



**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

**March 7, 2011**

**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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## DEFINITIONS OF CERTAIN TERMS

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Certain terms used in this Annual Information Form are defined below:

**"2010 Annual Information Form"** means this Fortis Inc. Annual Information Form in respect of the year ended December 31, 2010;

**"2010 Audited Consolidated Financial Statements"** means the audited comparative consolidated financial statements of Fortis Inc. as at and for the year ended December 31, 2010 and related notes thereto;

**"Abitibi"** means AbitibiBowater Inc.;

**"Algoma Power"** means Algoma Power Inc.;

**"AUC"** means Alberta Utilities Commission;

**"BAL"** means Belize Aquaculture Limited;

**"BC Hydro"** means BC Hydro and Power Authority;

**"BCUC"** means British Columbia Utilities Commission;

**"BELCOGEN"** means Belize Cogeneration Energy Limited;

**"BECOL"** means Belize Electric Company Limited;

**"Belize Electricity"** means Belize Electricity Limited;

**"BEPC"** means Brilliant Expansion Power Corporation;

**"BEWU"** means Belize Energy Workers Union;

**"Board"** means Board of Directors of Fortis Inc.;

**"BPC"** means Brilliant Power Corporation;

**"BZ"** means Belizean currency, which is pegged to the United States currency (BZ\$2.00=US\$1.00);

**"Canadian GAAP"** means Canadian generally accepted accounting principles;

**"Canadian Niagara Power"** means Canadian Niagara Power Inc.;

**"Caribbean Utilities"** means Caribbean Utilities Company, Ltd.;

**"CAW"** means Canadian Auto Workers-Retail/Wholesale;

**"CEA"** means Canadian Electricity Association;

**"CEP"** means Communications, Energy and Paperworkers Union of Canada;

**"CFE"** means Comisión Federal de Electricidad;

**"CICA"** means Canadian Institute of Chartered Accountants;

**"COPE"** means Canadian Office & Professional Employees Union;

**"Cornwall Electric"** means Cornwall Street Railway, Light and Power Company, Limited;

**"Corporation"** means Fortis Inc.;

**"CPA"** means Canal Plant Agreement;

**"CPC/CBT"** means Columbia Power Corporation and Columbia Basin Trust;

**"CUPE"** means Canadian Union of Public Employees;

**"DBRS"** means DBRS Limited;

**"EMS"** means environmental management system;

**"Exchange Act"** means the *U.S. Securities Exchange Act of 1934*, as amended;

**"Exploits Partnership"** means Exploits River Hydro Partnership between Abitibi and Fortis Properties;

**"External Auditor"** means the firm of chartered accountants registered with the Canadian Public Accountability Board or its successor and appointed by the shareholders of the Corporation to act as external auditor of the Corporation;

**"Fortis"** means Fortis Inc.;

**"FortisAlberta"** means FortisAlberta Inc.;

**"FortisAlberta Holdings"** means FortisAlberta Holdings Inc.;

**"FortisBC"** means, collectively, the operations of FortisBC Inc. and its parent company, Fortis Pacific Holdings Inc., but excluding its wholly owned partnership, Walden Power Partnership;

**"FortisOntario"** means, collectively, the operations of Canadian Niagara Power, Cornwall Electric and Algoma Power. Canadian Niagara Power's accounts include the operation of the electricity distribution business of Port Colborne Hydro Inc.;

**"FortisOntario Inc."** means the successor to Canadian Niagara Power Company, Limited and the parent company of Canadian Niagara Power, Cornwall Electric and Algoma Power;

**"Fortis Pacific Holdings"** means Fortis Pacific Holdings Inc.;

**"Fortis Properties"** means Fortis Properties Corporation;

**"Fortis Turks and Caicos"** means, collectively, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd.;

**"FortisUS Energy"** means FortisUS Energy Corporation;

**"FortisWest"** means FortisWest Inc.;

**"GHG"** means greenhouse gas;

**"GWh"** means gigawatt hour(s);

**"Hydro One"** means Hydro One Networks Inc.;

**"IASB"** means International Accounting Standards Board;

**"IBEW"** means International Brotherhood of Electrical Workers;

**"IESO"** means Independent Electricity System Operator of Ontario;

**"IFRS"** means International Financial Reporting Standards;

**"ISO"** means International Organization for Standardization;

**"June 2008 Final Decision"** means the Public Utilities Commission's (Belize) June 2008 Final Decision on Belize Electricity's 2008/2009 Rate Application;

**"kWh"** means kilowatt hour(s);

**"MD&A"** means the Corporation's Management Discussion and Analysis, located on pages 8 through 69 of the Corporation's 2010 Annual Report to Shareholders, prepared in accordance with National Instrument 51-102 – *Continuous Disclosure Obligations*, in respect of the Corporation's annual financial statements for the year ended December 31, 2010;

**"Management"** means, collectively, senior officers of the Corporation;

**"Maritime Electric"** means Maritime Electric Company, Limited;

**"Moody's"** means Moody's Investors Service;

**"MW"** means megawatt(s);

**"NB Power"** means New Brunswick Power Corporation;

**"Newfoundland Hydro"** means Newfoundland and Labrador Hydro;

**"Newfoundland Power"** means Newfoundland Power Inc.;

**"Other Canadian Electric Utilities"** means, collectively, the operations of FortisOntario and Maritime Electric;

**"PCB"** means polychlorinated biphenyl;

**"PJ"** means petajoule(s);

**"Point Lepreau"** means NB Power Point Lepreau Nuclear Generating Station;

**"Port Colborne Hydro"** means Port Colborne Hydro Inc.;

**"PUB"** means Newfoundland and Labrador Board of Commissioners of Public Utilities;

**"PUC"** means Public Utilities Commission (Belize);

**"S&P"** means Standard & Poor's;

**"SEC"** means U.S. Securities and Exchange Commission;

**"Teck Metals"** means Teck Metals Ltd.;

**"Terasen Gas companies"** means, collectively, the operations of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc.;

**"Terasen"** means Terasen Inc., the holding company of the Terasen Gas companies;

**"TGI"** means Terasen Gas Inc.;

**"TGVI"** means Terasen Gas (Vancouver Island) Inc.;

**"TGWI"** means Terasen Gas (Whistler) Inc.;

**"TJ"** means terajoule(s);

**"UFCW"** means United Food and Commercial Workers;

**"US GAAP"** means United States generally accepted accounting principles;

**"USW"** means United Steel Workers;

**"Walden"** means Walden Power Partnership;

**“Waneta Expansion”** means the 335-MW hydroelectric generating facility being constructed adjacent to the existing Waneta Plant on the Pend d’Oreille River in British Columbia;

**“Waneta Partnership”** means the Waneta Expansion Limited Partnership between CPC/CBT and Fortis;

**“Whistler”** means the Resort Municipality of Whistler.

## 1.0 CORPORATE STRUCTURE

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The 2010 Annual Information Form has been prepared in accordance with National Instrument 52-102 - *Continuous Disclosure Obligations*. Financial information has been prepared in accordance with Canadian GAAP and is presented in Canadian dollars unless otherwise specified.

Except as otherwise stated, the information in the 2010 Annual Information Form is given as of December 31, 2010.

*Fortis includes forward-looking information in the 2010 Annual Information Form within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide Management's expectations regarding the Corporation's future growth, results of operations, performance, business prospects and opportunities, and it may not be appropriate for other purposes. All forward-looking information is given pursuant to the safe harbour provisions of applicable Canadian securities legislation. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management. The forward-looking information in the 2010 Annual Information Form, including the 2010 MD&A incorporated herein by reference, includes, but is not limited to, statements regarding: the expected total capital cost for the construction of the Waneta Expansion and its expected completion date; organic earnings' growth for the Corporation's regulated utilities in Canada is expected to be primarily driven by rate base growth at FortisAlberta and FortisBC; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the expectation that the Corporation and its utilities will continue to have reasonable access to capital in the near to medium terms; the expected 2% growth in electricity sales for 2011 at the Corporation's regulated utilities in the Caribbean; the expected average annual energy production from the Macal River in Belize; the expected timing of the close of the sale of the joint-use poles at Newfoundland Power; consolidated forecast gross capital expenditures for 2011 and in total over the next five years; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the subsidiaries will be able to source the cash required to fund their 2011 capital expenditure programs; expected consolidated long-term debt maturities and repayments in 2011 and on average annually over the next five years; no material increase in consolidated interest expense and/or fees associated with renewed and extended credit facilities is expected in 2011; expected earnings' contribution from Belize Electricity to the consolidated earnings of Fortis in the course of normal operations; the estimated impact a decrease in revenue at Fortis Properties' Hospitality Division would have on basic earnings per common share; no expected material adverse credit rating actions in the near term; the expected impact of a change in the US dollar-to-Canadian dollar foreign exchange rate on basic earnings per common share in 2011; the expectation that counterparties to the Terasen Gas companies' gas derivative contracts will continue to meet their obligations; the expectation that Fortis will become an SEC Issuer by December 31, 2011; the expected impact of the transition to US GAAP; and the expectation of an increase in consolidated defined benefit net pension cost for 2011. The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the receipt of applicable regulatory approvals and requested rate orders; no significant operational disruptions or environmental liability due to a catastrophic event or environmental upset caused by severe weather, other acts of nature or other major event; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no material capital project and financing cost overrun or delay related to the construction of the Waneta Expansion; no significant decline in capital spending in 2011; no severe and prolonged downturn in economic conditions; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms to flow through the commodity cost of natural gas and energy supply costs in customer rates; the ability to hedge exposures to fluctuations in interest rates and foreign exchange rates; no significant variability in interest rates; no significant counterparty defaults; the continued competitiveness of natural gas pricing when compared with electricity and other alternative sources of energy; the continued availability of natural gas and fuel supply; the continued ability to fund defined benefit pension plans; the absence of significant changes in government energy plans and environmental laws that may materially affect the operations and cash flows of the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; maintenance of information technology infrastructure; favourable relations with First Nations; favourable labour relations; and sufficient human resources to deliver service and execute the capital program. The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory risk; operating and maintenance risks; capital project budget overrun, completion and financing risk in the Corporation's non-regulated business; economic conditions; capital resources and liquidity risk; weather and seasonality; commodity price risk; derivative financial instruments and hedging; interest rate risk; counterparty risk; competitiveness of natural gas; natural gas and fuel supply; defined benefit pension plan performance and funding requirements; risks related to the development of the TGVI franchise; environmental risks; insurance coverage risk; loss of licences and permits; loss of service area; the risk of transition to new accounting standards that do not recognize the impact of rate regulation; changes in tax legislation; information technology infrastructure; an ultimate resolution of the expropriation of the assets of the Exploits Partnership that differs from what is currently expected by management; an unexpected outcome of legal proceedings currently against the Corporation; relations with First Nations; labour relations; and human resources. For additional information with respect to the Corporation's risk factors, reference should be made to the Corporation's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities and to the heading "Business Risk Management" in the MD&A.*

*All forward-looking information in the 2010 Annual Information Form is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.*

## **1.1 Name and Incorporation**

Fortis is a holding company that was incorporated as 81800 Canada Ltd. under the *Canada Business Corporations Act* on June 28, 1977 and continued under the *Corporations Act* (Newfoundland and Labrador) on August 28, 1987.

The articles of incorporation of the Corporation were amended to: (i) change its name to Fortis on October 13, 1987; (ii) set out the rights, privileges, restrictions and conditions attached to the Common Shares on October 15, 1987; (iii) designate 2,000,000 First Preference Shares, Series A on September 11, 1990; (iv) replace the class rights, privileges, restrictions and conditions attaching to the First Preference Shares and the Second Preference Shares on July 22, 1991; (v) designate 2,000,000 First Preference Shares, Series B on December 13, 1995; (vi) designate 5,000,000 First Preference Shares, Series C on May 27, 2003; (vii) designate 8,000,000 First Preference Shares, Series D and First Preference Shares, Series E on January 23, 2004; (viii) amend the redemption provisions attaching to the First Preference Shares, Series D on July 15, 2005; (ix) designate 5,000,000 First Preference Shares, Series F on September 22, 2006; (x) designate 9,200,000 First Preference Shares, Series G on May 20, 2008; and (xi) designate 10,000,000 First Preference Shares, Series H on January 20, 2010.

Fortis redeemed all of its outstanding First Preference Shares, Series A and First Preference Shares, Series B on September 30, 1997 and December 2, 2002, respectively. On June 3, 2003, Fortis issued 5,000,000 First Preference Shares, Series C. On January 29, 2004, Fortis issued 8,000,000 First Preference Units, each unit consisting of one First Preference Share, Series D and one Warrant. During 2004, 7,993,500 First Preference Units were converted into 7,993,500 First Preference Shares, Series E and 6,500 First Preference Shares, Series D remained outstanding. On September 20, 2005, the 6,500 First Preference Shares, Series D were redeemed by the Corporation. On September 28, 2006, Fortis issued 5,000,000 First Preference Shares, Series F. On May 23, 2008, Fortis issued 8,000,000 First Preference Shares, Series G and on June 4, 2008 issued an additional 1,200,000 First Preference Shares, Series G, following the exercise of an over-allotment option in connection with the offering of the 8,000,000 First Preference Shares, Series G. On January 26, 2010, Fortis issued 10,000,000 First Preference Shares, Series H.

The corporate head and registered office of Fortis is located at the Fortis Building, Suite 1201, 139 Water Street, P.O. Box 8837, St. John's, NL, Canada, A1B 3T2.

## **1.2 Inter-Corporate Relationships**

Fortis is principally an international distribution utility holding company. Its regulated holdings include electric distribution utilities in five Canadian provinces and three Caribbean countries and a natural gas distribution utility in British Columbia. As at December 31, 2010, regulated utility assets comprised approximately 92% of the Corporation's total assets, with the balance primarily comprised of non-regulated generation assets, mainly hydroelectric, across Canada and in Belize and Upper New York State, and hotels and commercial office and retail space primarily in Atlantic Canada.

The following table lists the principal subsidiaries of the Corporation, their jurisdictions of incorporation and the percentage of votes attaching to voting securities held directly or indirectly by the Corporation as at March 7, 2011. This table excludes certain subsidiaries, the total assets of which individually constituted less than 10% of the Corporation's consolidated assets as at December 31, 2010, or the total revenue of which individually constituted less than 10% of the Corporation's 2010 consolidated revenue. Additionally, the principal subsidiaries together comprise approximately 80% of the Corporation's consolidated assets as at December 31, 2010 and approximately 75% of the Corporation's 2010 consolidated revenue.



| Principal Subsidiaries                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                               |                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------------------------------------------------------------------------|
| Subsidiary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Jurisdiction of Incorporation | Percentage of votes attaching to voting securities beneficially owned, controlled or directed by the Corporation |
| Terasen                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | British Columbia              | 100                                                                                                              |
| FortisAlberta <sup>(1)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Alberta                       | 100                                                                                                              |
| FortisBC Inc. <sup>(2)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | British Columbia              | 100                                                                                                              |
| Newfoundland Power                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Newfoundland and Labrador     | 94.0 <sup>(3)</sup>                                                                                              |
| <sup>(1)</sup> FortisAlberta Holdings, an Alberta corporation, owns all of the shares of FortisAlberta. FortisWest, a Canadian corporation, owns all of the shares of FortisAlberta Holdings. Fortis owns all of the shares of FortisWest.<br><sup>(2)</sup> Fortis Pacific Holdings, a British Columbia corporation, owns all of the shares of FortisBC Inc. FortisWest, a Canadian corporation, owns all of the shares of Fortis Pacific Holdings. Fortis owns all of the shares of FortisWest.<br><sup>(3)</sup> Fortis owns all of the common shares; 1,713 First Preference Shares, Series A; 34,531 First Preference Shares, Series B; 13,700 First Preference Shares, Series D and 182,300 First Preference Shares, Series G of Newfoundland Power which, at March 7, 2011, represented 94.0% of its voting securities. The remaining 6.0% of Newfoundland Power's voting securities consist of First Preference Shares, Series A, B, D and G which are primarily held by the public. |                               |                                                                                                                  |

## 2.0 GENERAL DEVELOPMENT OF THE BUSINESS

### 2.1 Three-Year History

Over the past three years, Fortis has experienced growth in its business operations. Total assets have grown 25% from \$10.3 billion as at December 31, 2007 to \$12.9 billion as at December 31, 2010. The Corporation's shareholders' equity has also grown more than 45% from \$2.8 billion as at December 31, 2007 to \$4.1 billion as at December 31, 2010. Net earnings attributable to common equity shareholders' have increased from \$193 million in 2007 to \$285 million in 2010.

The growth in business operations reflects the Corporation's profitable growth strategy for its principal businesses of regulated gas and electricity distribution. This strategy includes a combination of growth through acquisitions and organic growth through the Corporation's consolidated capital expenditure program.

Over the past three years, Fortis increased its regulated utility investments in Canada through the acquisition of Algoma Power for \$75 million, in October 2009, and increased its ownership interest in Caribbean Utilities from approximately 54% in 2007 to approximately 59% held as at December 31, 2010. Algoma Power is a regulated electric distribution utility servicing approximately 12,000 customers in the District of Algoma in Ontario. The Corporation also increased its non-regulated investments, over the last three years, through the acquisition of three hotels in Canada, the construction of the Vaca hydroelectric generating facility in Belize, which was completed in March 2010, and the commencement of construction of the Waneta Expansion late in 2010.

Organic growth at the regulated utilities has been driven by the capital expenditure programs at FortisAlberta, FortisBC and the Terasen Gas companies. Total assets at FortisAlberta, FortisBC and Terasen have grown by approximately 56%, 32% and 18%, respectively, over the past three years.

### 2.2 Outlook

#### Operations

The Corporation maintains a profitable growth strategy for its principal businesses of regulated gas and electricity distribution, as well as for its non-regulated operations. This strategy includes a combination of growth through acquisitions and organic growth through the Corporation's consolidated capital expenditure program, including investments in non-regulated hydroelectric generation projects as described above.

Over the next five years, consolidated gross capital expenditures are expected to approach \$5.5 billion. Approximately 63% of the capital spending is expected to be incurred at the regulated electric utilities, driven by FortisAlberta and FortisBC. Approximately 20% and 17% of the capital spending is expected to be incurred at the regulated gas utilities and at non-regulated operations, respectively. Capital expenditures at the regulated utilities are subject to regulatory approval.

Gross consolidated capital expenditures for 2011 are expected to be approximately \$1.2 billion, as summarized in the following table. Planned capital expenditures are based on detailed forecasts of energy demand, weather and cost of labour and materials, as well as other factors, including economic conditions, which could change and cause actual expenditures to differ from forecasts.

| <b>Forecast Gross Consolidated Capital Expenditures <sup>(1)</sup></b><br><b>Year Ending December 31, 2011</b>                                                                                                                                                                                                                                                                                       |                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                      | <i>(\$ millions)</i> |
| Terasen Gas Companies                                                                                                                                                                                                                                                                                                                                                                                | 281                  |
| FortisAlberta <sup>(2)</sup>                                                                                                                                                                                                                                                                                                                                                                         | 420                  |
| FortisBC                                                                                                                                                                                                                                                                                                                                                                                             | 99                   |
| Newfoundland Power                                                                                                                                                                                                                                                                                                                                                                                   | 73                   |
| Other Canadian Electric Utilities                                                                                                                                                                                                                                                                                                                                                                    | 46                   |
| Regulated Electric Utilities – Caribbean                                                                                                                                                                                                                                                                                                                                                             | 83                   |
| Non-Regulated Utility <sup>(3)</sup>                                                                                                                                                                                                                                                                                                                                                                 | 183                  |
| Fortis Properties                                                                                                                                                                                                                                                                                                                                                                                    | 27                   |
| <b>Total</b>                                                                                                                                                                                                                                                                                                                                                                                         | <b>1,212</b>         |
| <sup>(1)</sup> Relates to forecast cash payments to acquire or construct utility capital assets, income producing properties and intangible assets, as would be reflected on the consolidated statement of cash flows. Includes forecast asset removal and site restoration expenditures, net of salvage proceeds, for those utilities where such expenditures are permissible in rate base in 2011. |                      |
| <sup>(2)</sup> Includes forecast payments to be made to the Alberta Electric System Operator for investment in transmission capital projects                                                                                                                                                                                                                                                         |                      |
| <sup>(3)</sup> Includes forecast non-regulated generation, mainly related to the Waneta Expansion, and corporate capital expenditures                                                                                                                                                                                                                                                                |                      |

The Corporation's subsidiaries expect to have reasonable access to long-term capital in 2011 to fund their capital expenditure programs.

The Corporation continues to pursue acquisitions for profitable growth, focusing on strategic opportunities to acquire regulated natural gas and electric utilities in the United States and Canada. Fortis will also pursue growth in its non-regulated businesses in support of its regulated utility growth strategy.

### **Future Accounting Changes**

Effective January 1, 2012, the Corporation will be required to adopt a new set of accounting standards. Publicly accountable enterprises in Canada were required to adopt IFRS effective January 1, 2011; however, qualifying entities with rate-regulated activities were granted an optional one-year deferral for the adoption of IFRS, due to the continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the IASB. As a qualifying entity with rate-regulated activities, Fortis has elected to avail of the one-year deferral and, therefore, will continue to prepare its consolidated financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

Due to the continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the IASB, Fortis has evaluated the option of adopting US GAAP effective January 1, 2012. Canadian rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as an SEC Issuer. An SEC Issuer is defined under the Canadian rules as an issuer that: (i) has a class of securities registered with the SEC under Section 12 of the *Exchange Act*; or (ii) is required to file reports under Section 15(d) of the *Exchange Act*. The Corporation has developed and initiated a plan to become an SEC Issuer by December 31, 2011. As an SEC Issuer, Fortis will then be permitted to prepare and file its consolidated financial statements in accordance with US GAAP. Barring a change that will provide certainty as to the Corporation's ability to recognize regulatory assets and liabilities under IFRS, Fortis expects to prepare its consolidated financial statements in accordance with US GAAP for all interim and annual periods beginning on or after January 1, 2012.

The adoption of US GAAP in 2012 is expected to result in fewer significant changes in the Corporation's accounting policies as compared to those that may have resulted with the adoption of IFRS. The Corporation's application of Canadian GAAP currently relies on US GAAP for guidance on accounting for rate-regulated activities, which allows the economic impact of rate-regulated activities to be recognized in the consolidated financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. Fortis believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, more accurately reflects the impact that rate regulation has on the Corporation's consolidated financial position and results of operations. Should the Corporation not be successful in becoming an SEC Issuer by December 31, 2011, Fortis will be required to adopt IFRS effective January 1, 2012. In the absence of an accounting standard for rate-regulated activities being established by the IASB, a transition to IFRS would likely result in the derecognition of some, or perhaps all, of the Corporation's regulatory assets and liabilities, and could result in significant volatility in the Corporation's consolidated earnings, as recognized under IFRS, from those otherwise recognized under US GAAP or previous Canadian GAAP.

### **3.0 DESCRIPTION OF THE BUSINESS**

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Fortis is principally an international distribution utility holding company. Its core business is highly regulated and is segmented by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in non-regulated generation assets, and commercial office and retail space and hotels, which are treated as two separate segments. The Corporation's reporting segments allow Management to evaluate the operational performance and assess the overall contribution of each segment to the Corporation's long-term objectives. Each reporting segment operates as an autonomous unit, assumes profit and loss responsibility and is accountable for its own resource allocation.

The business segments of the Corporation are: (i) Regulated Gas Utilities - Canadian; (ii) Regulated Electric Utilities - Canadian; (iii) Regulated Electric Utilities - Caribbean; (iv) Non-Regulated - Fortis Generation; (v) Non-Regulated - Fortis Properties; and (vi) Corporate and Other.

The following sections describe the operations included in each of the Corporation's reportable segments.

#### **3.1 Regulated Gas Utilities - Canadian**

##### **3.1.1 Terasen Gas Companies**

The Regulated Gas Utilities - Canadian segment comprises the natural gas transmission and distribution business of the Terasen Gas companies.

TGI is the largest distributor of natural gas in British Columbia, serving more than 846,000 residential, commercial and industrial customers in a service area that extends from Vancouver to the Fraser Valley and the interior of British Columbia.

TGVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island, and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia, serving more than 100,000 residential, commercial and industrial customers.

In addition to providing transmission and distribution services to customers, TGI and TGVI also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and, through TGI's Southern Crossing pipeline, from Alberta.

TGWI owns and operates the natural gas distribution system in Whistler, British Columbia, which provides service to approximately 2,600 residential and commercial customers.

The Terasen Gas companies own and operate approximately 46,500 kilometres of natural gas distribution and transmission pipelines and met a peak day demand of 1,421 TJ in 2010.

## **Market and Sales**

The Terasen Gas companies' annual customer gas volumes decreased to 193,022 TJ in 2010 from 207,230 TJ in 2009. Revenue was approximately \$1.5 billion in 2010 compared to \$1.7 billion in 2009.

The following table compares the composition of 2010 and 2009 revenue and gas volumes by customer class of the Terasen Gas companies.

| <b>Terasen Gas Companies<br/>Revenue and Gas Volumes by Customer Class</b> |                        |       |                           |       |
|----------------------------------------------------------------------------|------------------------|-------|---------------------------|-------|
|                                                                            | <b>Revenue<br/>(%)</b> |       | <b>PJ Volumes<br/>(%)</b> |       |
|                                                                            | <b>2010</b>            | 2009  | <b>2010</b>               | 2009  |
| Residential                                                                | <b>57.2</b>            | 56.9  | <b>36.2</b>               | 37.6  |
| Commercial                                                                 | <b>33.8</b>            | 33.9  | <b>23.9</b>               | 22.9  |
| Small industrial                                                           | <b>1.4</b>             | 1.7   | <b>1.3</b>                | 2.8   |
| Large industrial and other                                                 | <b>0.1</b>             | 0.1   | <b>0.1</b>                | 0.1   |
|                                                                            | <b>92.5</b>            | 92.6  | <b>61.5</b>               | 63.4  |
| Transportation and other                                                   | <b>7.5</b>             | 7.4   | <b>38.5</b>               | 36.6  |
| Total                                                                      | <b>100.0</b>           | 100.0 | <b>100.0</b>              | 100.0 |

## **Gas Purchase Agreements**

In order to acquire supply resources that ensure reliable natural gas deliveries to its customers, the Terasen Gas companies purchase supply from a select list of producers, aggregators and marketers by adhering to strict standards of counterparty creditworthiness and contract execution and/or management procedures. TGI contracts for approximately 102 PJ of baseload and seasonal supply, of which 75 PJ is delivered off the Spectra Energy transmission system. Approximately 10 PJ is comprised primarily of Alberta-sourced supply transported into British Columbia via TransCanada Pipeline Limited's Alberta and British Columbia systems. The remaining 17 PJ of baseload and seasonal supply is sourced at Sumas, British Columbia. TGVII contracts for approximately 11 PJ of annual supply comprised of base load and seasonal contracts, of which approximately 9 PJ is delivered off the Spectra Energy transmission system and 2 PJ is sourced directly at Sumas.

Through the operation of regulatory deferrals, any difference between forecast cost of natural gas purchases, as reflected in customer rates, and the actual cost of natural gas purchases is recovered from, or refunded to, customers in future rates. The majority of supply contracts in the current portfolio are seasonal for either the summer period (April to October) or winter period (November to March) with a few contracts one year or longer in length.

The Spectra Energy transmission and TransCanada Pipeline Limited transportation tolls are regulated by the National Energy Board, whose responsibilities include regulating pipeline tolls. The Terasen Gas companies pay both fixed and variable charges for use of the pipelines, which are recovered through rates paid by its customers. TGI contracts pipeline capacity to ensure the Company meets its obligation to supply customers under all reasonable demand scenarios while providing diversity in its gas portfolio.

## **Peak Shaving Arrangements**

TGI and TGVII incorporate peak shaving and gas storage facilities into its portfolio to:

- supplement baseload supply in the winter months while injecting excess baseload supply to refill storage in the summer months;
- eliminate the risk of supply shortages during cooler weather and peak throughput day;
- effectively manage the cost of gas during winter months; and
- balance daily supply and demand on the distribution system.

The Terasen Gas companies' peak shaving and storage assets and contracts for 2010 included up to 30 PJ in storage capacity at various locations throughout British Columbia, Alberta and the Pacific Northwest region of the United States. These storage facilities and supply from peak shaving contracts can deliver a maximum daily rate of 0.7 PJ on a combined basis during the coldest months of December through February.

TGVI maintains storage contracts with Unocal Canada Limited at the Aitken Creek Storage facility in Northern British Columbia and Northwest Natural Gas Company at the Mist Storage facility in Oregon, United States. TGVI's Aitken Creek and Mist storage facilities storage contracts consist of 2.8 PJ of combined storage capacity and have the ability to provide up to 40 TJ per day of combined daily deliverability during cooler weather or peak day conditions. TGVI also has access to an estimated 30 TJ of daily peak supply deliverability from various peak supply arrangements.

### ***Off-System Sales***

TGI is in its fifteenth year of off-system sales activities, in which any daily excess supply of gas is sold at the market-spot rate that allows for the recovery or mitigation of costs on unutilized supply and/or pipeline capacity. In 2009/2010 TGI marketed approximately 30 PJ of surplus gas and 42 PJ of excess pipeline capacity for a net pre-tax recovery of approximately \$152 million. Through the Gas Supply Mitigation Incentive Plan established with the BCUC, approximately \$1 million (pre-tax) of these benefits accrued to shareholders with the remainder flowing through to customers in the form of reduced rates for natural gas costs.

The BCUC has approved the 2010/2011 incentive mechanism and the Company continues to undertake mitigation activities.

### ***Unbundling***

Over the past several years, TGI, the BCUC and other interested parties have laid the groundwork for the introduction of natural gas commodity unbundling in British Columbia. On November 1, 2004, commercial customers of TGI became eligible to buy their natural gas commodity supply directly from third-party suppliers. TGI continues to provide delivery of the natural gas. Approximately 81,000 commercial customers are eligible to participate in commodity unbundling. By December 31, 2010, approximately 18,000 customers had elected to participate in this program.

During 2006 the BCUC approved the offering of commodity supply choice to residential customers. The BCUC agreed to open a portion of the province of British Columbia's residential natural gas market to competition, allowing homeowners to sign long-term fixed-price contracts for natural gas with companies other than TGI, effective May 2007. Consumers had the option to remain with TGI or sign with another market participant, in which case they began receiving gas at that market participant's rate beginning in November 2007. TGI continues to provide delivery service to unbundled customers and delivery margins are not expected to be impacted by migration of residential customers to alternative commodity suppliers. Approximately 762,500 residential customers are eligible to participate in commodity unbundling. By December 31, 2010, approximately 115,000 customers had elected to participate in this program.

### ***Legal Proceedings***

During 2007 and 2008, a non-regulated subsidiary of Terasen received Notices of Assessment from Canadian Revenue Agency for additional taxes related to the taxations years 1999 through 2003. The exposure has been fully provided for in the Corporation's 2010 Audited Consolidated Financial Statements. Terasen has begun the appeal process associated with the assessments.

In 2009 Terasen was named, along with other defendants, in an action related to damages to property and chattels, including contamination to sewer lines and costs associated with remediation, related to the rupture in July 2007 of an oil pipeline owned and operated by Kinder Morgan. Terasen has filed a statement of defence but the claim is in its early stages. During the second quarter of 2010, Terasen was added as a third party in all of the related actions and all claims are expected to be tried at the same time. The amount and outcome of the actions are indeterminable at this time and, accordingly, no amount has been accrued in the Corporation's 2010 Audited Consolidated Financial Statements.

## **Human Resources**

As at December 31, 2010, the Terasen Gas companies employed 1,480 full-time equivalent employees. Approximately 71% of the employees are represented by IBEW, Local 213, and COPE, Local 378, under collective agreements that expire on March 31, 2011 and March 31, 2012, respectively.

## **Recent Developments**

On March 1, 2011, the Terasen Gas companies were renamed to commence operating under a common brand identity with FortisBC in British Columbia, Canada. As a result, the following name changes were made:

| <b>Names – Prior to March 1, 2011</b> | <b>Names – Effective March 1, 2011</b>    |
|---------------------------------------|-------------------------------------------|
| Terasen Inc.                          | FortisBC Holdings Inc.                    |
| Terasen Gas Inc.                      | FortisBC Energy Inc.                      |
| Terasen Gas (Vancouver Island) Inc.   | FortisBC Energy (Vancouver Island) Inc.   |
| Terasen Gas (Whistler) Inc.           | FortisBC Energy (Whistler) Inc.           |
| Terasen Energy Services Inc.          | FortisBC Alternative Energy Services Inc. |

The common brand identity aligns with the approach of Terasen and FortisBC of ensuring an integrated focus and strategy in the delivery of energy to its customers.

## **3.2 Regulated Electric Utilities - Canadian**

### **3.2.1 FortisAlberta**

FortisAlberta is a regulated electric distribution utility in the province of Alberta. Its business is the ownership and operation of regulated electric distribution facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. FortisAlberta is not involved in the generation, transmission or direct sale of electricity. FortisAlberta owns and/or operates the electricity distribution system in a substantial portion of southern and central Alberta, totalling approximately 112,000 kilometres of distribution lines. The Company's distribution network serves approximately 491,000 customers, comprising residential, commercial, farm and industrial consumers of electricity, and met a peak demand of 2,555 MW in 2010.

## **Market and Sales**

FortisAlberta's annual energy deliveries increased to 15,866 GWh in 2010 from 15,865 GWh in 2009. Revenue was \$388 million in 2010 compared to \$331 million in 2009.

The following table compares the composition of FortisAlberta's 2010 and 2009 revenue and energy deliveries by customer class.

| <b>FortisAlberta</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                       |       |                                             |       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-------|---------------------------------------------|-------|
| <b>Revenue and Energy Deliveries by Customer Class</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                       |       |                                             |       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>Revenue</b><br>(%) |       | <b>GWh Deliveries <sup>(1)</sup></b><br>(%) |       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>2010</b>           | 2009  | <b>2010</b>                                 | 2009  |
| Residential                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>27.5</b>           | 28.8  | <b>17.0</b>                                 | 16.9  |
| Large commercial and industrial <sup>(2)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>18.5</b>           | 21.3  | <b>61.3</b>                                 | 60.3  |
| Farms                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>11.5</b>           | 12.1  | <b>7.5</b>                                  | 8.6   |
| Small commercial                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>9.9</b>            | 10.7  | <b>7.9</b>                                  | 8.0   |
| Small oilfield                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>8.0</b>            | 8.8   | <b>5.8</b>                                  | 5.8   |
| Other <sup>(3)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>24.6</b>           | 18.3  | <b>0.5</b>                                  | 0.4   |
| Total                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>100.0</b>          | 100.0 | <b>100.0</b>                                | 100.0 |
| <sup>(1)</sup> GWh percentages presented exclude FortisAlberta's GWh deliveries to "transmission-connected" customers. These deliveries were 7,100 GWh in 2010 and 6,757 GWh in 2009 and consisted primarily of energy deliveries to large-scale industrial customers directly connected to the transmission grid.<br><sup>(2)</sup> Includes large oilfield customers<br><sup>(3)</sup> Includes revenue from sources other than the delivery of energy, including that related to street-lighting services, rate riders, deferrals and adjustments |                       |       |                                             |       |

### **Franchise Agreements**

Most of FortisAlberta's residential, commercial and industrial customers, located within a city, town, or village boundary, are served through franchise agreements between the Company and the customers' municipality of residence. From time to time, municipal governments in Alberta give consideration to creating their own electric distribution utilities by purchasing the assets of FortisAlberta that are located in their municipal boundaries. In Alberta, the standard franchise agreement, which could include a franchise fee payable to the municipality, is generally for ten years and may be renewed for five years upon mutual consent of the parties. All municipal franchises are governed by legislation that requires the municipality or the utility to give notice and obtain AUC approval if it intends to terminate its franchise agreement. Any franchise agreement that is not renewed continues in effect until either the Company or the municipality terminates it with AUC permission. If a franchise agreement is terminated and the municipality subsequently exercises its right under the *Municipal Government Act* (Alberta) to purchase FortisAlberta's distribution network within the municipality's boundaries, the Company must be compensated. Compensation would include payment for FortisAlberta's assets on the basis of a methodology approved by the AUC.

Additionally, under the *Hydro and Electric Energy Act* (Alberta), if a municipality that owns an electric distribution system expands its boundaries, the municipality can acquire the Company's assets in the annexed area. In such circumstances, the *Hydro and Electricity Energy Act* (Alberta) provides that the AUC may determine that the municipality should pay compensation to the Company for any facilities transferred on the basis of replacement cost less depreciation.

FortisAlberta has standardized, individual franchise agreements in place with 140 municipalities. Substantially all of these agreements expire between 2011 and 2017. The Company is in the process of extending or negotiating franchise agreements with these municipalities

### **Human Resources**

As at December 31, 2010, FortisAlberta had 980 full-time equivalent employees. Approximately 75% of the employees of the Company are members of a labour association represented by United Utility Workers' Association, Local 200, under a three-year collective agreement that expires on December 31, 2013.

### 3.2.2 FortisBC

FortisBC includes FortisBC Inc., an integrated electric utility that owns a network of generation, transmission and distribution assets located in the southern interior of British Columbia. FortisBC Inc. serves a diverse mix of approximately 161,000 customers, of whom approximately 112,250 are served directly by the Company's assets while the remainder are served through the wholesale supply of power to municipal distributors. In 2010 FortisBC Inc. met a peak demand of 707 MW. Residential customers represent the largest customer class of the Company. FortisBC's transmission and distribution assets include approximately 7,000 kilometres of transmission and distribution lines and 64 substations.

FortisBC also includes operating, maintenance and management services relating to the 493-MW Waneta hydroelectric generating facility owned by Teck Metals and BC Hydro, the 149-MW Brilliant hydroelectric plant and 120-MW Brilliant expansion plant, both owned by CPC/CBT, the 185-MW Arrow Lakes hydroelectric plant owned by CPC/CBT, and the distribution system owned by the City of Kelowna.

#### Market and Sales

FortisBC has a diverse customer base composed primarily of residential, general service, industrial and municipal wholesale, and other industrial customers. Annual electricity sales were 3,046 GWh in 2010 compared to 3,157 GWh in 2009. Revenue increased to \$266 million in 2010 from \$253 million in 2009.

The following table compares the composition of FortisBC's 2010 and 2009 revenue and electricity sales by customer class.

| <b>FortisBC</b>                                                                                                                                                                                                 |                       |       |                         |       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-------|-------------------------|-------|
| <b>Revenue and Electricity Sales by Customer Class</b>                                                                                                                                                          |                       |       |                         |       |
|                                                                                                                                                                                                                 | <b>Revenue</b><br>(%) |       | <b>GWh Sales</b><br>(%) |       |
|                                                                                                                                                                                                                 | <b>2010</b>           | 2009  | <b>2010</b>             | 2009  |
| Residential                                                                                                                                                                                                     | <b>43.0</b>           | 44.0  | <b>40.2</b>             | 41.0  |
| General service                                                                                                                                                                                                 | <b>24.3</b>           | 24.5  | <b>23.2</b>             | 23.2  |
| Wholesale                                                                                                                                                                                                       | <b>19.5</b>           | 19.6  | <b>28.9</b>             | 29.4  |
| Industrial                                                                                                                                                                                                      | <b>6.1</b>            | 5.5   | <b>7.7</b>              | 6.4   |
| Other <sup>(1)</sup>                                                                                                                                                                                            | <b>7.1</b>            | 6.4   | -                       | -     |
| Total                                                                                                                                                                                                           | <b>100.0</b>          | 100.0 | <b>100.0</b>            | 100.0 |
| <sup>(1)</sup> Includes revenue from sources other than from the sale of electricity, including revenue of Fortis Pacific Holdings associated with non-regulated operating, maintenance and management services |                       |       |                         |       |

#### Generation and Power Supply

FortisBC Inc. meets the electricity supply requirements of its customers through a mix of its own generation and power purchase contracts. FortisBC Inc. owns four regulated hydroelectric generating plants on the Kootenay River with an aggregate capacity of 223 MW and annual energy output of approximately 1,591 GWh, which provide approximately 45% of the Company's energy needs and 30% of its peak capacity needs. FortisBC Inc. meets the balance of its requirements through a portfolio of long-term and short-term power purchase agreements. Since 1998, 11 of 15 FortisBC hydroelectric generation units have been subject to a life extension and upgrade program which is forecast to conclude in 2012.

FortisBC Inc.'s four hydroelectric generating facilities are governed by the CPA. The CPA is a multi-party agreement that enables the five separate owners of eight major hydroelectric generating plants, with a combined capacity of approximately 1,600 MW and located in relatively close proximity to each other, to coordinate the operation and dispatch of their plants.



The following table lists the plants and their owners.

| <b>Plant</b>                                                                          | <b>Capacity (MW)</b> | <b>Owners</b>                           |
|---------------------------------------------------------------------------------------|----------------------|-----------------------------------------|
| Canal Plant                                                                           | 580                  | BC Hydro                                |
| Waneta Dam                                                                            | 493                  | Teck Metals and BC Hydro <sup>(1)</sup> |
| Kootenay River System                                                                 | 223                  | FortisBC Inc.                           |
| Brilliant Dam and Expansion                                                           | 269                  | BPC and BEPC                            |
| <b>Total</b>                                                                          | <b>1,565</b>         |                                         |
| <sup>(1)</sup> During 2010, BC Hydro acquired a one-third interest in the Waneta Dam. |                      |                                         |

BPC, BEPC, Teck Metals and FortisBC Inc. are collectively defined in the CPA as the Entitlement Parties. The CPA enables BC Hydro and the Entitlement Parties, through coordinated use of water flows, subject to the 1961 Columbia River Treaty between Canada and the United States, and through the coordinated operation of storage reservoirs and generating plants, to generate more power from their respective generating resources than they could if they operated independently. Under the CPA, BC Hydro takes into its system all power actually generated by all seven plants owned by the Entitlement Parties. In exchange for permitting BC Hydro to determine the output of these facilities, each of the Entitlement Parties is contractually entitled to a fixed annual entitlement of capacity and energy from BC Hydro, which is currently based on 50-year historical water flows. The Entitlement Parties receive their defined entitlements irrespective of actual water flows to the Entitlement Parties' generating plants and are, accordingly, insulated from the risk of water availability. The CPA continues in force until terminated by any of the parties by giving no less than five years' notice at any time on or after December 31, 2030.

The majority of FortisBC Inc.'s remaining electricity supply is acquired through long-term power purchase contracts, consisting of the following:

- i. a 149-MW long-term power purchase agreement with BPC terminating in 2056;
- ii. a 200-MW power purchase agreement with BC Hydro terminating in 2013; and
- iii. a number of small power purchase contracts with independent power producers.

The majority of these purchase contracts have been accepted by the BCUC and prudently incurred costs thereunder flow through to customers through FortisBC Inc.'s electricity rates.

Although FortisBC Inc. can currently meet the majority of its customer supply requirements from its own generation and the major power purchase agreements described above, there are instances where a portion of the customer load may need to be supplied from the market in the form of short-term power purchases. Costs related to such purchases, provided they are prudently incurred and accurately forecasted, are recovered through customer rates. During 2010 the Company has also entered into an agreement to purchase fixed price, winter capacity purchases through to February 2016 to assist in mitigating the risks of market volatility and availability.

In October 2010 the Corporation, in partnership with CPC/CBT, concluded definitive agreements to construct the Waneta Expansion. Fortis owns a controlling 51% interest in the Waneta Partnership and will operate and maintain the Waneta Expansion, through FortisBC, when it comes into service, which is expected in spring 2015. The Waneta Expansion will be included in the CPA and will receive fixed energy and capacity entitlements based upon long-term average water flows, thereby significantly reducing hydrologic risk associated with the project. The energy, approximately 630 GWh, (and associated capacity required to deliver such energy) for the Waneta Expansion will be sold to BC Hydro under a long-term energy purchase agreement which has been executed. The surplus capacity, equal to 234 MW on an average annual basis, will be sold to FortisBC Inc. over 40 years under the Waneta Expansion Capacity Agreement, which was accepted for filing by the BCUC in September 2010 and is expected to be executed by the parties in 2011. For additional information refer to Section 3.4 of this AIF.

## Legal Proceedings

The British Columbia Ministry of Forests has alleged breaches of the Forest Practices Code and negligence relating to a fire near Vaseux Lake and has filed and served a writ and statement of claim against FortisBC Inc. In addition, the Company has been served with a filed writ and statement of claim by private landowners in relation to the same matter. The Company is communicating with its insurers and has filed a statement of defence in relation to both of the actions. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the Corporation's 2010 Audited Consolidated Financial Statements.

## Human Resources

As at December 31, 2010, FortisBC had 534 full-time equivalent employees. FortisBC has a collective agreement with COPE, Local 378, that expired on January 31, 2011 and a collective agreement with IBEW, Local 213, expiring on January 31, 2013. The two collective agreements cover approximately 76% of employees.

FortisBC and COPE have agreed in principle to explore amalgamating FortisBC's and TGI's collective agreements with COPE. The current collective agreement between FortisBC and COPE will remain in full effect until an amalgamation is agreed to or discussions cease. Should the parties be unable to reach an amalgamated agreement, the Company plans to commence negotiation for a revised collective agreement.

### 3.2.3 Newfoundland Power

Newfoundland Power is an integrated electric utility and the principal distributor of electricity on the island portion of Newfoundland and Labrador, serving more than 243,000 customers, or 86%, of the province's electricity consumers. Newfoundland Power met a peak demand of 1,206 MW in 2010. The balance of the population is served by Newfoundland's other electric utility, Newfoundland Hydro, which also serves several larger industrial customers. Newfoundland Power owns and operates approximately 11,000 kilometres of transmission and distribution lines.

## Market and Sales

Annual weather-adjusted electricity sales increased to 5,419 GWh in 2010 from 5,299 GWh in 2009. Revenue increased to \$555 million in 2010 from \$527 million in 2009.

The following table compares the composition of Newfoundland Power's 2010 and 2009 revenue and electricity sales by customer class.

| <b>Newfoundland Power<br/>Revenue and Electricity Sales by Customer Class</b>                                                                |                                       |             |                                         |             |
|----------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------------|-----------------------------------------|-------------|
|                                                                                                                                              | <b>Revenue <sup>(1)</sup><br/>(%)</b> |             | <b>GWh Sales <sup>(1)</sup><br/>(%)</b> |             |
|                                                                                                                                              | <b>2010</b>                           | <b>2009</b> | <b>2010</b>                             | <b>2009</b> |
| Residential                                                                                                                                  | <b>60.2</b>                           | 59.0        | <b>61.1</b>                             | 60.4        |
| Commercial and Street Lighting                                                                                                               | <b>36.3</b>                           | 37.0        | <b>38.9</b>                             | 39.6        |
| Other <sup>(2)</sup>                                                                                                                         | <b>3.5</b>                            | 4.0         | -                                       | -           |
| Total                                                                                                                                        | <b>100.0</b>                          | 100.0       | <b>100.0</b>                            | 100.0       |
| <sup>(1)</sup> Revenue and electricity sales reflect weather-adjusted values pursuant to Newfoundland Power's weather normalization reserve. |                                       |             |                                         |             |
| <sup>(2)</sup> Includes revenue from sources other than from the sale of electricity, the most significant being joint-use of pole revenue   |                                       |             |                                         |             |

## ***Power Supply***

Approximately 93% of Newfoundland Power's energy requirements is purchased from Newfoundland Hydro. The principal terms of the supply arrangements with Newfoundland Hydro are regulated by the PUB on a basis similar to that upon which Newfoundland Power's service to its customers is regulated.

Newfoundland Power operates 30 small generating facilities, which generate approximately 7% of the electricity sold by Newfoundland Power. The Company's hydroelectric generating plants have a total capacity of 97 MW. The diesel plants and gas turbines have a total capacity of approximately 7 MW and 36 MW, respectively.

## ***Legal Proceedings***

The City of St. John's has given formal notice of its intention to terminate Newfoundland Power's rights to use the Mobile River watershed for the generation of electricity. The effective date of the notice to terminate the lease was March 1, 2009. The Company held these rights under a lease dated November 23, 1946, which was amended by an agreement dated October 21, 1949. The two hydroelectric generating plants affected by the lease have a combined capacity of approximately 12 MW and generate annual production of 49 GWh, representing less than 1% of the Company's total energy requirements. To exercise the termination provision of the lease, the City of St. John's is required to pay to the Company the value of all works and erections employed in the generation and transmission of electricity using the water of the Mobile River watershed. In accordance with the terms of the lease, an arbitration panel was appointed in 2008 for the purpose of determining the value of the affected assets. On March 9, 2009, the panel issued a ruling on certain preliminary questions. A majority of the panel ruled that termination of the lease will not be effective until payment to the Company of the value of the assets, and that the value of the payment is to be based on a valuation of the assets as a going concern, including the land and water rights.

The City of St. John's has applied to the Supreme Court of Newfoundland and Labrador to have the preliminary ruling of the arbitration panel set aside. On November 12, 2010, the Supreme Court issued a decision dismissing the City's application, and awarding court costs to Newfoundland Power. In December 2010 the city appealed the Supreme Court's decision to the Newfoundland and Labrador Court of Appeal. A hearing date for the appeal has not yet been set.

## ***Human Resources***

As at December 31, 2010, Newfoundland Power had 572 full-time equivalent employees, of which approximately 54% were members of bargaining units represented by IBEW, Local 1620.

The Company has two collective agreements governing its union employees represented by IBEW, Local 1620. Both collective agreements expire September 30, 2011.

## ***Recent Developments***

In December 2010 Newfoundland Power and Bell Aliant signed a new Support Structure Agreement, effective January 1, 2011, whereby Bell Aliant will buy back 40% of all joint-use poles and related infrastructure owned by Newfoundland Power for approximately \$46 million. Newfoundland Power has filed an application with the PUB requesting approval of the transaction and expects the transaction to close in 2011.

### ***3.2.4 Other Canadian Electric Utilities***

Other Canadian Electric Utilities includes the operations of Maritime Electric and FortisOntario.

#### **Maritime Electric**

The Corporation, through FortisWest, holds all of the common shares of Maritime Electric. Maritime Electric is an integrated electric utility that directly supplies more than 74,000 customers, constituting 90% of electricity consumers on Prince Edward Island. Maritime Electric purchases most of the energy it distributes to its customers from NB Power, a provincial Crown Corporation, through various energy purchase agreements. Maritime Electric's system is connected to the mainland power grid via two submarine cables between Prince Edward Island and New Brunswick, which are leased from the Government of Prince Edward Island. Maritime Electric owns and operates generating plants

with a combined capacity of 150 MW on Prince Edward Island and met a peak demand of 207 MW in 2010. Maritime Electric owns and operates approximately 5,500 kilometres of transmission and distribution lines.

#### FortisOntario

The Corporation's wholly owned regulated utility investments in Ontario, collectively FortisOntario, provides integrated electric utility service to approximately 64,000 customers in Fort Erie, Cornwall, Gananoque, Port Colborne and, as of October 2009, the District of Algoma in Ontario. Included in Canadian Niagara Power's accounts is the operation of the electricity distribution business of Port Colborne Hydro, which has been leased from the City of Port Colborne under a 10-year lease agreement that expires in April 2012. FortisOntario also owns a 10% interest in each of Westario Power Inc., Rideau St. Lawrence Holdings Inc. and Grimsby Power Inc., three regional electric distribution companies serving approximately 38,000 customers.

FortisOntario met a combined peak demand of 273 MW in 2010. FortisOntario owns and operates approximately 3,300 kilometres of transmission and distribution lines.

#### **Market and Sales**

Annual electricity sales were 2,328 GWh in 2010 compared to 2,195 GWh in 2009. Revenue was \$331 million in 2010 compared to \$285 million in 2009.

The following table compares the composition of Other Canadian Electric Utilities' 2010 and 2009 revenue and electricity sales by customer class.

| <b>Other Canadian Electric Utilities<br/>Revenue and Electricity Sales by Customer Class</b> |                               |       |                                 |       |
|----------------------------------------------------------------------------------------------|-------------------------------|-------|---------------------------------|-------|
|                                                                                              | <b>Revenue <sup>(1)</sup></b> |       | <b>GWh Sales <sup>(1)</sup></b> |       |
|                                                                                              | <b>(%)</b>                    |       | <b>(%)</b>                      |       |
|                                                                                              | <b>2010</b>                   | 2009  | <b>2010</b>                     | 2009  |
| Residential                                                                                  | <b>42.5</b>                   | 43.2  | <b>42.9</b>                     | 43.3  |
| Commercial and industrial                                                                    | <b>49.1</b>                   | 47.3  | <b>56.4</b>                     | 56.1  |
| Other <sup>(2)</sup>                                                                         | <b>8.4</b>                    | 9.5   | <b>0.7</b>                      | 0.6   |
| Total                                                                                        | <b>100.0</b>                  | 100.0 | <b>100.0</b>                    | 100.0 |
| <sup>(1)</sup> Includes financial results of Algoma Power from October 2009                  |                               |       |                                 |       |
| <sup>(2)</sup> Includes revenue from sources other than from the sale of electricity         |                               |       |                                 |       |

#### **Power Supply**

##### Maritime Electric

Maritime Electric purchased 80% of the electricity required to meet its customers' needs from NB Power in 2010. The balance was met through the purchase of wind energy produced on Prince Edward Island. Maritime Electric's on-Island generation facilities are used primarily for peaking, submarine-cable loading issues and emergency purposes.

Maritime Electric generally purchases some of its electricity requirements from Point Lepreau. A major refurbishment of Point Lepreau began in 2008 and is expected to be completed by fall 2012, extending the facility's estimated life an additional 25 years. As permitted by Island Regulatory and Appeals Commission, replacement energy costs incurred during the refurbishment period are being deferred by Maritime Electric and were approximately \$47 million to the end of February 2011. The nature and timing of recovery of the deferred costs is subject to further review by a commission to be established by the Government of Prince Edward Island.

On November 12, 2010, Maritime electric signed the Prince Edward Island Energy Accord with the Government of Prince Edward Island. The Prince Edward Island Energy Accord covers the period from March 1, 2011 through February 29, 2016. The Accord will provide rate reductions effective March 1, 2011 and price stability and rate predictability for the next two years.

The combination of reduced energy input costs associated with a new five-year energy purchase agreement with NB Power effective March 1, 2011 and the assumption, by the Government of Prince Edward Island, of certain energy related costs beginning on March 1, 2011 as stipulated in the Prince Edward Island Energy Accord, will contribute to lower costs for consumers effective March 1, 2011. Maritime Electric's exposure with respect to premiums for replacement energy during the refurbishment of Point Lepreau has been capped as of February 2011. For further information, refer to the "Material Regulatory Decisions and Applications – Maritime Electric" section of the MD&A.

The *Renewable Energy Act* (Prince Edward Island) requires Maritime Electric to supply 15% of its annual energy sales from renewable energy sources. The Government of Prince Edward Island intends to install 30 MW of wind turbines on Prince Edward Island by January 1, 2013, with a view to sell the resultant energy to Maritime Electric. Electricity generated from a 10-MW wind farm, scheduled for completion on Prince Edward Island on or about January 1, 2012, will be purchased by the Government of Prince Edward Island and, in turn, sold to Maritime Electric. Approximately 20% of total energy supply was derived from wind-powered generation in 2010.

#### FortisOntario

The power requirements of FortisOntario's service areas are provided from various sources. Canadian Niagara Power purchases its power requirements for Fort Erie and Port Colborne from IESO. Canadian Niagara Power purchases approximately 88% of energy requirements for Gananoque through monthly energy purchases from Hydro One and the remaining 12% is purchased, through the Hydroelectric Contract Initiative, from five hydroelectric generating plants owned by Fortis Properties. Algoma Power purchases 100% of its energy from IESO.

Under the Standard Supply Code of the Ontario Energy Board, Canadian Niagara Power and Algoma Power are obliged to provide Standard Service Supply to all its customers who do not choose to contract with an electricity retailer. This energy is provided to customers at either regulated or market prices.

Cornwall Electric purchases 100% of its power requirements from Hydro-Québec Energy Marketing under two fixed-term contracts. The first contract, which represents approximately 39% of the power supply, is a 45-MW contract with a 60% capacity factor. The second contract, supplying the remainder of Cornwall Electric's energy requirement, is a 100-MW capacity and energy contract. Both contracts expire in December 2019.

#### **Human Resources**

As at December 31, 2010, Maritime Electric had 182 full-time equivalent employees, of which approximately 70% were represented by IBEW, Local 1432. On March 12, 2010, a new collective agreement was reached, which expires December 31, 2013.

As at December 31, 2010, FortisOntario had 199 full-time equivalent employees, of which approximately 59% were represented by CUPE, Local 137, and IBEW, Local 636, in the Niagara Region; IBEW, Local 636, in Gananoque; and Power Workers Union, a CUPE affiliate as CUPE Local 1000, in the Algoma region. The collective agreements governing these employees expire on April 30, 2012; May 31, 2012; July 31, 2012; and December 31, 2012, respectively.

### **3.3 Regulated Electric Utilities - Caribbean**

Regulated Electric Utilities - Caribbean operations are comprised of Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos.

Belize Electricity is an integrated electric utility and the principal distributor of electricity in Belize, Central America, serving more than 77,000 customers. The utility owns more than 2,900 kilometres of transmission and distribution lines and met a peak demand of 81 MW in 2010. The Corporation holds an approximate 70% controlling ownership interest in Belize Electricity.

Caribbean Utilities is an integrated electric utility and the sole provider of electricity on Grand Cayman, Cayman Islands, serving more than 26,000 customers. The Company met a record peak demand of approximately 102 MW in 2010. Caribbean Utilities owns and operates approximately 556 kilometres of transmission and distribution lines. Fortis holds an approximate 59% controlling ownership interest in the utility. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX:CUP.U).

Fortis Turks and Caicos is an integrated electric utility, wholly owned by Fortis, serving approximately 9,000 customers, or 80%, of electricity consumers, in the Turks and Caicos Islands. The utility met a combined record peak demand of approximately 31 MW in 2010. Fortis Turks and Caicos owns and operates approximately 235 kilometres of transmission and distribution lines. The Company is the principal distributor of electricity in the Turks and Caicos Islands pursuant to 50-year licences that expire in 2036 and 2037.

### **Market and Sales**

Annual electricity sales increased to 1,150 GWh in 2010 from 1,140 GWh in 2009. Annual revenue decreased to \$335 million in 2010 from \$339 million in 2009.

The following table compares the composition of Regulated Electric Utilities - Caribbean's revenue and electricity sales by customer class for the years ended 2010 and 2009.

| <b>Regulated Electric Utilities – Caribbean <sup>(1)</sup></b>                              |                        |       |                          |       |
|---------------------------------------------------------------------------------------------|------------------------|-------|--------------------------|-------|
| <b>Revenue and Electricity Sales by Customer Class</b>                                      |                        |       |                          |       |
|                                                                                             | <b>Revenue<br/>(%)</b> |       | <b>GWh Sales<br/>(%)</b> |       |
|                                                                                             | <b>2010</b>            | 2009  | <b>2010</b>              | 2009  |
| Residential                                                                                 | <b>48.6</b>            | 48.0  | <b>48.3</b>              | 48.4  |
| Commercial, industrial<br>and street lighting                                               | <b>49.4</b>            | 50.0  | <b>51.7</b>              | 51.6  |
| Other <sup>(2)</sup>                                                                        | <b>2.0</b>             | 2.0   | -                        | -     |
| <b>Total</b>                                                                                | <b>100.0</b>           | 100.0 | <b>100.0</b>             | 100.0 |
| <sup>(1)</sup> Includes Belize Electricity, Caribbean Utilities and Fortis Turks and Caicos |                        |       |                          |       |
| <sup>(2)</sup> Includes revenue from sources other than from the sale of electricity        |                        |       |                          |       |

### **Power Supply**

In 2010 approximately 64% of the energy requirements of Regulated Electric Utilities - Caribbean was sourced from in-house diesel-powered and, to a lesser extent, gas-turbine generation.

Belize Electricity meets its energy requirements from multiple sources, which include power purchases from: (i) the Mollejon, Chalillo and Vaca hydroelectric generating facilities owned and operated by BECOL; (ii) the cogeneration facility owned by BELCOGEN; (iii) the heavy fuel oil plant operated by BAL; (iv) the Hydro Maya hydroelectric generating plant owned by Hydro Maya Limited; (v) CFE, the Mexican state-owned power company; and (vi) its own diesel-powered and gas-turbine generation. All major load centers are connected to Belize's national electricity system, which is connected with the Mexican national electricity grid, allowing Belize Electricity to optimize its power supply options. Belize Electricity purchased 98% of its energy requirements from the Mollejon, Chalillo and Vaca hydroelectric generating facilities; BELCOGEN; BAL; Hydro Maya Limited and CFE. The balance was produced by Belize Electricity's installed generating capacity of 34 MW, including a 22-MW gas-turbine generating facility.

In October 2009 the CFE of Mexico cancelled the guaranteed power supply contract for firm energy with Belize Electricity. CFE continues to supply Belize Electricity with power when available. There is sufficient in-country generation to meet energy demand in Belize without supply from CFE.

Caribbean Utilities relies upon in-house diesel-powered generation to produce electricity for Grand Cayman. Grand Cayman has neither hydroelectric potential nor inherent thermal resources and the Company must rely upon diesel fuel imported to Grand Cayman primarily from refineries in the Caribbean and the Gulf of Mexico. The Company has an installed generating capacity of approximately 151 MW.

Caribbean Utilities has a primary fuel supply contract with a major supplier and is committed to purchase 80% of the Company's fuel requirements from this supplier for the operation of Caribbean Utility's diesel-powered generating plant. The initial contract was for three years and terminated in April 2010. Caribbean Utilities continues to operate within the terms of the initial contract. The contract contains an automatic renewal clause for years 2010 through 2012. Should any party choose to terminate the contract within that two-year period, notice must be given a minimum of one year in advance of the desired termination date. As at December 31, 2010, no such termination notice has been given by either party. As such, the contract is effectively renewed for 2011. The quantity of fuel to be purchased under the contract for 2011 is approximately 25 million imperial gallons.

Fortis Turks and Caicos relies upon in-house diesel-powered generation, which has a combined generating capacity of 57 MW, to produce electricity for its customers.

Fortis Turks and Caicos has a renewable contract with a major supplier for all of its diesel fuel requirements associated with the generation of electricity. The approximate fuel requirements under this contract are 12 million imperial gallons per annum.

### ***Legal Proceedings***

Belize Electricity is involved in a number of legal proceedings relating to the PUC's June 2008 Final Decision. Changes made in electricity legislation by the Government of Belize and the PUC, the PUC's June 2008 Final Decision and the PUC's amendment to the June 2008 Final Decision, which were based on the changed legislation, have been judicially challenged by Belize Electricity in several proceedings. In response to an application from Belize Electricity, the Supreme Court of Belize issued an order in June 2010 prohibiting the PUC from carrying out any rate-setting review proceedings, changing any rates and taking any enforcement or penal steps against Belize Electricity until further order of the Supreme Court.

The evidentiary portion of the trial of Belize Electricity's appeal of the PUC's June 2008 Final Decision was heard in October 2010 with closing arguments completed in December 2010. A court decision on the matter is expected in the first quarter of 2011.

### ***Human Resources***

As at December 31, 2010, Regulated Electric Utilities - Caribbean employed 593 full-time equivalent employees. The 191 employees at Caribbean Utilities and 106 employees at Fortis Turks and Caicos are non-unionized. Of the 296 full-time equivalent employees at Belize Electricity, approximately 80% were represented by BEWU. The Company's collective agreement with BEWU was signed in July 2008 with the next review of the agreement scheduled for 2011 and every five years thereafter.

### 3.4 Non-Regulated - Fortis Generation

The following table summarizes the Corporation's non-regulated generation assets by location.

| Fortis Generation<br>Non-Regulated Generation Assets                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |           |                |               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------------|---------------|
| Location                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Plants    | Fuel           | Capacity (MW) |
| Belize <sup>(1)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 3         | hydro          | 51            |
| Ontario                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 7         | hydro, thermal | 13            |
| Central Newfoundland <sup>(2)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 2         | hydro          | 36            |
| British Columbia <sup>(3)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 1         | hydro          | 16            |
| Upper New York State                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4         | hydro          | 23            |
| <b>Total</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>17</b> |                | <b>139</b>    |
| <sup>(1)</sup> Includes the 19-MW Vaca hydroelectric generating facility, which was commissioned in March 2010<br><sup>(2)</sup> The two central Newfoundland plants were expropriated by the Government of Newfoundland and Labrador in December 2008. Effective February 12, 2009, the Corporation discontinued the consolidation method of accounting for its investment in central Newfoundland.<br><sup>(3)</sup> Once completed, the Waneta Expansion will provide an additional 335 MW of hydroelectric generating capacity in British Columbia. |           |                |               |

The Corporation's non-regulated generation operations consist of its 100% ownership interest in each of BECOL, FortisOntario and FortisUS Energy, as well as non-regulated generation assets owned by Fortis Properties, FortisBC Inc., and by Fortis through its 51% controlling ownership interest in the Waneta Partnership.

Non-regulated generation operations in Belize consist of the 25-MW Mollejon, 7-MW Chalillo and, as of March 2010, 19-MW Vaca hydroelectric generating facilities. All of the output of these facilities is sold to Belize Electricity under 50-year power purchase agreements expiring in 2055 and 2060 and a franchise agreement with the Government of Belize. Under these agreements, the Mollejon hydroelectric generating facility will be transferred to the Government of Belize in 2036, after which it will be leased at an annually increasing rate for a term expiring in 2055.

The US\$53 million 19-MW hydroelectric generating facility at Vaca on the Macal River in Belize was commissioned in March 2010. The facility was constructed downstream from the Chalillo and Mollejon hydroelectric generation facilities and is forecast to increase average annual energy production from the Macal River by approximately 80 GWh to 240 GWh.

Non-regulated generation operations of FortisOntario include the operation of a 5-MW gas-powered cogeneration plant in Cornwall. All energy output of this plant is sold to Cornwall Electric. Fortis Properties owns and operates six small hydroelectric generating facilities in eastern Ontario with a combined capacity of 8 MW. The electricity produced from these facilities is sold to the Ontario Power Association, via the Hydroelectric Contract Initiative, under fixed-price contracts.

Fortis Properties also has a non-regulated generation investment in central Newfoundland that is held through the Company's direct 51% interest in the Exploits Partnership. Through the Exploits Partnership, 36 MW of additional capacity was developed and installed at two of Abitibi's hydroelectric generating plants in central Newfoundland. The Exploits Partnership sells its output to Newfoundland Hydro under a 30-year power purchase agreement expiring in 2033. Effective February 12, 2009, the Corporation discontinued the consolidation method of accounting for these operations, necessitated by the actions of the Government of Newfoundland and Labrador related to its expropriation of the assets of the Exploits Partnership (see the "Legal Proceedings" section that follows).

The non-regulated generation operations of FortisBC Inc. include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia and the 335-MW Waneta Expansion, which is being constructed. The Walden hydroelectric power plant is a non-regulated operation that sells its entire output to BC Hydro under a power purchase agreement expiring in 2013. Effective October 1, 2010, non-regulated generation operations in British Columbia include the Corporation's direct 51% controlling ownership interest in the Waneta Partnership, with CPC/CBT holding the



remaining 49% interest. Construction of the Waneta Expansion commenced late in 2010 for completion expected in spring 2015 at an estimated cost of approximately \$900 million. SNC-Lavalin was awarded a contract for approximately \$590 million to design and build the Waneta Expansion. Approximately \$75 million was incurred on this capital project in 2010. For additional information refer to Section 3.2.2 of this AIF.

Through FortisUS Energy, an indirect wholly owned subsidiary, the Corporation owns and operates four hydroelectric generating facilities in Upper New York State with a combined capacity of approximately 23 MW operating under licences from the United States Federal Energy Regulatory Commission. All four hydroelectric generating facilities sell energy at market rates through purchase agreements with Niagara Mohawk Power Corporation.

### **Market and Sales**

Annual energy sales from non-regulated generation assets were 427 GWh in 2010 compared to 583 GWh in 2009. Revenue was \$36 million in 2010 compared to \$39 million in 2009.

The following table compares the composition of Fortis Generation's 2010 and 2009 revenue and energy sales by location.

| <b>Fortis Generation<br/>Revenue and Energy Sales by Location</b>                                                                                                                                   |                        |             |                          |             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|--------------------------|-------------|
|                                                                                                                                                                                                     | <b>Revenue<br/>(%)</b> |             | <b>GWh Sales<br/>(%)</b> |             |
|                                                                                                                                                                                                     | <b>2010</b>            | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Belize <sup>(1)</sup>                                                                                                                                                                               | <b>68.9</b>            | 46.1        | <b>60.6</b>              | 30.9        |
| Ontario <sup>(2)</sup>                                                                                                                                                                              | <b>11.2</b>            | 31.0        | <b>11.7</b>              | 46.5        |
| Central Newfoundland <sup>(3)</sup>                                                                                                                                                                 | <b>3.9</b>             | 9.1         | -                        | 3.3         |
| British Columbia                                                                                                                                                                                    | <b>5.6</b>             | 4.2         | <b>8.4</b>               | 4.9         |
| Upper New York State                                                                                                                                                                                | <b>10.4</b>            | 9.6         | <b>19.3</b>              | 14.4        |
| Total                                                                                                                                                                                               | <b>100.0</b>           | 100.0       | <b>100.0</b>             | 100.0       |
| <sup>(1)</sup> Results reflect contribution from the Vaca hydroelectric generating facility in Belize from March 2010 when the facility was commissioned                                            |                        |             |                          |             |
| <sup>(2)</sup> Results reflect contribution from the Rankine hydroelectric generating facility in Ontario until April 30, 2009, when the Rankine water rights expired at the end of a 100-year term |                        |             |                          |             |
| <sup>(3)</sup> Reflects the discontinuance of the consolidation method of accounting for the financial results of the operations in central Newfoundland, effective February 12, 2009               |                        |             |                          |             |

### **Legal Proceedings**

#### **Exploits Partnership**

In December 2008 the Government of Newfoundland and Labrador expropriated Abitibi's hydroelectric assets and water rights in Newfoundland, including those of the Exploits Partnership. The newsprint mill in Grand Falls-Windsor closed on February 12, 2009, subsequent to which the day-to-day operations of the Exploits Partnership's hydroelectric generating facilities were assumed by Nalcor Energy as an agent for the Government of Newfoundland and Labrador with respect to expropriation matters. The Government of Newfoundland and Labrador has publicly stated that it is not its intention to adversely affect the business interests of lenders or independent partners of Abitibi in the province. The loss of control over cash flows and operations has required Fortis to cease consolidation of the Exploits Partnership, effective February 12, 2009. Discussions between Fortis Properties and Nalcor Energy with respect to expropriation matters are ongoing.

### **Human Resources**

As at December 31, 2010, Fortis Generation employed 28 full-time equivalent personnel, none of whom participate in a collective agreement.

### 3.5 Non-Regulated - Fortis Properties

As a wholly owned subsidiary of Fortis, Fortis Properties is the Corporation's vehicle for non-utility diversification and growth. The Company owns and operates 21 hotels, comprised of more than 4,100 rooms, in eight Canadian provinces and approximately 2.7 million square feet of commercial office and retail space primarily in Atlantic Canada.

Revenue was \$226 million in 2010 compared to \$219 million in 2009. In 2010 Fortis Properties derived approximately 29% of its revenue from real estate operations and 71% of its revenue from hotel operations. Fortis Properties derived approximately 45% of its 2010 operating income from real estate operations and 55% from hotel operations.

Fortis Properties' Real Estate Division is anchored by high-quality tenants under long-term leases. The Real Estate Division ended 2010 with 94.5% occupancy, compared to 96.2% occupancy at the end of 2009. In contrast, the average national occupancy rate was 90.5% at the end of 2010, compared to 90.2% at the end of 2009.

The following table sets out the office and retail properties owned by Fortis Properties.

| <b>Fortis Properties<br/>Office and Retail Properties</b>     |                  |                         |                                                 |
|---------------------------------------------------------------|------------------|-------------------------|-------------------------------------------------|
| <b>Property</b>                                               | <b>Location</b>  | <b>Type of Property</b> | <b>Gross Lease Area<br/>(square feet 000's)</b> |
| Fort William Building                                         | St. John's, NL   | Office                  | 188                                             |
| Cabot Place I                                                 | St. John's, NL   | Office                  | 135                                             |
| TD Place                                                      | St. John's, NL   | Office                  | 94                                              |
| Fortis Building                                               | St. John's, NL   | Office                  | 83                                              |
| Multiple Office                                               | St. John's, NL   | Office and Retail       | 75                                              |
| Millbrook Mall                                                | Corner Brook, NL | Retail                  | 118                                             |
| Fraser Mall                                                   | Gander, NL       | Retail                  | 99                                              |
| Marystown Mall                                                | Marystown, NL    | Retail                  | 87                                              |
| Fortis Tower                                                  | Corner Brook, NL | Office                  | 69                                              |
| Viking Mall <sup>(1)</sup>                                    | St. Anthony, NL  | Retail                  | 69                                              |
| Maritime Centre                                               | Halifax, NS      | Office and Retail       | 564                                             |
| Brunswick Square                                              | Saint John, NB   | Office and Retail       | 512                                             |
| Kings Place                                                   | Fredericton, NB  | Office and Retail       | 292                                             |
| Blue Cross Centre                                             | Moncton, NB      | Office and Retail       | 324                                             |
| Delta Regina                                                  | Regina, SK       | Office                  | 52                                              |
| <b>Total</b>                                                  |                  |                         | <b>2,761</b>                                    |
| <sup>(1)</sup> Property sold subsequent to December 31, 2010. |                  |                         |                                                 |

Revenue per available room, at the Hospitality Division of Fortis Properties, had a modest increase to \$76.83 in 2010 from \$76.55 in 2009. The increase was the result of an increase in the average room rate, partially offset by an overall decrease in hotel occupancy. Average daily room rate increased to \$124.17 in 2010, up from \$121.98 in 2009, while the average occupancy for 2010 was 61.9% down from the 62.8% achieved in 2009.

The hotels owned and managed by Fortis Properties are summarized as follows.

| <b>Fortis Properties<br/>Hotels</b>                                                                                                                                      |                         |                                      |                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------------------------------|----------------------------------------------------------|
| <b>Hotels</b>                                                                                                                                                            | <b>Location</b>         | <b>Number of<br/>Guest<br/>Rooms</b> | <b>Conference<br/>Facilities<br/>(000's square feet)</b> |
| Delta St. John's                                                                                                                                                         | St. John's, NL          | 403                                  | 21                                                       |
| Holiday Inn St. John's                                                                                                                                                   | St. John's, NL          | 252                                  | 11                                                       |
| Sheraton Hotel Newfoundland                                                                                                                                              | St. John's, NL          | 301                                  | 16                                                       |
| Mount Peyton                                                                                                                                                             | Grand Falls-Windsor, NL | 148                                  | 6                                                        |
| Greenwood Inn Corner Brook                                                                                                                                               | Corner Brook, NL        | 102                                  | 5                                                        |
| Four Points by Sheraton Halifax                                                                                                                                          | Halifax, NS             | 177                                  | 12                                                       |
| Delta Sydney                                                                                                                                                             | Sydney, NS              | 152                                  | 6                                                        |
| Delta Brunswick                                                                                                                                                          | Saint John, NB          | 254                                  | 18                                                       |
| Holiday Inn Kitchener-Waterloo                                                                                                                                           | Kitchener-Waterloo, ON  | 184                                  | 13                                                       |
| Holiday Inn Peterborough                                                                                                                                                 | Peterborough, ON        | 153                                  | 7                                                        |
| Holiday Inn Sarnia                                                                                                                                                       | Point Edward, ON        | 217                                  | 11                                                       |
| Holiday Inn Cambridge                                                                                                                                                    | Cambridge, ON           | 143                                  | 7                                                        |
| Holiday Inn Select Windsor                                                                                                                                               | Windsor, ON             | 214                                  | 14                                                       |
| Greenwood Inn Calgary                                                                                                                                                    | Calgary, AB             | 210                                  | 9                                                        |
| Greenwood Inn Edmonton                                                                                                                                                   | Edmonton, AB            | 224                                  | 8                                                        |
| Greenwood Inn Winnipeg                                                                                                                                                   | Winnipeg, MB            | 213                                  | 10                                                       |
| Ramada Hotel & Suites Lethbridge                                                                                                                                         | Lethbridge, AB          | 119                                  | 5                                                        |
| Holiday Inn Express and Suites Medicine Hat                                                                                                                              | Medicine Hat, AB        | 93                                   | 1                                                        |
| Best Western Medicine Hat                                                                                                                                                | Medicine Hat, AB        | 122                                  | -                                                        |
| Holiday Inn Express Kelowna <sup>(1)</sup>                                                                                                                               | Kelowna, BC             | 190                                  | 5                                                        |
| Delta Regina                                                                                                                                                             | Regina, SK              | 274                                  | 24                                                       |
| <b>Total</b>                                                                                                                                                             |                         | <b>4,145</b>                         | <b>209</b>                                               |
| <sup>(1)</sup> Includes an additional 70 rooms and approximately 4,500 square feet of meeting space associated with an expansion of the hotel completed in February 2010 |                         |                                      |                                                          |

### **Human Resources**

As at December 31, 2010, Fortis Properties employed approximately 2,300 full-time equivalent employees, approximately 50% of whom are represented by unions listed in the following table.

| <b>Fortis Properties<br/>Unions</b>                          |              |                                  |                                          |
|--------------------------------------------------------------|--------------|----------------------------------|------------------------------------------|
| <b>Property</b>                                              | <b>Union</b> | <b>Expiry of Agreement</b>       | <b>Number of<br/>Unionized Employees</b> |
| Holiday Inn St. John's                                       | CAW          | August 31, 2012                  | 50                                       |
| Delta St. John's                                             | UFCW         | December 31, 2012                | 264                                      |
| Greenwood Inn Corner Brook                                   | CAW          | March 11, 2013                   | 47                                       |
| East Side Mario's St. John's                                 | CAW          | July 31, 2013                    | 104                                      |
| Delta Sydney                                                 | CAW          | September 30, 2011               | 79                                       |
| Delta Brunswick & Brunswick Square                           | USW          | June 10, 2013                    | 139                                      |
| Delta Regina                                                 | CEP          | November 30, 2010 <sup>(1)</sup> | 183                                      |
| St. John's Real Estate                                       | IBEW         | April 17, 2013                   | 10                                       |
| Sheraton Hotel Newfoundland                                  | CAW          | March 31, 2011                   | 173                                      |
| Holiday Inn Select Windsor                                   | UFCW         | April 30, 2013                   | 52                                       |
| Mount Peyton                                                 | UFCW         | December 1, 2011                 | 55                                       |
| <b>Total</b>                                                 |              |                                  | <b>1,156</b>                             |
| <sup>(1)</sup> Collective bargaining commenced January 2011. |              |                                  |                                          |

## 4.0 REGULATION

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Each of the Corporation's utilities operates under a cost of service methodology and is regulated by the regulatory body in its respective operating jurisdiction. FortisBC is also subject to performance-based rate-setting extending into 2011, which provides the utility an opportunity to earn in excess of its allowed rate of return on common shareholders' equity. With regulated utilities in eight different jurisdictions, Fortis has significant regulatory expertise.

For information with respect to the nature of regulation and material regulatory decisions and applications associated with each of the Corporation's regulated gas and electric utilities, refer to the "Regulatory Highlights" section of the MD&A and to Note 2 to the Corporation's 2010 Audited Consolidated Financial Statements.

## 5.0 ENVIRONMENTAL MATTERS

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The Corporation and its Canadian subsidiaries are subject to various federal, provincial and municipal laws, regulations and guidelines relating to the protection of the environment including, but not limited to, wildlife, water and land protection, emissions and the proper storage, transportation, recycling and disposal of hazardous and non-hazardous substances. In addition, both the provincial and federal governments have environmental assessment legislation, which is designed to foster better land-use planning through the identification and mitigation of potential environmental impacts of projects or undertakings prior to and after their commencement.

Several key Canadian federal environmental laws and regulations affecting the operations of the Corporation's Canadian subsidiaries include, but are not limited to, the: (i) *Canadian Environmental Assessment Act*; (ii) *Canadian Environmental Protection Act*; (iii) *Transportation of Dangerous Goods Act and Regulations*; (iv) *Hazardous Product Act*; (v) *Canada Wildlife Act*; (vi) *Navigable Waters Protection Act*; (vii) *Canada National Parks Act*; (viii) *Fisheries Act*; (ix) *Canada Water Act*; (x) *National Emission Guidelines for Stationary Combustion Turbines*; (xi) *National Fire Code of Canada*; (xii) *Pest Control Products Act and Regulations*; (xiii) *PCB Regulations*; (xiv) *Canadian Species at Risk Act*; and (xv) *Ozone Depleting Substances Regulations*.

Environmental risks affecting the Corporation's utility operations include, but are not limited to: (i) hazards associated with the transportation, storage and handling of large volumes of fuel for fuel-powered electricity generating plants, including leeching of the fuel into the ground, nearby watershed areas and open waters; (ii) risk of spills or leaks of petroleum-based products, including PCB-contaminated oil, which are used in the cooling and lubrication of transformers, capacitors and other electrical equipment; (iii) risk of spills or releases into the environment arising from the improper transportation, storage, handling and disposal of other hazardous substances; (iv) GHG emissions, including natural gas and propane leaks and spills and emissions from the combustion of fuel required to generate electricity; (v) risk of fire; (vi) risk of disruption to vegetation; (vii) risk of contamination of soil and water near chemically treated poles; (viii) risk of disruption to fish, animals and their habitat as a result of the creation of artificial water flows and levels associated with hydroelectric water storage and utilization; and (ix) risk of responsibility for remediation of contaminated properties, whether or not such contamination resulted from the Corporation's utility operations.

There are many Canadian provincial and municipal laws, regulations and guidelines that address similar environmental risks as the federal laws, regulations and guidelines, but at a provincial or local level.

In British Columbia, the *Carbon Tax Act*, *Greenhouse Gas Reduction Targets Act*, *Clean Energy Act*, *Greenhouse Gas Reduction (Cap and Trade) Act* and anticipated cap-and-trade regulations specifically affect, or may potentially affect, the operations of the Terasen Gas companies and FortisBC.

Air emissions management is the main environmental concern of the Corporation's regulated gas utilities, primarily due to the uncertainties relating to new and emerging federal and provincial GHG laws, regulations and guidelines. While governmental policy direction is unfolding, it remains to be determined to what extent a GHG air emissions cap will impact these utilities. To help mitigate this uncertainty, the Terasen Gas companies participate in sectoral and industry groups to monitor the development of emerging regulations. In addition, TGI was an active participant in Canada's

Voluntary Climate Change Challenge and Registry and, its successor, the Canadian Greenhouse Gas Challenge Registry. Involvement in stakeholder consultations by the Terasen Gas companies has occurred to ensure the perspective of the Companies is considered such that unnecessary prescriptive reporting requirements do not encumber existing asset integrity management processes that are in place to address operational risks around GHG emissions.

Recent updates to the Government of British Columbia's Energy Plan and GHG reduction targets present risks and opportunities to the Terasen Gas companies and, to a lesser degree, FortisBC. The *Greenhouse Gas Reduction Targets Act* mandates a public sector reduction in GHG emissions of 33% from 2007 levels by 2020. This is coupled with mandates for all new electricity generation to be net carbon neutral. Energy objectives under the *Clean Energy Act* aim to ensure electricity self-sufficiency for British Columbia by 2016. The *Clean Energy Act* also places a new focus on clean demand-side management measures and smart metering technologies. In 2008 the Government of British Columbia amended the *Utilities Commission Act* to require the BCUC to ensure that utilities undertake efficiency and conservation measures in their operations and to consider the Government of British Columbia's energy objectives in specified approval processes.

The energy and GHG emissions policies in British Columbia have created incentives to expand TGI's deployment of renewable energy, such as biogas, and to expand its Energy Efficiency and Conservation Program. Additionally, the introduction of the *Carbon Tax Act* improves the competitive position of natural gas relative to other fossil fuels, as the tax is based on the amount of carbon dioxide equivalent emitted per unit of energy. Natural gas, therefore, has a lower tax rate than oil or coal products.

TGI is one of the first utility companies in Canada to include alternative energy solutions as part of its regulated energy service offerings. TGI recently received approval from the BCUC for a new renewable natural gas program, on a limited basis, for an initial two-year period. An equivalent of 10% of the subscribed customers' natural gas requirements will be sourced from local renewable energy projects feeding gas supply into the TGI network. As part of this program, TGI has received approval to activate two projects that will upgrade raw biogas into biomethane, which will be added to TGI's distribution system. Use of biomethane will reduce emissions from waste decomposition and will help address the Government of British Columbia's climate change goals.

The Waneta Expansion in British Columbia is an example of a clean renewable energy source and is expected to have an annual energy output of 675 GWh when it comes into service.

British Columbia is a participant in the Western Climate Initiative. The participants, consisting of several states and provinces, expect to implement a cap-and-trade program to reduce GHG emissions beginning January 1, 2012. Terasen expects that both TGI and TGVI will be covered under the program. The specific details of which facilities will be covered under the program are dependent on the types of emissions and how individual facilities will be defined under cap-and-trade legislation. The cap-and-trade program will have a declining cap on emissions that all facilities covered under the program must meet, either by reducing emissions internally or by purchasing allowances from other facilities for release over the capped amounts. While allowance costs are based on market prices, it appears likely that the Terasen Gas companies' facilities will be net purchasers of allowances over the near and medium terms.

Terasen is subject to reporting and external verification requirements associated with GHG emissions under Reporting Regulations under the *Greenhouse Gas Reduction (Cap and Trade) Act* that were enacted in November 2009. Internal controls over the GHG emission reporting processes and systems have been validated in accordance with the reporting requirements to ensure the alignment of existing parameters with any additional parameters required as part of the new reporting processes. The Terasen Gas companies have developed capabilities that will manage compliance requirements in the upcoming GHG emissions' trading environment. Terasen will also continue to monitor and assess emerging regulations, in particular the offset and allowance regulations.

The significance of GHG emissions is lower at the Corporation's Canadian regulated electric utilities because their primary business is the distribution of electricity. With respect to FortisAlberta, its operations involve only the distribution of electricity. Additionally, all in-house generating capacity at FortisBC and about 70% at Newfoundland Power and most of the Corporation's non-regulated generating capacity is hydroelectric, a clean energy source. There is no coal-fired generation within any of the Corporation's operations. The Corporation's Canadian regulated electric utilities are indirectly impacted, however, by GHG emissions through the purchase of power generated by

suppliers using combustible fuel. Such power suppliers are responsible for compliance with carbon dioxide emissions standards and the cost of compliance with such standards is generally flowed through to end-use consumers.

The *Renewable Energy Act* (Prince Edward Island) and the recent Prince Edward Island Energy Accord directly impacts the long-term energy supply planning process for the province of Prince Edward Island. The Act requires Maritime Electric to supply 15% of its annual energy sales from renewable sources. Under the Prince Edward Island Energy Accord, Maritime Electric and the Government of Prince Edward Island are committed to work collaboratively to increase electricity produced on Prince Edward Island and sold to Maritime Electric from renewable energy sources, principally wind. The Government of Prince Edward Island intends to install 30 MW of wind turbines on Prince Edward Island by January 1, 2013, with a view to sell the resultant energy to Maritime Electric. Electricity generated from a 10-MW wind farm, scheduled for completion on Prince Edward Island on or about January 1, 2012, will be purchased by the Government of Prince Edward Island and, in turn, sold to Maritime Electric.

While there are environmental laws, regulations and guidelines affecting the Corporation's operations in Grand Cayman, Turks and Caicos Islands, and Belize, they are less extensive than the laws, regulations and guidelines in Canada. The United Kingdom's ratification of the United Nations Framework Convention on Climate Change and its Kyoto Protocol, however, were extended to the Cayman Islands and Belize in 2007 and 2003, respectively. This framework aims to reduce GHG emissions produced by certain industries. Specific details on the regulations implementing the protocol have yet to be released by the governments of these countries and, accordingly, Caribbean Utilities and Belize Electricity are currently unable to assess the financial impact of compliance with the framework of the protocol.

All of the energy requirements of Caribbean Utilities and Fortis Turks and Caicos and about 2% of the energy requirements of Belize Electricity are sourced from in-house diesel-powered and, to a lesser extent, gas-turbine generation. Newly installed diesel generators at Caribbean Utilities and Fortis Turks and Caicos have incorporated improvements to generate electricity in a more efficient and environmentally friendly manner. Newly installed generators have also been designed to provide an increased output per gallon consumed than the older generators. The height of exhaust stacks have been increased and improved exhaust systems installed to maximize sound attenuation, and optimize exhaust plume dispersion thereby improving local air quality in accordance with what the utilities believe to be the best industry practice. The use of diesel oil versus heavy fuel oil also results in significantly lower levels of exhaust emissions. The utilities also purchase and store diesel fuel and/or lubricating oil in bulk thereby decreasing the environmental risks associated with fuel and/or oil handling. Investments have been made in containment areas for the bulk storage of diesel fuel which have been designed to prevent the fuel from coming into contact with soil or groundwater. Caribbean Utilities also uses an underground fuel pipeline for the delivery of fuel from suppliers' distribution terminals on the coast of Grand Cayman to the day-tank holding facilities at the Company's generating plant. The pipeline eliminates the need for road transport of fuel along coastline roads.

The key focus of the utilities is to provide reliable cost-effective service with full regard for the safety of employees and the public while operating in an environmentally responsible manner. A focus on safety and the environment is, therefore, an integral and continuing component of the Corporation's operating activities.

Each of the Corporation's utilities has an EMS with the exception of Fortis Turks and Caicos, which is expected to implement an EMS by 2012. Environmental policies form the cornerstone of the EMS and outline the following commitments by each utility and its employees with respect to conducting business in a safe and environmentally responsible manner: (i) meet and comply with all applicable laws, legislation, policies, regulations and accepted standards of environmental protection; (ii) manage activities consistent with industry practice and in support of environmental policies of all levels of government; (iii) identify and manage risks to prevent or reduce adverse consequences from operations, including preventing pollution and conserving natural resources; (iv) regular environmental monitoring and audits of the EMS and striving for continual improvement in environmental performance; (v) set and review environmental objectives, targets and programs regularly; (vi) communicate openly with stakeholders including making available the utility's environmental policy and knowledge on environmental issues to customers, employees, contractors and the general public; (vii) support and participate in community-based projects that focus on the environment; (viii) provide training for employees and those working on behalf of the utility to enable

them to fulfill their duties in an environmentally responsible manner; and (ix) work with industry associations, government and other stakeholders to establish standards for the environment appropriate to the utility's business.

Through an EMS, documented procedures are in place to control activities that can affect the environment. Common elements of the utilities' EMSs include: (i) regular inspections of fuel and oil-filled equipment in order to identify and correct for potential spills, and spill response systems to ensure that all spills are addressed, and the associated cleanup is conducted in a prompt and environmentally responsible manner; (ii) GHG emissions management; (iii) procedures for handling, transporting, storing and disposing of hazardous substances, including chemically treated poles, asbestos, lead and mercury, where applicable; (iv) programs to mitigate fire-related incidents; (v) programs for the management and/or elimination of PCBs, where applicable; (vi) vegetation management programs; (vii) training and communicating of environmental policies to employees to ensure work is conducted in an environmentally responsible manner; (viii) review of work practices that affect the environment; (ix) waste management programs; (x) environmental emergency response procedures; (xi) environmental site assessments; and (xii) environmental incident reporting procedures. Additionally, in the case of Newfoundland Power and FortisBC, the EMSs also address water control and dam structure, as well as hydroelectric generating facility operations and the impact of such on fish and the surrounding habitat.

The Terasen Gas companies, FortisAlberta, FortisBC, Newfoundland Power, Maritime Electric, FortisOntario and Belize Electricity have developed their respective EMSs consistent with the guidelines of ISO 14001, an internationally recognized standard for EMSs. Caribbean Utilities operates an EMS associated with its generation operations, which is ISO 14001 certified, and uses an EMS for its transmission and distribution operations, which is consistent with ISO 14001 guidelines. Fortis Turks and Caicos' EMS, when fully implemented, is also expected to be consistent with ISO 14001 guidelines. As part of their respective EMS, the utilities are continuously establishing and implementing programs and procedures to identify potential environmental impacts, mitigate those impacts and monitor performance. External and/or internal audits of the EMSs are performed on a periodic basis. Based on audits completed in 2010, the EMSs continue to be effective, properly implemented and maintained, and materially consistent with ISO 14001 guidelines.

Each of the Corporation's Canadian regulated electric utilities that is a member of the CEA is an active participant in the CEA's Sustainable Electricity Program, which was launched in 2009. Participants in the program commit to continuous improvement of their environmental management and performance including reporting annually on environmental and other performance indicators.

In addition to the EMSs, various energy efficiency programs and initiatives, which help in reducing GHG emissions, are undertaken by the utilities or offered to customers.

Environmental risks associated with the Corporation's non-regulated generation operations are addressed in a similar manner as the Corporation's regulated electric utilities that operate in the same jurisdiction as the non-regulated generation operations, or by environmental practices and procedures followed by Fortis Properties.

The key environmental risks affecting the Corporation's hospitality and real estate operations include, but are not limited to: (i) asbestos and urea-formaldehyde contamination in buildings; (ii) release of ozone-depleting substances from air conditioning and refrigeration equipment; (iii) fuel tank leaks; and (iv) remediation of contaminated properties, whether or not such contamination was actually caused by the property owner. Fortis Properties is committed to meeting the requirements of environmental standards related to its hospitality and real estate operations. In assessing properties being acquired, all must meet environmental standards, including, but not limited to, the appropriate federal, provincial and municipal standards for asbestos, fuel storage, urea-formaldehyde and chlorofluorocarbon-based refrigerants in air conditioning and refrigerating equipment. This process is also applied to existing properties, ensuring environmental compliance by all facilities.

The Corporation has asset-retirement obligations as disclosed in the notes to its 2010 Audited Consolidated Financial Statements. However, liabilities with respect to these asset-retirement obligations have not been recorded in the Corporation's 2010 Audited Consolidated Financial Statements, with the exception of approximately \$3 million related to PCBs at FortisBC, as they could not be reasonably estimated or were determined to be immaterial (including asset-retirement obligations associated with asbestos and chemically treated poles) to the Corporation's consolidated results of operations, cash flows or financial position. The utilities have ongoing programs to identify and replace transformers which are at risk of spillage of oil, and PCBs continue to be removed from service and safely disposed of in compliance with applicable laws and regulations.

Costs associated with environmental protection initiatives (including the development, implementation and maintenance of EMSs), compliance with environmental laws, regulations and guidelines, and environmental damage did not materially affect the Corporation's consolidated results of operations, cash flows or financial position during 2010 and, based on current laws, facts and circumstances, are not expected to have a material effect in 2011. Many costs related to carrying out the utilities' EMSs, however, are embedded in the utilities' operating, maintenance and capital programs and are, therefore, not readily identifiable. At the Corporation's regulated utilities, prudently incurred operating and capital costs associated with environmental protection initiatives, compliance with environmental laws, regulations and guidelines, and environmental damage are eligible for recovery in customer rates. Fortis believes that the Corporation and its subsidiaries are materially compliant with environmental laws and regulations applicable to them in the various jurisdictions in which they operate.

Oversight of environmental matters is performed at the subsidiary level with regular reporting of environmental matters to the respective subsidiary's Board of Directors.

For further information on the Corporation's environmental risk factors, refer to the "Business Risk Management - Environmental Risks" section of the MD&A.



## 6.0 RISK FACTORS

For information with respect to the Corporation's significant business risks, refer to the "Business Risk Management" section of the MD&A.

## 7.0 GENERAL DESCRIPTION OF SHARE CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of the following:

- (a) an unlimited number of Common Shares without nominal or par value;
- (b) an unlimited number of First Preference Shares without nominal or par value; and
- (c) an unlimited number of Second Preference Shares without nominal or par value.

As at March 4, 2011, the following Common Shares and First Preference Shares were issued and outstanding.

| Share Capital                     | Issued and Outstanding | Votes per Share |
|-----------------------------------|------------------------|-----------------|
| Common Shares                     | 175,332,597            | One             |
| First Preference Shares, Series C | 5,000,000              | None            |
| First Preference Shares, Series E | 7,993,500              | None            |
| First Preference Shares, Series F | 5,000,000              | None            |
| First Preference Shares, Series G | 9,200,000              | None            |
| First Preference Shares, Series H | 10,000,000             | None            |

The following table summarizes the cash dividends declared per share for each of the Corporation's class of share for the past three years.

| Share Capital                                                                                                                                                                        | Dividends Declared<br>(per share) |                     |                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|---------------------|---------------------|
|                                                                                                                                                                                      | 2008                              | 2009 <sup>(1)</sup> | 2010 <sup>(1)</sup> |
| Common Shares                                                                                                                                                                        | \$1.01                            | \$0.78              | \$1.41              |
| First Preference Shares, Series C                                                                                                                                                    | \$1.3625                          | \$1.0219            | \$1.7031            |
| First Preference Shares, Series E                                                                                                                                                    | \$1.2250                          | \$0.9188            | \$1.5313            |
| First Preference Shares, Series F                                                                                                                                                    | \$1.2250                          | \$0.9188            | \$1.5313            |
| First Preference Shares, Series G <sup>(2)</sup>                                                                                                                                     | \$1.0184                          | \$0.9844            | \$1.6406            |
| First Preference Shares, Series H <sup>(3)</sup>                                                                                                                                     | -                                 | -                   | \$1.1636            |
| <sup>(1)</sup> First quarter 2010 dividends were declared in January 2010 resulting in three quarters of dividends declared in 2009 and five quarters of dividends declared in 2010. |                                   |                     |                     |
| <sup>(2)</sup> The First Preference Shares, Series G were issued in May and June 2008.                                                                                               |                                   |                     |                     |
| <sup>(3)</sup> The First Preference Shares, Series H were issued in January 2010.                                                                                                    |                                   |                     |                     |

For purposes of the enhanced dividend tax credit rules contained in the *Income Tax Act* (Canada) and any corresponding provincial and territorial tax legislation, all dividends paid on Common and Preferred Shares after December 31, 2005 by Fortis to Canadian residents are designated as "eligible dividends". Unless stated otherwise, all dividends paid by Fortis hereafter are designated as "eligible dividends" for the purposes of such rules.

On December 14, 2010, the Board declared an increase in the quarterly Common Share dividend to \$0.29 per share from \$0.28 per share, with the first payment occurring on March 1, 2011, to holders of record as of February 11, 2011. Also on December 14, 2010, the Board declared a first quarter 2011 dividend on the First Preference Shares, Series C, E, F, G and H in accordance with the applicable annual prescribed rate and was paid on March 1, 2011 to holders of record as of February 11, 2011.

On March 2, 2011, the Board declared a second quarter 2011 dividend of \$0.29 per Common Share and a second quarter 2011 dividend on the First Preference Shares, Series C, E, F, G and H in accordance with the applicable annual prescribed rate. In each case, the second quarter 2011 dividends will be paid on June 1, 2011 to holders of record as of May 13, 2011.

### *Common Shares*

Dividends on Common Shares are declared at the discretion of the Board. Holders of Common Shares are entitled to dividends on a pro rata basis if, as, and when declared by the Board. Subject to the rights of the holders of the First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board may declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

On the liquidation, dissolution or winding-up of Fortis, holders of Common Shares are entitled to participate rateably in any distribution of assets of Fortis, subject to the rights of holders of First Preference Shares and Second Preference Shares and any other class of shares of the Corporation entitled to receive the assets of the Corporation on such a distribution in priority to or rateably with the holders of the Common Shares.

Holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of Fortis, other than separate meetings of holders of any other class or series of shares, and are entitled to one vote in respect of each Common Share held at such meetings.

### *First Preference Shares, Series C*

The 5,000,000 First Preference Shares, Series C are entitled to fixed cumulative preferential cash dividends at a rate of \$1.3625 per share per annum. On or after June 1, 2010, the Corporation may, at its option, redeem for cash the First Preference Shares, Series C, in whole at any time, or in part from time to time, at \$25.75 per share if redeemed before June 1, 2011; at \$25.50 per share if redeemed on or after June 1, 2011 but before June 1, 2012; at \$25.25 per share if redeemed on or after June 1, 2012 but before June 1, 2013; and at \$25.00 per share if redeemed on or after June 1, 2013 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption. On or after June 1, 2010, the Corporation may, at its option, convert all, or from time to time, any part of the outstanding First Preference Shares, Series C into fully paid and freely tradeable Common Shares of the Corporation. The number of Common Shares into which each Preference Share may be so converted will be determined by dividing the then-applicable redemption price per Preference Share, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of \$1.00 and 95% of the then-current market price of the Common Shares. On or after September 1, 2013, each First Preference Share, Series C will be convertible at the option of the holder on the first day of September, December, March and June of each year into freely tradeable Common Shares determined by dividing \$25.00, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of \$1.00 and 95% of the then-current market price of the Common Shares. If a holder of First Preference Shares, Series C elects to convert any of such shares into Common Shares, the Corporation can redeem such First Preference Shares, Series C for cash or arrange for the sale of those shares to other purchasers.

### *First Preference Shares, Series E*

The 7,993,500 First Preference Shares, Series E are entitled to receive fixed cumulative preferential cash dividends at a rate of \$1.2250 per share per annum. On or after June 1, 2013, the Corporation may, at its option, redeem all, or from time to time any part of, the outstanding First Preference Shares, Series E by the payment in cash of a sum per redeemed share equal to \$25.75 if redeemed during the 12 months commencing June 1, 2013; \$25.50 if redeemed during the 12 months commencing June 1, 2014; \$25.25 if redeemed during the 12 months commencing June 1, 2015; and \$25.00 if redeemed on or after June 1, 2016 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption. On or after June 1, 2013, the Corporation may, at its option, convert all, or from time to time any part of the outstanding First Preference Shares, Series E into fully paid and freely tradeable Common Shares of the Corporation.

The number of Common Shares into which each Preference Share may be so converted will be determined by dividing the then-applicable redemption price per First Preference Share, Series E, together with all accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of \$1.00 and 95% of the then-current market price of the Common Shares at such time. On or after September 1, 2016, each First Preference Share, Series E will be convertible at the option of the holder on the first business day of September, December, March and June of each year, into fully paid and freely tradeable Common Shares determined by dividing \$25.00, together with all

accrued and unpaid dividends up to but excluding the date fixed for conversion, by the greater of \$1.00 and 95% of the then-current market price of the Common Shares. If a holder of First Preference Shares, Series E elects to convert any of such shares into Common Shares, the Corporation can redeem such First Preference Shares E for cash or arrange for the sale of those shares to other purchasers.

#### *First Preference Shares, Series F*

The 5,000,000 First Preference Shares, Series F are entitled to receive fixed cumulative preferential cash dividends at a rate of \$1.2250 per share per annum. On or after December 1, 2011, the Corporation may, at its option, redeem for cash the First Preference Shares, Series F, in whole at any time or in part from time to time, at \$26.00 per share if redeemed before December 1, 2012; at \$25.75 per share if redeemed on or after December 1, 2012 but before December 1, 2013; at \$25.50 per share if redeemed on or after December 1, 2013 but before December 1, 2014; at \$25.25 per share if redeemed on or after December 1, 2014 but before December 1, 2015; and at \$25.00 per share if redeemed on or after December 1, 2015 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

#### *First Preference Shares, Series G*

The 9,200,000 First Preference Shares, Series G are entitled to receive fixed cumulative preferential cash dividends at a rate of \$1.3125 per share per annum for each year up to and including August 31, 2013. For each five-year period after that date, the holders of First Preference Shares, Series G are entitled to receive reset fixed cumulative preferential cash dividends. The reset annual dividends per share will be determined by multiplying the \$25.00 per share by the annual fixed dividend rate, which is the sum of the five-year Government of Canada Bond Yield on the applicable reset date plus 2.13%. On September 1, 2013, and on September 1 every five years thereafter, the Corporation has the option to redeem for cash the outstanding First Preference Shares, Series G, in whole at any time, or in part from time to time, at a price of \$25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption.

#### *First Preference Shares, Series H*

The 10,000,000 First Preference Shares, Series H are entitled to receive fixed cumulative preferential cash dividends at a rate of \$1.0625 per share per annum for each year up to but excluding June 1, 2015. For each five-year period after that date, the holders of First Preference Shares, Series H are entitled to receive reset fixed cumulative preferential cash dividends. The reset annual dividends per share will be determined by multiplying \$25.00 per share by the annual fixed dividend rate, which is the sum of the five-year Government of Canada Bond Yield on the applicable reset date plus 1.45%.

On each Series H Conversion Date, being June 1, 2015, and June 1 every five years thereafter, the Corporation has the option to redeem for cash all or any part of the outstanding First Preference Shares, Series H, at a price of \$25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On each Series H Conversion Date, the holders of First Preference Shares, Series H, have the option to convert any or all of their First Preference Shares, Series H into an equal number of cumulative redeemable floating rate First Preference Shares, Series I.

The holders of First Preference Shares, Series I will be entitled to receive floating rate cumulative preferential cash dividends in the amount per share determined by multiplying the applicable floating quarterly dividend rate by \$25.00. The floating quarterly dividend rate will be equal to the sum of the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills plus 1.45%.

On each Series I Conversion Date, being June 1, 2020, and June 1 every five years thereafter, the Corporation has the option to redeem for cash all or any part of the outstanding First Preference Shares, Series I at a price of \$25.00 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On any date after June 1, 2015, that is not a Series I Conversion Date, the Corporation has the option to redeem for cash all or any part of the outstanding First Preference Shares, Series I at a price of \$25.50 per share plus all accrued and unpaid dividends up to but excluding the date fixed for redemption. On each Series I Conversion Date, the holders of First Preference Shares, Series I, have the option to convert any or all of their First Preference Shares, Series I into an equal number of First Preference Shares, Series H.

On any Series H Conversion Date, if the Corporation determines that there would be less than 1,000,000 First Preference Shares, Series H outstanding, such remaining First Preference Shares, Series H will automatically be converted into an equal number of First Preference Shares, Series I. On any Series I Conversion Date, if the Corporation determines that there would be less than 1,000,000 First Preference Shares, Series I outstanding, such remaining First Preference Shares, Series I will automatically be converted into an equal number of First Preference Shares, Series H. However, if such automatic conversions would result in less than 1,000,000 Series I First Preference Shares or less than 1,000,000 Series H First Preference Shares outstanding then no automatic conversion would take place.

#### *Convertible Debentures*

The Corporation's US\$40 million 5.50% Unsecured Subordinated Convertible Debentures, due 2016, are redeemable by the Corporation at par at any time on or after November 7, 2011 and are convertible, at the option of the holder, into the Corporation's Common Shares at US\$29.11 per share. The debentures are subordinated to all other indebtedness of the Corporation, other than subordinated indebtedness ranking equally to the debentures. There is no provision associated with these debentures that restricts the payment of dividends.

#### *Debt Covenant Restrictions on Dividend Distributions*

The Trust Indenture pertaining to the Corporation's \$200 million Senior Unsecured Debentures contains a covenant which provides that Fortis shall not declare or pay any dividends (other than stock dividends or cumulative preferred dividends on preferred shares not issued as stock dividends) or make any other distribution on its shares or redeem any of its shares or prepay Subordinated Debt if, immediately thereafter, its consolidated funded obligations would be in excess of 75% of its total consolidated capitalization.

The Corporation has a \$600 million unsecured committed revolving credit facility, maturing in May 2012, that can be used for general corporate purposes, including acquisitions. The credit facility contains a covenant which provides that Fortis shall not declare or pay any dividends or make any other restricted payments if, immediately thereafter, consolidated debt to consolidated capitalization ratio would exceed 70% at any time.

As at December 31, 2010 and 2009, the Corporation was in compliance with its debt covenant restrictions pertaining to dividend distributions, as described above.

## 8.0 CREDIT RATINGS

Securities issued by Fortis and its currently rated utilities are rated by one or more credit rating agencies, namely, DBRS, S&P and/or Moody's. The ratings assigned to securities issued by Fortis and its currently rated utilities are reviewed by the agencies on an ongoing basis. Credit ratings and stability ratings are intended to provide investors with an independent measure of credit quality of an issue of securities and are not recommendations to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the rating organization. The following table summarizes the Corporation's credit ratings as at March 7, 2011.

| <b>Fortis<br/>Credit Ratings</b> |                                               |                                        |                                         |
|----------------------------------|-----------------------------------------------|----------------------------------------|-----------------------------------------|
| <b>Company</b>                   | <b>DBRS</b>                                   | <b>S&amp;P</b>                         | <b>Moody's</b>                          |
| Fortis                           | A (low), stable<br>(unsecured debt)           | A-, stable<br>(unsecured debt)         | N/A                                     |
| Terasen                          | BBB (high), stable<br>(unsecured debt)        | N/A                                    | Baa2, stable<br>(unsecured debt)        |
| TGI                              | A, stable<br>(secured & unsecured debt)       | N/A                                    | A3, stable<br>(unsecured debt)          |
| TGVI                             | N/A                                           | N/A                                    | A3, stable<br>(unsecured debt)          |
| FortisAlberta                    | A (low), stable<br>(senior unsecured debt)    | A-, stable<br>(senior unsecured debt)  | Baa1, stable<br>(senior unsecured debt) |
| FortisBC                         | A (low), stable<br>(secured & unsecured debt) | N/A                                    | Baa1, stable<br>(unsecured debt)        |
| Newfoundland Power               | A, stable<br>(first mortgage bonds)           | N/A                                    | A2, stable<br>(first mortgage bonds)    |
| Maritime Electric                | N/A                                           | A-, stable<br>(senior secured debt)    | N/A                                     |
| Caribbean Utilities              | A (low), stable<br>(senior unsecured debt)    | A, negative<br>(senior unsecured debt) | N/A                                     |

DBRS rates debt instruments by rating categories ranging from AAA to D, which represents the range from highest to lowest quality of such securities. DBRS states that: (i) its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments; (ii) its ratings do not take factors such as pricing or market risk into consideration and are expected to be used by purchasers as one part of their investment decision; and (iii) every rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, a rating of A by DBRS is in the middle of three subcategories within the third highest of nine major categories. Such rating is assigned to debt instruments considered to be of satisfactory credit quality and for which protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the BBB category are considered to have long-term debt of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities. The assignment of a (high) or (low) modifier within each rating category indicates relative standing within such category.

S&P long-term debt ratings are on a ratings scale that ranges from AAA to C, which represents the range from highest to lowest quality of such securities. S&P uses '+' or '-' designations to indicate the relative standing of securities within a particular rating category. S&P states that its credit ratings are current opinions of the financial security characteristics with respect to the ability to pay under contracts in accordance with their terms. This opinion is not specific to any particular contract, nor does it address the suitability of a particular contract for a specific purpose or purchaser. An issuer rated A is regarded as having financial security characteristics to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than those in higher-rated categories.

Moody's long-term debt ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities. In addition, Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa to Caa to indicate relative standing within such classification. The modifier 1 indicates that the security ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the security ranks in the lower end of its generic rating category. Moody's states that its long-term debt ratings are opinions of relative risk of fixed-income obligations with an original maturity of one year or more and that such ratings reflect both the likelihood of default and any financial loss suffered in the event of default. According to Moody's, a rating of Baa is the fourth highest of nine major categories and such a debt rating is assigned to debt instruments considered to be of medium-grade quality. Debt instruments rated Baa are subject to moderate credit risk and may possess certain speculative characteristics. Debt instruments rated A are considered upper-medium grade and are subject to low credit risk.

## 9.0 MARKET FOR SECURITIES

The Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H of Fortis are listed on the Toronto Stock Exchange under the symbols FTS, FTS.PR.C, FTS.PR.E, FTS.PR.F, FTS.PR.G and FTS.PR.H, respectively.

The following table sets forth the reported high and low trading prices and trading volumes for the Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H on a monthly basis for the year ended December 31, 2010.

| <b>Fortis<br/>2010 Trading Prices and Volumes</b> |                  |                 |               |                                          |                 |               |
|---------------------------------------------------|------------------|-----------------|---------------|------------------------------------------|-----------------|---------------|
| <b>Common Shares</b>                              |                  |                 |               | <b>First Preference Shares, Series C</b> |                 |               |
| <b>Month</b>                                      | <b>High (\$)</b> | <b>Low (\$)</b> | <b>Volume</b> | <b>High (\$)</b>                         | <b>Low (\$)</b> | <b>Volume</b> |
| Jan                                               | 28.92            | 27.65           | 7,598,632     | 26.65                                    | 26.30           | 250,206       |
| Feb                                               | 28.49            | 26.45           | 9,647,325     | 26.73                                    | 26.11           | 102,326       |
| Mar                                               | 29.32            | 27.45           | 12,182,466    | 26.45                                    | 26.02           | 31,318        |
| Apr                                               | 29.24            | 27.11           | 7,711,897     | 26.52                                    | 25.70           | 21,817        |
| May                                               | 28.31            | 21.60           | 12,077,181    | 26.00                                    | 25.52           | 106,463       |
| Jun                                               | 28.35            | 26.51           | 10,261,047    | 26.36                                    | 25.75           | 19,692        |
| Jul                                               | 29.37            | 26.83           | 7,559,548     | 27.00                                    | 26.20           | 19,206        |
| Aug                                               | 29.51            | 28.25           | 12,267,132    | 26.60                                    | 26.26           | 6,191         |
| Sep                                               | 32.39            | 29.45           | 10,444,191    | 26.67                                    | 26.20           | 82,791        |
| Oct                                               | 33.34            | 31.22           | 7,443,166     | 27.10                                    | 26.20           | 82,316        |
| Nov                                               | 33.63            | 30.50           | 14,538,415    | 27.90                                    | 26.00           | 55,307        |
| Dec                                               | 34.54            | 32.27           | 9,124,490     | 26.27                                    | 25.50           | 72,697        |
| <b>First Preference Shares, Series E</b>          |                  |                 |               | <b>First Preference Shares, Series F</b> |                 |               |
| <b>Month</b>                                      | <b>High (\$)</b> | <b>Low (\$)</b> | <b>Volume</b> | <b>High (\$)</b>                         | <b>Low (\$)</b> | <b>Volume</b> |
| Jan                                               | 27.36            | 26.20           | 156,593       | 22.26                                    | 21.50           | 70,432        |
| Feb                                               | 27.93            | 26.75           | 48,528        | 22.14                                    | 21.00           | 50,686        |
| Mar                                               | 28.51            | 27.45           | 79,628        | 21.46                                    | 20.55           | 93,383        |
| Apr                                               | 27.81            | 26.75           | 38,661        | 20.50                                    | 19.80           | 148,011       |
| May                                               | 26.95            | 25.65           | 77,005        | 20.26                                    | 19.45           | 78,608        |
| Jun                                               | 26.70            | 26.01           | 35,587        | 21.20                                    | 20.01           | 43,550        |
| Jul                                               | 26.85            | 26.25           | 233,990       | 21.90                                    | 20.95           | 47,155        |
| Aug                                               | 27.83            | 26.15           | 66,419        | 21.92                                    | 21.54           | 54,955        |
| Sep                                               | 27.99            | 26.88           | 48,182        | 22.84                                    | 21.91           | 305,678       |
| Oct                                               | 27.40            | 26.82           | 176,316       | 23.49                                    | 22.60           | 49,843        |
| Nov                                               | 27.69            | 26.90           | 46,446        | 23.91                                    | 23.01           | 55,907        |
| Dec                                               | 27.31            | 26.75           | 387,978       | 23.20                                    | 22.55           | 105,720       |
| <b>First Preference Shares, Series G</b>          |                  |                 |               | <b>First Preference Shares, Series H</b> |                 |               |
| <b>Month</b>                                      | <b>High (\$)</b> | <b>Low (\$)</b> | <b>Volume</b> | <b>High (\$)</b>                         | <b>Low (\$)</b> | <b>Volume</b> |
| Jan                                               | 26.75            | 25.56           | 113,073       | 25.20                                    | 24.95           | 909,840       |
| Feb                                               | 26.75            | 25.90           | 68,982        | 25.55                                    | 25.00           | 505,423       |
| Mar                                               | 26.75            | 25.54           | 86,772        | 25.60                                    | 25.07           | 218,402       |
| Apr                                               | 26.31            | 25.40           | 88,767        | 25.45                                    | 24.60           | 142,103       |
| May                                               | 26.15            | 25.55           | 72,715        | 25.00                                    | 24.15           | 128,250       |
| Jun                                               | 26.24            | 25.61           | 67,343        | 25.10                                    | 24.40           | 157,834       |
| Jul                                               | 26.49            | 25.75           | 398,816       | 25.25                                    | 24.80           | 83,340        |
| Aug                                               | 26.74            | 25.70           | 100,414       | 25.51                                    | 24.71           | 140,492       |
| Sep                                               | 26.72            | 25.91           | 92,166        | 26.00                                    | 25.15           | 141,417       |
| Oct                                               | 26.70            | 26.00           | 105,727       | 26.00                                    | 25.45           | 152,170       |
| Nov                                               | 27.25            | 25.99           | 78,194        | 26.22                                    | 25.39           | 433,361       |
| Dec                                               | 26.74            | 25.30           | 103,646       | 25.61                                    | 25.25           | 510,574       |

## 10.0 DIRECTORS AND OFFICERS

The Board adopted a new director tenure policy in September 2010 and it is to be reviewed on a periodic basis. The tenure policy provides that Directors of the Corporation are to be elected for a term of one year and, except in appropriate circumstances determined by the Board, be eligible for re-election until the Annual Meeting of Shareholders next following the date on which they achieve age 70 or the 12<sup>th</sup> anniversary of their initial election to the Board. The policy does not apply to Mr. Marshall whose service on the Board is related to his tenure as CEO. The following chart sets out the name and municipality of residence of each of the Directors of Fortis and indicates their principal occupations within five preceding years.

| <b>Fortis Directors</b>                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name</b>                                                          | <b>Principal Occupations Within Five Preceding Years</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>PETER E. CASE</b> <sup>(1)</sup><br>Kingston, Ontario             | Mr. Case, 56, a Corporate Director, retired in February 2003 as Executive Director, Institutional Equity Research at CIBC World Markets. During his 17-year career as senior investment analyst with CIBC World Markets and BMO Nesbitt Burns and its predecessors, Mr. Case's coverage of Canadian and selected U.S. pipeline and energy utilities was consistently rated among the top rankings. He was awarded a Bachelor of Arts and a Master of Business Administration from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto. Mr. Case was first elected to the Board in May 2005. Mr. Case was a Director of FortisOntario from 2003 to 2010 and served as Chair of the FortisOntario Board from 2009 to 2010. He does not serve as a director of any other reporting issuer.                                                                                                                                                                                                                                    |
| <b>FRANK J. CROTHERS</b><br>Nassau, Bahamas                          | Mr. Crothers, 66, is Chairman and Chief Executive Officer of Island Corporate Holdings Limited, Nassau, Bahamas. For more than 35 years, he has served on many public and private sector boards. For more than a decade he was on the Board of Harvard University Graduate School of Education and also served a three-year term as Chairman of CARILEC, the Caribbean Association of Electrical Utilities. Mr. Crothers is the past President of P.P.C. Limited, which was acquired by the Corporation in August 2006. He serves as Vice Chair of the Board of Caribbean Utilities. Mr. Crothers was first elected to the Fortis Board in May 2007. He was previously a director of Belize Electricity from 2007 to 2010. Mr. Crothers is also a director of reporting issuers Templeton Mutual Funds and Talon Metals Corp.                                                                                                                                                                                                                                   |
| <b>IDA J. GOODREAU</b> <sup>(3)</sup><br>Vancouver, British Columbia | Ms. Goodreau, 59, is an Adjunct Professor at Sauder School of Business and Director of Strategy, Center for Healthcare Management, University of British Columbia. She is the past President and Chief Executive Officer of LifeLabs. Prior to joining Lifelabs in March 2009, she was President and Chief Executive Officer of the Vancouver Coastal Health Authority since 2002. Ms. Goodreau has held senior leadership roles in several Canadian and international pulp and paper and natural gas companies prior to entering the health care field. She was awarded a Master of Business Administration and a Bachelor of Commerce, Honors, degree from the University of Windsor and a Bachelor of Arts, (English and Economics) from the University of Western Ontario. Ms. Goodreau was first elected to the Board in May 2009. She has served on numerous private and public sector boards and has been a director of Terasen and FortisBC since 2007 and 2010, respectively. Ms. Goodreau does not serve as a director of any other reporting issuer. |



| <b>Fortis Directors</b> <i>(continued)</i>                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name</b>                                                           | <b>Principal Occupations Within Five Preceding Years</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>DOUGLAS J. HAUGHEY</b> <sup>(1)</sup><br>Calgary, Alberta          | Mr. Haughey, 54, is President and Chief Executive Officer of Provident Energy Ltd. and also serves on the Company's Board of Directors. He is past President and Chief Executive Officer of Spectra Energy Income Fund and past President of Spectra Energy Transmission West, Spectra's Canadian natural gas and liquids mainstream business. Mr. Haughey also led Spectra's strategic development and mergers and acquisitions teams based in Houston, Texas. He graduated from the University of Regina with a Bachelor of Administration and from the University of Calgary with a Master of Business Administration. Mr. Haughey also holds an ICD.D designation from the Institute of Corporate Directors. He was first elected to the Board in May 2009. Mr. Haughey became a director of FortisAlberta in 2010. He does not serve as a director of any other reporting issuer.        |
| <b>H. STANLEY MARSHALL</b><br>Paradise, Newfoundland and Labrador     | Mr. Marshall, 60, is President and Chief Executive Officer of the Corporation. He joined Newfoundland Power in 1979 and was appointed President and Chief Executive Officer of Fortis in 1996. Mr. Marshall graduated from the University of Waterloo with a Bachelor of Applied Science (Chem. Eng.) and Dalhousie University with a Bachelor of Laws. He is a member of the Law Society of Newfoundland and Labrador and a Registered Professional Engineer in the Province of Newfoundland and Labrador. Mr. Marshall was first elected to the Board in October 1995. He serves on the boards of all Fortis utilities in western Canada and the Caribbean and the Board of Fortis Properties. He is also a director of Toromont Industries Ltd.                                                                                                                                            |
| <b>JOHN S. McCALLUM</b> <sup>(1)(2)</sup><br>Winnipeg, Manitoba       | Mr. McCallum, 66, has been a Professor of Finance at the University of Manitoba since July 1973. He served as Chairman of Manitoba Hydro from 1991 to 2000 and as Policy Advisor to the Federal Minister of Finance from 1984 to 1991. Mr. McCallum graduated from the University of Montreal with a Bachelor of Arts (Economics) and a Bachelor of Science (Mathematics). He was awarded a Master of Business Administration from Queen's University and a PhD in Finance from the University of Toronto. Mr. McCallum was first elected to the Board in July 2001 and was appointed Chair of the Governance and Nominating Committee of the Corporation in May 2005. He was previously a director of FortisBC and FortisAlberta from 2004 to 2010 and from 2005 to 2010, respectively. Mr. McCallum also serves as a director of IGM Financial Inc., Toromont Industries Ltd. and Wawanesa. |
| <b>HARRY McWATTERS</b> <sup>(2)</sup><br>Summerland, British Columbia | Mr. McWatters, 65, is the founder and past President of Sumac Ridge Estate Wine Group, a leader in the British Columbia wine industry. He is President of Vintage Consulting Group Inc., Harry McWatters Inc., Okanagan Wine Academy and Black Sage Vineyards Ltd., all of which are engaged in various aspects of the British Columbia wine industry. Mr. McWatters was first elected to the Board in May 2007. He was elected to the Board of FortisBC in September 2005 and appointed as Chair of that Company's Board in 2006. Mr. McWatters became a director of Terasen in November 2007 and does not serve as a director of any other reporting issuer.                                                                                                                                                                                                                                |

| <b>Fortis Directors</b> <i>(continued)</i>                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name</b>                                                                                                                                                                                                                                                                                                   | <b>Principal Occupations Within Five Preceding Years</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>RONALD D. MUNKLEY</b> <sup>(2)</sup><br>Mississauga, Ontario                                                                                                                                                                                                                                               | Mr. Munkley, 64, a Corporate Director, retired in April 2009 as Vice Chairman and Head of the Power and Utility Business of CIBC World Markets. Mr. Munkley had acted as an advisor on most Canadian utility transactions since joining CIBC World Markets in 1998. Prior to that, he was employed at Enbridge Consumers Gas for 27 years, culminating as Chairman, President and Chief Executive Officer. Mr. Munkley led Enbridge Consumers Gas through deregulation and restructuring in the 1990s. He graduated from Queen's University with a Bachelor of Science, Honors (Engineering). Mr. Munkley is a professional engineer and has completed the Executive and Senior Executive Programs of the University of Western Ontario and the Partners, Directors and Senior Officers Certificate of the Canadian Securities Institute. He was first elected to the Board in May 2009. Mr. Munkley does not serve as a director of any other reporting issuer.                               |
| <b>DAVID G. NORRIS</b> <sup>(1)(3)(4)</sup><br>St. John's, Newfoundland and Labrador                                                                                                                                                                                                                          | Mr. Norris, 63, a Corporate Director, has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited. Previously, he held Deputy Minister positions with the Department of Finance and Treasury Board, Government of Newfoundland and Labrador. Mr. Norris graduated with a Bachelor of Commerce from Memorial University of Newfoundland and a Master of Business Administration from McMaster University. He was first elected to the Board in May 2005 and was appointed Chair of the Board in December 2010. He has served as Chair of the Audit Committee of the Board since May 2006. Mr. Norris was a director of Newfoundland Power from 2003 to 2010 and served as Chair of Newfoundland Power's Board from 2006 to 2010. He served as a director of Fortis Properties from 2006 to 2010. Mr. Norris does not serve as a director of any other reporting issuer. |
| <b>MICHAEL A. PAVEY</b> <sup>(3)</sup><br>Moncton, New Brunswick                                                                                                                                                                                                                                              | Mr. Pavey, 63, a Corporate Director, retired as Executive Vice-President and Chief Financial Officer of Major Drilling Group International Inc. in September 2006. Prior to joining Major Drilling Group International Inc. in 1999, he held senior executive positions with a major integrated electric utility in western Canada. Mr. Pavey graduated from the University of Waterloo with a Bachelor of Applied Science (Mechanical Engineering) and from McGill University with a Master of Business Administration. He retired from the Board of Maritime Electric in February 2007 after a six-year term, which included three years' service as Chair of that Company's Audit and Environment Committee. Mr. Pavey was first elected to the Board in May 2004. He does not serve as a director of any other reporting issuer.                                                                                                                                                           |
| <b>ROY P. RIDEOUT</b> <sup>(2)(3)</sup><br>Halifax, Nova Scotia                                                                                                                                                                                                                                               | Mr. Rideout, 63, a Corporate Director, retired as Chairman and Chief Executive Officer of Clarke Inc. in October 2002. Prior to 1998, he served as President of Newfoundland Capital Corporation Limited and held senior executive positions in the Canadian airline industry. Mr. Rideout graduated with a Bachelor of Commerce from Memorial University of Newfoundland and obtained designation as a Chartered Accountant. Mr. Rideout was first elected to the Board in March 2001. He is the Chair of the Human Resources Committee of the Board and has held that position since May 2003. Mr. Rideout also serves as a director of NAV CANADA.                                                                                                                                                                                                                                                                                                                                          |
| <sup>(1)</sup> Serves on the Audit Committee<br><sup>(2)</sup> Serves on the Governance and Nominating Committee<br><sup>(3)</sup> Serves on the Human Resources Committee<br><sup>(4)</sup> Appointed Chair of the Board after the sudden passing of the previous Chair, Geoffrey F. Hyland in November 2010 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

The following table sets out the name and municipality of residence of each of the officers of Fortis and indicates the office held.

| <b>Fortis Officers</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| <b>Name and Municipality of Residence</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>Office Held</b>                                                     |
| <b>H. Stanley Marshall</b><br>Paradise, Newfoundland and Labrador                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | President and Chief Executive Officer <sup>(1)</sup>                   |
| <b>Barry V. Perry</b><br>Mount Pearl, Newfoundland and Labrador                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Vice President, Finance and Chief Financial Officer <sup>(2)</sup>     |
| <b>Ronald W. McCabe</b><br>St. John's, Newfoundland and Labrador                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Vice President, General Counsel and Corporate Secretary <sup>(3)</sup> |
| <b>Donna G. Hynes</b><br>St. John's, Newfoundland and Labrador                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Assistant Secretary <sup>(4)</sup>                                     |
| <sup>(1)</sup> Mr. Marshall was appointed President and Chief Operating Officer, effective October 1, 1995. Effective May 1, 1996, Mr. Marshall became Chief Executive Officer.<br><sup>(2)</sup> Mr. Perry was appointed Vice President, Finance and Chief Financial Officer, effective January 1, 2004. Prior to that time, Mr. Perry was Vice President, Finance and Chief Financial Officer of Newfoundland Power.<br><sup>(3)</sup> Mr. McCabe was appointed General Counsel and Corporate Secretary, effective January 1, 1997. Effective May 6, 2008, Mr. McCabe became Vice President, General Counsel and Corporate Secretary.<br><sup>(4)</sup> Ms. Hynes was appointed Assistant Secretary, effective December 8, 1999. She joined Fortis as Manager, Investor and Public Relations in October 1999 and, prior to that time, was employed by Newfoundland Power. |                                                                        |

As at December 31, 2010, the directors and officers of Fortis, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 762,854 Common Shares, representing 0.4% of the issued and outstanding Common Shares of Fortis. The Common Shares are the only voting securities of the Corporation.

## 11.0 AUDIT COMMITTEE

### 11.1 Education and Experience

The education and experience of each Audit Committee Member that is relevant to such Member's responsibilities as a Member of the Audit Committee are set out below. As at December 31, 2010, the Audit Committee was composed of the following persons.

| <b>Fortis<br/>Audit Committee</b>                                       |                                                                                                                                                                                                                                                                                                                                                     |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name</b>                                                             | <b>Relevant Education and Experience</b>                                                                                                                                                                                                                                                                                                            |
| <b>PETER E. CASE</b><br>Kingston, Ontario                               | Mr. Case retired in February 2003 as Executive Director, Institutional Equity Research at CIBC World Markets. He was awarded a Bachelor of Arts and a Master of Business Administration from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto.                                                              |
| <b>DOUGLAS J. HAUGHEY</b><br>Calgary, Alberta                           | Mr. Haughey is President and Chief Executive Officer of Provident Energy Ltd. He graduated from the University of Regina with a Bachelor of Administration and from the University of Calgary with a Master of Business Administration. Mr. Haughey also holds an ICD.D designation from the Institute of Corporate Directors.                      |
| <b>JOHN S. McCALLUM</b><br>Winnipeg, Manitoba                           | Mr. McCallum is a Professor of Finance at the University of Manitoba. He graduated from the University of Montreal with a Bachelor of Arts (Economics) and a Bachelor of Science (Mathematics). Mr. McCallum was awarded a Master of Business Administration from Queen's University and a PhD in Finance from the University of Toronto.           |
| <b>DAVID G. NORRIS (Chair)</b><br>St. John's, Newfoundland and Labrador | Mr. Norris has been a financial and management consultant since 2001, prior to which he was Executive Vice-President, Finance and Business Development, Fishery Products International Limited. He graduated with a Bachelor of Commerce from Memorial University of Newfoundland and a Master of Business Administration from McMaster University. |

The Board has determined that each of the Audit Committee Members is independent and financially literate. Independent means free from any direct or indirect material relationship with the Corporation which, in the view of the Board, could reasonably be expected to interfere with the exercise of a Member's independent judgment as more particularly described in Multilateral Instrument 52-110 - *Audit Committees*. Financially literate means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's consolidated financial statements.

## 11.2 Audit Committee Mandate

The text of the Corporation's Audit Committee Mandate is detailed below.

### *A. Objective*

The Committee shall provide assistance to the Board by overseeing the external audit of the Corporation's annual financial statements and the accounting and financial reporting and disclosure processes and policies of the Corporation.

### *B. Definitions*

In this mandate:

**"AIF"** means the Annual Information Form filed by the Corporation;

**"Committee"** means the Audit Committee appointed by the Board pursuant to this mandate;

**"Board"** means the board of directors of the Corporation;

**"CICA"** means the Canadian Institute of Chartered Accountants or any successor body;

**"Corporation"** means Fortis Inc.;

**"Director"** means a member of the Board;

**"Financially Literate"** means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breath and complexity of the issues that can reasonably be expected to be present in the Corporation's financial statements;

**"External Auditor"** means the firm of chartered accountants, registered with the Canadian Public Accountability Board or its successor, and appointed by the shareholders of the Corporation to act as external auditor of the Corporation;

**"Independent"** means free from any direct or indirect material relationship with the Corporation which, in the view of the Board, could reasonably be expected to interfere with the exercise of a Member's independent judgment as more particularly described in Multilateral Instrument 52-110;

**"Internal Auditor"** means the person employed or engaged by the Corporation to perform the internal audit function of the Corporation;

**"Management"** means the senior officers of the Corporation;

**"MD&A"** means the Corporation's management discussion and analysis prepared in accordance with National Instrument 51-102F1 in respect of the Corporation's annual and interim financial statements; and

**"Member"** means a Director appointed to the Committee.

### C. Composition and Meetings

1. The Committee shall be appointed annually by the Board and shall be comprised of three (3) or more Directors, each of whom is Independent and Financially Literate and none of whom is a member of Management or an employee of the Corporation or of any affiliate of the Corporation.
2. The Board shall appoint a Chair of the Committee on the recommendation of the Corporation's Governance and Nominating Committee, or such other committee as the Board may authorize.
3. The Committee shall meet at least four (4) times each year and shall meet at such other times during the year as it deems appropriate. Meetings of the Committee shall be held at the call (i) of the Chair of the Committee, or (ii) of any two (2) Members, or (iii) of the External Auditor.
4. The President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer, the External Auditor and the Internal Auditor, shall receive notice of, and (unless otherwise determined by the Chair of the Committee) shall attend all meetings of the Committee.
5. A quorum at any meeting of the Committee shall be three (3) Members.
6. The Chair of the Committee shall act as chair of all meetings of the Committee at which the Chair is present. In the absence of the Chair from any meeting of the Committee, the Members present at the meeting shall appoint one of their Members to act as Chair of the meeting.
7. Unless otherwise determined by the Chair of the Committee, the Secretary of the Corporation shall act as secretary of all meetings of the Committee.

### D. Oversight of the External Audit and the Accounting and Financial Reporting and Disclosure Processes and Policies

The primary purpose of the Committee is oversight of the Corporation's external audit and the accounting and financial reporting and disclosure processes and policies on behalf of the Board. Management of the Corporation is responsible for the selection, implementation and maintenance of appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. Management is responsible for the preparation and integrity of the financial statements of the Corporation.

#### 1. Oversight of the External Audit

The oversight of the external audit pertains to the audit of the Corporation's annual financial statements.

- 1.1. The Committee is responsible for the evaluation and recommendation of the External Auditor to be proposed by the Board for appointment by the shareholders.
- 1.2. In advance of each audit, the Committee shall review the External Auditor's audit plan including the general approach, scope and areas subject to risk of material misstatement.
- 1.3. The Committee is responsible for approving the terms of engagement and fees of the External Auditor.

- 1.4. The Committee shall review and discuss the Corporation's annual audited financial statements, together with the External Auditor's report thereon, and MD&A with Management and the External Auditor to gain reasonable assurance as to the accuracy, consistency and completeness thereof. The Committee shall meet privately with the External Auditor. The Committee shall oversee the work of the External Auditor and resolve any disagreements between Management and the External Auditor.
  - 1.5. The Committee shall use reasonable efforts, including discussion with the External Auditor, to satisfy itself as to the External Auditor's independence as defined in Canadian Auditing Standard – 260.
2. Oversight of the Accounting and Financial Reporting and Disclosure Processes
  - 2.1. The Committee shall recommend the annual audited financial statements together with the MD&A for approval by the Board.
  - 2.2. The Committee shall review the interim unaudited financial statements with the External Auditor and Management, together with the External Auditor's review engagement report thereon.
  - 2.3. The Committee shall review and approve publication of the interim unaudited financial statements together with notes thereto, the interim MD&A and earnings media release on behalf of the Board.
  - 2.4. The Committee shall review and recommend approval by the Board of the Corporation's AIF, Management Information Circular, any prospectus and other financial information or disclosure documents to be issued by the Corporation prior to their public release.
  - 2.5. The Committee shall use reasonable efforts to satisfy itself as to the integrity of the Corporation's financial information systems, internal control over financial reporting and the competence of the Corporation's accounting personnel and senior financial management responsible for accounting and financial reporting.
  - 2.6. The Committee shall be responsible for the oversight of the Internal Auditor.
  - 2.7. The Committee shall monitor and report on the development of the Enterprise Risk Management Program.
3. Oversight of the Audit Committee Mandate and Policies

On a periodic basis, the Committee shall review and report to the Board on the Audit Committee Mandate as well as on the following policies:

  - 3.1. Reporting Allegations of Suspected Improper Conduct and Wrongdoing Policy;
  - 3.2. Derivative Financial Instruments and Hedging Policy;
  - 3.3. Pre-Approval of Audit and Non-Audit Services Policy;
  - 3.4. Hiring of Employees from Independent Auditing Firms Policy;
  - 3.5. The Internal Audit Role and Function Policy; and
  - 3.6. any other policies that may be established, from time to time, relating to accounting and financial reporting and disclosure processes; oversight of the external audit of the Corporation's financial statements; and oversight of the internal audit function.

#### *E. Reporting*

The Chair of the Committee, or another designated Member, shall report to the Board at each regular meeting on those matters which were dealt with by the Committee since the last regular meeting of the Board.

#### *F. Other*

1. The Committee shall perform such other functions as may, from time to time, be assigned to the Committee by the Board.
2. The Committee may approve, in circumstances that it considers appropriate, the engagement by the Committee or any Director of outside advisors or persons having special expertise at the expense of the Corporation.

### **11.3 Pre-Approval Policies and Procedures**

The Audit Committee has established a policy which requires pre-approval of all audit and non-audit services provided to the Corporation and its subsidiaries by the Corporation's External Auditor. The Pre-Approval of Audit and Non-Audit Services Policy describes the services which may be contracted from the External Auditor and the limitations and authorization procedures related thereto. This policy defines services such as bookkeeping, valuations, internal audit and management functions which may not be contracted from the External Auditor and establishes an annual limit for permissible non-audit services not greater than the total fee for audit services. Audit Committee pre-approval is required for all audit and non-audit services.

### **11.4 External Auditor Service Fees**

Fees incurred by the Corporation for work performed by Ernst & Young LLP, the Corporation's External Auditors, during each of the last two fiscal years for audit, audit-related and tax services were as follows:

| <b>Fortis<br/>External Auditor Service Fees<br/>(\$ thousands)</b> |              |             |
|--------------------------------------------------------------------|--------------|-------------|
| <b>Ernst &amp; Young LLP</b>                                       | <b>2010</b>  | <b>2009</b> |
| Audit Fees                                                         | <b>2,703</b> | 2,280       |
| Audit-Related Fees                                                 | <b>607</b>   | 855         |
| Tax Fees                                                           | <b>202</b>   | 354         |
| <b>Total</b>                                                       | <b>3,512</b> | 3,489       |

Audit fees in 2010 increased, as compared to 2009, primarily due to 2009 audit work billed in 2010 related to Algoma Power which was acquired in October 2009, combined with auditor review procedures performed in 2010 in preparation for the Corporation's previously expected adoption of IFRS, effective January 1, 2011. Audit-related fees decreased in 2010, as compared to 2009, mainly due to less audit-related work required in 2010 associated with the filing of prospectuses for preference equity and debt financings at the corporate and subsidiary levels, respectively. Tax fees were higher in 2009, as compared to 2010, due to tax work performed in 2009 associated with the corporate reorganization of FortisUS Energy and work performed in relation to the adoption of amended CICA Handbook Section 3465, *Income Taxes* by the Terasen Gas companies, FortisAlberta, FortisBC and Newfoundland Power.



## **12.0 TRANSFER AGENT AND REGISTRAR**

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The transfer agent and registrar for the Common Shares and First Preference Shares of Fortis is Computershare Trust Company of Canada in Halifax, Montréal and Toronto.

Computershare Trust Company of Canada  
9<sup>th</sup> Floor, 100 University Avenue  
Toronto, ON M5J 2Y1  
T: 514.982.7555 or 1.866.586.7638  
F: 416.263.9394 or 1.888.453.0330  
W: [www.computershare.com/fortisinc](http://www.computershare.com/fortisinc)

## **13.0 AUDITORS**

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The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7<sup>th</sup> Floor, 139 Water Street, St. John's, NL, A1C 1B2. The financial statements of the Corporation for the fiscal year ended December 31, 2010 have been audited by Ernst & Young LLP. Ernst & Young LLP report that they are independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Newfoundland.

## **14.0 ADDITIONAL INFORMATION**

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Reference is made to the MD&A and 2010 Audited Consolidated Financial Statements on pages 8 through 69 and pages 70 through 121, respectively, of the 2010 Fortis Inc. Annual Report to Shareholders, which pages are incorporated herein by reference. Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Further additional information, including officers' and directors' remuneration and indebtedness, principal holders of the securities of Fortis, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Information Circular of Fortis dated March 21, 2011 for the May 6, 2011 Annual Meeting of Shareholders. Additional financial information is also provided in the 2010 Audited Consolidated Financial Statements and the MD&A.

Requests for additional copies of the above-mentioned documents, as well as the 2010 Annual Information Form, should be directed to the Corporate Secretary, Fortis, P.O. Box 8837, St. John's, NL, A1B 3T2 (telephone: 709.737.2800). In addition, such documentation and additional information relating to the Corporation is contained on the Corporation's website at [www.fortisinc.com](http://www.fortisinc.com).