Volume 1, Section 3 – Finance

Q. (page 94) With respect to the linkage made by Standard & Poor's between credit ratings of holding companies and credit ratings of their operating utilities, please provide a copy of any reports of Standard & Poor's in relation to Fortis Inc. and Newfoundland Power Inc.

A. Attachment A contains copies of reports of Standard & Poor's in relation to Newfoundland Power Inc. since Order No. P.U. 19 (2003).

Attachment B contains copies of reports of Standard & Poor's in relation to Fortis Inc. since Order No. P.U. 19 (2003).

For further information on the linkage made by Standard & Poor's in relation to credit ratings of holding companies and credit ratings of their operating utilities, including Fortis Inc. and Newfoundland Power Inc., refer to the Response to CA-NP-147.

Standard & Poor's Reports
Newfoundland Power Inc.

April 23, 2004
February 18, 2005
June 16, 2005
August 23, 2005
November 3, 2005
December 13, 2005
February 14, 2006
May 16, 2006
October 18, 2006

STANDARD
&POOR'S

RATINGSDIRECT®

April 23, 2004

Summary: Newfoundland Power Inc.

Credit Analyst:
Damian DiPerna, Toronto (1) 416-507-2561; Laurie Conheady, Toronto (1) 416-507-2518

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371004 | 301003667

Summary: Newfoundland Power Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Newfoundland Power Inc. reflect the consolidated business and financial risk profile of its parent, Fortis Inc., based on Standard & Poor's Rating Services' consolidated rating methodology. The consolidated rating approach captures the relative contribution to business risk and cash flow of Fortis' various operating subsidiaries, including regulated utilities Newfoundland Power, Maritime Electric Co. Inc., Caribbean Utilities Co. Ltd., Fortis Ontario, Belize Electricity Ltd., and Aquila Networks Canada, and higher risk generation businesses, Fortis U.S. Energy, Belize Electric Ltd., and real estate developer Fortis Properties Corp. As a result, the long-term corporate credit rating on wholly owned subsidiary, Newfoundland Power, is equalized with the rating on its parent, Fortis, with any change to the rating on Fortis leading to a change in the rating on Newfoundland Power.

The rating on Fortis, a utility holding company based in St. John's, Nfld., reflects its diversified portfolio of utility operations, monopoly electricity distribution activities, largely residential and commercial customer base, and favorable regulation based on cost-of-service and rate-of-return methodology, which provides relatively stable cash flow generation. Offsetting these strengths are somewhat modest growth in sales, operating challenges in its service territories, investments in higher risk commercial and hospitality real estate, independent power generation, and electric power operations in Belize. Fortis' active strategy of pursuing acquisition opportunities in both Canadian and international markets also adds an element of risk.

Fortis is in the process of acquiring transmission, distribution, and generation assets in the provinces of British Columbia and Alberta from Aquila Networks Canada. Once the transaction closes in mid-2004, subject to regulatory approvals, Fortis will more than double its customer base to approximately 900,000 customers and will expand its service territories across Canada to five provinces. This expansion will refocus Fortis' business strategy more toward low-risk, regulated electric distribution services. The pending acquisition should prove moderately beneficial to Fortis' overall business profile as funds from operations (FFO) and assets from the company's regulated operations are projected to increase to approximately 90% and 77%, respectively, by 2005 from 75% and 62%, respectively, in 2003. The C$1.3 billion acquisition will be financed with a combination of debt and equity, which will support Fortis' target consolidated debt-to-capitalization ratio of approximately 60%. In the near term, the FFO interest coverage ratio is projected to average approximately 2.6x and the FFO to total debt ratio of approximately 13%. Compared with similarly rated global peers, the company's financial profile is considered relatively weak, thus leaving little cushion for possible deterioration in its financial profile.

On a stand-alone basis, the key qualitative aspects supporting Newfoundland Power's business profile include its predominantly low-risk distribution assets, monopoly franchise area with a large residential and commercial customer base, and supportive regulation. These strengths are partially offset by the company's relatively weak service area, low growth prospects, and relatively high operating costs.

Liquidity.

Standard & Poor's assesses Newfoundland Power' liquidity to be adequate given its regulated cash flow, low debt maturities, available bank facilities, and access to capital markets. Cash flows will generally be insufficient, however, to meet approximately C$50 million to C$55 million in annual capital expenditures in the near term. With C$110 million in operating bank facilities, of which C$41 million was drawn as of Dec. 31, 2003, and access to capital markets, the company has adequate funds available to meet upcoming debt maturities and operating purposes.

Outlook

The negative outlook reflects the risks surrounding several operating and financial challenges faced by Fortis in the next few years as it integrates the relatively large Aquila acquisition. These challenges include dealings with regulatory boards in new markets (British Columbia and Alberta), participating in a generic cost-of-capital hearing in Alberta, managing a heavy capital expenditure program, and accessing the capital markets to help finance its recent acquisition and fund capital expenditures. Any material acquisitions beyond Aquila have not been factored into the ratings.

STANDARD
&POOR'S

RATINGSDIRECT®

April 23, 2004

Newfoundland Power Inc.

Credit Analyst:
Damian DiPerna, Toronto (1) 416-507-2561; Laurie Conheady, Toronto (1) 416-507-2518

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Newfoundland Power Inc.

Corporate Credit Rating

	BBB+/Negative/--

Business Profile

1 2 $\boxed{3}$ 4 5 6 7 8 9 10

Financial policy:

Moderately aggressive

Debt maturities:

2004 C$3.7 mil.
2005 C$3.7 mil.
2006 C$3.7 mil.
2007 C$35.1 mil.
2008 C$3.3 mil.

Bank lines/Liquid assets:

Newfoundland Power Inc. has a total of C$110 million in credit facilities available to address liquidity needs, of which C$41 million was drawn as of Dec. 31, 2003.

Total rated debt:

As of Dec. 31, 2003, Newfoundland Power had C$374 million of total debt outstanding, including C$41 million of short-term debt.

Outstanding Rating(s)

Newfoundland Power Inc.	
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BBB-
Fortis Inc.	
Corporate Credit Rating	BBB+/Negative/--
Sr unsecd debt	
Local currency	BBB
Pfd stk	
Local currency	BBB-
Caribbean Utilities Co. Ltd.	
Corporate Credit Rating	A/Stable/--
Sr unsecd debt	
Foreign currency	A
Pfd stk	
Foreign currency	BBB+
Maritime Electric Co. Ltd.	
Corporate Credit Rating	BBB+/Negative/--

Sr secd debt	
Local currency	BBB+

Corporate Credit Rating History	
Mar. 20, 2001	A-
Jan. 7, 2004	BBB+

Company Contact

Lisa Hutchens 1 (709) 737-5282

Major Rating Factors

Strengths:

- Low-risk distribution and transmission assets
- Monopoly service territory
- Largely supportive regulation

Weaknesses:

- Mature service area in the island portion in the Province of Newfoundland and Labrador
- Relatively high operating costs
- Financial profile is constrained by limits imposed by regulators with respect to equity base and allowed returns

Rationale

The ratings on Newfoundland Power Inc. reflect the consolidated business and financial risk profile of its parent, Fortis Inc., based on Standard & Poor's Rating Services' consolidated rating methodology. The consolidated rating approach captures the relative contribution to business risk and cash flow of Fortis' various operating subsidiaries, including regulated utilities Newfoundland Power, Maritime Electric Co. Inc., Caribbean Utilities Co. Ltd., Fortis Ontario, Belize Electricity Ltd., and Aquila Networks Canada, and higher risk generation businesses, Fortis U.S. Energy, Belize Electric Ltd., and real estate developer Fortis Properties Corp. As a result, the long-term corporate credit rating on wholly owned subsidiary, Newfoundland Power, is equalized with the rating on its parent, Fortis, with any change to the rating on Fortis leading to a change in the rating on Newfoundland Power.

The rating on Fortis, a utility holding company based in St. John's Nfld., reflects its diversified portfolio of utility operations, monopoly electricity distribution activities, largely residential and commercial customer base, and favorable regulation based on cost-of-service and rate-of-return methodology, which provides relatively stable cash flow generation. Offsetting these strengths are somewhat modest growth in sales, operating challenges in its service territories, investments in higher risk commercial and hospitality real estate, independent power generation, and electric power operations in Belize. Fortis' active strategy of pursuing acquisition opportunities in both Canadian and international markets also adds an element of risk.

Fortis is in the process of acquiring transmission, distribution, and generation assets in the provinces of British Columbia and Alberta from Aquila Networks Canada. Once the transaction closes in mid-2004, subject to regulatory approvals, Fortis will more than double its customer base to approximately 900,000 customers and will expand its service territories across Canada to five provinces. This expansion will refocus Fortis' business strategy more toward low-risk, regulated electric distribution services. The pending acquisition should prove moderately beneficial to Fortis' overall business profile as funds from operations (FFO) and assets from the company's regulated operations are projected to increase to approximately 90% and 77%, respectively, by 2005 from 75% and 62%, respectively, in 2003. The C$1.3 billion acquisition will be financed with a combination of debt and equity, which will support Fortis' target consolidated debt-to-capitalization ratio of approximately 60%. In the near term, the FFO interest coverage ratio is projected to average approximately 2.6x and the FFO to total debt ratio of approximately 13%. Compared with similarly rated global peers, the company's financial profile is considered relatively weak, thus leaving little cushion for possible deterioration in its financial profile.

On a stand-alone basis, the key qualitative aspects supporting Newfoundland Power's business profile include its predominantly low-risk distribution assets, monopoly franchise area with a large residential and commercial customer base, and supportive regulation. These strengths are partially offset by the company's relatively weak service area, low growth prospects, and relatively high operating costs.

Liquidity.

Standard & Poor's assesses Newfoundland Power' liquidity to be adequate given its regulated cash flow, low debt maturities, available bank facilities, and access to capital markets. Cash flows will generally be insufficient, however, to meet approximately C$50 million to C$55 million in annual capital expenditures in the near term. With C$110 million in operating bank facilities, of which C$41 million was drawn as of Dec. 31, 2003, and access to capital markets, the company has adequate funds available to meet upcoming debt maturities and operating purposes.

Outlook

The negative outlook reflects the risks surrounding several operating and financial challenges faced by Fortis in the next few years as it integrates the relatively large Aquila acquisition. These challenges include dealings with regulatory boards in new markets (British Columbia and Alberta), participating in a generic cost-of-capital hearing in Alberta, managing a heavy capital expenditure program, and accessing the capital markets to help finance its recent acquisition and fund capital expenditures. Any material acquisitions beyond Aquila have not been factored into the ratings.

Business Profile

Although the ratings on Newfoundland Power reflect the consolidated business and financial risk profile of Fortis, this report, with the exception of the Rationale and Outlook sections, focuses exclusively on the stand-alone business and financial profile of Newfoundland Power. For more detailed information on the consolidated business and financial profiles of Fortis, see the credit report on Fortis on RatingsDirect, Standard & Poor's Web-based credit research and analysis system, at www.ratingsdirect.com.

Newfoundland Power operates an integrated generation, transmission, and distribution system throughout the island portion of Newfoundland and Labrador. The company serves approximately 222,000 customers making up approximately 85% of all electrical consumers in the province.

Regulation.

The key component underpinning the company's strong business profile is the supportive regulatory environment in which Newfoundland Power operates. Newfoundland Power operates under cost-of-service and rate-of-return regulation as contained in provincial legislation. Standard & Poor's views the principal components of regulation, specifically provisions for full recovery of prudently incurred costs including operating and financing cost and the absence of commodity risk, as supportive of credit quality and the receipt of stable revenue.

The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) ruled in the 2003 general rate application that, for the purpose of rate setting, the company's capital structure remain at a maximum of 45% common equity, with an ROE of 9.75% (compared with 9.05% in 2002), or 4.15% above forecast long-term Government of Canada bond yields. The company's equity base is considered satisfactory and compares favorably with Canadian peers, but is weaker than those of similarly rated utilities outside Canada. Furthermore, the ROE of 9.75% plus or minus 40 basis points is more reasonable after having been below the national average for several years. The PUB also determined an allowed rate of return on rate base of 8.96% in a range of 8.78% to 9.14% to reflect the ROE of 9.75% for 2003. Earnings in excess of this range are refunded to customers.

Markets.

The company's service territory on the island portion of Newfoundland and Labrador is considered mature with modest economic growth forecasted in the near to medium term.

Energy sales growth is primarily influenced by growth in the provincial economy, which has been relatively good in recent years versus historical growth rates. Economic growth in Newfoundland and Labrador has been attributed mainly to growth in the service sector and activity related to offshore oil projects. Although, with reduced construction expenditures and oil production related to the local energy sector, GDP is forecast to grow by 1.9% in 2004.

Newfoundland Power serves about 222,000 small commercial and residential customers constituting 85% of all electricity customers on the island. Newfoundland Power has little exposure to industrial load, which is serviced directly by provincially owned Newfoundland and Labrador Hydro. Residential energy sales account for approximately 60% of total energy sales and provide the company with a solid foundation for continued stable cash flow generation. New housing starts and high oil prices continue to improve the competitive position of electricity in the space heating market, which is expected to spur 2% growth in energy sales in 2004.

Operations.

Newfoundland Power's operating costs are relatively high versus Canadian and global peers due to its largely rural-based, rugged, sparsely populated service territory and harsh weather conditions; however, regulation allows the company to recover all prudent and approved costs in a timely manner.

Newfoundland Power's electrical system is an isolated, stand-alone system that is not interconnected to the North American grid, and therefore reliability of power supply is critical. Since 1997, the company has invested in excess of C$350 million, including C$64 million in 2003, to further improve customer service and reliability while minimizing operating costs. As a result, electrical rates in the province are currently at their lowest in Atlantic Canada but are high relative to other regions in Canada. Capital expenditures are preapproved by the regulator and fully recovered through customer rates. Cost-of-service regulation, therefore, mitigates many operating challenges faced by the company. In the next five years, Newfoundland Power plans to invest a further C$260 million to refurbish, upgrade, and expand its network, including approximately C$52 million approved by the PUB for 2004.

Newfoundland Power operates an integrated generation, transmission, and distribution system throughout the island portion of Newfoundland and Labrador. The company's generation assets include 95 MW of hydro, 44 MW of gas turbine, and 6 MW of diesel-fired plants, which are primarily used to address peak needs. The company acquires approximately 90% of its energy requirements from Newfoundland and Labrador Hydro. Newfoundland Power's segmented assets include distribution (56%), transmission (19%), generation (12%), and other (13%).

Table 1

Newfoundland Power Inc. Segmented Operating Statistics

	2003	2002	2001	2000	1999
Sources of energy (mil. kWh)					
Purchased	4,725	4,604	4,495	4,432	4,292
Generated	425	424	416	423	450
Total	5,150	5,028	4,911	4,855	4,742
Sales (mil. kWh)					
Residential	2,909	2,843	2,775	2,707	2,672
Commercial/street lighting	1,973	1,922	1,892	1,848	1,828
Total	4,882	4,765	4,667	4,555	4,500
Percentage growth (%)	2.5	2.1	2.5	1.2	1.4
Energy sales per employee	8.1	7.9	7.6	7.1	6.5
Customers	221,653	219,072	216,879	215,210	213,641
Percentage growth (%)	1.2	1.0	0.8	0.7	0.7
Operating cost per customer (C$)	225	223	231	230	235
Revenue per employee (C$)	639,185	612,980	582,342	539,339	492,088
Number of regular employees (year-end)	601	603	617	646	695

kWh--Kilowatt hour.

Competitiveness.

Newfoundland Power faces very little competition except from alternative fuels. Its operations function as a virtual monopoly because alternative electric utility operations have to be preapproved by the local regulators, which is unlikely. As well, given the geographic remoteness of Newfoundland and Labrador and its low population density, industry restructuring or deregulation is very unlikely in the foreseeable future. Electric rates in Newfoundland and Labrador are rising, due to increasing commodity prices, but nevertheless remain competitive versus oil, which it competes against in the home heating market, while natural gas is not expected to become available in the province anytime soon. Market share of the home heating segment is approximately 55% and continues to modestly improve as approximately 85% of new home construction uses electric-based heating.

Financial Policy: Moderately aggressive

Newfoundland Power's financial profile is constrained by regulatory directives and is considered moderately aggressive compared with similarly rated global peers. The PUB limits the amount of common equity in Newfoundland Power's capital structure that can earn a return and calculates comparatively low authorized ROE versus global peers contributing to a relatively weak financial profile. Based on these constraints, Standard & Poor's does not expect any material improvement in the leverage or coverage ratios for Newfoundland Power.

Financial Profile

Profitability and cash flow.

Regulated utility operations, combined with a slow but steadily growing rate base, provide Newfoundland Power with a solid operating base and consistent earnings growth. The generally supportive features of regulation should support the company's future cash flow stability. Despite the supportive nature of the regulation governing its operations, Newfoundland Power's coverage ratios are relatively weak due in large part to below-average financial returns relative to global peers (9.75% in 2003 and 9.05% in 2002). In 2003, the FFO interest coverage ratio measured 3x, the FFO to total debt 17%, and the net cash flow to capital expenditure ratio was 81%. In the near term, Newfoundland Power's debt coverage ratios are projected to improve modestly from 2003 levels. As well, Standard & Poor's expects post-2005 cash flow generation to be sufficiently strong to cover maintenance capital expenditures of approximately C$50 million to C$55 million per year.

Capital structure and financial flexibility.

As of Dec. 31, 2003, Newfoundland Power had C$332 million in first mortgage bonds and C$41 million of short-term debt outstanding. The bonds are secured by a first-fixed and specific charge on property, plant, and equipment owned or to be acquired by the company, and by a floating charge on all other assets. Based on the security of the company's low risk utility assets, the first mortgage bonds are rated one notch higher than the long-term corporate credit rating.

Newfoundland Power's capital structure is largely constrained by the regulatory directives of the PUB and is considered moderately aggressive compared with global peers but compares favorably with Canadian peers. The company's operations are financed with a reasonable equity base of 45% versus a 30% to 50% range applicable to most other regulated utilities in Canada. Although the regulatory framework supports the electric utility's low business risk profile, the financial profile associated with the regulated capital structure and allowed ROE is weaker than those of similarly rated utilities outside Canada. Based on these regulatory constraints, Standard & Poor's expects the company's leverage to remain relatively stable at approximately 55%.

Standard & Poor's assesses Newfoundland Power's financial flexibility to be adequate, supported by a stable stream of regulated cash flows, flexible dividend policy (32.5% payout in 2003), available bank lines, and access to capital debt markets. Partially offsetting these factors include Newfoundland Power's heavy capital expenditure program and the unlikelihood of any asset sales given management's commitment to its core business.

Table 2

Newfoundland Power Inc.--Peer Comparison*

Industry Sector: Electric Utility Companies--Canada

	--Average of past three fiscal years--				
	Sector median¶	**Newfoundland Power Inc.**	**ATCO Ltd.**	**Emera Inc.**	**Terasen Inc.**
Rating		BBB+/Negative/--	A/Stable/--	BBB+/Stable/--	BBB/Stable/--
(Mil. C$)					
Sales	811.6	371.0	3,626.8	1,154.0	1,750.0
Net income from cont. oper.	104.9	29.7	146.6	109.0	114.3
Funds from oper. (FFO)	192.3	64.8	559.8	256.0	243.7
Capital expenditures	133.8	62.8	585.4	140.9	362.8

Table 2

Newfoundland Power Inc.--Peer Comparison* (cont.)

Total debt	1,357.5	365.9	2,905.0	2,002.3	2,688.0
Preferred stock	9.0	9.6	150.0	265.3	125.0
Total capital	2,746.4	655.3	5,446.0	3,593.9	3,899.8
Ratios					
EBIT interest coverage (x)	2.4	2.5	1.7	1.8	1.8
FFO interest coverage (x)	3.4	3.3	3.5	2.5	2.2
Return on common equity (%)	8.8	11.4	11.7	8.5	11.6
NCF/capital expenditures (%)	81.3	82.2	74.4	120.6	48.0
FFO/total debt (%)	18.4	19.6	19.5	12.8	9.4
Total debt/capital (%)	55.3	55.8	53.3	57.1	68.9

*Adjusted for off-balance-sheet obligations and capital operating leases. ¶Sector median average is for 2000-2002.

Table 3

Newfoundland Power Inc.--Financial Summary*

Industry Sector: Electric Utility Companies--Canada

	--Average of past three fiscal years--		--Fiscal year ended Dec. 31--				
Rating history			BBB+/Negative/--§	A-/Negative/--	A-/Stable/--	N.R.	N.R.
	Sector median¶	**Issuer**	**2003**	**2002**	**2001**	**2000**	**1999**
(Mil. C$)							
Sales	811.6	371.0	384.2	369.6	359.3	348.4	342.0
Net income from cont. oper.	104.9	29.7	30.1	29.4	29.5	27.1	23.5
Funds from oper. (FFO)	192.3	64.8	61.2	64.1	69.2	57.5	51.0
Capital expenditures	133.8	62.8	63.0	58.8	66.4	41.9	42.4
Total debt	1,357.5	365.9	380.4	361.9	355.5	299.4	302.8
Preferred stock	9.0	9.6	9.4	9.7	9.7	9.9	9.9
Total capital	2,746.4	655.3	689.3	651.1	625.4	559.6	555.6
Ratios							
EBIT interest coverage (x)	2.4	2.5	2.4	2.6	2.4	2.4	2.4
FFO interest coverage (x)	3.4	3.3	3.0	3.3	3.5	3.0	2.8
Return on common equity (%)	8.8	11.4	10.0	10.5	11.2	10.6	9.5
NCF/capital expenditures (%)	81.3	82.2	81.1	91.7	74.7	90.6	96.6
FFO/total debt (%)	18.4	19.6	17.4	18.7	23.1	19.1	17.2
Total debt/capital (%)	55.3	55.8	55.2	55.6	56.8	53.5	54.5

*Adjusted by capital operating leases and off-balance-sheet items. ¶Sector median average is for 2000-2002. §Rating is as of Jan. 7, 2004.

RATINGSDIRECT®

February 18, 2005

Summary: Newfoundland Power Inc.

Primary Credit Analyst:
Laurie Conheady, Toronto (1) 416-507-2518; laurie_conheady@standardandpoors.com

Secondary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Table Of Contents

Summary: Newfoundland Power Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Newfoundland Power Inc. reflect the consolidated business and financial risk profile of its parent, Fortis Inc., based on Standard & Poor's Rating Services' consolidated rating methodology. The consolidated rating approach captures the relative contribution to business risk and cash flow of Fortis' various operating subsidiaries, including its regulated utilities Newfoundland Power, Maritime Electric Co. Inc., Caribbean Utilities Co. Ltd., Fortis Ontario, Belize Electricity Ltd., FortisAlberta, and FortisBC, and higher risk generation business, Fortis Hydro, and real estate, Fortis Properties Corp. As a result, the long-term corporate credit rating on wholly owned subsidiary, Newfoundland Power, is equalized with the rating on its parent, Fortis, with any change to the rating on Fortis leading to a change in the rating on Newfoundland Power.

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize.

St. John's, Nfld.-based Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeast U.S., the Cayman Islands, and Belize. Underpinning the quality and stability of the company's cash flows is a diversity of cash flows with no single business contributing more than about 25% of consolidated earnings. Moreover, the reliability of cash flows is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of cash flows for Fortis are its regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its investments in the regulated Caribbean utilities of Caribbean Utilities Co. Ltd. and Belize Electricity Ltd. The company's regulated Canada-based utility operations account for about 70% of EBITDA and a similar level of consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of the system and loss of cash flows.

The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. The regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing the quality of cash flows is the limited exposure to energy price and volume risk. Furthermore, the pre-approval by regulators for the bulk of capital expenditure reduces the risk of nonrecovery of capital.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the relatively mature markets of Newfoundland and Labrador, and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times with energy demand growth expected to be between 2%-3% in Alberta and about 1.5%-2% in British Columbia. Developments in the Maritimes are also expected to lead to improved growth in customer connections and energy sales. The company's total customer base of 951,000 is well diversified, with the company facing no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages based on unaudited financial results for 2004 improved to about 3.0x and 14%, respectively, from 2.4x and 13%, respectively, in 2003, as a consequence of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's growing customer base and regulatory returns as regulated asset bases grow are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 level. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain about 60%, as additions to the regulated asset bases of network businesses are part funded with debt.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its recently acquired western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1 billion in the period between 2005-2008, close to 90% will be expended in the service territories of Alberta and British Columbia to meet the growing demand for energy services in those jurisdictions. The program will require the company to raise debt and equity funding but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory returns as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its regulated Belize Electricity investment, that together represent between 25%-30% of consolidated cash flows and assets. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support means that these operations are higher risk than the company's low-risk network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utilities on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the business, and not be relied on to service Fortis' debt at the corporate level.

On a stand-alone basis, the key aspects supporting Newfoundland Power's creditworthiness include its predominantly low-risk electricity distribution assets, monopoly franchise area with a large residential and commercial customer base, and supportive regulation. These strengths are offset by the company's relatively low growth service territory with expected annual sales growth in the 1.0%-1.5% range, relatively high operating costs, and modest credit metrics with FFO interest and debt coverages of 2.8x and 15%, respectively, in 2004.

Liquidity.

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2004-2006, and will require the company to take on modest levels of additional debt and equity. With C$177 million in committed and unused consolidated operating lines of credit and cash on hand of C$37 million as of Dec. 31, 2004, annual cash flow in excess of C$225 million, and access to debt and equity capital markets, which the company used in February 2005 to raise C$130 million in equity, the company and its subsidiaries have adequate resources available to fund an estimated C$455 million in capital expenditure, dividend payments, and debt maturities in 2005.

Standard & Poor's assesses Newfoundland Power's liquidity also to be adequate given its regulated cash flow, low debt maturities, available bank facilities, and access to capital markets. Annual net cash flow, as represented by FFO less dividends, of between C$40 million-C$45 million will be insufficient to meet approximately C$50 million-C$55 million in annual capital expenditures in the near term. Nevertheless, with C$120 million in available bank credit facilities, of which C$58.1 million was drawn as of Dec. 31, 2004, and access to capital markets, the company has adequate funds available to meet upcoming debt maturities, capital expenditure commitments, and for operating purposes. Annual debt maturities in 2005 and 2006 are C$3.65 million. The company moved to improve the reliability of its liquidity in January 2005 with the replacement of its previous C$110 million uncommitted operating bank facility with a C$100 million committed revolving credit facility with a two-year renewable term. The company also has a C$20 million uncommitted demand facility.

Outlook

The negative outlook on Newfoundland Power reflects Fortis' weak financial profile for the ratings and the execution risks associated with its capital expenditure program. Standard & Poor's expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the Fortis ratings, with a flow-on effect on the rating on Newfoundland Power. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

The McGraw-Hill Companies

STANDARD & POOR'S

RATINGSDIRECT®

June 16, 2005

Summary: Newfoundland Power Inc.

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Summary: Newfoundland Power Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Newfoundland Power Inc. reflect the consolidated business and financial risk profile of its parent, Fortis Inc. (BBB+/Negative/--), based on Standard & Poor's Ratings Services' consolidated rating methodology. The consolidated rating approach captures the relative contribution to business risk and cash flow of Fortis' various operating subsidiaries, including its regulated utilities Newfoundland Power, Maritime Electric Co. Inc., Caribbean Utilities Co. Ltd., Fortis Ontario, Belize Electricity Ltd., FortisAlberta, and FortisBC; and higher risk generation business, Fortis Hydro; and real estate, Fortis Properties Corp. As a result, the long-term corporate credit rating on wholly owned subsidiary, Newfoundland Power, is equalized with the rating on its parent, Fortis, with any change to the rating on Fortis leading to a change in the rating on Newfoundland Power.

The ratings on Fortis reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize.

St. John's Nfld.-based Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeast U.S., the Cayman Islands, and Belize. Underpinning the quality and stability of the company's cash flows is a diversity of cash flows, with no single business contributing more than about 25% of consolidated earnings. Moreover, the reliability of cash flows is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of cash flows for Fortis are its regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its investments in the regulated Caribbean utilities of Caribbean Utilities Co. Ltd. (A/Watch Neg/--) and Belize Electricity Ltd. The company's regulated Canada-based utility operations account for about 70% of EBITDA and a similar level of consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of the system and loss of cash flows.

The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing the quality of cash flows is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure. Furthermore, the pre-approval by regulators for the bulk of capital expenditure reduces the risk of nonrecovery of capital.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and, to a lesser extent, in the relatively mature markets of Newfoundland and Labrador, and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be between 2%-3% in Alberta and about 1.5%-2% in British Columbia. Developments in the Maritimes are also expected to lead to improved growth in customer connections and energy sales. The company's total customer base of 951,000 is well diversified, with the company facing no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2004 improved to 3.1x and 14%, respectively, from 2.4x and 13%, respectively, in 2003, as a consequence of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at the company's FortisAlberta and FortisBC network businesses in the next few years, Fortis' increasing customer base and rising regulated cash flows as regulated asset bases grow are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 level. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain about 60%, as additions to the regulated asset bases of network businesses are part funded with debt. The company's first-quarter 2005 results were in line with Standard & Poor's expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1 billion in the period between 2005-2008, close to 90% will be expended in the service territories of Alberta and British Columbia to meet the growing demand for energy services in those jurisdictions. The program will require the company to raise debt and equity funding but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory returns as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its regulated Belize Electricity investment, that together represent between 25%-30% of consolidate cash flows and assets. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support mean that these operations are higher risk than the company's low-risk network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utilities on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the business, and not be relied on to service Fortis' debt at the corporate level.

On a stand-alone basis, the key aspects supporting Newfoundland Power's creditworthiness include its predominantly low-risk electricity distribution assets, monopoly franchise area with a large residential and commercial customer base, and supportive regulation. These strengths are offset by the company's relatively low growth service territory with expected annual sales growth in the 1.0%-1.5% range, relatively high operating costs, and modest credit metrics with FFO interest and debt coverages of 2.8x and 15%, respectively, in 2004. Newfoundland Power's first-quarter 2005 results were in line with expectations, with FFO interest coverage and FFO to average total debt ratios on a 12-month rolling basis, and total debt to total capital consistent with year-end 2004 levels.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2004-2006, and will require the company to take on modest levels of additional debt and equity. With C$404 million in committed and unused consolidated operating lines of credit and cash on hand of C$64.2 million as of March 31, 2005, annual cash flow in excess of C$225 million, and access to debt and equity capital markets which the company used in February 2005 to raise C$130 million in equity, the company and its subsidiaries have adequate resources available to fund an estimated C$455 million in capital expenditure, dividend payments, and debt maturities in 2005.

Standard & Poor's assesses Newfoundland Power's liquidity also to be adequate given its regulated cash flow, low debt maturities, available bank facilities, and access to capital markets. Annual net cash flow, as represented by FFO less dividends, of between C$40 million-C$45 million will be insufficient to meet approximately C$50 million-C$55 million in annual capital expenditures in the near term. Nevertheless, with C$120 million in available bank credit facilities, of which C$68.4 million was drawn as of March 31, 2005, and access to capital markets, the company has adequate funds available to meet upcoming debt maturities, capital expenditure commitments, and operating purposes. Cash on hand as at March 31, 2005, was C$2.2 million. Annual debt maturities in 2005 and 2006 are C$3.65 million. The company improved the reliability of its liquidity in January 2005 by replacing its previous C$110 million uncommitted operating bank facility with a two-year, renewable-term C$100 million committed revolving credit facility. The company also has a C$20 million uncommitted demand facility.

Outlook

The negative outlook on Newfoundland Power reflects Fortis' weak financial profile for the ratings and the execution risks associated with its capital expenditure program. Standard & Poor's expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the Fortis ratings, with a flow-on effect on the rating on Newfoundland Power. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

The McGraw-Hill Companies

STANDARD
&POOR'S

RATINGSDIRECT®

August 23, 2006

Summary: Newfoundland Power Inc.

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 459083 | 301003567

Summary: Newfoundland Power Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Newfoundland Power Inc. reflect the consolidated business and financial risk profile of its parent, Fortis Inc. (BBB+/Negative/--), based on Standard & Poor's Ratings Services' consolidated rating methodology. The consolidated rating approach captures the relative contribution to business risk and cash flow of Fortis' various operating subsidiaries, including its regulated utilities Newfoundland Power, Maritime Electric Co. Inc., Caribbean Utilities Co. Ltd., FortisOntario, Belize Electricity Ltd., FortisAlberta, and FortisBC; and higher risk generation business, Fortis Generation; and real estate, Fortis Properties Corp. The long-term corporate credit rating on wholly owned subsidiary, Newfoundland Power, is equalized with the rating on its parent, Fortis, with any change to the rating on Fortis leading to a change in the rating on Newfoundland Power.

Newfoundland Power based in St John's, NL, is the principal provider of electricity transmission and distribution services throughout the island portion of the Province of Newfoundland and Labrador. The utility had C$389 million in first mortgage bonds outstanding as of mid-August 2005 which are rated one notch higher than the corporate credit rating on the company.

Credit strengths specific to Newfoundland Power include its predominantly low-risk electricity distribution assets, monopoly franchise area with a large residential and commercial customer base, and supportive regulation. These strengths are offset by the company's relatively low growth service territory with expected annual sales growth in the 1.0%-1.5% range, relatively high operating costs, and modest credit metrics. FFO interest and debt coverages were 2.8x and 15%, respectively, in 2004, and leverage as measured by total debt to total capital of 54%. Newfoundland Power's second-quarter 2005 results were in line with expectations of credit metric stability, with FFO interest coverage and FFO to average total debt ratios on a 12-month rolling basis, and leverage consistent with year-end 2004 levels.

The ratings on St. John's, NL-based Fortis reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeast U.S., and the Caribbean. The company's Canada-based regulated monopoly network businesses account for about 75% of consolidated EBITDA and a similar level of consolidated assets. The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality, with the bulk of cash flows determined on a traditional cost-of-service and rate-of-return methodology. Underpinning the quality and stability of the company's cash flows from its regulated operations is diversity of markets, regulatory regimes, climates, and customer segments. Furthermore, Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base.

Fortis' business strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize. Fortis' interest and debt coverage ratios are weak for the ratings. Consolidated funds from operations interest and debt coverages going forward are not expected to be materially different from their 2004 levels of 3.1x and 14%, respectively. Leverage as measured by total debt-to-total capital is expected to remain about 60%. Fortis' major financial and operational challenge in the next few years is completion of a large capital expenditure program of almost C$1.3 billion, close to 70% of which is to be undertaken by its western Canada operations, FortisAlberta and FortisBC. Weakening Fortis' business risk profile also are its exposure to unregulated property investments and generation operations, which do not benefit from price and regulatory support, and its regulated Belize Electricity investment, which is negatively affected by the low sovereign rating on Belize. Together the unregulated activities represent between 25%-30% of consolidated cash flows and assets.

Liquidity

Newfoundland Power's liquidity is viewed as adequate given its regulated cash flow, low debt maturities, available bank facilities, and access to capital markets. Annual net cash flow, as represented by FFO less dividends, of between C$40 million-C$45 million will be insufficient to meet approximately C$50 million-C$55 million in annual capital expenditures in the near term. Nevertheless, with C$120 million in available bank credit facilities, of which the bulk was available as of mid-August 2005 following the refinancing of bank debt outstanding with a C$60 million first mortgage bond issue, and access to capital markets, the company has adequate funds available for operating purposes, upcoming debt maturities, and capital expenditure commitments. Annual debt maturities in each of 2005 and 2006 are C$4.25 million. The company improved the reliability of its access to liquidity in January 2005 by replacing its previous C$110 million uncommitted operating bank facility with a two-year, renewable-term C$100 million committed revolving credit facility. The company also has a C$20 million uncommitted demand facility.

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2005-2006, and will require the company to take on modest levels of additional debt and equity. With about C$480 million in committed and unused consolidated operating lines of credit and cash on hand of C$26.8 million as of June 30, 2005, annual cash flow of approximately C$300 million, and access to debt and equity capital markets which the company used in February 2005 to raise C$130 million in equity, the company and its subsidiaries have adequate resources available to fund close to C$500 million in capital expenditure, dividend payments, and debt maturities in 2005.

Outlook

The negative outlook on Newfoundland Power reflects the rating outlook on Fortis. The negative outlook on Fortis reflects its weak financial profile for the ratings and the execution risks associated with its capital expenditure program. Standard & Poor's expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the ratings. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

STANDARD & POOR'S

RatingsDirect®

November 3, 2005

Summary: Newfoundland Power Inc.

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Summary: Newfoundland Power Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Newfoundland Power Inc. reflect the consolidated business and financial risk profile of its parent, Fortis Inc. (BBB+/Negative/--), based on Standard & Poor's Ratings Services' consolidated rating methodology. The consolidated rating approach captures the relative contribution to business risk and cash flow of Fortis' various operating subsidiaries, including its regulated utilities Newfoundland Power, Maritime Electric Co. Inc., Caribbean Utilities Co. Ltd., FortisOntario, Belize Electricity Ltd., FortisAlberta, and FortisBC; higher risk generation business, Fortis Generation; and real estate, Fortis Properties Corp. The long-term corporate credit rating on wholly owned subsidiary, Newfoundland Power, is equalized with the rating on its parent, Fortis, with any change to the rating on Fortis leading to a change in the rating on Newfoundland Power.

Newfoundland Power, based in St John's, Nfld., is the principal provider of electricity transmission and distribution services throughout the island portion of the Province of Newfoundland and Labrador. The utility had C$389 million in first mortgage bonds outstanding as of Sept. 30, 2005, which are rated one notch higher than the corporate credit rating on the company.

Credit strengths specific to Newfoundland Power include its predominantly low-risk electricity distribution assets, monopoly franchise area with a large residential and commercial customer base, and supportive cost of service regulation. These strengths are offset by the company's relatively low growth service territory with expected annual sales growth in the 1.0%-1.5% range, relatively high operating costs, and modest credit metrics. Funds from operations (FFO) interest and debt coverages were 2.8x and 15%, respectively, in 2004, and leverage as measured by total debt to total capital was 54%. Newfoundland Power's third-quarter 2005 results were in line with expectations, with FFO interest coverage and FFO to average total debt ratios on a 12-month rolling basis, and leverage about their year-end 2004 levels.

The ratings on St. John's, Nfld.-based Fortis reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeastern U.S., and the Caribbean. The company's Canada-based regulated monopoly network businesses account for between 70% and 75% of consolidated EBITDA and consolidated assets. The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality, with the bulk of cash flows determined on a traditional cost-of-service and rate-of-return methodology. Underpinning the quality and stability of the company's cash flows from its regulated operations is diversity of markets, regulatory regimes, climates, and customer segments. Furthermore, Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base.

Fortis' business strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize. Fortis' interest and debt coverage ratios are weak for the ratings. Consolidated FFO interest and debt coverages in future are not expected to be materially different from their 2004 levels of 3.1x and 14%, respectively. Leverage as measured by total debt-to-total capital is expected to remain about 60%. Fortis' major financial and operational challenge in the period 2006-2009 is the completion of a large capital expenditure program of almost C$1.5 billion, close to 75% of which is to be undertaken by its western Canada operations, FortisAlberta and FortisBC. Weakening Fortis' business risk profile also is its exposure to unregulated property investments and generation operations, which do not benefit from price and regulatory support, and its regulated Belize Electricity investment, which is negatively affected by the low sovereign rating on Belize (CCC+/Negative/C). Together the unregulated activities represent between 20%-25% of consolidated assets and slightly more in terms of consolidated cash flows.

Liquidity

Newfoundland Power's liquidity is viewed as adequate given its regulated cash flow, low debt maturities, available bank facilities, and access to capital markets. Annual net cash flow, as represented by FFO less dividends, of between C$40 million-C$45 million will be insufficient to meet approximately C$50 million-C$55 million in annual capital expenditures in the near term. Nevertheless, with C$120 million in available bank credit facilities, all of which remained available as of Sept. 30, 2005, together with access to capital markets, the company has adequate funds available for operating purposes, upcoming debt maturities, and capital expenditure commitments. Annual debt maturities in each of 2005 and 2006 are C$4.25 million. The company improved the reliability of its access to liquidity in January 2005 by replacing its previous C$110 million uncommitted operating bank facility with a two-year, renewable-term C$100 million committed revolving credit facility. The company also has a C$20 million uncommitted demand facility.

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period 2005-2009, and will require the company to take on modest levels of additional debt and equity. With about C$530 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$18.6 million as of Sept. 30, 2005, annual cash flow as represented by FFO of more than C$300 million, and access to debt and equity capital markets, the company and its subsidiaries have adequate resources available to fund an estimated C$620 million-C$650 million in total capital expenditure, dividend payments, and debt maturities for the remainder of 2005 and in 2006.

Outlook

The negative outlook on Newfoundland Power reflects the rating outlook on Fortis. The negative outlook on Fortis reflects its weak financial profile for the ratings and the execution risks associated with its capital expenditure program. Standard & Poor's expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the ratings. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

STANDARD
& POOR'S

RATINGSDIRECT®

December 13, 2005

Summary: Newfoundland Power Inc.

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Summary: Newfoundland Power Inc.

Credit Rating: BBB+/Stable/--

Rationale

The ratings on Newfoundland Power Inc. reflect the consolidated business and financial risk profile of its parent, Fortis Inc. (BBB+/Stable/--), based on Standard & Poor's Ratings Services' consolidated rating methodology. The consolidated rating approach captures the relative contribution to business risk and cash flow of Fortis' various operating subsidiaries, including its regulated utilities Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric Co. Inc., and FortisOntario; regulated investments Caribbean Utilities Co. Ltd. and Belize Electricity Ltd.; higher risk generation business, Fortis Generation; and real estate, Fortis Properties Corp. The long-term corporate credit rating on wholly owned subsidiary, Newfoundland Power, is equalized with the rating on its parent, Fortis, with any change to the rating on Fortis leading to a change in the rating on Newfoundland Power.

Newfoundland Power, based in St John's, Nfld., is the principal provider of electricity transmission and distribution services to parts of the island portion of the Province of Newfoundland and Labrador. The utility had C$389 million in first mortgage bonds outstanding as of Sept. 30, 2005, which are rated one notch higher than the corporate credit rating on the company.

Credit strengths specific to Newfoundland Power include its predominantly low-risk electricity distribution assets, monopoly franchise area with a large residential and commercial customer base, and supportive cost of service regulation. These strengths are offset by the company's relatively low growth service territory with expected annual sales growth in the 1.0%-1.5% range, relatively high operating costs, and modest credit metrics. Funds from operations (FFO) interest and debt coverages were 2.8x and 15%, respectively, in 2004, and leverage as measured by total debt to total capital was 54%. Newfoundland Power's third-quarter 2005 results were in line with expectations, with FFO interest coverage and FFO to average total debt ratios on a 12-month rolling basis, and leverage at about their year-end 2004 levels.

The ratings on St. John's, Nfld.-based Fortis reflect its diversified portfolio of utility operations, monopoly electricity distribution businesses, regulated cash flows, and growing residential and commercial customer base. Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeastern U.S., and the Caribbean. The company's Canada-based regulated monopoly network businesses account for between 70% and 75% of consolidated EBITDA and consolidated assets. The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality, with the bulk of cash flows determined on a traditional cost-of-service and rate-of-return methodology. Underpinning the quality and stability of the company's cash flows from its regulated operations are diversity of markets, regulatory regimes, climates, and customer segments. Furthermore, Fortis' portfolio of network businesses enhances its organic growth potential and reduces customer concentration risk.

Fortis' business strengths are offset by a moderately aggressive financial profile; operating and capital expenditure challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize (foreign currency CCC-/Negative/C). Fortis' interest and debt coverage ratios are weak for the ratings. Consolidated FFO interest and debt coverages in future are not expected to be materially different from their 2004 levels of 3.1x and 14%, respectively. Leverage as measured by total debt-to-total capital is expected to remain about 60%. Fortis' major financial and operational challenge in the period 2006-2009 is the completion of a large capital expenditure program of almost C$1.5 billion, close to 75% of which is to be undertaken by its western Canada operations, FortisAlberta and FortisBC. Weakening Fortis' business risk profile also is its exposure to unregulated property investments and generation operations, which do not benefit from price and regulatory support, and its regulated Belize Electricity investment, which is negatively affected by the low sovereign rating on Belize. Together the unregulated activities and Belize investment represent between 20%-25% of consolidated assets and a slightly higher percentage in terms of consolidated cash flows.

Liquidity

Newfoundland Power's liquidity is viewed as adequate given its regulated cash flow, minimal amortizing debt repayments, available bank facilities, and access to capital markets. Annual net cash flow, as represented by FFO less dividends, of between C$40 million-C$45 million will be insufficient to meet approximately C$50 million-C$55 million in annual capital expenditures in the near term. Nevertheless, with C$120 million in available bank credit facilities, all of which remained available as of Sept. 30, 2005, together with access to capital markets, the company has adequate funds available for operating purposes, upcoming debt maturities, and capital expenditure commitments. Annual debt repayment in 2006 is C$4.25 million. The company improved the reliability of its access to liquidity in January 2005 by replacing its previous C$110 million uncommitted operating bank facility with a two-year, renewable-term C$100 million committed revolving credit facility. The company also has a C$20 million uncommitted demand facility.

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period 2005-2009, and will require the company to take on modest levels of additional debt and equity. With about C$530 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$18.6 million as of Sept. 30, 2005, annual cash flow as represented by FFO of more than C$300 million, and access to debt and equity capital markets, the company and its subsidiaries have adequate resources available to fund an estimated C$620 million-C$650 million in total capital expenditure, dividend payments, and debt maturities for the remainder of 2005 and in 2006.\

Recovery analysis

The rating on Newfoundland Power's first mortgage bonds is 'A-', with a recovery rating of '1' indicating a high expectation of full recovery of principal (100%) in the event of a payment default. The secured debt at Newfoundland Power is rated one notch above the corporate credit rating due to the amount of collateral securing the debt. As of Nov. 30, 2005, Newfoundland Power had C$384 million in first mortgage bonds secured by way of a first fixed and specific charge on the utility's capital assets owned or to be acquired and by way of floating charge over all other properties and assets of Newfoundland Power. The first mortgage bonds comprise nine individual debt issues with maturities ranging from 2007 to 2035.

We believe that if Newfoundland Power were to default, it would continue to operate as part of a reorganized entity because of the essential service nature of its business. The single most important factor in determining a utility's asset value upon emergence from bankruptcy is the revenue stream that regulators allow it to collect. As a result there is a high correlation between the value of the regulated rate base and the asset's book value. Therefore, absent extenuating circumstances, Standard & Poor's will assume that the asset's book value represents a fair value for the assets. The recovery estimate compares the level of collateral to the potential amount of secured debt. The utility's asset value to secured debt is greater than one and a half times which points to a high expectation of full recovery of principal which supports the assignment of a '1' recovery rating.

Outlook

The stable outlook on Newfoundland Power reflects the rating outlook on Fortis. The stable outlook on Fortis reflects greater stability in its business and financial profiles following the integration of two large business acquisitions in 2004, and reduced concern surrounding the level of operational and funding risk involved with its major capital expenditure program. Any material setback in executing the capital expenditure program would lead to a negative outlook or downgrade, as would any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher risk unregulated businesses without a corresponding strengthening of its financial profile. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely, given the company's weak financial profile and little expectation of reduced business risk.

The McGraw-Hill Companies

RATINGSDIRECT®

February 14, 2006

Summary: Newfoundland Power Inc.

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Summary: Newfoundland Power Inc.

Credit Rating: BBB+/Stable/--

Rationale

The ratings on Newfoundland Power Inc. reflect the consolidated business and financial risk profile of its parent, Fortis Inc. (BBB+/Stable/--), based on Standard & Poor's Ratings Services' consolidated rating methodology. The consolidated rating approach captures the relative contribution to business risk and cash flow of Fortis' various operating subsidiaries, including its regulated utilities, Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric Co. Ltd., and FortisOntario; its regulated investments, Caribbean Utilities Co. Ltd. and Belize Electricity Ltd.; its higher risk generation business, Fortis Generation; and its real estate entity, Fortis Properties Corp. The long-term corporate credit rating on wholly owned subsidiary Newfoundland Power is equalized with the rating on its parent, Fortis, with any change to the rating on Fortis leading to a change in the rating on Newfoundland Power.

Newfoundland Power, based in St John's, Nfld., is the principal provider of electricity transmission and distribution services to over 227,000 customers in parts of the island portion of the province of Newfoundland and Labrador. The utility had C$384 million in first mortgage bonds outstanding as of Dec. 31, 2005, which are rated one notch higher than the corporate credit rating on the company.

Credit strengths specific to Newfoundland Power include its predominantly low-risk electricity distribution assets, monopoly franchise area with a large residential and commercial customer base, and supportive cost-of-service regulation. These strengths are offset by the company's relatively low-growth service territory, with expected annual sales growth in the 0.5%-1.5% range, relatively high operating costs, and modest credit metrics. Funds from operations (FFO) interest and debt coverages in 2005 were 2.7x and 15%, respectively, which are relatively consistent with the coverages realized in 2004 and 2003. Leverage as measured by total debt to total capital was also stable in 2005, at 54%, close to the company's target leverage of 55%. In the next few years Newfoundland Power's leverage is expected to vary little from its 2005 level, although cash flow credit metrics are expected to show some modest improvement as marginally higher growth in annual cash flows outstrips growth in total debt levels and interest commitments.

The ratings on St. John's, Nfld.-based Fortis reflect its diversified portfolio of utility operations, monopoly electricity distribution businesses, regulated cash flows, and growing residential and commercial customer base. Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeastern U.S., and the Caribbean. The company's Canada-based regulated monopoly network businesses account for 70%-75% of consolidated EBITDA and consolidated assets. The regulatory regimes governing the company's electricity network operations are generally supportive of credit quality, with the bulk of cash flows determined on a traditional cost-of-service and rate-of-return methodology. Underpinning the quality and stability of the cash flows from the company's regulated operations are diversity of markets, regulatory regimes, climates, and customer segments. Furthermore, Fortis' portfolio of network businesses enhances its organic growth potential and reduces customer concentration risk.

Fortis' business strengths are offset by a moderately aggressive financial profile; operating and capital expenditure challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize (foreign currency CCC-/Negative/C). Fortis' interest and debt coverage ratios are weak for the ratings. Consolidated FFO interest and debt coverages are not expected to be materially different in future from their 2005 levels of 3.2x and 15%, respectively. Leverage as measured by total debt to total capital was 59% in 2005 and is expected to remain at, or marginally below, 60% as additions to the regulated assets of network businesses are partially funded with debt. Fortis' major financial and operational challenge in the period 2006-2009 will be the completion of a large capital expenditure program of almost C$1.5 billion, close to 75% of which is to be undertaken by its western Canada operations, FortisAlberta and FortisBC. Also weakening Fortis' business risk profile are its exposure to unregulated property investments and generation operations, which do not benefit from price and regulatory support, and its regulated Belize Electricity investment, which is negatively affected by the low sovereign rating on Belize. Together the unregulated activities and the Belize investment represent between 20%-25% of consolidated assets and a slightly higher percentage in terms of consolidated cash flows.

Liquidity

Newfoundland Power's liquidity is viewed as adequate given its regulated cash flow, minimal amortizing debt repayments, available bank facilities, and access to capital markets. Annual net cash flow, as represented by FFO less dividends, is typically between C$40 million-C$45 million, and will be insufficient to meet approximately C$50 million-C$55 million in annual capital expenditures in the near term. Nevertheless, with C$120 million in available bank credit facilities, C$108 million of which remained available as of Dec. 31, 2005, together with access to capital markets, the company has adequate funds available for operating purposes, upcoming debt maturities, and capital expenditure commitments. Annual debt repayment in 2006 will be C$4.25 million. The company's bank facilities consist of a C$100 million committed credit facility, maturing January 2009, and a C$20 million uncommitted demand facility.

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in 2006-2009, and will require the company to take on modest levels of additional debt and equity. With about C$540 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$33.4 million as of Dec. 31, 2005, annual cash flow of more than C$300 million, as represented by FFO, and access to debt and equity capital markets, the company and its subsidiaries will have adequate resources available to fund an estimated C$500 million-C$525 million in total capital expenditure, dividend payments, and debt maturities in 2006.

Recovery analysis

The rating on Newfoundland Power's first mortgage bonds is 'A-', with a recovery rating of '1' indicating a high expectation of full recovery of principal (100%) in the event of a payment default. The secured debt at Newfoundland Power is rated one notch above the corporate credit rating due to the amount of collateral securing the debt. Newfoundland Power's first mortgage bonds are secured by a first fixed and specific charge on the utility's capital assets owned, or to be acquired, and by a floating charge over all other properties and assets of Newfoundland Power. The first mortgage bonds comprise nine individual debt issues with maturities ranging from 2007 to 2035.

Standard & Poor's believes that if Newfoundland Power were to default, it would continue to operate as part of a reorganized entity because of the essential service nature of its business. The single most important factor in determining a utility's asset value upon emergence from bankruptcy is the revenue stream that regulators allow it to collect. As a result, there is a high correlation between the value of the regulated rate base and the asset's book value. Therefore, absent extenuating circumstances, Standard & Poor's will assume that the asset's book value represents a fair value for the assets. The recovery estimate compares the level of collateral to the potential amount of secured debt. The utility's asset value to secured debt is greater than 1.5x, which points to a high expectation of full recovery of principal that supports the assignment of a '1' recovery rating.

Outlook

The stable outlook on Newfoundland Power reflects the rating outlook on Fortis. The stable outlook on Fortis reflects greater stability in its business and financial risk profiles following the integration of two large business acquisitions in 2004, and reduced concern surrounding the level of operational and funding risk involved with its major capital expenditure program. Any material setback in executing the capital expenditure program would lead to a negative outlook or downgrade, as would any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher risk unregulated businesses without a corresponding strengthening of its financial profile. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for deterioration in Fortis' financial profile, and if the unregulated operations are expanded, they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely given the company's weak credit metrics and little expectation of reduced business risk.

STANDARD & POOR'S

RatingsDirect®

May 16, 2006

Summary: Newfoundland Power Inc.

Primary Credit Analyst:
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Secondary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

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Summary: Newfoundland Power Inc.

Credit Rating: BBB+/Stable/--

Rationale

The ratings on Newfoundland Power Inc. reflect the consolidated business and financial risk profile of its parent, Fortis Inc. (BBB+/Stable/--), based on Standard & Poor's Ratings Services' consolidated rating methodology. The consolidated rating approach captures the relative contribution to business risk and cash flow of Fortis' various operating subsidiaries, including its regulated utilities, Newfoundland Power, FortisAlberta, FortisBC, Maritime Electric Co. Ltd., and FortisOntario; regulated investments, Caribbean Utilities Co. Ltd. and Belize Electricity Ltd.; and higher risk generation and real estate businesses, Fortis Generation, and Fortis Properties Corp. The long-term corporate credit rating on wholly owned subsidiary Newfoundland Power is equalized with the rating on its parent, Fortis, with any change to the rating on Fortis leading to a change in the rating on Newfoundland Power.

Newfoundland Power, based in St John's, Nfld., is the principal provider of electricity transmission and distribution services to more than 227,000 customers in parts of the island portion of the Province of Newfoundland and Labrador. The utility had C$384 million in first mortgage bonds outstanding as of March 31, 2006, which are rated one notch higher than the corporate credit rating on the company.

Credit strengths specific to Newfoundland Power include its predominantly low-risk electricity distribution assets, monopoly franchise area with a large residential and commercial customer base, and supportive cost-of-service regulation. These strengths are offset by the company's relatively low-growth service territory, with expected annual sales growth in the 0.5%-1.5% range, relatively high operating costs, and modest credit metrics. Funds from operations (FFO) interest and debt coverages in 2005 were 2.7x and 15%, respectively, which are relatively consistent with the coverages realized in 2004 and 2003. Leverage as measured by total debt to total capital was also stable in 2005, at 54%, close to the company's target leverage of 55%. In the next few years Newfoundland Power's leverage is expected to vary little from its 2005 level, although cash flow credit metrics are expected to show some modest improvement as marginally higher growth in annual cash flows outstrips growth in total debt levels and interest commitments. The company's financial results for first-quarter 2006 were in line with Standard & Poor's expectations.

The ratings on St. John's, Nfld.-based Fortis reflect its diversified portfolio of utility operations, monopoly electricity distribution businesses, regulated cash flows, and growing residential and commercial customer base. Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeastern U.S., and the Caribbean. The company's Canada-based regulated monopoly network businesses account for 70%-75% of consolidated EBITDA and consolidated assets. The regulatory regimes governing the company's electricity network operations are generally supportive of credit quality, with the bulk of cash flows determined on a traditional cost-of-service and rate-of-return methodology. Underpinning the quality and stability of the cash flows from the company's regulated operations are diversity of markets, regulatory regimes, climates, and customer segments. Furthermore, Fortis' portfolio of network businesses enhances its organic growth potential and reduces customer concentration risk.

Fortis' business strengths are offset by a moderately aggressive financial profile; operating and capital expenditure challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize (foreign currency CCC-/Negative/C). Fortis' interest and debt coverage ratios are weak for the ratings. Consolidated FFO interest and debt coverages are not expected to be materially different in future from their 2005 levels of 3.2x and 15%, respectively. Leverage as measured by total debt to total capital was 59% in 2005 and is expected to remain at, or marginally below, 60% as additions to the regulated assets of network businesses are partially funded with debt. Fortis' major financial and operational challenge in the period 2006-2009 will be the completion of a large capital expenditure program of almost C$1.5 billion, close to 75% of which is to be undertaken by its western Canada operations, FortisAlberta and FortisBC. Also weakening Fortis' business risk profile are its exposure to unregulated property investments and generation operations, which do not benefit from price and regulatory support, and its regulated Belize Electricity investment, which is negatively affected by the low sovereign rating on Belize. Together the unregulated activities and the Belize investment represent between 20%-25% of consolidated assets and a slightly higher percentage in terms of consolidated cash flows.

Liquidity

Newfoundland Power's liquidity is viewed as adequate given its regulated cash flow, manageable amortizing debt repayments, available bank facilities, and access to capital markets. Annual net cash flow, as represented by FFO less dividends, is typically between C$40 million-C$45 million, and will be insufficient to meet approximately C$50 million-C$55 million in annual capital expenditures in the near term. Nevertheless, with C$120 million in available bank credit facilities, C$102 million of which remained available as of March 31, 2006, together with access to capital markets, the company has adequate funds available for operating purposes, upcoming debt repayments, and capital expenditure commitments. Annual debt repayment in 2006 will be C$4.25 million. The company's bank facilities consist of a C$100 million committed revolving term credit facility, maturing January 2009, and a C$20 million uncommitted demand facility.

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, access to capital markets, and available bank facilities. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in 2006-2009, and will require the company to take on modest levels of additional debt and equity.

Fortis' liquidity is supported by annual cash flow as represented by FFO of more than C$300 million, and demonstrated access to debt and equity capital markets. Furthermore, as of March 31, 2006, the company had C$543 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$21.5 million. Subsequent to the end of first-quarter 2006, Fortis' consolidated liquidity position was enhanced by the refinancing of drawings under FortisAlberta's syndicated credit facility following that subsidiary's successful C$100 million unsecured debenture offering on April 21, 2006. The financial resources available to Fortis and its subsidiaries are sufficient to fund an estimated C$550 million-C$575 million in total capital expenditure, dividend payments, and debt maturities in 2006.

Recovery analysis

The rating on Newfoundland Power's first mortgage bonds is 'A-', with a recovery rating of '1' indicating a high expectation of full recovery of principal (100%) in the event of a payment default. The secured debt at Newfoundland Power is rated one notch above the corporate credit rating due to the amount of collateral securing the debt. Newfoundland Power's first mortgage bonds are secured by a first fixed and specific charge on the utility's capital assets owned, or to be acquired, and by a floating charge over all other properties and assets of

Newfoundland Power. The first mortgage bonds comprise nine individual debt issues with maturities ranging from 2007 to 2035.

Standard & Poor's believes that if Newfoundland Power were to default, it would continue to operate as part of a reorganized entity because of the essential service nature of its business. The single most important factor in determining a utility's asset value upon emergence from bankruptcy is the revenue stream that regulators allow it to collect. As a result, there is a high correlation between the value of the regulated rate base and the asset's book value. Therefore, absent extenuating circumstances, Standard & Poor's will assume that the asset's book value represents a fair value for the assets. The recovery estimate compares the level of collateral to the potential amount of secured debt. The utility's asset value to secured debt is greater than 1.5x, which points to a high expectation of full recovery of principal that supports the assignment of a '1' recovery rating.

Outlook

The stable outlook on Newfoundland Power reflects the rating outlook on Fortis. The stable outlook on Fortis reflects an expectation of no material change to the current mix of regulated and unregulated operations, and the company successfully undertaking its major capital expenditure program. Any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher risk unregulated businesses without a corresponding strengthening of its financial profile, or material operational or financial setback in executing the capital expenditure program could lead to a negative outlook or downgrade. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions resulting in a weakening of its credit metrics because there is limited cushion at the current ratings level for deterioration in Fortis' financial profile; and if the unregulated operations are expanded, that they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely given the company's weak credit metrics and little expectation of reduced business risk.

STANDARD & POOR'S

RATINGSDIRECT®

October 18, 2006

Research Update:

Ratings Withdrawn On Newfoundland Power Inc.

Primary Credit Analyst:
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Secondary Credit Analyst:
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Research Update:

Ratings Withdrawn On Newfoundland Power Inc.

Rationale

On Oct. 18, 2006, Standard & Poor's Ratings Services withdrew its ratings, including its 'BBB+' long-term corporate credit rating, on Newfoundland Power Inc. The ratings were withdrawn at the request of Newfoundland Power.

Ratings List

Ratings Withdrawn
Newfoundland Power Inc.

	To	From
Corporate credit rating	NR	BBB+/Stable/--
Senior secured debt	NR	A-
Preferred stock		
Global scale	NR	BBB-
Canadian scale	NR	P-2(Low)

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

Standard & Poor's Reports
Fortis Inc.

September 16, 2003
January 7, 2004
April 1, 2004
June 1, 2004
December 3, 2004
February 8, 2005
February 10, 2005
February 17, 2005
May 31, 2005
August 11, 2005
August 23, 2005
November 3, 2005
December 7, 2005
December 23, 2005
February 7, 2006
February 8, 2006
May 11, 2006
February 26, 2007
June 19, 2007

Fortis Inc. Ratings Still on CreditWatch Negative After Aquila Acquisitions

Credit Analyst:
Damian DiPerna, Toronto (1) 416-507-2561; Nicole Martin, Toronto (1) 416-507-2560

TORONTO (Standard & Poor's) Sept. 16, 2003--Standard & Poor's Ratings Services today said the ratings on Fortis Inc. and its subsidiaries, Newfoundland Power Inc. and Maritime Electric Co. Ltd. remain on CreditWatch with negative implications, following the company's announcement to acquire all of the shares of Aquila Networks Canada (Alberta) Ltd. and Aquila Networks Canada (British Columbia) Ltd. from two indirect subsidiaries of Aquila Inc. for an aggregate consideration of C$1.36 billion subject to certain adjustments. The ratings were originally placed on CreditWatch March 6, 2003.

Fortis' current financial profile inadequately supports its business risk profile and the current ratings. This transaction should prove moderately beneficial to Fortis' overall business score and partially offset the trend in the past few years, in which Fortis' investment in higher risk businesses (real estate and international power and utility investments) has increased steadily without a commensurate improvement in its financial position. "Fortis' plans to replace the debt acquisition financing with a combination of common equity, preferred equity, and long-term debt; however, the company's financial profile is expected to remain weak for the ratings category," said Standard & Poor's credit analyst Damian Di Perna.

The ratings on Fortis are constrained by the company's relatively weak financial profile, which reflects the regulatory controls imposed on the capital structure of its regulated subsidiaries. Fortis' active growth strategy of pursuing acquisition opportunities in both Canadian and international markets, as well as in regulated and nonregulated sectors, adds an additional element of risk to the company's credit profile. As a result, without a material improvement in the company's financial profile, a negative rating action will likely occur.

Fortis, a utility holding company based in Newfoundland, expects the transaction to close in the first half of 2004, subject to regulatory approval. The transaction will more than double Fortis' customer base to approximately 900,000 and will expand its service territories across Canada to five provinces. Fortis also has utility investments in the Cayman Islands and Belize. Its regulated asset base will increase to approximately C$2.8 billion (or 78% of total assets), of which about 85% will be located in Canada.

Standard & Poor's plans to meet with management and expects to resolve the CreditWatch placement within the next month.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Credit Ratings Lists. Standard & Poor's ratings appear alphabetically.

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January 7, 2004

Fortis Inc. and Subsidiaries Ratings Lowered to 'BBB+'; Off Watch

Credit Analyst:
Damian DiPerna, Toronto (1) 416-507-2561; Mark Mettrick, CFA, Toronto (1) 416-507-2584

TORONTO (Standard & Poor's) Jan. 7, 2004--Standard & Poor's Ratings Services today said it lowered its long-term corporate credit ratings on Fortis Inc. and its subsidiaries Newfoundland Power Inc. and Maritime Electric Co. Ltd. to 'BBB+' from 'A-'. At the same time, the ratings were removed from CreditWatch, where they were placed March 5, 2003. The outlook is negative.

"The ratings downgrade largely reflects Fortis' relatively weak consolidated financial profile offset by an above-average business profile modestly aided by the proposed acquisition of the Aquila BC and Aquila Alberta assets," said Standard & Poor's credit analyst Damian Di Perna. Standard & Poor's has also factored into its analysis the credit reliance placed on the regulatory framework associated with the regulated utilities owned by Fortis. The credit emphasis placed on the supportive regulatory framework in the markets it operates in has been slightly reduced, while continuing to view the regulatory framework as a major mitigant to the company's higher financial leverage, as compared with similar rated global peers.

Fortis' financial profile has historically been weak for its business risk profile; however, further pressure was placed on the ratings in the past few years with several acquisitions in the nonregulated sector and international markets, which increased Fortis' business risk profile without a commensurate improvement in its financial profile. The proposed acquisition of Aquila BC and Aquila Alberta should prove beneficial to

Fortis' overall business profile as funds from operations (FFO) and assets from the company's regulated operations are projected to improve to approximately 90% and 78%, respectively, by 2005 from 75% and 62%, respectively, in 2003.

Fortis, a utility holding company based in the Province of Newfoundland and Labrador, expects the Aquila BC and Aquila Alberta transaction to close in the first half of 2004, subject to regulatory approval. The transaction will more than double Fortis' customer base to approximately 900,000 and will expand its service territories across Canada to five provinces. Fortis also has utility investments in the U.S., Cayman Islands, Belize, and a real estate portfolio primarily in Atlantic Canada and Ontario.

The negative outlook reflects the risks surrounding several operating and financial challenges faced by the company in the next few years as it integrates the relatively large Aquila acquisition, deals with regulatory boards in new markets (in the provinces of British Columbia and Alberta), participates in a generic cost-of-capital hearing in Alberta, manages a heavy capital expenditure program, and accesses the capital markets to help finance its recent acquisition and fund capital expenditures. Accordingly, the company's relatively weak financial profile for its business risk profile and current ratings category, allows little cushion for possible deterioration in its financial profile.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Credit Ratings Actions.

STANDARD & POOR'S

RATINGSDIRECT®

January 7, 2004

Research Update: Fortis Inc.

Credit Analyst:
Damian DiPerna, Toronto (1) 416-507-2561; Mark Mettrick, CFA, Toronto (1) 416-507-2584

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Research Update: Fortis Inc.

Credit Rating: BBB+/Negative/--

Rationale

On Jan. 7, 2004, Standard & Poor's Ratings Services lowered its long-term corporate credit ratings on Fortis Inc. and its subsidiaries Newfoundland Power Inc. and Maritime Electric Co. Ltd. to 'BBB+' from 'A-'. At the same time, the ratings were removed from CreditWatch, where they were placed March 5, 2003. The outlook is negative.

The ratings downgrade largely reflects Fortis' relatively weak consolidated financial profile offset by an above-average business profile modestly aided by the proposed acquisition of the Aquila BC and Aquila Alberta assets. Standard & Poor's has also factored into its analysis the credit reliance placed on the regulatory framework associated with the regulated utilities owned by Fortis. The credit emphasis placed on the supportive regulatory framework in the markets it operates in has been slightly reduced, while continuing to view the regulatory framework as a major mitigant to the company's higher financial leverage, as compared with similar rated global peers.

Fortis' financial profile has historically been weak for its business risk profile; however, further pressure was placed on the ratings in the past few years with several acquisitions in the nonregulated sector and international markets, which increased Fortis' business risk profile without a commensurate improvement in its financial profile. The proposed acquisition of Aquila BC and Aquila Alberta should prove beneficial to Fortis' overall business profile as funds from operations (FFO) and assets from the company's regulated operations are projected to improve to approximately 90% and 78%, respectively, by 2005 from 75% and 62%, respectively, in 2003. Furthermore, approximately 75% of regulated assets will be Canada-based and supported by favorable traditional cost-of-service and rate-of-return regulation. The acquisition will be financed primarily with a combination of common equity, preferred equity, and long-term debt, which will be in line with regulatory controls imposed on the capital structure of Aquila BC and Aquila Alberta (60%: 40%, respectively). Standard & Poor's, therefore, does not expect any material improvement in the consolidated financial profile of Fortis in the near to medium term. The debt-to-capitalization ratio is projected to measure approximately 60%, the FFO interest coverage ratio approximately 2.6x, and the FFO to total debt approximately 13%-14%.

Despite the weak financial profile, the ratings on Fortis are primarily supported by its diverse portfolio of utility operating companies, relatively low risk distribution operations, and supportive regulatory environment, which provides relatively stable cash flow generation. Partially offsetting these positive attributes are investments in higher risk nonregulated operations and international businesses and Fortis' active growth strategy of pursuing acquisition opportunities in both Canadian and international markets, which adds an additional element of risk to the company's credit profile.

Fortis, a utility holding company based in the Province Newfoundland and Labrador, expects the Aquila BC and Aquila Alberta transaction to close in the first half of 2004, subject to regulatory approval. The transaction will more than double Fortis' customer base to approximately 900,000 and will expand its service territories across Canada to five provinces. Fortis also has utility investments in the U.S., Cayman Islands, and Belize, and a real estate portfolio primarily in Atlantic Canada and Ontario.

Liquidity.

Standard & Poor's assesses Fortis' liquidity to be sufficient to support day-to-day operating needs given its relatively stable cash flow generation, modestly low debt maturities, ability to access capital markets, and its available bank facilities. Consolidated cash flows will generally be insufficient to meet all capital expenditures and dividend payments in the near to medium term, however. With about C$317 million in consolidated operating lines of credit, most of which is presently unused, and access to capital markets, the company and its subsidiaries have adequate funds available for operating purposes. The company also has an acquisition facility of C$860 million at Fortis Inc. and C$393 million facility at Aquila Alberta. The acquisition facility will largely be paid down with proceeds from the successful C$350 million common share installment receipts issue, future preferred share offering planned by the company and the balance will be likely be termed out in the long term debt market.

Outlook

The negative outlook reflects the risks surrounding several operating and financial challenges faced by the company in the next few years as it integrates the relatively large Aquila acquisition, deals with regulatory boards in new markets (in the provinces of British Columbia and Alberta), participates in a generic cost-of-capital hearing in Alberta, manages a heavy capital expenditure program, and accesses the capital markets to help finance its recent acquisition and fund capital expenditures. Accordingly, the company's relatively weak financial profile for its business risk profile and current ratings category, allows little cushion for possible deterioration in its financial profile.

Ratings List

Fortis Inc.	To	From
Corporate credit rating	BBB+/Negative/--	A-/Watch Neg/--
Senior unsecured	BBB	BBB+/Watch Neg
Preferred stock		

Global scale	BBB-	BBB/Watch Neg
Canadian scale	P-2(Low)/Negative	P-2/Watch Neg
Newfoundland Power Inc.		
Corporate credit rating	BBB+/Negative/--	A-/Watch Neg/--
Senior secured debt	A-	A/Watch Neg
Preferred stock		
Global scale	BBB-	BBB/Watch Neg
Canadian scale	P-2(Low)/Negative	P-2/Watch Neg
Maritime Electric Co. Ltd.		
Corporate credit rating	BBB+/Negative/--	A-/Watch Neg/--
Senior Secured	BBB+	A-Watch Neg

STANDARD
&POOR'S

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April 1, 2004

Fortis Inc.

Credit Analyst:
Damian DiPerna, Toronto (1) 416-507-2561; Laurie Conheady, Toronto (1) 416-507-2518

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Fortis Inc.

Corporate Credit Rating

BBB+/Negative/--

Business Profile

1 2 3 $\boxed{4}$ 5 6 7 8 9 10

Financial policy:

Moderately aggressive

Debt maturities:

2004 C$38 mil.
2005 C$39 mil.
2006 C$39 mil.
2007 C$70 mil.
2008 C$31 mil.

Bank lines/Liquid assets:

As of Dec. 31, 2003, Fortis Inc. had C$480 million in credit facilities to address liquidity needs, most of which is presently unused. The company also has an acquisition facility of C$860 million, which is fully used and will largely be paid down with proceeds from the issuance of installment receipts in October 2003 (C$350 million), preferred share offering (C$50 million), and long-term debt.

Collateralization:

As of Dec. 31, 2003, Fortis Inc. had C$1.2 billion of consolidated debt outstanding, including C$142 million of current maturities.

Outstanding Rating(s)

Fortis Inc.	
Sr unsecd debt	
Local currency	BBB
Pfd stk	
Local currency	BBB-
Caribbean Utilities Co. Ltd.	
Corporate Credit Rating	A/Stable/--
Sr unsecd debt	
Foreign currency	A
Pfd stk	
Foreign currency	BBB+
Maritime Electric Co. Ltd.	
Corporate Credit Rating	BBB+/Negative/--
Sr secd debt	
Local currency	BBB+
Newfoundland Power Inc.	
Corporate Credit Rating	BBB+/Negative/--
Sr secd debt	
Local currency	A-

Pfd stk	
Local currency	BBB-

Corporate Credit Rating History	
Mar. 20, 2001	A-
Jan. 7, 2004	BBB+

Company Contact

Jim Spinney 1 (709) 737-2902

Major Rating Factors

Strengths:

- Geographically diverse portfolio of utility operations
- Core earnings base consisting of regulated monopoly utilities
- Largely supportive Canadian regulation
- Strong growth in international markets

Weaknesses:

- Mature, but relatively weak, service area in Atlantic Canada markets
- Inherently riskier nature of real estate and international investments than core utility operations
- Relatively aggressive acquisition strategy
- Constrained financial profile due to relatively low equity cushion and weak allowed returns imputed by regulators

Rationale

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution activities, largely residential and commercial customer base, and favorable Canadian regulation based on cost of service and rate of return methodology, which provides relatively stable cash flow generation. Offsetting these strengths are somewhat modest growth in sales, operating challenges in its service territories, and investments in higher risk commercial and hospitality real estate. Independent power generation and investments in Belize are higher risk.) Fortis' active strategy of pursuing acquisition opportunities in both Canadian and international markets also adds an element of risk.

Fortis is a utility holding company based in St. John's, Nfld., with operations principally located in three Canadian provinces, northeast U.S., Cayman Islands, and Belize. The company is in the process of acquiring transmission, distribution, and generation assets in British Columbia and Alberta from Aquila Networks Canada. Once the transaction closes in mid-2004, subject to regulatory approvals, Fortis will more than double its customer base to approximately 900,000 customers and will expand its service territories across Canada to five provinces. This will refocus Fortis' business strategy more toward low-risk, regulated electric distribution services.

Canadian utility regulation provides revenue stability, as distribution operations have no exposure to market risk. Utilities are permitted to flow through into customer rates all prudently purchased electricity costs approved by the regulators. Regulators provide thin financial margins, however, by limiting common equity in the capital structure and authorizing relatively low returns compared with global peers.

Although organic growth opportunities are limited in Fortis' mature service areas of Newfoundland and Labrador and Prince Edward Island, growth prospects will likely be enhanced by its investments in international markets and its pending acquisition of the western Canadian assets. Following the acquisition of the western Canadian assets, Fortis' Canadian-based utility operations will account for about 70% of consolidated assets.

Fortis' financial profile has historically been moderately aggressive. Pressure has been placed on the ratings in the past few years with several acquisitions in the nonregulated sector and international markets, which increased Fortis' business risk profile without a commensurate improvement in its financial profile. The pending acquisition of Aquila Networks Canada should prove moderately beneficial to Fortis' overall business profile as funds from operations (FFO) and assets from the company's regulated operations are projected to improve to approximately 90% and 77%, respectively by 2005 (first full-year results on Aquila Networks Canada) from 75% and 62%, respectively in 2003. The C$1.3 billion acquisition will be financed primarily with a combination of common equity, preferred equity, and long-term debt, which will be in line with regulatory controls imposed on the capital structure of the Alberta and B.C. utility operations (40% equity component). Fortis' consolidated debt to capitalization ratio is projected to measure approximately 60%, the FFO interest coverage ratio approximately 2.6x, and the FFO to total debt approximately 13%-14%. The company's relatively weak financial profile for its business risk and current ratings allows little cushion for possible deterioration in its financial profile.

Liquidity.

Standard & Poor's Ratings Services assesses Fortis' liquidity to be adequate given its relatively stable cash flow generation, modestly low debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in 2004-2005. With about C$314 million in consolidated operating lines of credit, most of which is presently unused, and access to capital markets, the company and its subsidiaries have adequate funds available for operating purposes.

Outlook

The negative outlook reflects the risks surrounding several operating and financial challenges faced by the company in the next few years as it integrates the relatively large Aquila acquisition. These challenges include dealing with regulatory boards in new markets (B.C. and Alberta), participating in a generic cost-of-capital hearing in Alberta, managing a heavy capital expenditure program, and accessing the capital markets to help finance its recent acquisition and fund capital expenditures. Any material acquisitions beyond the acquisition of Aquila Networks Canada have not been factored into the ratings.

Business Description

Fortis Inc. is a diversified electric utility holding company, based in St. John's with holdings primarily in electric distribution companies, hydroelectric generation, and real estate (see Table 1). Wholly owned distribution companies include Newfoundland Power, FortisOntario (which serves the towns of Fort Erie, Port Colborne, Gananoque, and the City of Cornwall) and Maritime Electric Co. Ltd. (which serves PEI). FortisUS Energy, a wholly owned subsidiary of Maritime Electric, operates four hydroelectric generation stations with a combined capacity of 23 MW in upper New York State. Fortis has a 95% interest in Belize Electricity Ltd. (BEL) and a 38.5% interest in

Caribbean Utilities Co. Ltd. (Grand Cayman, Cayman Islands). Fortis has a 67% interest in Belize Electric Ltd. (BECOL), which owns and operates the 25 MW Mollejon hydroelectric facility in Belize. Fortis wholly owns a nonutility company, Fortis Properties Corp., which is the largest owner/operator of commercial real estate and hotels in Atlantic Canada.

Table 1

Fortis Inc. Segmented Earnings

	2003 (C$000)	2003 (%)	2002 (C$000)	2002 (%)
Newfoundland Power	29.5	40.0	28.8	45.0
Fortis Ontario	16.8	23.0	9.2	15.0
Maritime Electric	8.2	11.0	6.6	10.0
Belize Electricity	6.7	9.0	6.9	11.0
Belize Electric	(0.5)	(1.0)	4.6	7.0
Caribbean Utilities	10.5	14.0	4.9	8.0
Fortis Properties	11.0	15.0	9.3	15.0
Corporate	(8.6)	(11.0)	(7.0)	(11.0)
Consolidated	73.6	100.0	63.3	100.0

*Acquisition to close in mid-2004

Rating Methodology

The ratings on Fortis and its subsidiaries are based on Standard & Poor's consolidated rating methodology. The ratings reflect a business profile that captures the relative contribution to business risk and cash flow of the various business segments. As a result, the corporate credit ratings on wholly owned subsidiaries Newfoundland Power Inc. and Maritime Electric are equalized with those on parent Fortis Caribbean Utilities (38.2% owned) is rated on a stand-alone basis.

Business Profile

Canadian franchised electric distribution operations.

Regulation.

The key component underpinning Fortis' sound investment grade-rating is the largely supportive regulatory environments in which its regulated utilities operate. Newfoundland Power, FortisOntario, and Maritime Electric are regulated by the Public Utilities Board of Newfoundland, the Ontario Energy Board, and the Island Regulatory and Appeals Commission (IRAC) in PEI, respectively (see Table 2). These utilities are regulated on a cost of service and rate of return methodology. Standard & Poor's views the principal components of its regulation, specifically provisions for full recovery of prudently incurred costs including operating and financing cost and the absence of commodity and volume risk, as generally supportive. Although the regulatory framework supports the electric utilities' low business risk profile, the financial profile associated with the regulated capital structure and allowed return on equity (ROE) is weaker than those of similarly rated utilities outside Canada.

Recent changes related to Maritime Electric's rate-setting mechanism are viewed as positive. The Legislative Assembly in PEI passed legislation in December 2003 to return Maritime Electric to traditional cost of service regulation effective Jan. 1, 2004. Previously, Maritime Electric operated under price cap regulation. The company's rates are currently frozen at Dec. 31, 2003, levels pending approval of new rates by IRAC. Maritime Electric is in the process of preparing a submission to IRAC pursuant to which it will request a just and reasonable ROE and revenue requirements for 2004. The submission must be filed by May 1, 2004.

Table 2

Regulatory Segmented Information 2003

	Commission	Allowed Common Equity	Return on Common Equity	Supportive Features
Newfoundland Power	Newfoundland Public Utilities Board	45%	9.75% +/- 37.5 bp	Cost of service (COS)/rate of return; commodity pass through
Maritime Electric	Island Regulatory & Appeals Commission	TBD	TBD	COS/rate of return; TBD during May 2004 rate application
FortisOntario*	Ontario Energy Board	50%	9.88%	COS/ROE. Price cap with commodity cost flow through (Cornwall Electric)
Fortis Alberta¶	Alberta Utilities & Energy Board	40%	9.50%	COS/ROE
Fortis BC¶	British Columbia Utilities Board	40%	9.82%	COS/ROE

*Includes franchises in Fort Erie, Port Colborne, Gananoque, and Cornwall Ontario. ¶Acquisition is expected to close by mid-2004. TBD--To be determined.

Markets.

Canadian utility franchise areas serviced by Fortis' subsidiaries in Atlantic Canada and to a lesser extent, small towns in Ontario, are generally considered weak due to below-average economic metrics, regional concentration, and modest growth prospects. The company's pending acquisition of Aquila Networks Canada, however, will improve its regional and regulatory diversification while enhancing growth prospects. The electric distribution subsidiaries currently operate in three Canadian provinces: Newfoundland & Labrador, PEI, and Ontario. The franchise in Newfoundland and PEI is considered mature with modest economic growth forecasted in the near to medium term. Meanwhile, the Ontario market is much more robust and considered the economic engine of Canada; however, political interference and failed deregulation has created a high degree of uncertainty.

Sales growth in Fortis' franchise area is expected to be relatively modest ranging between 2%-3% per year. Newfoundland Power serves about 220,000 small commercial and residential customers constituting 85% of all electricity customers on the Island portion of Newfoundland & Labrador. Newfoundland Power has little exposure to industrial load, which is serviced directly by provincially owned Newfoundland & Labrador Hydro. Maritime Electric serves about 68,000 customers or 90% of customers in PEI. Maritime Electric customers are primarily commercial and small industrials and account for more than 50% of gross revenues and 60% of throughputs. FortisOntario serves about 52,000 customers in the communities of Fort Erie, Port Colborne, Gananoque, Cornwall, South Glengarry, and South Stormont constituting about 1% of Ontario's electricity demand. Near-term sales growth is expected to range between 2%-3%.

Operations.

Operating measures for Fortis' Canadian utility operations generally compare unfavorably with standard operating measures in Canada, due largely to the market characteristics (low population density) of its service area. These factors and other operation risks are mitigated by cost of service regulation. Operating costs are pre-approved by the regulator and fully recovered through customer rates. In the past three years, Fortis has invested in excess of C$300 million, including C$110 million in 2003 to further improve customer service and reliability while minimizing operating costs.

The Fortis group of companies primarily operates distribution assets with nominal investment in transmission and generation assets. Newfoundland Power operates an integrated generation, transmission, and distribution system throughout the island portion of Newfoundland and Labrador. The company's generation assets include 95 MW of hydro, a 44 MW gas turbine, and 6 MW diesel-fired plants, which are primarily used to address peak needs. The company acquires approximately 90% of its energy requirements from Newfoundland and Labrador Hydro Corp. Newfoundland Power's segmented assets include distribution (57%), transmission (18%), generation (13%), and other (12%).

Maritime Electric primarily operates electric distribution and transmission assets. Maritime Electric purchases about 90% of its power needs from government-owned New Brunswick Power Corp. and private sector utility Emera Inc., and generates the balance from its own 60 MW oil-fired and 40 MW gas-turbine plants A new turbine is planned for 2005. Maritime Electric segmented assets include distribution (57%), transmission (13%), generation (19%), and other (11%).

FortisOntario primarily operates regulated distribution and transmission franchises in Fort Erie, Port Colborne, Gananoque, and Cornwall, Ont. Ontario electricity restructuring and uncertainty has had a marginal affect on these operations as most of the distribution rates are already at 100% of costs.

Competitiveness.

Fortis' Canadian distribution operations face very little competition except from alternative fuels. The company's operations function as a virtual monopoly because alternative electric distribution operations have to be pre-approved by the local regulators, which is unlikely. As well, given the geographic remoteness of Atlantic Canada and its low population density, industry restructuring or deregulation is very unlikely in the region. Tariffs in Newfoundland are competitive versus oil, which it competes against in the home heating market, while natural gas is not expected to become available in either province for the foreseeable future. In Ontario and PEI, electricity is primarily used for lighting and cooling load; as a result, demand load is relatively inelastic. Home heating in PEI is dominated by oil; therefore, the long-term threat of natural gas in PEI would not have a material impact on residential energy sales for Maritime Electric.

Aquila Networks Canada.

In September 2003, Fortis entered into agreements to acquire all of the shares of Aquila Networks Canada (Alta.) Ltd. (ANCA) and Aquila Networks Canada (B.C.) Ltd. (ANCBC) for aggregate consideration of C$1.36 billion.

ANCA operates a regulated rural distribution utility operating more than 100,000 kilometers (km) of wires serving 386,000 customers in approximately 125 communities accounting for 26% of the Alberta market. The operations are regulated by the Alberta Electric Utilities Board on a cost of service and rate of return methodology (9.5% ROE on a 40% equity component). Epcor Utilities Inc. is the default supplier and collects all distribution tariffs on ANCA's behalf. Rate base is projected to increase by 6% per year, driven by strong growth in population and housing starts attributed in part to the strength of the province's oil and gas industry. The company's operations continue to perform well, exceeding the Canadian Electricity Association composite urban to rural utility reliability average for the past three years.

ANCBC, a vertically integrated utility in British Columbia, operates 205 MW of installed capacity, 10,000 km of transmission and distribution lines, and serves 90,000 customers in the southern interior of British Columbia. ANCBC sells electricity to an additional 40,000 customers from power generated from its own plants and acquired from several power purchase agreements. British Columbia's relatively strong and diversified economy is forecasted to generate real GDP growth of 3.0% in 2004. The company's rate base is projected to grow by about 10% per year in the near term due to planned capital improvements to the transmission and generation assets and projected growth in population and housing starts. Residential customers account for 42% of revenues, commercial customers 47%, and industrial customers 11%. Fortis is regulated on the basis of a cost of service and rate of return methodology with a sharing mechanism in place. In 2003, the company was allowed to earn a financial return of 9.82% (350 basis points premium over Canadian long-term bond yield) on a 40% equity component. All prudently incurred commodity costs have been approved by the British Columbia Utility Commission in the past and are fully recovered through customer rates.

International franchised electric distribution operations.

Fortis' international utility operations have grown in recent years and are inherently riskier than its core Canadian utility operations. The company's higher risk operations in Belize reflect economic, operating, credit, and political risk factors partially offset by relatively strong growth opportunities due to their monopoly status and government commitment to the electrification of Belize. Moreover, post Aquila Network Canada acquisition, cash flow from international investments will decline to approximately 14% from 25% and will be viewed as a lesser concern to Fortis' credit quality.

BEL is primarily involved in electricity transmission and distribution to 63,000 customers in Belize; BEL has an exclusive 15-year franchise license to 2015, with a 10-year renewal option. BEL purchases approximately 75% of its power needs and generates the remainder from diesel-fired power plants. Operating and credit risk are the primary concerns due to the strong potential of hurricane damage and the weak sovereign rating on the country. Only limited insurance is commercially available, but capital costs have to-date been recoverable through rates. Rates are based on a fixed component (distribution service charge) that encompasses operating costs and a 12%-15% ROE and a variable component that reflects the cost of energy (full pass-through to customers). Productivity improvements and strong projected growth in this period should allow the company to reduce average unit costs. Load is projected to grow by 8%-9% as the government continues to support the electrification of the country.

Caribbean Utilities, an integrated electric utility serving more than 20,000 customers in Grand Cayman, Cayman Islands, continues to produce strong operating and financial results. The company has the exclusive right to generate (115 MW installed capacity), transmit, distribute, and supply electricity in Grand Cayman Islands pursuant to a 25-year license expiring 2011. Caribbean Utilities is allowed to recover all prudently incurred cost including fuel cost, regulatory cost, and government levies and earn a rate of return on common equity of 15%. Sales growth is projected to remain strong ranging between 5% and 10% per year.

Electric power generation operations.

The bulk of cash flows from Fortis' generation assets are regulated or under long-term contract (see Table 3). Fortis currently owns and operates approximately 444 MW of generating capacity, of which 294 MW (66%) is regulated under cost of service and ROE methodology; 39 MW (9%) is under a long-term contract (with BECOL); and 111 MW (25%) is sold in the wholesale market in the northeastern U.S. Once the acquisition of ANCBC closes in mid-2004, Fortis' total generation portfolio will increase by 205 MW to 649 MW, of which 77% will be regulated, 6% contracted, and 17% merchant. Regulated generation projects, which are financed at the corporate level, support the operations of Fortis vertically integrated regulated utilities. Nonregulated generation (contracted and merchant), which accounted for approximately 15% to Fortis' consolidated cash flow in 2003 is financed at the project level and is nonrecourse to Fortis.

Table 3

Fortis Inc. Generation Assets Segmented Data

Company	Plants	Fuel	Capacity (MW)	Ownership	Net Ownership (MW)	Regulation/contracts
FortisOntario	8	Hydro, thermal	88	100%	88	83 MW sold into Ontario market (wholesale); 5 MW to Cornwall customers
FortisUS Energy	4	Hydro	23	100%	23	Contract with NiMo expiring 2004-2006
Belize Electric	1	Hydro	25	95%	23.8	PPA with Belize Electricity expiring 2046
CUC	18	Diesel	123	38.5%	47.4	Cost of service (COS)/Return on equity (ROE)
Aquila Networks Canada (B.C.) Ltd.*	4	Hydro	205	100%	205	COS/ROE
Exploits River Hydro	2	Hydro	30	51%	15	Contracted with Newfoundland & Labrador expiring 2033
Newfoundland Power	34	Hydro, thermal	147	100%	147	COS/ROE
Maritime Electric	2	Thermal	100	100%	100	COS/ROE
Total	73		741		649.2	

*Acquisition to close in mid-2004.

Real estate operations.

Fortis Properties is engaged in ownership and management of commercial, retail, and hotel properties primarily in the Maritimes (40% of assets are located in New Brunswick, 40% in Newfoundland, and 20% in Nova Scotia). In 2003, Fortis Properties expanded into Ontario with the acquisition of four small hotels. Fortis Properties is the largest real estate operator in Atlantic Canada. The real estate portfolio is well managed and benefits from good geographic and tenant diversification and sound operating and financial performance. These strengths are offset by the portfolio's small size (total assets C$350 million; 2.7 million sq. ft.), relatively weak markets, and high leverage (40%-50%). Fortis Properties' business and financial profile measure below average compared with those of larger peers and would very likely be rated non-investment-grade on a stand-alone basis.

Financial Policy: Moderately aggressive

Fortis' regulated utilities primarily manage their capital structures at the levels consistent with regulatory rulings. Standard & Poor's views Fortis' financial policy as moderately aggressive given the company's business risk profile, relatively high leverage, and the increasing use of debt to finance capital requirements.

Financial Profile

Profitability and cash flow.

Regulated utility operations combined with a slow growing rate base provides the company with a solid operating base and consistent earnings growth. In the past several years, Fortis has diversified its earnings with acquisitions in the regulated and nonregulated sectors as well as in Canadian and international markets. Investment in these sectors increased potential earnings growth while also increasing business risk and earnings volatility. Furthermore, the ratings also reflect the steady stream of dividends received from 38.3% owned Caribbean Utilities. The acquisition of Aquila Networks Canada therefore should improve the company's asset composition and earnings stability assuming the Aquila Networks Canada acquisition closes as expected in mid-2004. Cash flow from regulated operations will improve to approximately 90% in 2005 from 77% in 2003. Moreover, more than 70% of Fortis' consolidated assets will be based in Canada, diversified in five provinces and regulatory jurisdictions. The generally supportive features of Canadian regulation therefore should reinforce the company's future cash flow stability. In the near term, the FFO interest coverage ratio is projected to range between 2.5x and 3.0x, FFO to total debt between 12% and 15%, and net cash flow to capital expenditures between 65% and 95%.

In fiscal 2004, Fortis is projected to generate insufficient cash flow to finance its capital expenditures due to significant capital requirements needed to upgrade its western Canadian operations. Funds from operations, however is projected to gradually increase in the next few years and is expected to be sufficient to fund a more modest capital expenditure program. Sustainable capital expenditures are projected to range between C$200 million-C$275 million per year and will be largely dedicated to support growth in the Canadian regulated operations.

Capital structure and financial flexibility.

As of Dec. 31, 2003, Fortis had approximately C$1.2 billion in consolidated debt outstanding; C$684 million resided at the regulated utilities; C$344 was nonrecourse to the company; and the balance resided at Fortis.

Fortis' consolidated capital structure remains largely constrained by the regulatory directives of the regional regulatory boards and is considered moderately aggressive compared with global peers. The company's regulated operations are financed with common equity layers ranging between 40% and 50%. The majority of the debt outstanding resides at the operating subsidiaries with approximately 85% fixed debt and 15% floating debt. Fortis' direct obligations is C$100 million in senior unsecured debentures, due 2010, C$125 million in retractable preferred shares, and approximately C$30 million in bank borrowings. Based on regulatory constrains, Standard & Poor's expects Fortis' leverage to remain relatively stable at 60%.

Standard & Poor's assesses Fortis' financial flexibility to be adequate, supported by a stable stream of regulated cash flows, modest debt maturities, available bank lines, and access to external financing. Partially offsetting factors include Fortis' relatively large capital expenditure program, and limited ability to reduce dividends or sell assets given management's commitment to current investments and dividend yield.

In October 2003, Fortis issued subscription receipts for gross proceeds of approximately C$350 million to fulfill the common equity financing related to the Aquila Networks Canada acquisition. In January 2004, Fortis completed the issue of First Preference Units (one series D First Preference shares and one series E First Preference share purchase warrant). The purchase price resulted in initial gross proceeds of C$50 million. Provided the acquisition closes before June 30, 2004, the conversion of the series D First Preference shares and the exercise of the series E First Preference share purchase warrants, leading to the issue of the series E First Preference Shares, will result in additional gross proceeds of C$150 million which will be used to repay the short-term debt incurred on closing of the acquisition. The expected growth in the regulated rate base of the Fortis utilities will require the company to issue C$50 million-C$100 million in common equity in the next few years, which is necessary for Fortis to maintain its consolidated capital structure at approximately 60%-40%.

Table 4

Fortis Inc.--Peer Comparison*

Industry Sector: Electric Utility Companies--Canada

	--Average of past three fiscal years--				
	Sector median	**Fortis Inc.**	**ATCO Ltd.**	**Emera Inc.**	**Terasen Inc.**
Rating		BBB+/Negative/--	A/Stable/--	BBB+/Stable/--	BBB/Stable/--

Table 4

Fortis Inc.--Peer Comparison* (cont.)

(Mil. C$)					
Sales	811.6	642.8	3,342.2	1,042.4	1,559.7
Net income from cont. oper.	104.9	49.2	137.6	100.7	105.4
Funds from oper. (FFO)	192.3	109.2	538.9	242.1	205.1
Capital expenditures	133.8	174.4	572.3	141.3	495.4
Total debt	1,357.5	948.4	2,877.3	1,878.7	2,383.4
Preferred stock	9.0	8.3	100.0	261.4	125.0
Total capital	2,746.4	1,490.1	5,147.5	3,376.4	3,443.9
Ratios					
EBIT interest coverage (x)	2.4	2.0	1.7	1.6	1.7
FFO interest coverage (x)	3.4	2.5	3.4	2.5	2.1
Return on common equity (%)	8.8	10.2	12.9	8.7	13.6
NCF/capital expenditures (%)	81.3	44.9	75.0	115.0	29.7
FFO/total debt (%)	18.4	12.8	19.0	12.8	8.8
Total debt/capital (%)	55.3	65.3	56.9	57.8	70.8

*Adjusted for off-balance sheet obligations and capital operating leases.

Table 5

Fortis Inc.--Financial Summary*

Industry Sector: Electric Utility Companies -- Canada

	--Average of past three fiscal years--		**--Fiscal year ended Dec. 31--**				
Rating history			BBB+/Negative/--	A-/Negative/--	A-/Stable/--	N.R.	N.R.
	Sector median	**Issuer**	**2003¶**	**2002**	**2001**	**2000**	**1999**
(Mil. C$)							
Sales	811.6	642.8	843.1	715.5	628.3	584.6	505.2
Net income from cont. oper.	104.9	49.2	77.6	63.3	49.9	34.5	29.2
Funds from oper. (FFO)	192.3	109.2	144.1	127.5	119.9	80.1	69.5
Capital expenditures	133.8	174.4	203.5	223.2	147.1	152.9	64.4
Total debt	1,357.5	948.4	1,196.8	1,123.9	946.6	774.7	641.1
Preferred stock	9.0	8.3	123.0	8.2	8.3	8.4	8.4
Total capital	2,746.4	1,490.1	1,971.3	1,793.1	1,458.9	1,218.3	1,015.3
Ratios							
EBIT interest coverage (x)	2.4	2.0	2.3	2.0	2.0	1.8	2.2
FFO interest coverage (x)	3.4	2.5	2.8	2.4	2.7	2.3	2.3
Return on common equity (%)	8.8	10.2	12.3	10.3	11.1	9.0	8.4
NCF/capital expenditures (%)	81.3	44.9	52.9	41.4	61.2	34.3	70.1
FFO/total debt (%)	18.4	12.8	12.5	12.3	14.5	11.3	12.1
Total debt/capital (%)	55.3	65.3	60.7	65.2	66.8	63.6	63.1

*Adjusted by capital operating leases. ¶Unaudited 2003 financials. N.R.--Not rated.

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April 1, 2004

Summary: Fortis Inc.

Credit Analyst:
Damian DiPerna, Toronto (1) 416-507-2561; Laurie Conheady, Toronto (1) 416-507-2518

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Summary: Fortis Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution activities, largely residential and commercial customer base, and favorable Canadian regulation based on cost of service and rate of return methodology, which provides relatively stable cash flow generation. Offsetting these strengths are somewhat modest growth in sales, operating challenges in its service territories, and investments in higher risk commercial and hospitality real estate. Independent power generation and investments in Belize are higher risk.) Fortis' active strategy of pursuing acquisition opportunities in both Canadian and international markets also adds an element of risk.

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Canadian utility regulation provides revenue stability, as distribution operations have no exposure to market risk. Utilities are permitted to flow through into customer rates all prudently purchased electricity costs approved by the regulators. Regulators provide thin financial margins, however, by limiting common equity in the capital structure and authorizing relatively low returns compared with global peers.

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Fortis' financial profile has historically been moderately aggressive. Pressure has been placed on the ratings in the past few years with several acquisitions in the nonregulated sector and international markets, which increased Fortis' business risk profile without a commensurate improvement in its financial profile. The pending acquisition of Aquila Networks Canada should prove moderately beneficial to Fortis' overall business profile as funds from operations (FFO) and assets from the company's regulated operations are projected to improve to approximately 90% and 77%, respectively by 2005 (first full-year results on Aquila Networks Canada) from 75% and 62%, respectively in 2003. The C$1.3 billion acquisition will be financed primarily with a combination of common equity, preferred equity, and long-term debt, which will be in line with regulatory controls imposed on the capital structure of the Alberta and B.C. utility operations (40% equity component). Fortis' consolidated debt to capitalization ratio is projected to measure approximately 60%, the FFO interest coverage ratio approximately 2.6x, and the FFO to total debt approximately 13%-14%. The company's relatively weak financial profile for its business risk and current ratings allows little cushion for possible deterioration in its financial profile.

Liquidity.

Standard & Poor's Ratings Services assesses Fortis' liquidity to be adequate given its relatively stable cash flow generation, modestly low debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in 2004-2005. With about C$314 million in consolidated operating lines of credit, most of which is presently unused, and access to capital markets, the company and its subsidiaries have adequate funds available for operating purposes.

Outlook

The negative outlook reflects the risks surrounding several operating and financial challenges faced by the company in the next few years as it integrates the relatively large Aquila acquisition. These challenges include dealing with regulatory boards in new markets (B.C. and Alberta), participating in a generic cost-of-capital hearing in Alberta, managing a heavy capital expenditure program, and accessing the capital markets to help finance its recent acquisition and fund capital expenditures. Any material acquisitions beyond the acquisition of Aquila Networks Canada have not been factored into the ratings.

BULLETIN: Ratings on Fortis Inc. Unaffected By Closure of Aquila Transaction

Credit Analyst:
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TORONTO (Standard & Poor's) June 1, 2004--Standard & Poor's Ratings Services today said its ratings on Fortis Inc. (BBB+/Negative/--) remain unaffected by the completion of the transaction to acquire Aquila Inc.'s western Canadian network businesses, Aquila Networks Canada (Alberta) Ltd. and Aquila Networks Canada (British Columbia) Ltd., for C$1.476 billion. The business and financial impact of the acquisition, which has more than doubled the company's customer base and expanded its service territories across Canada to five provinces, has already been factored into the ratings on Fortis. The negative outlook on Fortis reflects the financial and operational challenges faced by the company in integrating the Aquila acquisitions. Successfully refinancing the short-term bridge facility used to finance the transactions with longer-dated debt maturities and a track record of achieving forecast financial and operating results from its new investments will go a long way to removing the negative outlook on Fortis.

Research Update: Fortis Inc. and Subsidiaries Ratings Affirmed;Outlook Still Negative On Weak Financial Profile

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Research Update: Fortis Inc. and Subsidiaries Ratings Affirmed;Outlook Still Negative On Weak Financial Profile

Credit Rating: BBB+/Negative/--

Rationale

On Dec. 3, 2004, Standard & Poor's Ratings Services affirmed its 'BBB+' long-term corporate credit rating on St. John's Nfld.-based Fortis Inc. (Fortis) and its subsidiaries, Newfoundland Power Inc. and Maritime Electric Co. Ltd. At the same time, Standard & Poor's affirmed its 'BBB' senior unsecured debt rating on Fortis, its 'A-' senior secured debt rating on Newfoundland Power, and its 'BBB+' senior secured debt rating on Maritime Electric. The outlook for each company remains negative.

The ratings on Fortis reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize.

Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeast U.S., the Cayman Islands, and Belize. Underpinning the quality and stability of the company's cash flows is a diversity of cash flows with no single business contributing more than about 25% of consolidated earnings. Moreover, the reliability of cash flows is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of cash flows for Fortis are its regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its investments in the regulated Caribbean utilities of Caribbean Utilities Co. Ltd. and Belize Electricity. The company's regulated Canadian-based utility operations account for about 70% of EBITDA and a similar level of consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of the system and loss of cash flows.

The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality. The bulk of the company's cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing the quality of cash flows is the limited exposure to energy price and volume risk associated with energy with the vast majority of distribution operations benefiting from the full flow through of commodity costs to end use customers and limited market-risk exposure. Furthermore, the pre-approval by regulators for the bulk of capital expenditure reduces the risk of nonrecovery of capital.

The recent expansion of Fortis' portfolio of network businesses has enhanced its organic growth potential and further diversified its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the relatively mature markets of the Provinces of Newfoundland and Labrador, and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times with energy demand growth expected to be between 2%-3% in Alberta and about 1.5%-2% in British Columbia. Developments in the Maritimes are also expected to lead to improved growth in customer connections and energy sales. The company's total customer base of 951,000 is well diversified, with the company facing no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the rating. Funds from operations (FFO) interest and debt coverages are expected to improve marginally in 2004 to a sustainable level of about 2.8x and 13%, respectively, from 2.4x and 13%, respectively, in 2003, as a consequence of higher-than-expected FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its Fortis Alberta and Fortis BC network businesses in the next few years, the company's growing customer base and regulatory returns as regulated asset bases grow are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained or reach higher-than-expected levels for 2004. Leverage as measured by total debt-to-total capital is expected to remain largely unchanged at 60%, as additions to the regulated asset bases of network businesses are part funded with debt.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its recently acquired western Canada networks, Fortis Alberta and Fortis BC. Of the company's consolidated capital expenditure of almost C$1 billion in the period between 2005-2008, close to 90% will be expended in the service territories of Alberta and British Columbia to meet the growing demand for energy services in those jurisdictions. The program will require the company to raise debt and equity funding but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory returns as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its regulated Belize Electricity, that together represent between 25%-30% of consolidate cash flows and assets. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price risk and regulatory support mean that these operations are higher risk than the company's low-risk network businesses. In particular, the company's merchant and short-term contracted generation that represents about 60% of its commercial generation portfolio is a price taker, and its relatively small and geographically concentrated property portfolio, more specifically, its higher risk hotel businesses, faces the potential variability of occupancy rates and charges with a flow-on effect on cash flows. The creditworthiness of the company's Belize operation, although comparable with that of Fortis' Canadian utilities on a standalone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the business, and not be relied on to service Fortis' debt at the corporate level.

Liquidity.

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2004-2006, and will require the company to take on modest levels of additional debt and equity. With about C$310 million in committed and unused consolidated operating lines of credit as of Nov. 30, 2004, annual cash flow in excess of C$225 million, cash on hand of C$20 million-C$30 million, and access to debt and equity capital markets, the company and its subsidiaries have adequate resources available to fund an estimated C$455 million in capital expenditure, dividend payments, and debt maturities in 2005.

Outlook

The negative outlook reflects the company's weak financial profile for the rating and the execution risks associated with its capital expenditure program. Standard & Poor's expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the ratings. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

Ratings List

Fortis Inc.	
Corporate credit rating	BBB+/Negative/--
Senior unsecured debt	BBB
Newfoundland Power Inc.	
Corporate credit rating	BBB+/Negative/--
Senior secured debt	A-
Maritime Electric Co Ltd.	
Corporate credit rating	BBB+/Negative/--
Senior secured debt	BBB+

BULLETIN: Fortis Inc. 2004 Results Largely In Line With Expectations

Primary Credit Analyst:
Laurie Conheady, Toronto (1) 416-507-2518; laurie_conheady@standardandpoors.com

Secondary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

TORONTO (Standard & Poor's) Feb. 8, 2005--Standard & Poor's Ratings Services today said that utility holding company Fortis Inc.'s (BBB+/Negative/--) financial results for 2004 although on the higher side, were largely in line with expectations. Despite incurring a C$8.2 million charge as a consequence of the uninsured losses suffered by the company's 37.3% owned Caribbean Utilities Co. Ltd. in Grand Cayman from Hurricane Ivan, Fortis achieved record earnings of C$90.9 million. The improved earnings and associated cash flows were predominantly the result of the earnings accretive acquisition of FortisAlberta and FortisBC in May 2004. Stronger cash flows have improved the company's interest and debt coverage ratios to about 3.0x and 14% respectively, in 2004, from 2.4x and 13% in 2003. Although the improving credit metrics are pleasing from a debt holders' perspective, the negative outlook on the rating remains due to the financing and execution risks surrounding the company's major capital expenditure programs at its two new western Canada subsidiaries. Leverage as measured by total debt to capital remained steady at about 61%.

BULLETIN: Fortis Inc. Ratings Unaffected By Equity Offering

Primary Credit Analyst:
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Secondary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

TORONTO (Standard & Poor's) Feb. 10, 2005--Standard & Poor's Ratings Services today said that its ratings on utility holding company Fortis Inc. (BBB+/Negative/--) would not be affected by the company's C$130 million equity offering announced today. The funds raised are to be used to repay indebtedness outstanding and for general corporate purposes. Although the company's willingness to raise equity financing to pay down debt is a positive for the ratings, the impact on the company's financial profile is expected to be minimal. Recent hotel acquisitions and ongoing electricity network capital expenditure commitments will likely consume a large part of the equity raised with little opportunity to materially reduce total debt outstanding of C$2.07 billion as of Dec. 31, 2004.

STANDARD
&POOR'S

RATINGSDIRECT®

February 17, 2005

Summary: Fortis Inc.

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 423741 | 301003567

Summary: Fortis Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize.

St. John's Nfld.-based Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeast U.S., the Cayman Islands, and Belize. Underpinning the quality and stability of the company's cash flows is a diversity of cash flows with no single business contributing more than about 25% of consolidated earnings. Moreover, the reliability of cash flows is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of cash flows for Fortis are its regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its investments in the regulated Caribbean utilities of Caribbean Utilities Co. Ltd. and Belize Electricity Ltd. The company's regulated Canada-based utility operations account for about 70% of EBITDA and a similar level of consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of the system and loss of cash flows.

The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing the quality of cash flows is the limited exposure to energy price and volume risk with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure. Furthermore, the pre-approval by regulators for the bulk of capital expenditure reduces the risk of nonrecovery of capital.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the relatively mature markets of Newfoundland and Labrador, and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times with energy demand growth expected to be between 2%-3% in Alberta and about 1.5%-2% in British Columbia. Developments in the Maritimes are also expected to lead to improved growth in customer connections and energy sales. The company's total customer base of 951,000 is well diversified, with the company facing no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages based on unaudited financial results for 2004 improved to about 3.0x and 14%, respectively, from 2.4x and 13%, respectively, in 2003, as a consequence of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's growing customer base and regulatory returns as regulated asset bases grow are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 level. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain about 60%, as additions to the regulated asset bases of network businesses are part funded with debt.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its recently acquired western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1 billion in the period between 2005-2008, close to 90% will be expended in the service territories of Alberta and British Columbia to meet the growing demand for energy services in those jurisdictions. The program will require the company to raise debt and equity funding but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory returns as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its regulated Belize Electricity investment, that together represent between 25%-30% of consolidate cash flows and assets. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support mean that these operations are higher risk than the company's low-risk network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utilities on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the business, and not be relied on to service Fortis' debt at the corporate level.

Liquidity.

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2004-2006, and will require the company to take on modest levels of additional debt and equity. With C$177 million in committed and unused consolidated operating lines of credit and cash on hand of C$37 million as of Dec. 31, 2004, annual cash flow in excess of C$225 million, and access to debt and equity capital markets which the company utilized in February 2005 to raise C$130 million in equity, the company and its subsidiaries have adequate resources available to fund an estimated C$455 million in capital expenditure, dividend payments, and debt maturities in 2005.

Outlook

The negative outlook reflects the company's weak financial profile for the ratings and the execution risks associated with its capital expenditure program. Standard & Poor's Ratings Services expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the ratings. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

STANDARD & POOR'S

RatingsDirect®

May 31, 2006

Summary: Fortis Inc.

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Table Of Contents

Summary: Fortis Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize.

St. John's Nfld.-based Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeast U.S., the Cayman Islands, and Belize. Underpinning the quality and stability of the company's cash flows is a diversity of cash flows with no single business contributing more than about 25% of consolidated earnings. Moreover, the reliability of cash flows is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of cash flows for Fortis are its regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its investments in the regulated Caribbean utilities of Caribbean Utilities Co. Ltd. (A/Watch Neg/--) and Belize Electricity Ltd. The company's regulated Canada-based utility operations account for about 70% of EBITDA and a similar level of consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of the system and loss of cash flows.

The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing the quality of cash flows is the limited exposure to energy price and volume risk with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure. Furthermore, the pre-approval by regulators for the bulk of capital expenditure reduces the risk of nonrecovery of capital.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the relatively mature markets of Newfoundland and Labrador, and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be between 2%-3% in Alberta and about 1.5%-2% in British Columbia. Developments in the Maritimes are also expected to lead to improved growth in customer connections and energy sales. The company's total customer base of 951,000 is well diversified, with the company facing no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2004 improved to 3.1x and 14%, respectively,

from 2.4x and 13%, respectively, in 2003, as a consequence of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases grow are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 level. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain about 60%, as additions to the regulated asset bases of network businesses are part funded with debt. The company's first-quarter 2005 results were in line with Standard & Poor's Ratings Services' expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1 billion in the period between 2005-2008, close to 90% will be expended in the service territories of Alberta and British Columbia to meet the growing demand for energy services in those jurisdictions. The program will require the company to raise debt and equity funding but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory returns as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its regulated Belize Electricity investment, that together represent between 25%-30% of consolidate cash flows and assets. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support mean that these operations are higher risk than the company's low-risk network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utilities on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the business, and not be relied on to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2004-2006, and will require the company to take on modest levels of additional debt and equity. With C$404 million in committed and unused consolidated operating lines of credit and cash on hand of C$64.2 million as of March 31, 2005, annual cash flow in excess of C$225 million, and access to debt and equity capital markets which the company utilized in February 2005 to raise C$130 million in equity, the company and its subsidiaries have adequate resources available to fund an estimated C$455 million in capital expenditure, dividend payments, and debt maturities in 2005.

Outlook

The negative outlook reflects the company's weak financial profile for the ratings and the execution risks associated with its capital expenditure program. Standard & Poor's expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the ratings. Furthermore, the

outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

BULLETIN: Fortis Inc. Settlement And Half-Year Results Credit Neutral

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TORONTO (Standard & Poor's) Aug. 11, 2005--Standard & Poor's Ratings Services today said the announced financial settlement between Fortis Inc.'s (BBB+/Negative/--) Alberta-based network business, FortisAlberta, and EPCOR Energy Services would not affect the ratings on Fortis, and that Fortis' financial results for the first half of 2005, were in line with expectations. The recent resolution of a Statement of Claim filed by EPCOR Energy Services, a subsidiary of EPCOR Utilities Inc. (BBB+/Stable/--), against FortisAlberta puts to rest a long-term outstanding issue for the Fortis subsidiary. Furthermore, the magnitude of the settlement will not have a material impact on Fortis' consolidated cash position. Fortis' cash flow credit metrics on a rolling 12-month basis continue to show modest improvement with funds from operations interest and debt coverage ratios to June 30, 2005, of 3.3x and about 15%, respectively. Leverage, as measured by total debt to total capital at the same time was 58%, marginally below its 2004 level of 61%.

STANDARD
&POOR'S

RATINGSDIRECT®

August 11, 2005

Summary: Fortis Inc.

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Secondary Credit Analyst:
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Table Of Contents

Summary: Fortis Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize.

St. John's Nfld.-based Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeast U.S., the Cayman Islands, and Belize. Underpinning the quality and stability of the company's cash flows is a diversity of cash flows with no single business contributing more than about 25% of consolidated earnings. Moreover, the reliability of cash flows is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of cash flows for Fortis are its regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its investments in the regulated Caribbean utilities of Caribbean Utilities Co. Ltd. (A/Watch Neg/--) and Belize Electricity Ltd. The company's regulated Canada-based utility operations account for about 70% of EBITDA and a similar level of consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of the systems and loss of cash flows.

The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing the quality of cash flows is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure. Furthermore, the pre-approval by regulators for the bulk of capital expenditure reduces the risk of nonrecovery of capital.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the relatively mature markets of Newfoundland and Labrador, and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be between 2%-3% in Alberta and about 1.5%-2% in British Columbia. Developments in the Maritimes are also expected to lead to improved growth in customer connections and energy sales. The company's total customer base of 951,000 is well diversified, with the company facing no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2004 improved to 3.1x and 14%, respectively,

from 2.4x and 13%, respectively, in 2003, as a consequence of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases grow are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 level. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain about 60%, as additions to the regulated asset bases of network businesses are part funded with debt. The company's half-year results in 2005 were in line with Standard & Poor's Ratings Services' expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1 billion in the period between 2005-2008, close to 90% will be expended in the service territories of Alberta and British Columbia to meet the growing demand for energy services in those jurisdictions. The program will require the company to raise debt and equity funding but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory returns as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its regulated Belize Electricity investment, that together represent between 25%-30% of consolidate cash flows and assets. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support mean that these operations are higher risk than the company's low-risk network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utilities on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the business, and not be relied on to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2004-2006, and will require the company to take on modest levels of additional debt and equity. With about C$480 million in committed and unused consolidated operating lines of credit and cash on hand of C$26.8 million as of June 30, 2005, annual cash flow in excess of C$300 million, and access to debt and equity capital markets which the company used in February 2005 to raise C$130 million in equity, the company and its subsidiaries have adequate resources available to fund close to C$500 million in capital expenditure, dividend payments, and debt maturities in 2005.

Outlook

The negative outlook reflects the company's weak financial profile for the ratings and the execution risks associated with its capital expenditure program. Standard & Poor's expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the ratings. Furthermore, the

outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

STANDARD & POOR'S

RatingsDirect®

August 23, 2005

Summary: Fortis Inc.

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Table Of Contents

Summary: Fortis Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize.

St. John's Nfld.-based Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeast U.S., the Cayman Islands, and Belize. Underpinning the quality and stability of the company's cash flows is a diversity of cash flows with no single business contributing more than about 25% of consolidated earnings. Moreover, the reliability of cash flows is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of cash flows for Fortis are its regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its investments in the regulated Caribbean utilities of Caribbean Utilities Co. Ltd. (A/Watch Neg/--) and Belize Electricity Ltd. The company's regulated Canada-based utility operations account for about 75% of EBITDA and a similar level of consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of the systems and loss of cash flows.

The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing the quality of cash flows is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure. Furthermore, the pre-approval by regulators for the bulk of capital expenditure reduces the risk of nonrecovery of capital.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the relatively mature markets of Newfoundland and Labrador, and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be between 2%-3% in Alberta and about 1.5%-2% in British Columbia. Developments in the Maritimes are also expected to lead to improved growth in customer connections and energy sales. The company's total customer base of 951,000 is well diversified, with the company facing no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2004 improved to 3.1x and 14%, respectively,

from 2.4x and 13%, respectively, in 2003, as a consequence of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases grow are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 level. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain about 60%, as additions to the regulated asset bases of network businesses are part funded with debt. The company's half-year results in 2005 were in line with Standard & Poor's Ratings Services' expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1.3 billion in the period between 2005-2008, close to 70% will be expended in the service territories of Alberta and British Columbia to meet the growing demand for energy services in those jurisdictions. The program will require the company to raise debt and equity funding but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory returns as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its regulated Belize Electricity investment, that together represent between 25%-30% of consolidate cash flows and assets. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support mean that these operations are higher risk than the company's low-risk network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utilities on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the business, and not be relied on to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2005-2006, and will require the company to take on modest levels of additional debt and equity. With about C$480 million in committed and unused consolidated operating lines of credit and cash on hand of C$26.8 million as of June 30, 2005, annual cash flow of approximately C$300 million, and access to debt and equity capital markets which the company used in February 2005 to raise C$130 million in equity, the company and its subsidiaries have adequate resources available to fund close to C$500 million in capital expenditure, dividend payments, and debt maturities in 2005.

Outlook

The negative outlook reflects the company's weak financial profile for the ratings and the execution risks associated with its capital expenditure program. Standard & Poor's expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the ratings. Furthermore, the

outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

STANDARD
& POOR'S

RATINGSDIRECT®

November 3, 2005

Summary: Fortis Inc.

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Secondary Credit Analyst:
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 472638 | 301003567

Summary: Fortis Inc.

Credit Rating: BBB+/Negative/--

Rationale

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize.

St. John's, Nfld.-based Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeastern U.S., the Cayman Islands, and Belize. Underpinning the quality and stability of the company's cash flows is a diversity of cash flows with no single business expected to contribute more than 25% of consolidated earnings. Moreover, the reliability of cash flows is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of cash flows for Fortis are its regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its investments in the regulated Caribbean utilities of Caribbean Utilities Co. Ltd. (A/Negative/--) and Belize Electricity Ltd. (unrated). The company's regulated Canada-based utility operations account for between 70% and 75% of EBITDA and consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of the systems and loss of cash flows.

The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing the quality of cash flows is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure. Furthermore, the pre-approval by regulators for the bulk of capital expenditure reduces the risk of nonrecovery of capital.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the relatively mature markets of Newfoundland and Labrador, and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be between 2%-3% in Alberta and about 1.5%-2% in British Columbia. Developments in the Maritimes are also expected to lead to improved growth in customer connections and energy sales. The company's total customer base in Canada and the Caribbean of 990,000 is well diversified, with the company facing no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2004 improved to 3.1x and 14%, respectively,

from 2.4x and 13%, respectively, in 2003, as a consequence of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases grow are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 level. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain about 60%, as additions to the regulated asset bases of network businesses are part funded with debt. The company's third-quarter 2005 results were in line with Standard & Poor's Ratings Services' expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1.5 billion in the period between 2006-2009, close to 75% will be expended in the service territories of Alberta and British Columbia to meet the growing demand for energy services in those jurisdictions. The program will require the company to raise debt and equity funding but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory returns as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its regulated Belize Electricity investment, that together represent between 20%-25% of assets and slightly more in terms of consolidated cash flows. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support means that these operations are higher risk than the company's low-risk network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utilities on a stand-alone basis, is negatively affected by the low sovereign rating on Belize (CCC+/Negative/C). A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the business, and will not be relied on as a material cash contributor to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2005-2009, and will require the company to take on modest levels of additional debt and equity. With about C$530 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$18.6 million as of Sept. 30, 2005, annual cash flow as represented by FFO of more than C$300 million, and access to debt and equity capital markets, the company and its subsidiaries have adequate resources available to fund an estimated C$620 million-C$650 million in total capital expenditure, dividend payments, and debt maturities for the remainder of 2005 and in 2006.

Outlook

The negative outlook reflects the company's weak financial profile for the ratings and the execution risks associated with its capital expenditure program. Standard & Poor's expects the negative outlook is likely to remain until the risks surrounding the funding and execution of the capital expenditure program have been reduced. Any material setback in executing the capital expenditure program will put further pressure on the ratings. Furthermore, the

outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations.

STANDARD & POOR'S

RATINGSDIRECT®

December 7, 2005

Research Update: Fortis Inc., Subsidiaries Outlook Revised To Stable; Ratings Affirmed At 'BBB+'

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Research Update: Fortis Inc., Subsidiaries Outlook Revised To Stable; Ratings Affirmed At 'BBB+'

Credit Rating: BBB+/Stable/--

Rationale

On Dec. 7, 2005, Standard & Poor's Ratings Services revised its outlook on St. John's Nfld.-based Fortis Inc. (Fortis) and its subsidiaries, Newfoundland Power Inc. and Maritime Electric Co. Ltd. to stable from negative. At the same time, Standard & Poor's affirmed its 'BBB+' long-term corporate credit and 'BBB' senior unsecured debt ratings on Fortis, and its 'A-' senior secured debt rating on Newfoundland Power's first mortgage bonds (FMBs). The ratings on Maritime Electric's FMBs were raised to 'A-' from 'BBB+' to reflect the secured nature of the debt instruments. In addition, Standard & Poor's assigned a '1+' recovery rating to Maritime Electric's FMBs, indicating the highest expectation of full recovery of principal (100%) in the event of a payment default. A recovery rating of '1' was assigned to Newfoundland Power's FMBs, indicating a high expectation of full recovery of principal (100%). Separate and discrete asset pools secure the FMBs of Newfoundland Power and Maritime Electric. The difference in recovery ratings between the two subsidiaries reflects the higher ratio of asset value to secured debt for Maritime Electric. The outlook was revised based on greater stability in Fortis' business and financial profiles and reduced concern surrounding the level of operational and funding risk involved with its major capital expenditure program.

The ratings on Fortis reflect its diversified portfolio of utility operations, monopoly electricity distribution operations, largely regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating and capital expenditure challenges in its service territories; and investments in, and exposure to, higher risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize.

Fortis is a utility holding company with regulated and unregulated operations located principally in five Canadian provinces, the northeastern U.S., the Cayman Islands, and Belize. Underpinning the quality and stability of the company's cash flows is a diversity of cash flows with no single business expected to contribute more than 25% of consolidated earnings. Moreover, the reliability of cash flows is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of cash flows for Fortis are its regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its investments in the regulated Caribbean utilities of Caribbean Utilities Co. Ltd. (A/Negative/--) and Belize Electricity Ltd. (unrated). The company's regulated Canada-based utility operations account for between 70% and 75% of EBITDA and consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of the systems and loss of cash flows.

The regulatory regimes governing the company's electricity network operations are for the most part supportive of credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing the quality of cash flows is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure. Furthermore, the pre-approval by regulators for the bulk of capital expenditure reduces the risk of nonrecovery of capital.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the company's relatively mature markets of Newfoundland, and of Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be 2%-3% in Alberta and about 1.5%-2% in British Columbia. Developments in eastern Canada are also expected to lead to improved growth in customer connections and energy sales. The company's total customer base in Canada and the Caribbean of 990,000 is well diversified, with the company facing no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2004 improved to 3.1x and 14%, respectively, from 2.4x and 13%, respectively, in 2003, as a consequence of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases expand are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 level. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain at or marginally below 60%, as additions to the regulated assets of network businesses are partially funded with debt. The company's third-quarter 2005 results were in line with Standard & Poor's expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1.5 billion in the period between 2006-2009, close to 75% will be expended in the service territories of Alberta and British Columbia to meet the growing demand for energy services in those jurisdictions. The program will require the company to raise debt and equity funding but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory returns as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its regulated Belize Electricity investment, that together represent between 20%-25% of assets and slightly more in terms of consolidated cash flows. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support means that these operations are higher risk than the company's low-risk network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' utility holdings in Canada on a stand-alone basis, is negatively affected by the low sovereign rating on Belize (CCC+/Negative/C). A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the business, and will not be relied on as a material cash contributor to service Fortis' debt at the corporate level.

Liquidity.

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the period between 2005-2009, and will require the company to take on modest levels of additional debt and equity. With about C$530 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$18.6 million as of Sept. 30, 2005, annual cash flow as represented by FFO of more than C$300 million, and access to debt and equity capital markets, the company and its subsidiaries have adequate resources available to fund an estimated C$620 million-C$650 million in total capital expenditure, dividend payments, and debt maturities for the remainder of 2005 and in 2006.

Outlook

The stable outlook on Fortis reflects greater stability in its business and financial profiles following the integration of two large business acquisitions in 2004, and reduced concern surrounding the level of operational and funding risk involved with its major capital expenditure program. Any material setback in executing the capital expenditure program would lead to a negative outlook or downgrade, as would any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher risk unregulated businesses without a corresponding strengthening of its financial profile. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for possible deterioration in Fortis' financial profile, and in the event the unregulated operations are expanded, they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely, given the company's weak financial profile and little expectation of reduced business risk.

Ratings List

Ratings Affirmed, Outlook Revised To Stable

Fortis Inc.	To	From
Corporate credit rating	BBB+/Stable/--	BBB+/Negative/--
Senior unsecured debt	BBB	BBB
Newfoundland Power Inc.		
Corporate credit rating	BBB+/Stable/--	BBB+/Negative/--
Senior secured debt	A- (Recovery rtg: 1)	A-
Maritime Electric Co. Ltd.		
Corporate credit rating	BBB+/Stable/--	BBB+/Negative/--
Senior secured debt	A- (Recovery rtg: 1+)	BBB+

The McGraw-Hill Companies

Fortis Inc.

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Fortis Inc.

Corporate Credit Rating	
	BBB+/Stable/--

Financial policy:

Moderately aggressive

Debt repayments*:

2006 C$37 mil.
2007 C$67 mil.
2008 C$29 mil.
2009 C$81 mil.
2010 C$144 mil.
2011 to 2035 C$1.67 bil.
*Debt repayments include sinking-fund payments, amortizing debt repayments, and maturing debt issues.

Outstanding Rating(s)	
Fortis Inc.	
Sr unsecd debt	
Local currency	BBB
Pfd stk	
Local currency	BBB-
Caribbean Utilities Co. Ltd.	
Corporate Credit Rating	A/Negative/--
Sr unsecd debt	
Foreign currency	A
Maritime Electric Co. Ltd.	
Corporate Credit Rating	BBB+/Stable/--
Sr secd debt	
Local currency	A-
Newfoundland Power Inc.	
Corporate Credit Rating	BBB+/Stable/--
Sr secd debt	
Local currency	A-
Pfd stk	
Local currency	BBB-

Corporate Credit Rating History	
Mar. 20, 2001	A-
Jan. 7, 2004	BBB+

Major Rating Factors

Strengths:
- Diversified portfolio of low-risk monopoly electricity distribution businesses,
- Regulated cash flows, with supportive regulatory regimes,
- Growing customer base, and
- Limited commodity price and volume exposure.

Weaknesses:
- Moderately aggressive financial profile,
- Exposure to unregulated operations, and
- Large capital spending commitments.

Rationale

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution businesses, regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile, operating and capital expenditure challenges in all service territories; and investments in, and exposure to, higher-risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize (foreign currency, CCC-/Negative/C).

Fortis is a utility holding company with regulated and unregulated electricity operations located mainly in five Canadian provinces, the northeastern U.S., the Cayman Islands, and Belize, as well property holdings across Canada. Underpinning the quality and stability of the company's cash flows is diversity, with no single business expected to contribute more than 25% of consolidated earnings. Moreover, cash flow reliability is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of Fortis' cash flows are its five regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by it's the company's equity investments in regulated utilities Caribbean Utilities Co. Ltd. (A/Negative/--) and Belize Electricity Ltd. (unrated) in the Caribbean. The company's regulated Canada-based utility operations account for between 70% and 75% of EBITDA and consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of their networks and related loss of cash flows.

The regulatory regimes governing the company's electricity network operations for the most part support credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing cash flow quality is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the company's relatively mature markets in Newfoundland and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be 2% to 3% in Alberta and about 2% in British Columbia. The company's total customer base of 990,000 in Canada and the Caribbean is well diversified, and there is no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2004 improved to 3.1x and 14%, respectively, from 2.4x and 13% in 2003, as a result of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases expand are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 levels. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain at or marginally below 60%, as additions to the regulated assets of network businesses are partially funded with debt. The company's third-quarter 2005 results were in line with Standard & Poor's expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1.5 billion in the 2006-2009 period, close to 75% will be spent in the Alberta and British Columbia service territories to meet the growing demand for energy services in those areas. The program will require the company to raise debt and equity funding, but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory earnings as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its part ownership of Belize Electricity, which together represent 20% to 25% of assets and slightly more in terms of consolidated cash flows. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support means that these operations have more risk than the company's network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utility holdings on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the Belize business, and will not be relied on as a material cash contributor to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the 20062009 period, and will require the company to take on modest levels of additional debt and equity. With about C$530 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$18.6 million as of Sept. 30, 2005, annual cash flow as represented by FFO of more than C$300 million, and access to debt and equity capital markets, the company and its subsidiaries have adequate resources available to fund an estimated C$620 million to C$650 million in total capital expenditure, dividend payments, and debt maturities for the last quarter of 2005 and in 2006.

At the holding company, Fortis maintains C$210 million of credit facilities, with C$202 million available as of Sept.

30, 2005. The facilities consist of a C$145 million unsecured revolver that matures in May 2008; and a C$50 million unsecured revolving credit facility that matures in January 2009, both of which are used for general corporate and acquisition purposes. The company also has a C$15 million uncommitted demand facility, established in January 2005. The consolidated Fortis groups of companies hold close to C$750 million in total credit facilities, the bulk of which are at the regulated operating companies.

Outlook

The stable outlook on Fortis reflects greater stability in its business and financial risk profiles following the integration of two large business acquisitions in 2004, and reduced concern surrounding the level of operational and funding risk involved with its major capital expenditure program. Any material setback in executing the capital expenditure program would lead to a negative outlook or downgrade, as would any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher-risk unregulated businesses without a corresponding strengthening of its financial profile. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for deterioration in Fortis' financial profile, and if the unregulated operations are expanded, they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely given the company's weak credit metrics and little expectation of reduced business risk.

Business Description

St. John's, Newfoundland-based Fortis is a listed investor-owned electric utility holding company with diversified holdings, mainly in regulated electric distribution companies, nonregulated hydroelectric generation, and property holdings. However, the company's principal business is owning and operating electric distribution utilities. Underpinning the ratings is the company's full ownership of five Canadian regulated electricity network businesses. These businesses are:

- Newfoundland Power Inc., an integrated generation, transmission, and distribution system serving about 224,000 customers in parts of the island portion of Newfoundland and Labrador;
- FortisAlberta, an electric distribution utility serving about 400,000 customers in southern and central Alberta;
- FortisBC, an integrated regulated utility operating in the southern interior of British Columbia serving about 140,000 customers;
- Maritime Electric, the principal electricity utility for the Province of Prince Edward Island (PEI) with about 70,000 customers; and
- FortisOntario, an integrated electricity utility that owns and operates the electric distribution business of Canadian Niagara Power and Cornwall Electric. FortisOntario serves about 52,000 customers in the towns of Fort Erie, Port Colborne, and Gananoque, as well as the City of Cornwall.

In addition to its Canadian electricity distribution businesses, Fortis owns 451 MW of regulated generation incorporated in the operations of its regulated network operations and 177 MW of nonregulated generation capacity across three Canadian provinces (Newfoundland, Ontario, and British Columbia), Upper New York State, and in Belize. The company also owns and operates a portfolio of office and hotel properties throughout Canada. Investments in regulated utilities include a 37% share of Caribbean Utilities in Grand Cayman and its 68% ownership of Belize Electricity.

Rating Methodology

The ratings on Fortis and its subsidiaries are based on Standard & Poor's consolidated rating methodology. The ratings reflect a business profile that captures the relative contribution to business risk and cash flow of Fortis' various business segments, including its regulated utilities; higher risk generation business; and real estate. As a result, the corporate credit ratings on Fortis' wholly owned subsidiaries Newfoundland Power and Maritime Electric are equalized with those on the parent, with any change to the rating on Fortis leading to a change in the rating on the subsidiaries. The rating on Caribbean Utilities reflects that company's standalone creditworthiness.

Business Profile

Regulation

The regulatory regimes governing Fortis' electricity network businesses generally support credit quality. Although variations in returns and approaches exist across the different regulatory jurisdictions, the regimes for the most part are based on a cost-of-service and rate-of-return methodology such that the respective network businesses recover all prudent operating costs, including depreciation and debt service, and earn a return on capital employed. Highlighting the supportive nature of the regimes is the allowed full flow-through of energy costs to end-users, with the network businesses not exposed to commodity price or volume risk. Furthermore, the preapproval by regulators for most capital expenditures reduces the risk of nonrecovery of capital.

Although the Canadian utilities' regulated nature is key to their low business risk profiles, the deemed equity layers in their capital structures for regulatory purposes and allowed returns on equity (ROE) results in weaker financial profiles relative to similar peers globally. Automatic adjustments to the level of allowed ROE to reflect falling bond yields will see the majority of network businesses with allowed ROE of 9.0% or lower in 2006 based on deemed equity layers of between a low of 37% in FortisAlberta's case to a high of 50% for the company's small Ontario network business. In terms of ROE, Maritime Electric, which in 2004 returned to traditional cost-of-service regulation, has the highest allowed ROE of 10.25% (see table 1). A threat to the level of future regulatory returns is the potential for regulators in the various jurisdictions to not be as accommodating as they are now in allowing the automatic adjustments in ROEs if bond yields move substantially higher from their historically low levels currently. Fortis' regulated Caribbean businesses fare better regarding allowed returns, with Caribbean Utilities and Belize Electricity permitted to earn 15% on their respective asset bases.

Table 1

Regulatory Segmented Information 2005

	Regulator	Allowed common equity (%)	Return on common equity (%)	Rate base (mil. C$)	Supportive features
Newfoundland Power	Newfoundland Public Utilities Board	45	9.24	744	Cost of service (COS)/rate of return; commodity pass through
Maritime Electric	Island Regulatory & Appeals Commission	41	10.25	200	COS/rate of return
FortisOntario	Ontario Energy Board	50	9.88	104	COS/ROE for Fort Erie network. Price cap with commodity cost flow through for Cornwall Electric
FortisAlberta	Alberta Utilities & Energy Board	37	9.5	661	COS/ROE

Table 1

Regulatory Segmented Information 2005 (cont.)					
FortisBC	British Columbia Utilities Commission	40	9.43	598	COS (multiyear PBR mechanism)
Belize Electricity	Belize Public Utilities Commission	N/A	15*	Bz$263	COS (four-year tariff arrangements)
Caribbean Utilities	Grand Cayman Public Utilities Commission	N/A	15*	US$253	COS

*Return on assets. N/A--Not applicable.

Fortis' Canadian network businesses benefit from regulatory regimes that are generally independent and transparent. The regimes' independence and transparency lessen the uncertainty about regulatory decisions and reduce the likelihood of unexpected adverse rate determinations or politically motivated outcomes. Although the potential for political intervention continues to weaken the supportive Ontario regulatory regime, the small contribution of FortisOntario to Fortis' consolidated cash flow reduces the Ontario regulatory environment's negative influence on Fortis' business risk profile.

To ensure sufficient cash flows to earn their regulated returns and meet capital expenditure requirements, Fortis' western Canadian network businesses in particular are expected to seek annual tariff increases from their respective regulators. FortisBC has applied for a 5.9% tariff increase in 2006 after receiving a 3.4% increase in 2005, and will likely need to seek further increases in future years. Similarly, FortisAlberta negotiated a 2.1% rate increase over 2004 rates for 2005, and will likely need further annual increases in the future. To that end, the company has indicated it will apply for a 3% increase in base rates in 2007. The regular approvals required for tariff increases and capital budgets introduce some regulatory uncertainty. Although British Columbia and Alberta regulators appear to understand the need for tariff increases, the regulators' ongoing willingness to grant consecutive tariff increases could be tested.

Markets

The number of geographically dispersed markets that Fortis' subsidiaries service offer the consolidated benefits of underlying diversity of regulatory regimes, customer base, operational risk, climate, and product offering. The electricity networks, generation assets, and commercial real estate and hotels located across Canada, as well as its Caribbean investments, reduce Fortis' exposure to fluctuations in demand for services and related cash flows from any particular business or business segment. The limited dependence on any particular business provides greater security of cash flow and financial performance. Furthermore, the mix of services that unregulated businesses provide, although higher risk, also allows for higher returns.

Potential growth in the regulated network markets varies, with the faster-growing western Canadian provinces expected to overshadow the more mature and slightly weaker electricity markets of Ontario and eastern Canada. Annual energy demand growth in FortisBC's and FortisAlberta's territories is expected to be about 2% and 2.5%, respectively. In British Columbia, the growth largely reflects the expanding ski, wine, and retirement industries in the southern interior, while in Alberta, significant growth and development of the oil and gas industry is fueling the economic boom in that province. Annual growth in markets served by Caribbean Utilities and Belize is also strong at more than 5%. Growth in Newfoundland Power's service territory is expected to be about 2%, supported by a higher rate of growth in the St John's region. The company's PEI and Ontario markets are, however, expected to experience more modest growth in the 1% to 1.5% range.

The markets served by Fortis' unregulated electricity generation and real estate properties are more volatile than those of its regulated network operations. A benefit to the generation portfolio is that about 40% of unregulated capacity is under long-term contract with creditworthy counterparties for the most part, thereby reducing the effect of variable demand and prices in the markets in which they operate. For the company's remaining unregulated generation facilities, which are its merchant plants in Ontario and New York state, the generally constrained supply situations in those markets, particularly in Ontario, mean the wholesale pool prices in those markets and cash flows from these businesses are expected to remain robust in the short-to-medium term at least. Regarding the company's property portfolio, its commercial real estate arm is highly concentrated in Atlantic Canada, but the market concentration risk is somewhat offset by the quality of tenants (largely government) and by the existing high occupancy rate and average lease life of more than seven years. Unlike the essential service nature of the company's network businesses, and to a lesser extent its generation and commercial real estate operations, the financial performance of Fortis' hotel operations is heavily influenced by the economic performance in the markets of Newfoundland, Ontario, Nova Scotia, New Brunswick, Manitoba, and Alberta. A large component of cash flow to the hotel operations comes from business travel and tourism. Any economic downturn in these provincial markets can have an immediate effect on occupancy rates and resultant cash flows from this business.

Operations

Low operating risk electricity network operations and the immaterial commodity risk faced by these businesses support Fortis' credit profile. The bulk (75% to 80%) of Fortis' operations will remain regulated network businesses, while the company's commercial and hotel real estate will represent about 10%, investment in regulated utilities in the Caribbean about 5%, and the potential growth area of unregulated generation the remainder. The company's focus in the next few years will be to expand its relatively low-risk network operations and, to a lesser extent, its unregulated generation. While expansion in the regulated businesses will largely come from organic growth opportunities, the unregulated generation development is to be based on the acquisition or development of small hydroelectric plants of under 100 MW.

The biggest operational challenge that Fortis faces is its large annual capital expenditure program of about C$400 million. At the two network businesses most affected, FortisAlberta and FortisBC, the annual expenditure represents between 10% and 15% of subsidiaries' total asset values, which is high for network businesses who typically spent less than half this. Mitigating the operational and construction risk involved is that most of the C$1.3 billion expected to be spent by these two businesses from 2006 to 2010 will be on uncomplicated transmission and distribution poles and wires construction, with more technology challenging and riskier generation asset refits and transformer station installations accounting for less than 10% of total expenditure. The relatively low technology applicable to most of the work and the large number of small and discrete projects comprising the work means that the operational and funding commitments involved are manageable. Furthermore, the company has also moved to reduce labor cost pressures posed by the booming Alberta economy by taking on higher staffing levels and reducing the need to outsource projects.

The network businesses that form the backbone of Fortis' Canadian electricity distribution operations are Newfoundland Power, Fortis Alberta, Fortis BC, and Maritime Electric. Together, these four businesses account for 65% to 70% of consolidated cash flows and a similar proportion of assets. The businesses' operational performance in terms of reliability is mixed, with the eastern Canadian networks generally below the Canadian Electricity Association average for network businesses in terms of SAIFI and SAIDI. The absence of performance-based regulation and penalties for network underperformance mitigate the risk to the company's financial position.

Fortis' total regulated and unregulated generation capacity is 628 MW, with about 70% of capacity subject to regulation (see table 2). For the bulk of Fortis' 177 MW of unregulated generation capacity the vast majority is long-life, and low-cost hydroelectric plants with low operating risks. The company's unregulated generation also includes a small 5 MW gas-fired plant in Cornwall, Ontario. The biggest risk to the hydro plants is water-level variability. Fortis addressed part of the hydrology risk at its hydro asset in Ontario in early 2005 through an agreement with Ontario Power Generation (OPG, BBB+/Positive/--)). The agreement, which covers 83 MW of Fortis' 106 MW of merchant capacity, assigns FortisOntario's water rights on the Niagara River to OPG and facilitates the exchange of 75 MW of wholesale electric power supply to FortisOntario until 2009 when the agreement finishes. The exchange of water entitlement for firm generation load removes hydrology risk for the facility, but the price received for the output remains subject to the prevailing wholesale pool price. For the majority of the company's remaining facilities, long-term contracts guard against fluctuating market prices.

Table 2

Fortis Inc. Generation Assets Segmented Data

Company	Plants	Fuel	Capacity (MW)	Ownership (%)	Net ownership (MW)	Regulation/contracts
FortisOntario	8	Hydro, thermal	88	100	88	83 MW sold into Ontario market (wholesale); 5 MW sold to Cornwall customers
FortisUS Energy	4	Hydro	23	100	23	Purchase agreement with NiMo with day-ahead and six-month pricing, expiring 2004-2006
BECOL/Chalillo	2	Hydro	32	95	31	PPA with Belize Electricity expiring 2046 (fixed price plus escalation)
Fortis BC (regulated)	4	Hydro	205	100	205	COS/ROE
FortisBC (unregulated)	1	Hydro	16	100	16	Purchase agreement with BC Hydro to 2013 (fixed price plus escalation)
Exploits River Hydro Partnership	1	Hydro	36	51	18	Contracted with Newfoundland and Labrador Hydro expiring 2033 (fixed price plus escalation)
Newfoundland Power	34	Hydro, thermal	147	100	147	COS/ROE
Maritime Electric	2	Thermal	100	100	100	COS/ROE
Total	56		647		628	

Fortis' international utility operations have grown in recent years and while they are expected to continue to grow, they will remain a relatively small component of the company's business risk profile. The company's higher-risk operations in Belize consist of Fortis' 68%-owned Belize Electricity and 100%-owned generator BECOL. Belize Electricity is primarily involved in transmitting and distributing electricity to 66,000 customers in Belize under an exclusive 15-year franchise license to 2015, with a 10-year renewal option. BECOL owns and operates 32 MW of hydroelectric capacity and sells its entire output to Belize Electricity under a long-term contract. The higher-risk Belize operations reflect economic, operating, credit, and political risk factors, which are partially offset by relatively strong growth opportunities. Caribbean Utilities is an integrated electric utility serving more than 20,000 customers in Grand Cayman, Cayman Islands. Fortis' minority interest in Caribbean Utilities means the rating on Caribbean Utilities is not constrained by the lower rating on Fortis. (For more information on Caribbean Utilities see the latest credit report on the company published Oct. 7, 2005 on RatingsDirect, Standard & Poor's Web-based credit research and analysis system, at www.ratingsdirect.com.)

The business and financial profiles of Fortis' property operations are below average compared with those of larger peers and would very likely be rated noninvestment-grade on a stand-alone basis due to its relatively small size, weak markets, and high leverage. The portfolio is evenly split between commercial real estate (2.7 million square feet) and hotels (15 with more than 2,800 rooms) located in six Canadian provinces. The company internally manages and operates its properties, and therefore does not rely on other parties for the important aspects of operational performance and quality of service. Fortis recently expanded its property portfolio by acquiring four hotels in Ontario in 2003 and three hotels in Manitoba and Alberta in early 2005.

Competitiveness

Fortis' Canadian electricity distribution operations face very little competition, except from alternative fuels. The company's operations function as virtual monopolies because an alternative electric distribution operation would have to be preapproved by local regulators, which is unlikely. Furthermore, for the company's Atlantic Canada markets, the geographic remoteness and low population density mean further industry restructuring or deregulation is unlikely to pose a competitive challenge in the region. Electricity tariffs in Newfoundland are competitive versus oil, which it competes against in the home-heating market, while natural gas is not expected to become available in either province for the foreseeable future. In PEI, electricity is primarily used for lighting and cooling; as a result, demand is relatively inelastic. Home heating in PEI is dominated by oil, so any long-term threat of natural gas in PEI would not materially affect residential energy sales for Maritime Electric. For British Columbia, the province's heavy use of low-cost hydrogeneration means electricity remains cost-competitive as an energy source. In the growing Alberta market, the absence of extensive gas distribution infrastructure in FortisAlberta's service territories reduces the risk of fuel switching.

The company's commercial real estate, hotel operations, and unregulated generation face competitive pressures. The commercial properties' location and long-term tenancies somewhat reduce the competitive risk. Price pressures and variable demand faced by the company's hotel operations are higher than those of its commercial real estate operations and more immediate. Furthermore, the company's merchant and short-term contracted generation asset are price takers. However, a sustainable competitive advantage for the company's merchant hydro assets is their low-cost fuel source and low operating costs that ensure, subject to water availability, the assets remain cost competitive and face limited dispatch risk.

Profitability

Fortis' profitability is largely a function of the regulated returns received by its network businesses. With the regulated Canadian and Caribbean network businesses generally contributing close to 80% or more of consolidated cash flow, the allowed returns of these businesses have a big influence on the company's economic return. The trend to lower ROEs of 9.0% or less in Canada will dampen the potential for any material uplift in economic returns from these businesses in the short term at least. Benefiting the company's growth in earnings however will be the significant organic growth of its FortisAlberta and FortisBC networks in particular.

Financial Policy: Moderately aggressive

Fortis' financial policy is moderately aggressive given the company's business risk profile, relatively high leverage, and the use of debt to partly finance capital requirements. However, the company takes steps to mitigate financial risk by actively managing its liquidity and capital structure.

Fortis' regulated utilities primarily manage their capital structures at levels consistent with regulatory rulings. The company's financing and operational strategy is to allow its wholly owned subsidiaries to operate largely on a decentralized basis. Subsidiaries are required to act commercially and make annual dividends to Fortis, with equity injections made back to the subsidiary from the holding company if required. The approach adds greater transparency to subsidiaries' performance and to dealings with individual regulators, but also ensures enough cash flow are directed to the holding company for debt service.

A concern for debt holders is the company's increasing dividend payout ratio. The company moved in 2005 to increase the payout ratio to 54% from 52%. The ratio is still below the 60%-70% ratios of investor-owned utilities generally, but the company's willingness to increase the payout at a time when it is making significant capital expansion commitments and assuming more debt will require close monitoring by Standard & Poor's. Significant rating pressure will result if new borrowings are used to fund dividends.

Financial Risk Profile

Accounting

Fortis' consolidated financial statements are prepared according to Canadian GAAP. No material changes to Canadian GAAP or the accounting policies adopted by Fortis are expected in the foreseeable future that would materially alter the financial statements as presented by Fortis. In its analysis, Standard & Poor's adjusts Fortis' financial profile to reflect the financial risk the company faces. One adjustment is the capitalization of the company's future obligations under long-term purchased-power agreements (PPA) onto the balance sheet in recognition of the financial risk embedded in the PPA commitments. A portion of FortisBC's and FortisOntario's future PPA obligations are added to the balance sheet as a debt-like instrument with an imputed interest expense associated with the debt added to interest expense in calculating interest-coverage ratios. In its analysis, we treat the nonrecourse debt associated with Fortis' properties as recourse debt, with the associated interest costs included in the coverage ratios.

Fortis' derivative use is generally limited to the management of its foreign exchange exposure. The company's utility operations face no material commodity exposure, with the respective regulatory regimes providing for the full flow-though of energy costs to end-users. Furthermore, with the bulk of long-term debt at fixed rates, the company has no meaningful interest rate exposure requiring the use of interest-rate swaps.

Cash flow adequacy

Fortis' largely regulated consolidated cash flows and significant capital build out mean no material improvement in cash flow credit metrics is expected in the next few years. With annual capital expenditure outstripping the annual depreciation of regulatory assets, the value of income generating regulated rate bases are expected to move higher over time. Fortis' interest and debt coverages however are expected to remain relatively predictable and stable as the company continues to take on additional debt to expand its network businesses, and to a much lesser extent, its nonregulated generation. FFO of more than C$300 million in 2005 is expected to increase in the net few years as returns are realized on newly commissioned regulatory assets. However, FFO interest coverage and FFO-to-average total debt are not expected to materially improve from the 2004 levels of 3.1x and 14% respectively, as higher interest costs and debt levels limit any material improvements in coverages.

A cash drain for Fortis in the next few years will be commitments associated with its large capital expenditure program, and to a lesser extent its continued dividend growth. About C$1.5 billion is expected to be spent on the company's electricity network and generation businesses from 2006 to 2009. The company does not generate enough cash flow from operations to finance the large capital program–net cash flow (FFO less dividend)-to-capex is expected to be 60% to 85% in this period. The funding shortfall is expected to be largely met with debt, but annual equity contributions of about C$20 million from dividend reinvestment plans, employee and consumer share purchase plans, and exercised stock options will also contribute. A further drain will be dividend payments. Dividends in 2005 are expected to total about C$60 million to C$65 million, and as they have annually for the past 32 years, the dollar amount paid out is expected to continue to increase in the next few years at least.

Liability management and capital structure

Reducing the financial risk faced by Fortis are its largely fixed rate debt at both the corporate and subsidiary levels. The company's level of total outstanding debt as of Sept. 30, 2005 of C$2.1 billion is expected to move higher by C$75 million to C$125 million annually in the coming years. The company's objective to guard against interest rate movement is to limit its exposure to floating-rate debt to less than 10% of total debt outstanding. Floating-rate debt is generally restricted to short-term debt, which at Sept. 30, 2005 was C$55 million or about 3% of total debt. The cost-of-service regulatory frameworks under which the company network businesses operate also protect them from the adverse effect of potentially higher interest costs with the cost associated with interest rate increases ultimately passed through in tariffs.

Fortis mitigates exposure to refinancing risk by maintaining a well-spread debt maturity profile, with more than 85% of consolidated outstanding debt due to mature after 2010. Debt maturities across the group range from 2007 to 2035, with the company's average debt maturity profile extending beyond 10 years. The company's largest refinancing challenge is some time off in 2014 when about C$580 million of debt matures, representing about 25% of existing consolidated debt. Annual debt maturities or amortizing debt payments for the next four years at least will be under C$85 million or less than 5% of debt outstanding. Amortizing debt at a number of regulated subsidiaries and at property assets further reduce refinancing risk. The maintenance of good liquidity also guards against funding risk, with the company having sufficient liquidity from cash flows, available bank lines, and cash on hand to meet debt maturities, dividend payments, and capital expenditure in 2006.

Fortis' leverage is expected to remain marginally below its 2004 level of 61%. The leverage is largely a function of the regulated deemed capital structures of its network businesses. With the company expected to assume additional debt to part fund its capital expenditure program, the forecast leverage is expected to remain largely stable as higher asset values match higher debt levels. The bulk (about 85%) of the company's consolidated debt resides at the operating company level, with long-term debt at the corporate level expected to deviate little from its current C$303 million. This figure consists of C$100 million senior unsecured debentures maturing 2010, US$150 million senior unsecured notes maturing 2014, and US$20 million in unsecured subordinated debt, half of which matures in 2012, and half in 2013. The company also had about C$3 million in short-term debt outstanding under its C$145 million revolver as of Sept. 30, 2005. Of the debt at the operating company or property level, about 45% is secured debt.

The company's capital structure benefits also from diversity of funds, with the company able to access Canadian debt and equity markets, and the U.S. debt market. The foreign-exchange risk associated with its U.S. dollar denominated debt is largely offset by the cash flows from its U.S. generation assets that are sufficient to meet it U.S. dollar debt obligations. The company is not exposed to maintenance covenants or rating triggers in its banking documents or medium-term note issues. Furthermore, the company does not face material pension liabilities.

Financial flexibility

Fortis' financial flexibility is supported by its access to debt and equity capital markets, and the potential sale of noncore assets. The company has a demonstrated track record in successfully raising debt and equity funding, particularly in 2004, when it financed its C$1.3 billion acquisition of FortisAlberta and FortisBC. The company's strong share price bodes well for future equity raisings if required. The company's portfolio of noncore real estate assets, valued at more than C$400 million, provide it with an opportunity in a time of financial stress to raise additional capital by selling some or all of the assets without adversely affecting its core electricity network businesses. The nonrecourse nature of the secured debt associated with the individual properties also provides the company with the ability to walk way from nonperforming or financially stressed assets.

Fortis' financial flexibility is hampered by its limited capacity to reduce cash outlays associated with its dividend and capital expenditure program. The company's proud record of strong dividend growth and the benefit it provides in terms of equity market support for future equity raisings suggests that although possible, material reductions in dividends are unlikely. Furthermore, although some flexibility exists to scale back capital spending, the large portion of expenditures directed to meeting the demand of growing customer bases and energy demand and the preapproval by regulators for the expenditure means discretionary expenditure is limited, with only about 10%to 15% of the estimated annual capital expenditure of about C$400 million able to be deferred.

Table 3

Fortis Inc. -- Peer Comparison*

Industry Sector: Electric Utilities -- Canada

	--Average of past three fiscal years--				
(Mil. C$)	Sector median	Fortis Inc.	ATCO Ltd.	Emera Inc.	Epcor Utilities Inc.
Rating		BBB+/Stable/--	A/Stable/--	BBB+/Negative/--	BBB+/Stable/--
Sales	901.6	901.6	3,491.7	1,226.7	2,660.7
Net income from cont. oper.	85.8	80.9	159.8	113.9	198.1
Funds from oper. (FFO)	215.0	168.3	581.2	277.7	388.4
Capital expenditures	124.7	229.4	570.2	127.6	317.1
Total debt	1,213.0	1,479.7	3,055.9	1,975.1	1,846.0
Preferred stock	7.3	152.6	150.0	263.0	345.8
Total capital	2,398.3	2,398.4	5,884.7	3,488.4	3,726.0
Ratios					
EBIT interest coverage (x)	2.6	2.2	3.1	2.1	2.7
FFO interest coverage (x)	3.3	2.7	3.7	2.7	3.7
Return on common equity	10.0	11.2	12.8	8.4	11.0
NCF/capital expenditures (%)	83.6	57.2	78.3	136.9	82.8
FFO/total debt (%)	18.7	13.3	19.8	13.9	20.0
Total debt/capital (%)	52.9	61.7	51.9	55.4	49.6

*Adjusted by capital operating leases.

Table 4

Fortis Inc. -- Financial Summary*

Industry Sector: Electric Utilities -- Canada

(Mil. C$)	--Average of past three fiscal years--		2004	2003	2002	2001	2000
Rating history	Sector median	Issuer	BBB+/Negative/--	A-/Watch Neg/--	A-/Negative/--	A-/Stable/--	N.R.
Sales	901.6	901.6	1,146.1	843.1	715.5	628.3	584.6
Net income from cont. oper.	85.8	80.9	101.9	77.6	63.3	49.9	34.5

Table 4

Fortis Inc. -- Financial Summary* (cont.)							
Funds from oper. (FFO)	215.0	168.3	233.3	144.1	127.5	119.9	80.1
Capital expenditures	124.7	229.4	261.5	203.5	223.2	147.1	153.0
Total debt	1,213.0	1,479.7	2,107.6	1,182.6	1,148.9	976.0	774.7
Preferred stock	7.3	152.6	319.5	130.2	8.2	8.3	8.4
Total capital	2,398.3	2,398.4	3,464.7	1,957.1	1,773.3	1,461.1	1,218.3
Ratios							
EBIT interest coverage (x)	2.6	2.2	2.3	2.2	2.2	2.1	1.9
FFO interest coverage (x)	3.3	2.7	3.1	2.5	2.5	2.7	2.3
Return on common equity	10.0	11.2	10.5	12.0	11.4	11.1	8.3
NCF/capital expenditures (%)	83.6	57.2	68.1	58.5	43.8	52.0	34.3
FFO/total debt (%)	18.7	13.3	14.2	12.7	12.6	14.1	20.7
Total debt/capital (%)	52.9	61.7	60.8	60.4	64.8	66.8	63.6

*Adjusted by capital operating leases. N.R.--Not rated.

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RATINGSDIRECT®

December 23, 2005

Summary: Fortis Inc.

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Summary: Fortis Inc.

Credit Rating: BBB+/Stable/--

Rationale

The ratings on Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution businesses, regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile, operating and capital expenditure challenges in all service territories; and investments in, and exposure to, higher-risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize (foreign currency, CCC-/Negative/C).

Fortis is a utility holding company with regulated and unregulated electricity operations located mainly in five Canadian provinces, the northeastern U.S., the Cayman Islands, and Belize, as well property holdings across Canada. Underpinning the quality and stability of the company's cash flows is diversity, with no single business expected to contribute more than 25% of consolidated earnings. Moreover, cash flow reliability is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of Fortis' cash flows are its five regulated monopoly electricity network businesses in Canada, *which are supplemented on a consolidated basis by its equity investments in regulated utilities* Caribbean Utilities Co. Ltd. Ltd. (A/Negative/--) and Belize Electricity Ltd. (unrated) in the Caribbean. The company's regulated Canada-based utility operations account for between 70% and 75% of EBITDA and consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of their networks and related loss of cash flows.

The regulatory regimes governing the company's electricity network operations for the most part support credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing cash flow quality is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the company's relatively mature markets in Newfoundland and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be 2% to 3% in Alberta and about 2% in British Columbia. The company's total customer base of 990,000 in Canada and the Caribbean is well diversified, and there is no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2004 improved to 3.1x and 14%, respectively, from 2.4x and 13% in 2003, as a result of higher FFO and lower-than-expected interest expense. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases expand are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or about their 2004 levels. Leverage as measured by total debt-to-total capital was 61% in 2004 and is expected to remain at or marginally below 60%, as additions to the regulated assets of network businesses are partially funded with debt. The company's third-quarter 2005 results were in line with Standard & Poor's expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1.5 billion in the 2006-2009 period, close to 75% will be spent in the Alberta and British Columbia service territories to meet the growing demand for energy services in those areas. The program will require the company to raise debt and equity funding, but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory earnings as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its part ownership of Belize Electricity, which together represent 20% to 25% of assets and slightly more in terms of consolidated cash flows. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support means that these operations have more risk than the company's network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utility holdings on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the Belize business, and will not be relied on as a material cash contributor to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in the 20062009 period, and will require the company to take on modest levels of additional debt and equity. With about C$530 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$18.6 million as of Sept. 30, 2005, annual cash flow as represented by FFO of more than C$300 million, and access to debt and equity capital markets, the company and its subsidiaries have adequate resources available to fund an estimated C$620 million to C$650 million in total capital expenditure, dividend payments, and debt maturities for the last quarter of 2005 and in 2006.

At the holding company, Fortis maintains C$210 million of credit facilities, with C$202 million available as of Sept. 30, 2005. The facilities consist of a C$145 million unsecured revolver that matures in May 2008; and a C$50 million unsecured revolving credit facility that matures in January 2009, both of which are used for general corporate and acquisition purposes. The company also has a C$15 million uncommitted demand facility, established in January 2005. The consolidated Fortis groups of companies hold close to C$750 million in total credit facilities, the bulk of which are at the regulated operating companies.

Outlook

The stable outlook on Fortis reflects greater stability in its business and financial risk profiles following the integration of two large business acquisitions in 2004, and reduced concern surrounding the level of operational and funding risk involved with its major capital expenditure program. Any material setback in executing the capital expenditure program would lead to a negative outlook or downgrade, as would any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher-risk unregulated businesses without a corresponding strengthening of its financial profile. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for deterioration in Fortis' financial profile, and if the unregulated operations are expanded, they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely given the company's weak credit metrics and little expectation of reduced business risk.

BULLETIN: Fortis Inc.'s 2005 Results In Line With Expectations, Credit Neutral

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TORONTO (Standard & Poor's) Feb. 7, 2006--Standard & Poor's Ratings Services today said Fortis Inc.'s (BBB+/Stable/--) results for fiscal 2005 were in line with expectations. The company's credit metrics remained relatively stable, with funds from operations (FFO) interest coverage and FFO to average total debt moving marginally higher to 3.2x and 15% respectively, from 3.1x and 14% in 2004. The cash flow coverages are not expected to show any material improvement beyond their 2005 levels. The metrics are expected to remain weak for the rating as the company undertakes its significant capital expenditure program, which is estimated by Fortis to approach C$2 billion in the next five years. The forecast capital expenditure builds on the C$425 million of expenditure undertaken in 2005. At year-end 2005, leverage as measured by total debt to total capital was 59%.

STANDARD
& POOR'S

RATINGSDIRECT®

February 8, 2006

Summary: Fortis Inc.

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Summary: Fortis Inc.

Credit Rating: BBB+/Stable/--

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution businesses, regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating and capital expenditure challenges in all service territories; and investments in, and exposure to, higher-risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize (foreign currency: CCC-/Negative/C).

Fortis is a utility holding company with regulated and unregulated electricity operations located mainly in five Canadian provinces, the northeastern U.S., the Cayman Islands, and Belize, as well as property holdings across Canada. Underpinning the quality and stability of the company's cash flows is diversity, with no single business expected to contribute more than 25% of consolidated earnings. Moreover, cash flow reliability is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of Fortis' cash flows are its five regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its equity investments in regulated utilities Caribbean Utilities Co. Ltd. Ltd. (A/Negative/--) and Belize Electricity Ltd. (unrated) in the Caribbean. The company's regulated Canada-based utility operations account for between 70% and 75% of EBITDA and consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of their networks and related loss of cash flows.

The regulatory regimes governing the company's electricity network operations for the most part support credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing cash flow quality is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the company's relatively mature markets in Newfoundland and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be 2% to 3% in Alberta and about 2% in British Columbia. The company's total customer base of more than 1 million in Canada and the Caribbean is well diversified, and there is no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2005 were 3.2x and 15% respectively. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases expand are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or marginally below 2005 levels. Leverage as measured by total debt-to-total capital was 59% in 2005 and is expected to remain at or marginally below 60%, as additions to the regulated assets of network businesses are partially funded with debt.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1.5 billion in 2006-2009, close to 75% will be spent in the Alberta and British Columbia service territories to meet the growing demand for energy services in those areas. The program will require the company to raise debt and equity funding, but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short-to-medium term, the expenditure will improve long-term sustainable regulatory earnings as the assets are rolled into the regulated asset base.

Fortis' strong business profile is weakened by its exposure to unregulated property investments and generation operations, and its part ownership of Belize Electricity, which together represent 20% to 25% of assets and slightly more in terms of consolidated cash flows. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support means that these operations have more risk than the company's network businesses. The creditworthiness of Belize Electricity, although comparable with that of Fortis' Canadian utility holdings on a stand-alone basis, is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the Belize business, and will not be relied on as a material cash contributor to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, available bank facilities, and access to capital markets. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in 2006-2009, and will require the company to take on modest levels of additional debt and equity. With about C$540 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$33.4 million as of Dec. 31, 2005, annual cash flow as represented by FFO of more than C$300 million, and access to debt and equity capital markets, the company and its subsidiaries have adequate resources available to fund an estimated C$500 million-C$525 million in total capital expenditure, dividend payments, and debt maturities in 2006.

At the holding company, Fortis maintains C$210 million of credit facilities, with C$185 million available as of Dec. 31, 2005. The facilities consist of a C$145 million unsecured revolver that matures in May 2008; and a C$50 million unsecured revolving credit facility that matures in January 2009, both of which are used for general corporate and acquisition purposes. The company also has a C$15 million uncommitted demand facility, established in January 2005. The consolidated Fortis groups of companies hold close to C$750 million in total credit facilities, the bulk (close to 70%) of which are at the regulated operating companies.

Outlook

The stable outlook on Fortis reflects greater stability in its business and financial risk profiles following the integration of two large business acquisitions in 2004, and reduced concern surrounding the level of operational and funding risk involved with its major capital expenditure program. Any material setback in executing the capital expenditure program would lead to a negative outlook or downgrade, as would any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher risk unregulated businesses without a corresponding strengthening of its financial profile. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions, as there is little or no cushion at the current ratings level for deterioration in Fortis' financial profile, and if the unregulated operations are expanded, they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely given the company's weak credit metrics and little expectation of reduced business risk.

RATINGSDIRECT®

May 11, 2006

Summary: Fortis Inc.

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Summary: Fortis Inc.

Credit Rating: BBB+/Stable/--

Rationale

The ratings on St. John's, Nfld.-based Fortis Inc. reflect its diversified portfolio of utility operations, monopoly electricity distribution businesses, regulated cash flows, and growing residential and commercial customer base. These strengths are offset by a moderately aggressive financial profile; operating and capital expenditure challenges in all service territories; and investments in, and exposure to, higher-risk commercial and hospitality real estate, merchant and contracted generation, and investments in the country of Belize (foreign currency: CCC-/Negative/C).

Fortis is a utility holding company with regulated and unregulated electricity operations located mainly in five Canadian provinces, the northeastern U.S., the Cayman Islands, and Belize, as well as property holdings across Canada. Underpinning the quality and stability of the company's cash flows is diversity, with no single business expected to contribute more than 25% of consolidated earnings. Moreover, cash flow reliability is enhanced by the company's diversity of markets, regulatory regimes, climates, and customer segments.

The principal sources of Fortis' cash flows are its five regulated monopoly electricity network businesses in Canada, which are supplemented on a consolidated basis by its equity investments in regulated utilities Caribbean Utilities Co. Ltd. (A/Negative/--) and Belize Electricity Ltd. (unrated) in the Caribbean. The company's regulated Canada-based utility operations account for between 70% and 75% of EBITDA and consolidated assets. All seven network businesses benefit from their monopoly positions in each jurisdiction, with cost plus return-reflective pricing and/or licensed monopoly status protecting the companies from material bypass of their networks and related loss of cash flows.

The regulatory regimes governing the company's electricity network operations for the most part support credit quality. The bulk of cash flows are determined on a traditional cost-of-service and rate-of-return methodology such that the company earns a return on prudently incurred operating costs, and a return on capital employed. Although the returns provided in Canada are relatively low compared with global peers, the regulatory frameworks provide stability and predictability of cash flows for debt servicing. Enhancing cash flow quality is the limited exposure to energy price and volume risk, with the vast majority of distribution operations benefiting from the full flow-through of commodity costs to end-use customers and limited market-risk exposure.

Fortis' portfolio of network businesses enhances its organic growth potential and diversifies its underlying customer base. Organic growth opportunities are expected in the company's Alberta and British Columbia service territories, and to a lesser extent in the company's relatively mature markets in Newfoundland and Prince Edward Island. The Alberta and British Columbia service territories in particular are expected to experience a continuation of the solid growth rates in recent times, with energy demand growth expected to be 2% to 3% in Alberta and about 2% in British Columbia. The company's total customer base of more than one million in Canada and the Caribbean is well diversified, and there is no material customer concentration or credit risk.

Fortis' financial profile is moderately aggressive. The company's interest and debt coverages are weak for the ratings. Funds from operations (FFO) interest and debt coverages in 2005 were 3.2x and 15% respectively. Despite the need for additional debt to partially fund the significant capital expenditure at its FortisAlberta and FortisBC network businesses in the next few years, the company's increasing customer base and growing regulated cash flows as regulated asset bases expand are expected to provide the additional cash flows needed to ensure that consolidated interest and debt coverages are maintained at or marginally below 2005 levels. Leverage as measured by total debt-to-total capital was 59% in 2005 and is expected to remain at or marginally below 60%, as additions to the regulated assets of network businesses are partially funded with debt. The company's financial results for first quarter 2006 were in line with Standard & Poor's Ratings Services' expectations.

Fortis' major financial and operational challenge in the next few years is a large capital expenditure program, particularly at its western Canada networks, FortisAlberta and FortisBC. Of the company's consolidated capital expenditure of almost C$1.5 billion in 2006-2009, close to 75% will be spent in the Alberta and British Columbia service territories to meet the growing demand for energy services in those areas. The program will require the company to raise debt and equity funding, but will also pose an operational challenge to ensure the smooth running of the existing networks. Although presenting a challenge in the short- to medium-term, the expenditure will improve long-term sustainable regulatory earnings as new assets are rolled into the regulated asset base.

Fortis' business profile is weakened by its exposure to unregulated property investments and generation operations, and its part ownership of Belize Electricity, which together represent 20% to 25% of assets and slightly more in terms of consolidated cash flows. The company's unregulated operations primarily center on contracted and merchant generation, and its property portfolio. The absence of price and regulatory support means that these operations have more risk than the company's network businesses. The creditworthiness of Belize Electricity is negatively affected by the low sovereign rating on Belize. A mitigant for Fortis is that cash flows at Belize Electricity will be used primarily to finance amortizing debt and significant organic growth within the Belize business, and will not be relied on as a material cash contributor to service Fortis' debt at the corporate level.

Liquidity

Fortis' liquidity is adequate given its relatively stable cash flow generation, modest debt maturities, access to capital markets and available bank facilities. Consolidated cash flows, however, will generally be insufficient to meet all capital expenditures and dividend payments in 2006-2009, and will require the company to take on modest levels of additional debt and equity.

The company's liquidity is supported by annual cash flow as represented by FFO of more than C$300 million, and demonstrated access to debt and equity capital markets. Further, as of March 31, 2006, the company had C$543 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$21.5 million. Subsequent to the end of first quarter 2006, Fortis' consolidated liquidity position was enhanced by the refinancing of drawings under FortisAlberta's syndicated credit facility following that subsidiary's successful C$100 million unsecured debenture offering on April 21, 2006. The financial resources available to Fortis and its subsidiaries is sufficient to fund an estimated C$550 million to C$575 million in total capital expenditure, dividend payments, and debt maturities in 2006.

At the holding company, Fortis maintains C$210 million of credit facilities, with close to C$180 million available as of March 31, 2006. The facilities consist of a C$145 million unsecured revolver that matures in May 2008; and a C$50 million unsecured revolving credit facility that matures in January 2009, both of which are used for general corporate and acquisition purposes. The company also has a C$15 million uncommitted demand facility, established in January 2005. The consolidated Fortis groups of companies hold about C$795 million in total credit facilities, the bulk (close to 75%) of which are at the regulated operating companies.

Outlook

The stable outlook reflects an expectation of no material change to the current mix of regulated and unregulated operations, and the company successfully undertaking its major capital expenditure program. Any move by the company to materially alter its current split between regulated and unregulated operations in favor of an increased proportion of higher risk unregulated businesses without a corresponding strengthening of its financial profile or material operational, or financial setback in executing the capital expenditure program could lead to a negative outlook or downgrade. Furthermore, the outlook reflects an expectation of no material debt-funded acquisitions resulting in a weakening of its credit metrics because there is limited cushion at the current ratings level for deterioration in Fortis' financial profile; and if the unregulated operations are expanded, that they will be funded more conservatively than the regulated operations. A positive outlook or ratings uplift is unlikely given the company's weak credit metrics and little expectation of reduced business risk.

STANDARD & POOR'S

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February 26, 2007

Research Update:

Fortis Inc. Ratings Placed On CreditWatch Positive Following Announced Terasen Inc. Purchase

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Research Update:

Fortis Inc. Ratings Placed On CreditWatch Positive Following Announced Terasen Inc. Purchase

Rationale

On Feb. 26, 2007, Standard & Poor's Ratings Services placed its ratings, including its 'BBB+' corporate credit rating, on St. John's, Nfld.-based utility holding company Fortis Inc. on CreditWatch with positive implications following the announcement that it intends to purchase Terasen Inc. and its regulated British Columbia-based gas distribution businesses (Terasen Gas Inc.) from Kinder Morgan Inc. (BB-/Stable/--) for C$3.7 billion (including C$2.3 billion in debt). Terasen's petroleum pipeline business will not be included in the acquisition. Fortis also announced that it has agreed to a bought deal that will result in at least C$1 billion in new equity being issued via subscription receipts. The equity will be used to finance the C$1.4 billion cash portion of the acquisition.

We believe the acquisition, if completed, will not deteriorate and could even improve Fortis' credit quality.

- Terasen will materially add to the diversity of Fortis and strengthen the business profile of the company. It will account for more than 35% of Fortis' consolidated EBITDA and the proportion of regulated assets will increase to more than 90% of Fortis' total assets.
- Terasen Gas benefits from a rate regulation framework that is predictable and expected to sustain stable long-term profitability and dividend levels. Fortis has developed familiarity with the British Columbia regulatory system since its acquisition of electric transmission and distribution utility FortisBC Inc. two years ago.
- The acquisition is consistent with Fortis' strategy of investing in regulated utilities.
- Fortis intends to finance the majority of the cash purchase price with a common equity issue. Debt coverage at the holding company level will materially improve.

Although Fortis intends to primarily equity finance the cash portion of this purchase, Terasen has higher leverage than Fortis' other operating subsidiaries. Consequently, the consolidated pro forma credit measures for Fortis will modestly decline (funds from operation (FFO)-to-debt of 11%, debt-to-capital of 60%) but will still be acceptable for the 'BBB+' rating level, given the enhancements to the company's business profile.

During the resolution of the CreditWatch, we intend to engage Fortis management in discussions regarding its financial policies, including the amount of leverage it will hold at the parent company level, its tax strategies, its policies toward guaranteeing or supporting subsidiaries, the level of legal, operational, and financial separation it will maintain between subsidiaries, and the overall liquidity support it will maintain at the parent level. Given the broadening diversity of holdings, the outcome of these discussions could result in greater emphasis on nonconsolidated financial measures in our evaluation and reporting on Fortis' financial profile. It may also result in modest rating separation between Fortis and some of its wholly-owned regulated subsidiaries (including Terasen).

The completion of the acquisition is subject to approvals, most notably the British Columbia Utilities Commission, which might not be obtained until mid-2007. It is unclear what regulatory conditions, if any, will be placed on the purchase. We intend to resolve the CreditWatch by no later than May.

Liquidity

Fortis' liquidity is adequate, given its relatively stable cash flow generation, modest debt maturities, access to capital markets and available bank facilities.

The company's liquidity is supported by its annual cash flow, as represented by FFO of more than C$300 million, and its demonstrated access to debt and equity capital markets. Furthermore, as of Dec. 31, 2006, the company had C$547 million in unused consolidated operating lines of credit (the bulk of which are committed) and cash on hand of C$41 million.

At the holding company, Fortis maintains C$315 million of credit facilities, with close to C$226 million available as of Dec. 31, 2006. The facilities consist of a C$250 million unsecured revolver that matures in May 2010, and a C$50 million unsecured revolving credit facility that matures in January 2011. Both are used for general corporate and acquisition purposes. The company also has a C$15 million uncommitted demand facility, established in January 2005. The consolidated Fortis groups of companies hold about C$952 million in total credit facilities, the bulk (close to 67%) of which are at the regulated operating companies.

For the purpose of the proposed Terasen acquisition, Fortis has arranged bridge lending facilities of approximately C$1.4 billion, which would finance the entire cash portion of the purchase. The company would subsequently issue a mix of equity, preferred shares, and debt to retire drawings under the bridge. Fortis has announced an agreement to issue at least C$1 billion in equity subscription receipts in relation to this acquisition.

Ratings List

Ratings Placed On CreditWatch Positive

	To	From
Fortis Inc.		
Corporate credit rating	BBB+/Watch Pos/--	BBB+/Stable/--
Senior unsecured debt	BBB/Watch Pos	BBB
Preferred stock		
Global scale	BBB-/Watch Pos	BBB-
Canadian scale	P-2(Low)/Watch Pos	P-2(Low)
Maritime Electric Co. Ltd.		
Corporate credit rating	BBB+/Watch Pos/--	BBB+/Stable/--

Senior secured debt	A-/Watch Pos	A-

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

The McGraw-Hill Companies

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June 19, 2007

Research Update:

Fortis Inc. Upgraded To 'A-', Off Watch Positive On Improved Diversity; Outlook Stable

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Research Update:

Fortis Inc. Upgraded To 'A-', Off Watch Positive On Improved Diversity; Outlook Stable

Rationale

On June 19, 2007, Standard & Poor's Ratings Services raised its long-term corporate credit rating on St. John's, Nfld.-based Fortis Inc. to 'A-' from 'BBB+'. At the same time, Standard & Poor's raised the senior unsecured debt rating on Fortis to 'A-' from 'BBB', the global scale preferred stock rating to 'BBB' from 'BBB-', and the Canadian scale preferred stock rating to 'P-2' from 'P-2(Low)'. We also removed the ratings from CreditWatch with positive implications, where they were placed Feb. 26, 2007. The outlook is stable.

The one-notch upgrade reflects:

- Fortis' improved diversity resulting from the recent acquisition of regulated gas-distribution company Terasen Inc. (BBB+/Stable/--);
- Its operation of each regulated subsidiary as a separate stand-alone entity with debt nonrecourse to Fortis;
- Management's commitment to maintaining low levels of debt at the Fortis Inc. holding company level;
- Fortis management's continuing focus on pursuing acquisitions in stable, regulated utilities; and
- The success of key subsidiaries FortisBC and FortisAlberta in executing their capital expansions.

The equalization of the senior unsecured debt rating with the corporate credit rating reflects the increasing diversification of the company and the financial separation among its investments, which we now view as sufficient to mitigate the structural subordination issue for debt providers to Fortis.

The ratings on Fortis reflect its diversified portfolio of independent regulated utility subsidiaries; the stable and predictable regulated cash flows that flow from these investments; the proportionally low amount of debt held--and expected to be held--at the Fortis Inc. company level; and the company's focused and well-executed growth strategy. These strengths are offset by exposure, albeit limited to a low proportion of total assets, to higher-risk commercial and hospitality real estate, and merchant electricity generation.

Fortis is a utility holding company with 100% interests in Terasen; FortisBC (regulated electricity distributor for portions of B.C.); Newfoundland Power Inc. (regulated electricity provider for portions of the province); FortisAlberta (regulated electricity distributor in parts of Alberta); Maritime Electric Co. Ltd. (regulated electricity provider in Prince Edward Island; BBB+/Stable/--); and FortisOntario (regulated electricity provider in parts of Ontario). The company also has holdings in regulated utilities in Belize, Cayman Islands, and Turks and Caicos. The company has non-regulated hydro power generation and real estate investments that account for about 10% of EBITDA. Reasonable diversity underpins the quality and stability of the company's cash flows; we expect Terasen, its largest holding, to account for about 36% of consolidated earnings. Moreover, the company's diversity of markets, regulatory regimes, climates, and customer segments enhance cash flow reliability.

As a holding company, the principal sources of Fortis' cash flows are dividends from its utility holdings and free cash flow from its nonregulated operations. Owing to the utilities' monopoly positions with predictable regulation, the collective distributions are stable and reliable; acquisitions and organic growth at its B.C.- and Alberta-based operating companies have spurred growth in distributions.

The high degree of financial separation that Fortis maintains with its subsidiaries supports the ratings. Although Fortis' subsidiaries are guided to some extent by Fortis's management, they operate on a standalone basis, and Fortis doesn't guarantee their debt. However, Fortis could assist its subsidiaries should they encounter short-term financial or operational difficulties.

Fortis' consolidated leverage is consistent with other Canadian regulated utilities at about 60% total debt-to-total capital, but the amount of leverage directly at the holding company level is low. The company's regulated subsidiaries typically are financed at about a 60%-65% leverage level in line with the capital structure dictated by their respective regulators. Leverage at the holding company level is less than 10% of its capital base, as Fortis has historically financed its acquisitions with common and preferred share issuances. Although we expect that Fortis will continue to be acquisitive, we also expect the company will issue sufficient equity to finance the acquisitions to maintain consolidated leverage at 60% and to keep debt at the holding company level proportionally low.

Consolidated interest and debt coverages are somewhat low and reflect the high leverage at each regulated subsidiary. Consolidated funds from operations (FFO) interest coverage has historically run about 3x, while FFO-to-total debt has historically ranged between 12%-14%. On a deconsolidated basis, for 2007, we expect dividends and free cash flow at Fortis from its operating subsidiaries to cover gross interest expense by about 6x and combined interest and preferred dividends by about 4x.

Fortis' CEO highly influences the company's strategic direction. The credit impact has been primarily favorable; acquisitions completed to date have been well executed and financed conservatively. Furthermore, the company's subsidiaries benefit from the CEO's depth of experience with the electricity distribution business and his positive approach to working with regulators. Nevertheless, Fortis, as a holding company, is very leanly staffed. Concerns relate to the lack of clarity regarding succession planning and the consequent uncertainty any successor would bring to the company's financial policies and strategic focus.

Liquidity

Fortis' liquidity is adequate, given its relatively stable cash dividends from its subsidiaries, modest debt maturities, access to capital markets and available bank facilities.

- Most of the company's subsidiaries pay out a proportion (typically 50%-80%) of their net income to Fortis in the form of dividends or other distributions. Collectively, this produces a highly predictable and dependable cash stream for Fortis which provides comfortable coverage of interest and preferred dividends.

- The company's primary subsidiaries are standalone entities, with separate bank credit lines and access to debt markets. Forecast equity injections from Fortis to finance various expansion needs will be well within the company's financial capacity.
- Fortis has little debt at the holding company level. We expect that it could easily refinance its sole C$100 million debt maturity in 2010.
- At the holding company, Fortis maintains C$500 million of credit facilities, with close to C$200 million available. We expect that the company will issue preferred or common equity by the end of the year to reduce drawings under this facility.

Outlook

The stable outlook reflects the underlying operational and financial stability of Fortis' operating companies. We could lower the ratings if Fortis were to materially elevate its leverage or if one of its larger subsidiaries encountered major financial or operational difficulties. A positive outlook or upgrade remains unlikely in the near term but could occur as a result of further diversification. We expect the company to remain acquisitive in the next few years; further acquisitions should not prompt a downgrade, provided they remain consistent within the company's regulated focus and expertise and were financed consistent with current financial policies.

Ratings List

Fortis Inc.

	To	From
Ratings Raised And Removed From CreditWatch		
Corporate credit rating	A-/Stable/--	BBB+/Watch Pos/--
Senior unsecured debt	A-	BBB/Watch Pos
Preferred stock		
Global scale	BBB	BBB-
Canadian scale	P-2	P-2(Low)/Watch Pos

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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