Interim Management Discussion and Analysis

For the three and nine months ended September 30, 2012
Dated November 1, 2012

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FORWARD-LOOKING STATEMENT

The following Fortis Inc. ("Fortis" or the "Corporation") Management Discussion and Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 - *Continuous Disclosure Obligations*. Financial information for 2012 and comparative periods contained in the MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") and is presented in Canadian dollars unless otherwise specified. The MD&A should be read in conjunction with the following: (i) the interim unaudited consolidated financial statements and notes thereto for the three and nine months ended September 30, 2012, prepared in accordance with US GAAP; (ii) the audited consolidated financial statements and notes thereto for the year ended December 31, 2011, prepared in accordance with US GAAP and voluntarily filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") by Fortis on March 16, 2012; (iii) the audited consolidated financial statements and notes thereto for the year ended December 31, 2011, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"); (iv) the "Supplemental Interim Consolidated Financial Statements for the Year Ended December 31, 2011 (Unaudited)" contained in the above-noted voluntary filing, which provides a detailed reconciliation between the Corporation's interim unaudited consolidated 2011 Canadian GAAP financial statements and interim unaudited consolidated 2011 US GAAP financial statements; and (v) the MD&A for the year ended December 31, 2011 included in the Corporation's 2011 Annual Report.

Fortis includes forward-looking information in the MD&A within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities, and it may not be appropriate for other purposes. All forward-looking information is given pursuant to the safe harbour provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in the MD&A includes, but is not limited to, statements regarding: the Corporation's consolidated forecast gross capital expenditures for 2012 and in total over the five-year period 2012 through 2016; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program should support continuing growth in earnings and dividends; forecast midyear rate base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expected consolidated long-term debt maturities and repayments on average annually over the next five years; except for debt at the Exploits River Hydro Partnership ("Exploits Partnership"), the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants throughout the remainder of 2012; the expected timing of filing regulatory applications and of receipt of regulatory decisions; the expected timing of the closing of the acquisition of CH Energy Group, Inc. ("CH Energy Group") by Fortis and the expectation that the acquisition will be immediately accretive to earnings per common share, excluding

REGULATORY HIGHLIGHTS

The nature of regulation and material regulatory decisions and applications associated with each of the Corporation's regulated gas and electric utilities year-to-date 2012 are summarized as follows.

NATURE OF REGULATION

Regulated Utility	Regulatory Authority	Allowed Common Equity (%)	Allowed Returns (%)			Supportive Features
			2010	2011	2012	Future or Historical Test Year Used to Set Customer Rates
				ROE		
FEI	British Columbia Utilities Commission ("BCUC")	40	9.50	9.50	9.50	COS/ROE FEI: Prior to January 1, 2010, 50/50 sharing of earnings above or below the allowed ROE under a PBR mechanism that expired on December 31, 2009 with a two-year phase-out
FEVI	BCUC	40	10.00	10.00	10.00	
FEWI	BCUC	40	10.00	10.00	10.00	ROEs established by the BCUC Future Test Year
FortisBC Electric	BCUC	40	9.90	9.90	9.90	COS/ROE PBR mechanism for 2009 through 2011: 50/50 sharing of earnings above or below the allowed ROE up to an achieved ROE that is 200 basis points above or below the allowed ROE – excess to deferral account ROE established by the BCUC Future Test Year
FortisAlberta	AUC	41	9.00	8.75	8.75	COS/ROE ROE established by the AUC Future Test Year
Newfoundland Power	Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB")	45	9.00 +/- 50 bps	8.38 +/- 50 bps	8.80 +/- 50 bps	COS/ROE The allowed ROE had been set using an automatic adjustment formula tied to long-term Canada bond yields. The formula was suspended for 2012. Future Test Year
Maritime Electric	Island Regulatory and Appeals Commission ("IRAC")	40	9.75	9.75	9.75	COS/ROE Future Test Year
FortisOntario	Ontario Energy Board ("OEB")					Canadian Niagara Power - COS/ROE
	Canadian Niagara Power	40	8.01	8.01	8.01 [1]	Algoma Power - COS/ROE and subject to Rural and Remote Rate Protection ("RRRP") Program
	Algoma Power	40	8.57	9.85	9.85 [1]	
	Franchise Agreement Cornwall Electric					Cornwall Electric - Price cap with commodity cost flow through Canadian Niagara Power - 2009 historical test year for 2010, 2011 and 2012 Algoma Power - 2007 historical test year for 2010; 2011 test year for 2011 and 2012

NATURE OF REGULATION (cont'd)

Regulated Utility	Regulatory Authority	Allowed Common Equity (%)	Allowed Returns (%) 2010	2011	2012	Supportive Features
						Future or Historical Test Year Used to Set Customer Rates
				ROA		COS/ROA
Caribbean Utilities	Electricity Regulatory Authority ("ERA")	N/A	7.75 - 9.75	7.75 - 9.75	7.25 - 9.25	Rate-cap adjustment mechanism based on published consumer price indices The Company may apply for a special additional rate to customers in the event of a disaster, including a hurricane.
						Historical Test Year
Fortis Turks and Calcos	Utilities make annual filings to the Interim Government of the Turks and Caicos Caicos Islands ("Interim Government")	N/A	17.50 [2]	17.50 [2]	17.50 [2]	COS/ROA If the actual ROA is lower than the allowed ROA, due to additional costs resulting from a hurricane or other event, the Company may apply for an increase in customer rates in the following year.
						Future Test Year

[1] Based on the ROE automatic adjustment formula, the allowed ROE for electric utilities in Ontario is 9.12% for utilities with rates effective May 1, 2012. This ROE is not applicable to regulated electric utilities in Ontario until they are scheduled to file their next full COS rate applications. As a result, the allowed ROE of 9.12% is not applicable to Canadian Niagara Power or Algoma Power for 2012.

[2] Amount provided under licence. ROA achieved in 2010 and 2011 was significantly lower than the ROA allowed under the licence due to significant investment occurring at the utility and the lack of rate relief thereto.

MATERIAL REGULATORY DECISIONS AND APPLICATIONS

Regulated Utility	Summary Description
FEI/FEVI/FEWI	• FEI and FEWI review with the BCUC natural gas commodity prices and midstream costs every three months in order to ensure the flow-through rates charged to customers are sufficient to cover the cost of purchasing natural gas and contracting for midstream resources, such as third-party pipeline and/or storage capacity. The commodity cost of natural gas and midstream costs are flowed through to customers without markup. • Effective January 1, 2012, rates for typical residential customers in the Lower Mainland increased by approximately 3%, reflecting changes in delivery and midstream costs. Interim approval was also received to hold FEVI customer rates at 2011 levels, effective January 1, 2012. Natural gas commodity rates were unchanged, effective January 1, 2012. • Effective April 1, 2012, due to a decrease in natural gas commodity rates, rates for typical residential customers in the Lower Mainland decreased by approximately 10%, and rates for residential customers at FEWI decreased approximately 6%, following the BCUC's quarterly review of commodity costs. • Natural gas commodity rates were unchanged, effective July 1, 2012, following the BCUC's quarterly review of commodity costs. • In July 2011 FEVI received a BCUC decision approving the option for two First Nations bands to invest up to a combined 15% in the equity component of the capital structure of the liquefied natural gas ("LNG") storage facility on Vancouver Island. In late 2011 each band exercised its option and each invested approximately $6 million in equity in the LNG storage facility on January 1, 2012. • In February 2012 the BCUC approved FEI's amended application for a general tariff for the provision of compressed natural gas ("CNG") and LNG for transportation vehicles. FEI has filed applications for and received interim rate approval for two projects under the general tariff. FEI has also applied for approval of its LNG sales and dispensing service rate schedule on a permanent basis. In October 2012 FEI received approval for rate treatment of expenditures incurred related to the provision of CNG and LNG services, under the *Greenhouse Gas Reductions (Clean Energy) Regulation* ("GHG Regulation") under the *Clean Energy Act*.

CAPITAL STRUCTURE

The Corporation's principal businesses of regulated gas and electricity distribution require ongoing access to capital to enable the utilities to fund maintenance and expansion of infrastructure. Fortis raises debt at the subsidiary level to ensure regulatory transparency, tax efficiency and financing flexibility. Fortis generally finances a significant portion of acquisitions at the corporate level with proceeds from common share, preference share and long-term debt offerings. To help ensure access to capital, the Corporation targets a consolidated long-term capital structure containing approximately 40% equity, including preference shares, and 60% debt, as well as investment-grade credit ratings. Each of the Corporation's regulated utilities maintains its own capital structure in line with the deemed capital structure reflected in each of the utility's customer rates.

The consolidated capital structure of Fortis is presented in the following table.

Capital Structure (Unaudited)	**As at**			
	September 30, 2012		December 31, 2011	
	($ millions)	***(%)***	*($ millions)*	*(%)*
Total debt and capital lease and finance obligations (net of cash) [(1) (2)]	**6,328**	**56.6**	6,296	57.1
Preference shares	**912**	**8.2**	912	8.3
Common shareholders' equity	**3,933**	**35.2**	3,823	34.6
Total [(3)]	**11,173**	**100.0**	11,031	100.0

(1) Includes long-term debt and capital lease and finance obligations, including current portion, and short-term borrowings, net of cash

(2) Excluding capital lease and finance obligations, the debt component of the capital structure was 54.9% as at September 30, 2012 and 55.3% as at December 31, 2011.

(3) Excludes amounts related to non-controlling interests

The improvement in the capital structure was primarily due to: (i) lower short-term borrowings; (ii) an increase in cash; (iii) common shares issued, mainly under the Corporation's dividend reinvestment and stock option plans; and (iv) net earnings attributable to common equity shareholders, net of dividends. The capital structure was also impacted by an increase in long-term debt, mainly due to higher borrowings under the Corporation's committed credit facility, largely in support of the construction of the Waneta Expansion and for other general corporate purposes, partially offset by regularly scheduled debt repayments.

CREDIT RATINGS

The Corporation's credit ratings are as follows:

Standard & Poor's ("S&P")	A- (long-term corporate and unsecured debt credit rating)
DBRS	A(low) (unsecured debt credit rating)

In May 2012 and July 2012, S&P and DBRS, respectively, affirmed the Corporation's debt credit ratings. Due to the Corporation's financing plans for the pending acquisition of CH Energy Group and the expected completion of the Waneta Expansion on time and on budget, S&P and DBRS also removed the ratings from credit watch with negative implications and under review with developing implications, respectively, where the ratings had been placed in February 2012.

The above-noted credit ratings reflect the Corporation's low business-risk profile and diversity of its operations, the stand-alone nature and financial separation of each of the regulated subsidiaries of Fortis, management's commitment to maintaining low levels of debt at the holding company level, the Corporation's reasonable credit metrics and its demonstrated ability and continued focus on acquiring and integrating stable regulated utility businesses financed on a conservative basis.

CREDIT FACILITIES

As at September 30, 2012, the Corporation and its subsidiaries had consolidated credit facilities of approximately $2.5 billion, of which $2.0 billion was unused, including $764 million unused under the Corporation's $1 billion committed revolving corporate credit facility. The credit facilities are syndicated mostly with the seven largest Canadian banks, with no one bank holding more than 20% of these facilities. Approximately $2.3 billion of the total credit facilities are committed facilities with maturities ranging from 2013 through 2017.

The following summary outlines the credit facilities of the Corporation and its subsidiaries.

Credit Facilities (Unaudited)				**As at**	
($ millions)	Regulated Utilities	Fortis Properties	Corporate and Other	September 30, 2012	December 31, 2011
Total credit facilities	1,401	13	1,045	2,459	2,248
Credit facilities utilized:					
Short-term borrowings	(97)	-	-	(97)	(159)
Long-term debt (including current portion)	(63)	-	(236)	(299)	(74)
Letters of credit outstanding	(67)	-	(1)	(68)	(66)
Credit facilities unused	1,174	13	808	1,995	1,949

As at September 30, 2012 and December 31, 2011, certain borrowings under the Corporation's and subsidiaries' credit facilities were classified as long-term debt. These borrowings are under long-term committed credit facilities and management's intention is to refinance these borrowings with long-term permanent financing during future periods.

In March 2012 Newfoundland Power renegotiated and amended its $100 million unsecured committed revolving credit facility, obtaining an extension to the maturity of the facility from August 2015 to August 2017. The amended credit facility agreement reflects a decrease in pricing but, otherwise, contains substantially similar terms and conditions as the previous credit facility agreement.

In April 2012 FortisBC Electric renegotiated and amended its credit facility agreement resulting in an extension to the maturity of the Company's $150 million unsecured committed revolving credit facility with $100 million now maturing in May 2015 and $50 million now maturing in May 2013.

In May 2012 FHI extended its $30 million operating credit facility to mature in May 2013 from May 2012. The new agreement contains substantially similar terms and conditions as the previous credit facility agreement.

In May 2012 Fortis increased the amount available for borrowing under its unsecured committed revolving corporate credit facility from $800 million to $1 billion, as permitted under the credit facility agreement.

In May 2012 Caribbean Utilities renegotiated and increased the amount available for borrowing under its unsecured credit facilities to US$47 million from US$33 million.

In June 2012 FortisOntario entered into a new short-term credit facility agreement for $30 million, replacing two short-term credit facilities totaling $20 million. The new credit facility agreement reflects a decrease in pricing and improved terms and conditions. In July 2012 the former credit facilities were terminated.

In July 2012 FEI entered into a one-year extension of its $500 million unsecured committed revolving credit facility, extending the maturity date from August 2013 to August 2014. The amended credit facility agreement reflects an increase in pricing but, otherwise, contains substantially similar terms and conditions as the previous credit facility agreement.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In an effort to optimize customer service operations within the FortisBC Energy companies, a Customer Care Enhancement Project was implemented at the beginning of January 2012 with new in-house customer contact and billing centres replacing the services of an external third-party service provider. This represents a material change in the Corporation's internal controls over financial reporting surrounding the revenue, receivable and receipts cycle. Throughout the related systems design and implementation, management had considered the control risks associated with the systems changes and had performed procedures to obtain reasonable assurance on the design of all new and significantly modified internal controls over financial reporting as a result of the project. It has been concluded that year-to-date 2012, other than the above-noted change, there were no changes in the Corporation's internal controls over financial reporting that have materially, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

OUTLOOK

The Corporation's significant capital expenditure program, which is expected to be approximately $5.5 billion over the five-year period 2012 through 2016, should support continuing growth in earnings and dividends. CH Energy Group is expected to add approximately $0.5 billion to the Corporation's consolidated capital expenditure program from 2013 through 2016.

Fortis is focused on closing the CH Energy Group transaction by the end of the first quarter of 2013. Approval of the transaction by the NYSPSC is the one remaining significant regulatory matter.

Fortis remains disciplined and patient in its pursuit of additional electric and gas utility acquisitions in the United States and Canada that will add value for Fortis shareholders. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.

SUBSEQUENT EVENT

In October 2012 FortisAlberta issued 40-year $125 million 3.98% senior unsecured debentures, the proceeds of which are being used to repay borrowings under the Company's credit facility, fund future capital expenditures, and for general corporate purposes.