Q. **Reference:** ***Fair Return for Newfoundland Power (NP),*** **Evidence of Laurence D. Booth, September 28, 2021, page 89, lines 4-7.**

"In answer to CA-NP-62 Mr. Coyne reported the self-generation for each of the U.S. utilities in his sample. The average is 69%. Quite strikingly nuclear generation was present for 6 of the 9 U.S. utilities with an average of 43% nuclear generation."

a) **Please provide the source of the information in the above-referenced passage.**

b) **Please provide a copy of the Morningstar report quoted on line 7.**

A. The answer relies on the confidential attachment A to CA-NP-125.

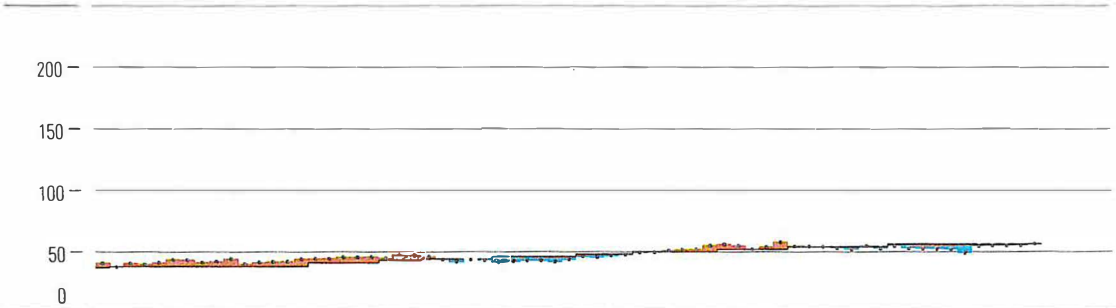
Fortis' Morningstar report provided as NP-CA-047 Attachment 1.

Morningstar Equity Analyst Report | Report as of 29 Jul 2021 16:59, UTC | Reporting Currency: CAD | Trading Currency: CAD | Exchange: TORONTO STOCK EXCHANGE

Fortis Inc FTS ★★★ 29 Jul 2021 16:57, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
56.01 CAD 29 Jul 2021	57.00 CAD 29 Jul 2021 16:46, UTC	0.98	26.39 CAD Bil 28 Jul 2021	Narrow	Stable	Low	Standard	7 Jul 2021 05:00, UTC

Price vs. Fair Value



	2016	2017	2018	2019	2020	YTD	
	1.09	1.05	0.95	1.04	0.93	0.98	Price/Fair Value
	14.90	15.14	2.44	22.41	0.11	10.08	Total Return %

Total Return % as of 28 Jul 2021. Last Close as of 29 Jul 2021. Fair Value as of 29 Jul 2021 16:46, UTC.

Contents

Important Disclosure

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

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Fortis Reports Solid Second-Quarter Earnings Against Foreign Currency Headwinds

Analyst Note Andrew Bischof, CFA, CPA, Senior Equity Analyst, 29 Jul 2021

We are increasing Fortis' fair value estimate to CAD 57 per share, up CAD 1, after Fortis reported second-quarter adjusted earnings of CAD 0.55 per share compared with CAD 0.56 in the same year-ago period. Excluding foreign currency impacts, earnings were up CAD .04 per share. Management reaffirmed 6% dividend growth expectations through 2025, in line with our estimates. Our narrow economic moat and stable moat trend ratings are unchanged. Our fair value increase is due to time value appreciation.

Fortis is well positioned for the clean energy transition, with one of the lower ESG risks relative to its peers, as only 7% of Fortis' assets are generation. The company will transition this portfolio through its base capital investment program, with 1.1 GW of planned coal retirements, and the addition of 2.4 GW of renewable generation and 1.4 GW of battery storage. Fortis' goal to reduce carbon emissions by 75% by 2035 is in line with its utility peers. Regulators across its jurisdictions are supporting this transition.

We continue to carefully watch developments at FERC, which earlier this year issued a notice of proposed rulemaking, or NOPR, that would eliminate the 50-basis-point adder given to regional transmission operators. Given transmission's role in supporting the Biden administration's renewable policy agenda, we believe transmission will receive favorable regulatory treatment. A recent NOPR on transmission planning, cost allocation and generation interconnection queue supports the transmission

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Sector	Industry
Utilities	Utilities - Regulated Electric

Business Description

Fortis owns and operates utility transmission and distribution assets in Canada and the United States, serving more than 2.5 million electricity and gas customers. The company has smaller stakes in electricity generation and several Caribbean utilities. ITC operates electric transmission in seven U.S. states, with more than 16,000 miles of high-voltage transmission lines in operation serving a peak load in excess of 26 gigawatts.

need. Absence of the 50-basis-point adder would negatively affect our fair value estimate up to $2 per share.

The company continues to progress on the Lake Erie Connector project, which remains Fortis' largest and most attractive near-term opportunity. The CAD 2.7 billion project is excluded from our and the company's five-year capital program. The Ontario government recently authorized the regions independent system operator to begin contract negotiations.

Business Strategy & Outlook Andrew Bischof, CFA, CPA, Senior Equity Analyst, 29 Jul 2021
Fortis manages regulated electric and gas utilities and independent transmission assets across North America. Acquisitions have made Fortis predominantly a U.S. utility, with roughly two thirds of earnings at its U.S. operations.

Its prized asset in the U.S. is ITC Holdings, which gives Fortis an opportunity to benefit from a long runway of U.S. transmission investment opportunities from aging infrastructure to supporting renewable energy growth. Regulatory treatment is constructive, with ITC's allowed returns on equity being higher than state-allowed returns and forward-looking rate making reducing regulatory lag. In April, FERC issued a supplemental notice of proposed rulemaking that could eliminate the 50 basis point incentive adder that regional transmission organization members receive. Given transmission's role in supporting the Biden administration's renewable policy agenda, we continue to believe transmission will receive favorable regulatory treatment.

UNS Energy offers faster growth than its U.S. peers with the area's population growth and transition to cleaner generation. A challenging regulatory environment in New York could pressure returns at CH Energy, but management has proved adept at managing regulatory relationships and finding growth opportunities.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and help fund consistent dividend growth. Returns are lower in Canada because of a lower cost of capital from a lower equity component compared with its U.S. counterparts.

Management's renewed focus on many internal growth projects is a positive for investors. Management has continued to execute on numerous capital growth opportunities, which should support more than 6% rate base growth and dividend growth through 2025. The company's five-year CAD 19.6 billion capital investment supports our earnings outlook. Fortis has numerous additional capital investment opportunities across its utilities, with ITC and UNS having the largest opportunities focusing on renewable energy and infrastructure investments.

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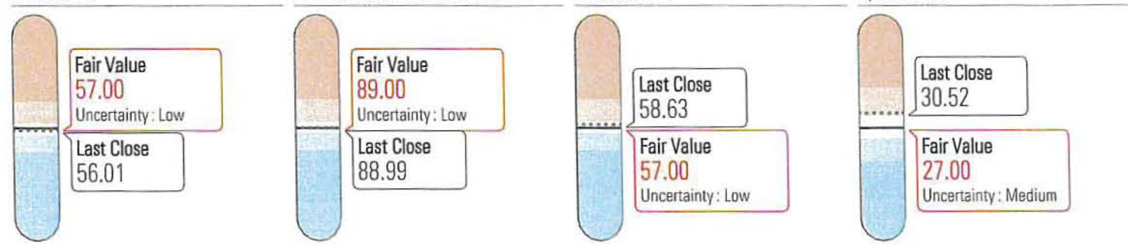
Competitors



	Fortis Inc FTS	American Electric Power Co Inc AEP	Emera Inc EMA	Hydro One Ltd H
Economic Moat	Narrow	Narrow	Narrow	None
Moat Trend	Stable	Stable	Stable	Stable
Currency	CAD	USD	CAD	CAD
Fair Value	57.00 29 Jul 2021 16:46, UTC	89.00 8 Dec 2020 17:27, UTC	57.00 13 Nov 2020 19:35, UTC	27.00 12 May 2021 14:11, UTC
1-Star Price	71.25	111.25	71.25	36.45
5-Star Price	45.60	71.20	45.60	18.90
Assessment	Fairly Valued 28 Jul 2021	Fairly Valued 28 Jul 2021	Fairly Valued 28 Jul 2021	Over Valued 28 Jul 2021
Morningstar Rating	★★★29 Jul 2021 16:57, UTC	★★★28 Jul 2021 21:20, UTC	★★★28 Jul 2021 21:57, UTC	★★28 Jul 2021 21:57, UTC
Analyst	Andrew Bischof, Senior Equity Analyst	Andrew Bischof, Senior Equity Analyst	Andrew Bischof, Senior Equity Analyst	Andrew Bischof, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Standard
Price/Fair Value	0.98	1.00	1.03	1.13
Price/Sales	2.89	2.81	2.68	2.53
Price/Book	1.54	2.08	1.78	1.71
Price/Earning	20.90	18.97	21.56	10.11
Dividend Yield	3.54%	3.28%	4.31%	3.37%
Market Cap	26.39 Bil	44.52 Bil	14.87 Bil	18.26 Bil
52-Week Range	48.97—57.32	74.80—94.21	49.66—58.83	26.38—31.11
Investment Style	Large Core	Large Value	Large Core	Large Core

Bulls Say Andrew Bischof, CFA, CPA, Senior Equity Analyst, 29 Jul 2021

- ▶ Fortis operates a stable business profile of regulated operations, offering a strong base for consistent earnings and dividend growth.
- ▶ With an aggressive capital expenditure plan in the coming years, we forecast Fortis' earnings will grow 6% annually through 2025.
- ▶ Fortis has paid consecutive quarterly dividends for more than four decades and raised the dividend faster than most of its peers in recent years.

Bears Say Andrew Bischof, CFA, CPA, Senior Equity Analyst, 29 Jul 2021

- ▶ The Canadian regulatory environment offers lower allowed returns than in the U.S.
- ▶ Management's zeal for U.S. diversification increases the risk that the company will overpay for acquisitions, though management has recently wisely set its focus on executing on its attractive internal growth opportunities.

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- As with all regulated utilities, rising interest rates will raise financing costs and could make the dividend less attractive for income investors.

Economic Moat Andrew Bischof, CFA, CPA, Senior Equity Analyst, 29 Jul 2021

We assign Fortis a narrow moat, with earnings from narrow-moat regulated gas and electric assets and wide-moat ITC.

For the regulated gas and electric operations, service territory monopolies and efficient scale advantages are the primary sources of an economic moat. Regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their distribution networks. In exchange for regulated utilities' service territory monopolies, regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing. Intuitively, utilities should have an economic moat based on efficient scale, but in some cases regulation offsets this advantage, preventing excess returns on capital. The risk of adverse regulatory decisions precludes regulated utilities from earning wide economic moat ratings. However, the threat of material value destruction is low, and normalized returns exceed costs of capital in most cases, leaving us comfortable assigning narrow moats to many regulated utilities.

We believe ITC's efficient scale competitive advantage gives it a wide moat. Competitors have little incentive to build competing transmission lines if one that ITC owns already is serving a market's full capacity. Capital costs for new transmission lines are too high and incremental benefits too low to offer sufficient returns on invested capital for two competing transmission owners. In addition, ITC benefits from regulatory protection. FERC approves new transmission lines only if there is a demonstrated need for new capacity.

In exchange for regulatory protection, ITC must charge rates based on a formula that allows ITC to recover its expenses and earn a return on investment. The formula rate mechanism considers forecast expenses, investment base, revenue, and network load each year, and then adjusts annually to true up ITC's returns. This rate treatment is more investor-friendly than typical backward-looking rates that require a utility to invest the capital before collecting a return on that capital. We believe the transparency and predictability of the formula rate mechanism results in a below-average cost of capital for ITC and supports stable cash returns. ITC's competitive advantages and favorable FERC regulation have allowed ITC to earn well above its cost of capital.

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Fair Value and Profit Drivers Andrew Bischof, CFA, CPA, Senior Equity Analyst, 29 Jul 2021

We are increasing our per share fair value estimate CAD 1 per share to CAD 57 after Fortis reported second-quarter earnings that put it on track to meet our full-year financial projections. Our fair value increase is the result of time value appreciation since our last update.

We assume consistent regulatory treatment at the Canadian and U.S. utilities. We forecast nearly CAD 20 billion total capital investment at the regulated gas and electric utilities through 2025. Our utility earnings growth estimate relies on continued customer growth and execution of Fortis' capital investment program. On a consolidated basis, we forecast 6% annual earnings growth and dividend growth during the next five years.

In our discounted cash flow valuation, we use a 6.0% cost of capital based on a 7.5% cost of equity. This is lower than the 9% rate of return we expect investors will demand for a diversified equity portfolio, reflecting Fortis' lesser sensitivity to the economic cycle and lower degree of operating leverage. We incorporate $4 per share of incremental value to better recognize the benefits accruing to Fortis from having issued debt at coupon rates far below our cost of debt.

Risk and Uncertainty Andrew Bischof, CFA, CPA, Senior Equity Analyst, 29 Jul 2021

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2025. Fortis is also exposed to political and economic instability at its Caribbean operations.

The company's acquisitive streak raises the risk that it will overpay for regulated U.S. assets. Shareholders must be mindful of the strategic benefits for any acquisition. However, management's recent pivot to focusing on the company's strong internal growth opportunities helps mitigates this risk.

We believe FERC's formula rate-setting methodology is most stable and least subject to political influence of any utility regulation in the U.S.

Fortis operates natural gas distribution utilities. While we think natural gas will remain vital for heating and electricity generation across its service territories for the forseeable future, there is risk that policymakers expedite the shift away from natural gas.

Fortis faces ESG risk, although we consider its risk lower than its peers' since only 5% of Fortis' assets are fossil fuel. Across its service territories, regulators and politicians are embracing tighter policies on carbon emissions and greater restrictions on coal generation. Fortis is addressing this risk through its base capital investment program, 1.1 GW of planned coal retirements, and the addition of 2.4 GW of renewable generation and 1.4 GW of battery storage. Fortis' goal to reduce carbon emissions by 75% by

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2035 is in line with its utility peers. Regulators across its jurisdictions are supporting this transition.

As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

Capital Allocation Andrew Bischof, CFA, CPA, Senior Equity Analyst, 29 Jul 2021
We assign Fortis a Standard capital allocation rating. The rating reflects our assessment of Fortis' balance sheet strength, management's investment decisions, and plans to return capital to shareholders.

We forecast the company will payout approximately 70% of earnings through dividends in our five-year outlook, a level we view as appropriate given the high quality and relatively stable nature of Fortis' regulated assets. We expect the balance sheet to remain strong, in line with its regulatory requirements and supported by the company's low revenue cyclicality and operating leverage. We expect the company's investment strategy to focus on growing through investments in regulated assets, which we think is a reasonable approach.

Management has a history for dealmaking in the U.S., but we think Fortis' shareholders are better off if management focuses on reinvesting capital in the company's long list of internal growth opportunities and growing the dividend 6% annually through 2025. We continue to be impressed with management's execution on its capital investment plan and ability to identify new investment opportunities. Management's good regulatory relationships have allowed it to earn at or near its allowed returns.

Prior CEO Barry Perry retired at the end of 2020 and served shareholders well. Perry was responsible for integrating Fortis' largest acquisition, ITC, which positioned the company well for moaty transmission investments. We think shareholders benefited from Perry's recent focus on internal growth opportunities. We were impressed with his execution on Fortis' capital investment plan and continual identification of new investment opportunities.

Replacing Perry is David Hutchens, previously Chief Operating Officer and CEO of UNS Energy. We think Hutchens is a strong replacement for Perry and expect him to continue the company's focus on executing the company's long line of internal growth opportunities.

Analyst Notes Archive

Fortis Positioned Well for Transmission Build, Reports First-Quarter Earnings Andrew Bischof, CFA, CPA, Senior Equity Analyst, 5 May 2021
We are reaffirming our CAD 56 fair value estimate and our narrow moat and stable moat trend ratings after Fortis reported first-quarter adjusted earnings of CAD 0.77 per share compared with CAD 0.68 in the same year-ago period. Management reaffirmed its 6% dividend growth expectations through 2025.

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Transmission remains a significant opportunity, both under the Biden administration's infrastructure goals and extensive need outlined by the Midcontinent Independent System Operator's long-range transmission road map released earlier this year. Fortis' largest near-term opportunity is the proposed $2.7 billion Lake Erie Connector project. In April, the Canada Infrastructure Bank announced that it would fund up to 40% of the project. The project is fully permitted in the U.S. and Canada, with service agreements needed to further advance the project. Similar with management's past approach, the project is not included in its current five-year CAD 19.6 billion capital investment plan.

In April, the Federal Energy Regulatory Commission issued a supplemental notice of proposed rulemaking, or NOPR, that proposes to eliminate the 50-basis-point adder currently given to regional transmission organization, or RTO, members, like ITC. There is no time frame for a final decision, but in our opinion, the ruling conflicts with the critical transmission needs to support the current administration's renewable energy policy agenda. If FERC were to finalize the NOPR, we expect litigation based on the Federal Power Act requirement to provide incentives to utilities that belong to an RTO. We currently do not incorporate the 50-basis-point reduction in our fair value estimate, given previous NOPR proposed additional adders. Removing the adder would reduce our fair value estimate by about CAD 1 per share.

Earnings in the quarter benefited from new rates at Tucson Electric and capital investments across its portfolio. The company is on track to invest CAD 3.8 billion in the current year.

Fortis' ITC Well Positioned to Benefit Under Biden's $2 Trillion Infrastructure Plan Andrew Bischof, CFA, CPA, Senior Equity Analyst, 1 Apr 2021
We are reaffirming our CAD 56 fair value estimate for Fortis after President Joe Biden released his $2 trillion infrastructure plan.

The $2 trillion, eight-year plan includes $100 billion to modernize the electric grid while also supporting the administration's goal of achieving 100% carbon-free electricity by 2035. The package would provide an investment tax credit to encourage at least 20 gigawatts of transmission to support the integration of renewable generation. The package would also create a Grid Deployment Authority at the Department of Energy, with the aim of using existing rights of way to support transmission line development. Permitting new transmission projects has been an obstacle.

Fortis is one of the largest transmission and distribution operators in the United States after acquiring ITC in 2016. ITC represents over one fourth of the company's five-year, CAD 19.6 billion capital plan, supporting our 6% earnings growth estimate. Management has continued to find additional opportunities at the unit, with the current plan focused on reliability, capacity increases, and integration

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of renewables. The Lake Erie Connector project, further integration of renewable capacity, and regional transmission projects are potential opportunities above ITC's current capital plan. Proposed federal incentives for transmission could increase ITC's backlog of potential development projects. We continue to view ITC as Fortis' most beneficial acquisition after a series of acquisitions under previous CEO Barry Perry.

To pay for the infrastructure plan, the corporate tax rate would increase to 28%. Similar to its peers, regulators across Fortis' service territory would allow for higher taxes to be passed along to customers, limiting the financial impact of any corporate tax increase. Fortis successfully worked with regulators to pass along corporate tax savings when Donald Trump's administration lowered the corporate rate.

Fortis Navigates 2020 Well; Reports Full-Year Earnings Andrew Bischof, CFA, CPA, Senior Equity Analyst, 12 Feb 2021

We are reaffirming our CAD 56 fair value estimate, along with our narrow economic moat and stable moat trend ratings, after Fortis reported full-year adjusted earnings of CAD 2.57 per share compared with CAD 2.55 in the year-ago period. Management reaffirmed 6% dividend growth expectations through 2025, and in line with our estimates. We expect rate-base growth to slightly outpace dividend growth through this time frame.

Fortis' CAD 19.6 billion 2021-25 planned spending supports our long-term growth expectations. Fortis' CAD 4.2 billion of capital investments drove 8% rate-base growth in 2020, with the rate base ending the year at CAD 30.5 billion. Beyond the company's five-year program, management notes additional opportunities of 2.4 gigawatts of wind and solar generation and 1.4 GW of battery storage as the company aims to meet its target of 75% carbon emission reductions by 2035. The company plans to be coal-free by 2032, retiring over 1 GW of generation. The company's transmission ITC subsidiary is well-positioned to benefit from the infrastructure necessary to support the U.S. renewable energy transition.

In Arizona, the company received a constructive settlement in its rate case. While the 9.15% allowed return is low, the company received a higher equity component and additional tracking mechanisms that will support growth and reduce regulatory lag. The tax expense adjustment mechanisms will allow flow-through of income tax effects related to tax legislation.

Regulatory mechanisms at ITC, Central Hudson, and Western Canada protected Fortis from the financial effects of sales fluctuations from the coronavirus. At UNS, retail sales were up 5%, aided by weather and strong residential sales. Caribbean sales were lower due to a decline in tourism. Strength at its regulated utilities was offset by the dilution of shares issued in fourth-quarter 2019. Management plans no new equity through 2025 apart from the company's dividend reinvestment plan.

Utilities Well Positioned as Biden Starts Work on Green Agenda Andrew Bischof, CFA, CPA, Senior

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Equity Analyst, 21 Jan 2021
We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for U.S. utilities after President Joe Biden kicked off his environmental policymaking efforts. We consider the sector fairly valued.

We believe tighter environmental regulations are a net positive for most utilities. Growth investments in renewable energy, grid modernization, and electric vehicles should outweigh higher regulatory, operational, and financial risk. We forecast that the U.S. utilities we cover will invest $656 billion over the next five years, more than consensus expects and up from the $541 billion spent in the past five years. This supports our 5.5% average annual industry earnings growth outlook through 2024.

Biden's recommitment to the 2015 Paris Agreement won't have a material near-term impact on utilities. Most utilities' investment plans already reflect similar climate goals with support from state regulators and policymakers.

Investors should watch Biden's approach as the third president this decade to propose power plant emissions regulations. Courts have set a narrow path between Barack Obama's Clean Power Plan, which the Supreme Court stayed in 2016, and Donald Trump's Affordable Clean Energy rule, which was vacated by appeal on Jan. 19. We think it will be even tougher to get emissions legislation through Congress.

We expect emissions-reduction investments will remain a key growth driver for utilities because of state policies and demand from customers and investors. As the federal government has dithered, power plant carbon emissions have fallen 25% during the last decade due to economics and state policymaking. We forecast that natural gas generation will continue stealing market share from coal and renewable energy will double its market share by 2030.

We agree with consensus that Biden's interim goal of net-zero carbon emissions for the power industry by 2035 is unachievable with current technology and potential cost. A 2050 goal is more reasonable.

Fortis 2020 Capital Investment Program on Track; Reports Third-Quarter Earnings Andrew Bischof, CFA, CPA, Senior Equity Analyst, 30 Oct 2020
We are reaffirming our CAD 56 fair value estimate, along with our narrow economic moat and stable moat trend ratings, after Fortis reported third-quarter adjusted earnings of CAD 0.65 per share compared with CAD 0.66 in the year-ago period. Fortis recently announced a 5.8% dividend increase, consistent with management's 6% annual dividend growth guidance through 2025 and in line with our estimates. We expect rate base growth to slightly outpace dividend growth through this time frame.

Revenue across ITC, Central Hudson, and Western Canada was mixed, however, regulatory mechanisms protect the financial impact of sales fluctuations mitigating any earnings impact. Western Canada saw the sharpest declines, with revenue up at ITC and Central Hudson. Revenue not protected by regulatory mechanisms, which account for approximately 37% of sales, increased 3%, with UNS experiencing sharply higher sales from favorable weather.

Fortis recently increased its five-year capital investment program by CAD 800 million, for a combined CAD 19.6 billion 2021-25 planned spend. This continues management's impressive run in identifying additional growth opportunities. Fortis' planned CAD 4.3 billion in capital spend for 2020 remains on track despite pandemic headwinds. Management will fund the company's capital plan mostly with cash from operations and debt, with 6% funded by the company's DRIP.

At the upcoming virtual EEI conference, we expect management to discuss potential capital investment opportunities beyond the updated five-year plan, progress on key regulatory proceedings, and election implications. We also expect to hear from David Hutchens, who will take the reins from longtime CEO Barry Perry. We find Hutchens to be a strong replacement for Perry and expect him to continue the company's focus on executing a long line of internal growth opportunities.

Fortis Continues to Find Growth Opportunities; CEO Perry to Retire Andrew Bischof, CFA, CPA, Senior Equity Analyst, 23 Aug 2020
We are increasing our fair value estimate for Fortis to CAD 56 per share from CAD 54 after Fortis announced its new five-year capital investment plan. Management reaffirmed its 6% dividend guidance through 2024, in line with our estimates.

We expect rate base growth to slightly outpace dividend growth across our five-year outlook. Our narrow economic moat and stable moat trend ratings remain unchanged. Our fair value increase was equally weighted between new investment opportunities and time-value appreciation since our last update.

The company's $19.6 billion capital investment plan in 2021-25 is up $800 million from its prior five-year capital plan, extending an impressive run during which management continues to identify internal growth opportunities. ITC will invest $5.1 billion over this time period with significant opportunities to interconnect renewable energy to the grid, which ITC currently forecasts at 2.6 gigawatts.

Fortis BC announced two large infrastructure projects, Tilbury resiliency tank and advanced metering infrastructure. UNS Energy will continue distribution investments and transitioning to renewable energy. Fortis also has numerous additional capital investment opportunities across its utilities, with ITC and UNS having the largest opportunities.

Fortis' strong balance sheet will fund the capital investment, with 61% coming from cash from

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operations and 33% from debt. The remainder will be funded by the company's dividend reinvestment program.

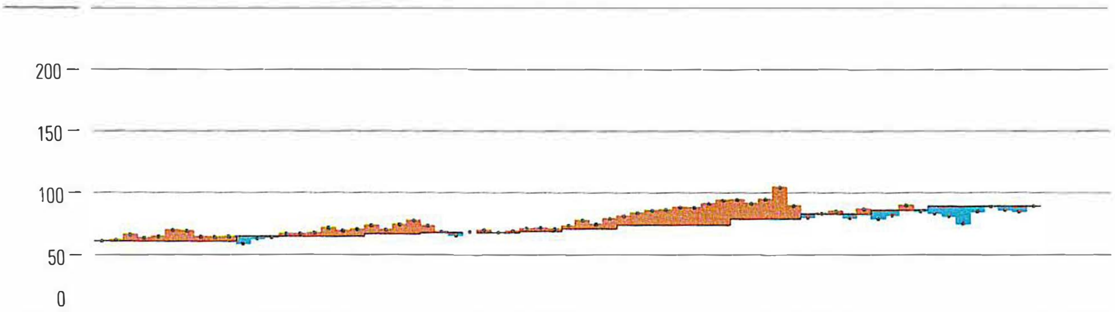
Fortis also announced that President and CEO Barry Perry will retire. Replacing Perry is Chief Operating Officer and UNS Energy CEO David Hutchens, effective Jan. 1, 2021. Perry led the integration of Fortis' largest acquisition, ITC, which positioned the company well for moaty transmission investments. Shareholders have benefited from Perry's recent focus on internal growth, including executing Fortis' capital investment plan and identifying new investment opportunities.

Morningstar Equity Analyst Report | Report as of 29 Jul 2021 16:59, UTC | Reporting Currency: CAD | Trading Currency: CAD | Exchange: TORONTO STOCK EXCHANGE

Fortis Inc FTS ★★★ 29 Jul 2021 16:57, UTC

Competitors Price vs. Fair Value

American Electric Power Co Inc AEP



Fair Value: 89.00
8 Dec 2020 17:27, UTC

Last Close: 88.99

Over Valued

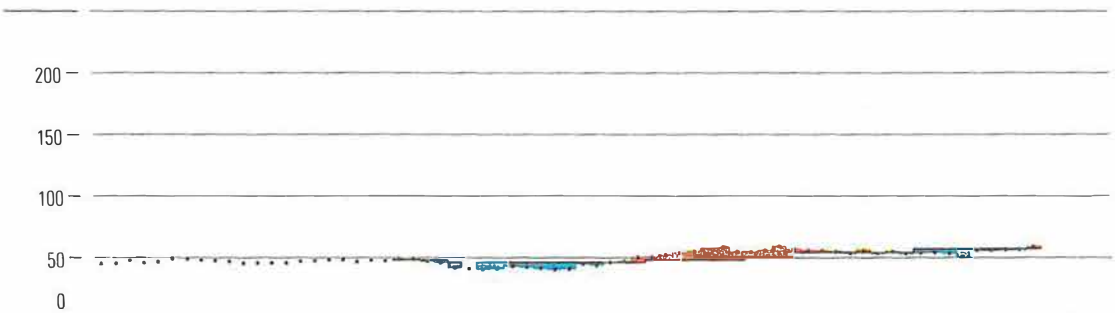
Under Valued

2016	2017	2018	2019	2020	YTD	
0.97	1.08	1.05	1.20	0.94	1.00	Price/Fair Value
11.94	20.65	5.03	30.08	-8.89	8.65	Total Return %

Morningstar Rating
★★★★★
★★★★
★★★
★★
★

Total Return % as of 28 Jul 2021. Last Close as of 28 Jul 2021. Fair Value as of 8 Dec 2020 17:27, UTC.

Emera Inc EMA



Last Close: 58.63

Fair Value: 57.00
13 Nov 2020 19:35, UTC

Over Valued

Under Valued

2016	2017	2018	2019	2020	YTD	
—	0.98	0.95	1.12	0.95	1.03	Price/Fair Value
9.61	8.20	-2.10	33.07	1.41	10.73	Total Return %

Morningstar Rating
★★★★★
★★★★
★★★
★★
★

Total Return % as of 28 Jul 2021. Last Close as of 28 Jul 2021. Fair Value as of 13 Nov 2020 19:35, UTC.

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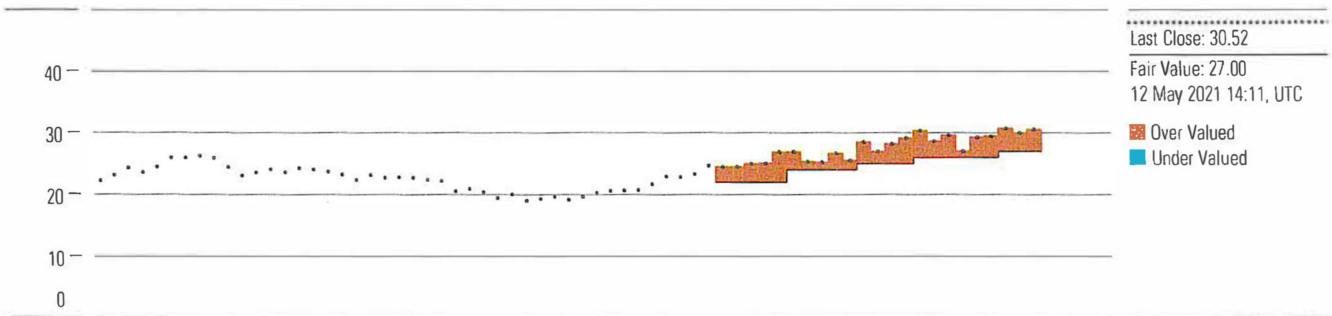
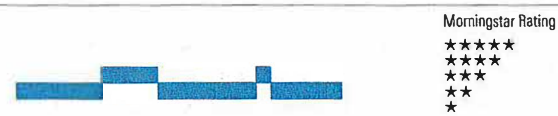
Hydro One Ltd H



	2016	2017	2018	2019	2020	YTD	
	—	—	—	1.14	1.10	1.13	Price/Fair Value
	10.14	-1.31	-5.54	28.57	18.23	8.34	Total Return %



Total Return % as of 28 Jul 2021. Last Close as of 28 Jul 2021. Fair Value as of 12 May 2021 14:11, UTC.

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Fortis Inc FTS ★★★ 29 Jul 2021 16:57, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
56.01 CAD 29 Jul 2021	57.00 CAD 29 Jul 2021 16:46, UTC	0.98	26.39 CAD Bil 28 Jul 2021	Narrow	Stable	Low	Standard	7 Jul 2021 05:00, UTC

Morningstar Historical Summary

Financials as of 31 Mar 2021

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
Revenue (CAD Mil)	3,738	3,654	4,047	5,401	6,757	6,838	8,301	8,390	8,783	8,935	2,539	9,083
Revenue Growth %	2.2	-2.3	10.8	33.5	25.1	1.2	21.4	1.1	4.7	1.7	6.2	3.9
EBITDA (CAD Mil)	1,248	1,286	1,385	1,713	2,516	2,519	3,806	3,668	4,526	4,090	1,090	4,156
EBITDA Margin %	33.4	35.2	34.2	31.7	37.2	36.8	45.9	43.7	51.5	45.8	42.9	45.8
Operating Income (CAD Mil)	775	794	852	1,023	1,419	1,483	2,511	2,365	2,461	2,508	668	2,518
Operating Margin %	20.7	21.7	21.1	18.9	21.0	21.7	30.3	28.2	28.0	28.1	26.3	27.7
Net Income (CAD Mil)	357	362	410	379	805	660	1,028	1,166	1,722	1,274	371	1,317
Net Margin %	8.3	8.6	8.7	5.9	10.8	8.6	11.6	13.1	18.8	13.5	14.0	13.8
Diluted Shares Outstanding (Mil)	190	197	209	226	285	313	416	425	438	465	468	466
Diluted Earnings Per Share (CAD)	1.70	1.65	1.73	1.40	2.59	1.89	2.31	2.59	3.78	2.60	0.76	2.69
Dividends Per Share (CAD)	1.16	1.20	1.24	1.28	1.40	1.53	1.63	1.73	1.83	1.94	0.51	1.97

Valuation as of 30 Jun 2021

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Price/Sales	1.6	1.8	1.6	1.7	1.5	1.9	2.3	2.3	2.7	2.7	2.8	2.8
Price/Earnings	19.0	20.7	18.9	27.9	14.6	22.2	18.5	19.9	14.8	19.6	20.4	20.4
Price/Cash Flow	7.0	6.9	7.1	9.8	6.5	6.6	7.6	6.8	9.1	9.1	9.0	9.0
Dividend Yield %	3.48	3.51	4.07	3.29	3.73	3.68	3.52	3.79	3.39	3.73	3.63	3.63
Price/Book	1.7	1.6	1.4	2.2	1.3	2.1	1.4	1.4	1.6	1.4	1.5	1.5
EV/EBITDA	10.0	10.9	11.0	15.3	9.6	12.1	11.1	12.0	11.1	12.4	0.0	0.0

Operating Performance / Profitability as of 31 Mar 2021

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
ROA %	2.3	2.2	2.2	1.4	2.7	1.5	2.0	2.2	3.1	2.2	0.6	2.2
ROE %	8.7	8.1	8.1	5.5	9.8	5.6	7.3	7.8	10.4	7.1	2.1	7.1
ROIC %	6.3	6.2	6.3	5.1	6.1	4.1	4.4	5.2	6.4	5.1	1.4	5.0
Asset Turnover	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.2

Financial Leverage

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Debt/Capital %	56.5	54.9	53.4	54.6	53.4	59.4	58.5	58.8	54.3	55.7	55.5	—
Equity/Assets %	26.9	26.7	26.6	26.2	28.0	27.1	28.0	28.1	31.7	30.8	30.8	—
Total Debt/EBITDA	6.4	6.5	7.1	8.5	6.0	10.2	6.5	7.5	5.6	6.7	25.0	—
EBITDA/Interest Expense	3.3	3.3	3.4	3.0	4.3	3.7	4.2	3.8	4.4	3.9	4.3	4.0

Morningstar Analyst Historical/Forecast Summary as of 29 Jul 2021

Financials

Fiscal Year, ends 31 Dec	2019	2020	2021 (Estimates)	2022 (Estimates)	2023 (Estimates)
Revenue (CAD)	8.78	8.94	9.36	9.78	10.17
Revenue Growth %	4.7	1.7	4.8	4.5	4.0
EBITDA (CAD Mil)	4,388	3,936	4,282	4,624	4,935
EBITDA Margin %	50.0	44.1	45.8	47.3	48.5
Operating Income (CAD Mil)	3,038	2,508	2,759	3,004	3,218
Operating Margin %	34.6	28.1	29.5	30.7	31.6
Net Income (CAD Mil)	1,114	1,209	1,316	1,415	1,521
Net Margin %	12.7	13.5	14.1	14.5	15.0
Diluted Shares Outstanding (Mil)	437	465	468	472	476
Diluted Earnings Per Share(CAD)	2.55	2.60	2.82	3.00	3.19
Dividends Per Share(CAD)	1.83	1.94	2.05	2.17	2.30

Forward Valuation

	2019	2020	2021 (Estimates)	2022 (Estimates)	2023 (Estimates)
Price/Sales	2.8	2.7	2.8	2.7	2.6
Price/Earnings	21.1	20.0	19.9	18.7	17.6
Price/Cash Flow	-26.1	-19.1	-77.2	-71.3	-121.8
Dividend Yield %	3.40	3.73	3.65	3.86	4.09
Price/Book	—	—	—	—	—
EV/EBITDA	11.5	12.9	12.3	11.4	10.7

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

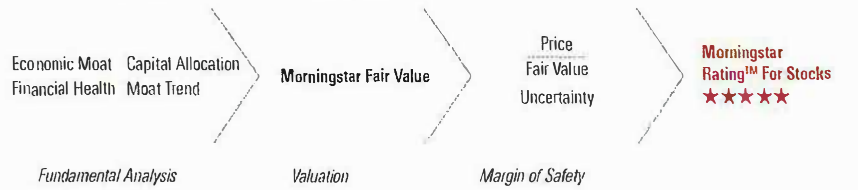
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

4. Market Price

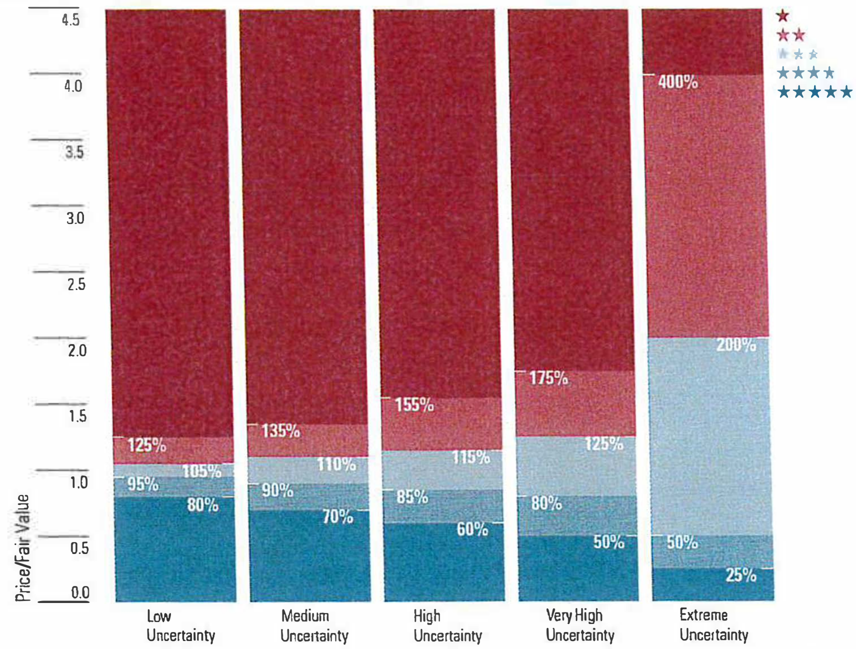
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Morningstar Equity Research Star Rating Methodology



Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exem-

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plary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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Research Methodology for Valuing Companies

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