided under the heading "Regulatory Highlights". A summary of the forecast gross capital expenditures for 2009 for FortisBC is provided under the heading "Liquidity and Capital Resources – Capital Program".

Newfoundland Power

Financial Highlights

Years Ended December 31	2008	2007	Variance
Electricity Sales *(GWh)*	**5,208**	5,093	115
($ millions)			
Revenue	**517**	491	26
Energy Supply Costs	**337**	327	10
Operating Expenses	**50**	53	(3)
Amortization	**45**	34	11
Finance Charges	**33**	34	(1)
Corporate Taxes	**19**	12	7
Non-Controlling Interest	**1**	1	–
Earnings	**32**	30	2

Electricity Sales: Electricity sales at Newfoundland Power increased 115 GWh, or 2.3 per cent, year over year, primarily due to the combined impact of customer growth and higher average consumption.

Revenue: Revenue in 2008 was $26 million higher than the previous year. The increase was driven by an average increase in customer rates of 2.8 per cent, effective January 1, 2008, which included the impact of an increase in the 2008 allowed ROE to 8.95 per cent from 8.60 per cent, and electricity sales growth. The increase in revenue also reflected higher amortization of regulatory liabilities in accordance with prescribed regulatory orders.

Earnings: Earnings were $2 million higher than the previous year, driven by the average 2.8 per cent increase in customer rates, effective January 1, 2008, lower operating expenses driven by the timing of expenses and lower maintenance and pension costs, and lower finance charges. Finance charges decreased due to the refinancing of maturing debt in August 2007 at lower rates.

Amortization costs were higher year over year due to the regulator-approved recovery in customer rates, effective January 1, 2008, of previously deferred amortization costs.

Corporate tax expense increased year over year as a result of higher earnings before corporate taxes, combined with a higher effective corporate income tax rate, which was driven by decreased deductions taken for tax purposes compared to accounting purposes.

Outlook: Newfoundland Power's allowed ROE for 2009 has been set at 8.95 per cent, unchanged from 2008; consequently, there has been no change in base customer rates for 2009.

A discussion of the nature of regulation and material regulatory decisions and applications pertaining to Newfoundland Power is provided under the heading "Regulatory Highlights". A summary of Newfoundland Power's forecast gross capital expenditures for 2009 is provided under the heading "Liquidity and Capital Resources – Capital Program".

Other Canadian Electric Utilities[1]

Financial Highlights

Years Ended December 31	2008	2007	Variance
Electricity Sales *(GWh)*	**2,182**	2,209	(27)
($ millions)			
Revenue	**262**	263	(1)
Energy Supply Costs	**177**	174	3
Operating Expenses	**28**	29	(1)
Amortization	**18**	17	1
Finance Charges	**18**	17	1
Corporate Taxes	**7**	10	(3)
Earnings	**14**	16	(2)

[1] Includes Maritime Electric and FortisOntario

Electricity Sales: Electricity sales at Other Canadian Electric Utilities decreased 27 GWh, or 1.2 per cent, year over year. The decrease was driven by the impact of the shut down of operations of certain industrial customers in Ontario and lower average consumption in Ontario.

Revenue: Revenue was $1 million lower than the previous year. During 2007, FortisOntario received a one-time refund of approximately $3 million ($2 million after-tax) from Niagara Mohawk Power Corporation ("NIMO") associated with cross-border transmission interconnection agreements. In April 2008, the US Federal Energy Regulatory Commission issued an order stating that the refund should not have been ordered. In May 2008, FortisOntario repaid the refunded amounts to NIMO.

Excluding the impact of the receipt of the $3 million refund in 2007 and its subsequent repayment in 2008, revenue increased $5 million year over year. The increase was primarily due to: (i) the flow through to customers of higher energy supply costs at FortisOntario; (ii) a 1.8 per cent increase in basic electricity rates at Maritime Electric, effective April 1, 2008; and (iii) an average 1.1 per cent increase in basic electricity distribution rates at FortisOntario, effective May 1, 2008, partially offset by the impact of lower electricity sales.

Earnings: Earnings were $2 million lower than the previous year. Excluding the impact of the receipt of the refund in 2007 and its subsequent repayment in 2008, earnings were $2 million higher year over year. The increase was driven by higher basic electricity rates, lower operating expenses and lower effective corporate taxes, partially offset by the impact of lower electricity sales and higher finance charges associated with increased borrowings. Operating expenses in 2007 included costs associated with an early retirement program at FortisOntario.

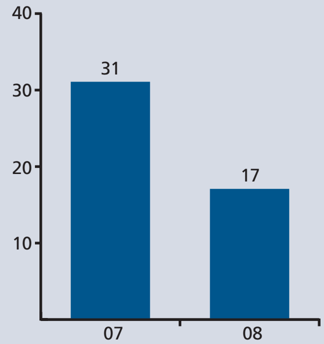
In October 2008, FortisOntario entered into a definitive agreement to acquire a 10 per cent strategic ownership in the electricity distribution business of Grimsby Power Inc. for a cash payment of approximately $1 million plus the provision of services to integrate Grimsby Power Inc.'s customer information system with FortisOntario's system. Grimsby Power Inc. serves approximately 10,000 distribution customers in the western area of the Niagara region. The transaction has been approved by the Ontario Energy Board ("OEB") and is pending approval from the Ontario Ministry of Finance.

Outlook: In March 2009, Maritime Electric received regulatory approval of its 2009 Rate Application, which will result in an increase in the amount of energy-related costs to be collected from customers through the basic rate component of customer billings, effective April 1, 2009. The regulator also approved, as filed, a maximum allowed ROE of 9.75 per cent for 2009, down from an allowed ROE of 10.00 per cent for 2008. The overall impact on residential customer rates for 2009 will be an increase of 5.3 per cent based on average consumption of 650 kWh per month.

Canadian Niagara Power filed a 2009 Cost of Service Application in August 2008 requesting the rebasing of distribution rates using 2009 as a forward test year. The application assumes a deemed capital structure of 56.7 per cent debt and 43.3 per cent equity and, as required by the OEB, reflects a preliminary ROE of 8.39 per cent. The Company expects a decision on the application to be received in April 2009.

A discussion of the nature of regulation and material regulatory decisions and applications pertaining to Other Canadian Electric Utilities is provided under the heading "Regulatory Highlights". A summary of forecast gross capital expenditures for the Other Canadian Electric Utilities for 2009 is provided under the heading "Liquidity and Capital Resources – Capital Program".

Regulated Electric Utilities – Caribbean Earnings *($ millions)*



Regulated Electric Utilities – Caribbean

Earnings' contribution from Regulated Electric Utilities – Caribbean for 2008 was $17 million (2007 – $31 million), which represented approximately 7 per cent of the Corporation's total regulated earnings (2007 – 15 per cent). Regulated Electric Utilities – Caribbean assets were approximately $1.0 billion as at December 31, 2008 (December 31, 2007 – $0.8 billion), which represented approximately 10 per cent of the Corporation's total regulated assets as at December 31, 2008 (December 31, 2007 – 8 per cent).

Regulated Electric Utilities – Caribbean[(1)]

Financial Highlights

Years Ended December 31	2008[(2)]	2007	Variance
Average US:CDN Exchange Rate[(3)]	**1.08**	1.07	0.01
Electricity Sales *(GWh)*	**1,199**	1,054	145
($ millions)			
Revenue	**408**	307	101
Energy Supply Costs	**273**[(4)]	169	104
Operating Expenses	**55**	49[(5)]	6
Amortization	**36**	28	8
Finance Charges	**16**	15	1
Corporate Taxes	**2**	2	–
Non-Controlling Interest	**9**	13	(4)
Earnings	**17**	31	(14)

(1) Includes Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos

(2) Caribbean Utilities had an April 30 fiscal year end whereby, up to and including the third quarter of 2008, Caribbean Utilities' financial statements were consolidated in the financial statements of Fortis on a two-month lag basis. Caribbean Utilities changed its fiscal year end to December 31, which has resulted in the Corporation consolidating 14 months of financial results of Caribbean Utilities during 2008.

(3) The reporting currency of Belize Electricity is the Belizean dollar, which is pegged to the US dollar at BZ$2.00 = US$1.00. The reporting currency of Caribbean Utilities and Fortis Turks and Caicos is the US dollar.

(4) Energy supply costs during 2008 included an $18 million (BZ$36 million) charge as a result of a regulatory rate decision by the Public Utilities Commission of Belize in June 2008.

(5) Operating expenses during 2007 included a $4.4 million (US$3.7 million) charge on the disposal of steam-turbine assets at Caribbean Utilities.

Electricity Sales: Electricity sales at Regulated Electric Utilities – Caribbean increased 145 GWh, or 13.8 per cent, year over year, driven by two additional months of contribution from Caribbean Utilities related to a change in the utility's fiscal year end, and customer and general economic growth. The increase was tempered by the loss of electricity sales at Fortis Turks and Caicos as a result of Hurricane Ike, including the delayed reopening for the fall tourist season of several large hotels on the Turks and Caicos Islands. Hurricane Ike was a Category 4 hurricane which struck the Turks and Caicos Islands in early September 2008. The increase was also tempered by the impact on electricity sales associated with the reduction in tourism activities related to global economic conditions towards the end of 2008.

Excluding the two additional months of contribution from Caribbean Utilities, electricity sales increased 6.0 per cent year over year. Electricity sales increased 8.7 per cent in 2007 compared to 2006.

Revenue: Revenue increased $101 million over the previous year; however, annual revenue for 2008 included the two additional months of contribution from Caribbean Utilities and an approximate $6 million favourable impact of foreign currency translation due to the weakening of the Canadian dollar against the US dollar year over year. Excluding the two additional months of contribution from Caribbean Utilities and the favourable impact of foreign currency translation, revenue increased year over year primarily due to: (i) the full flow through of higher fuel and oil costs to customers at Caribbean Utilities under the terms of the Company's new T&D licence; (ii) electricity sales growth; and (iii) an increase in the cost of power component of the average electricity rate at Belize Electricity, effective July 1, 2008. Partially offsetting the above factors were: (i) a decrease in the value-added delivery ("VAD") component of the average electricity rate at Belize Electricity, effective July 1, 2008; (ii) a 3.25 per cent reduction in basic electricity rates and the elimination of the hurricane cost recovery surcharge ("CRS") at Caribbean Utilities, effective January 1, 2008, under the terms of the Company's new T&D licence; and (iii) revenue loss of approximately $2 million at Fortis Turks and Caicos due to Hurricane Ike.