ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2013

March 14, 2014

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DEFINITIONS OF CERTAIN TERMS

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

"2013 Annual Information Form" means this Fortis Inc. Annual Information Form in respect of the year ended December 31, 2013;

"2013 Audited Consolidated Financial Statements" means the audited consolidated financial statements of Fortis Inc. as at and for the years ended December 31, 2013 and 2012 and related notes thereto;

"ACC" means Arizona Corporation Commission;

"Algoma Power" means Algoma Power Inc.;

"AUC" means Alberta Utilities Commission;

"BC Hydro" means BC Hydro and Power Authority;

"BCUC" means British Columbia Utilities Commission;

"BECOL" means Belize Electric Company Limited;

"Belize Electricity" means Belize Electricity Limited;

"BEPC" means Brilliant Expansion Power Corporation;

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

"BPC" means Brilliant Power Corporation;

"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;

"Central Hudson" means Central Hudson Gas & Electric Corporation;

"CEO" means Chief Executive Officer of Fortis Inc.;

"CEP" means Communications, Energy and Paperworkers Union;

"CH Energy Group" means CH Energy Group, Inc.;

"COPE" means Canadian Office and 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;

"DEC" means New York State Department of Environmental Conservation;

“EMS” means environmental management system;

“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;

“FAES” means FortisBC Alternative Energy Services Inc.;

“FEI” means FortisBC Energy Inc.;

“FERC” means United States Federal Energy Regulatory Commission;

“FEVI” means FortisBC Energy (Vancouver Island) Inc.;

“FEWI” means FortisBC Energy (Whistler) Inc.;

“FHI” means FortisBC Holdings Inc., the parent company of FEI, FEVI and FEWI;

“Fortis” means Fortis Inc.;

“FortisAlberta” means FortisAlberta Inc.;

“FortisAlberta Holdings” means FortisAlberta Holdings Inc.;

“FortisBC Electric” means, collectively, the operations of FortisBC Inc. and its parent company, FortisBC Pacific Holdings Inc., but excludes its wholly owned partnership, Walden Power Partnership;

“FortisBC Energy companies” means, collectively, the operations of FEI, FEVI and FEWI;

“FortisBC Pacific Holdings” means FortisBC Pacific Holdings Inc.;

“FortisOntario” means, collectively, the operations of Canadian Niagara Power, Cornwall Electric and Algoma Power;

“Fortis Generation East Partnership” means Fortis Generation East LLP;

“Fortis Properties” means Fortis Properties Corporation;

“FortisTCI” means FortisTCI Limited;

“Fortis Turks and Caicos” means, collectively, FortisTCI and Turks and Caicos Utilities Limited;

“FortisUS Energy” means FortisUS Energy Corporation;

“FortisUS” means FortisUS Inc.;

“FortisUS Holdings” means FortisUS Holdings Nova Scotia Limited;

“FortisWest” means FortisWest Inc.;

“GHG” means greenhouse gas;

“GOB” means Government of Belize;

“Griffith” means Griffith Energy Services, Inc.;

“GSMIP” means Gas Supply Mitigation Incentive Plan;

“GWh” means gigawatt hour(s);

“Hydro One” means Hydro One Networks Inc.;

“IBEW” means International Brotherhood of Electrical Workers;

“IESO” means Independent Electricity System Operator of Ontario;

“ISO” means International Organization for Standardization;

“LNG” means liquefied natural gas;

“Management” means, collectively, senior officers of the Corporation;

“Maritime Electric” means Maritime Electric Company, Limited;

“MD&A” means the Corporation’s Management Discussion and Analysis, located on pages 6 through 73 of the Corporation’s 2013 Annual Report to Shareholders, prepared in accordance with National Instrument 51-102 – *Continuous Disclosure Obligations,* in respect of the Corporation’s annual consolidated financial statements for the year ended December 31, 2013;

“MGP” means manufactured gas plant;

“Moody’s” means Moody’s Investors Service;

“MW” means megawatt(s);

“MWh” means megawatt hours;

“NB Power” means New Brunswick Power Corporation;

“NEB” means National Energy Board;

“Newfoundland Hydro” means Newfoundland and Labrador Hydro Corporation;

“Newfoundland Power” means Newfoundland Power Inc.;

“NYISO” means New York Independent System Operator;

“OEB” means Ontario Energy Board;

“Other Canadian Electric Utilities” means, collectively, the operations of FortisOntario and Maritime Electric;

“PCB” means polychlorinated biphenyl;

“PBR” means performance-based rate-setting;

“PEI” means Prince Edward Island;

“PEI Energy Accord” means Prince Edward Island Energy Accord;

“PJ” means petajoule(s);

“Point Lepreau” means NB Power Point Lepreau Nuclear Generating Station;

“PPA” means power purchase agreement;

“PRMP” means Price Risk Management Plan;

“PSC” means New York State Public Service Commission;

“PUB” means Newfoundland and Labrador Board of Commissioners of Public Utilities;

“ROE” means rate of return on common shareholders’ equity;

“S&P” means Standard & Poor’s;

"SEDAR" means the System for Electronic Document Analysis and Retrieval;

"Spectra Energy" means Westcoast Energy Inc. doing business as Spectra Energy Transmission;

"T&D" means transmission and distribution;

"TCU" means Turks and Caicos Utilities Limited;

"Teck Metals" means Teck Metals Ltd.;

"TJ" means terajoule(s);

"TransCanada" means TransCanada Pipelines Limited;

"TSX" means Toronto Stock Exchange;

"UFCW" means United Food and Commercial Workers;

"UNS Energy" means UNS Energy Corporation;

"US GAAP" means accounting principles generally accepted in the United States;

"USW" means United Steel Workers;

"UUWA" means United Utility Workers' Association of Canada;

"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;

"WECA" means the Waneta Expansion Capacity Agreement; and

"Whistler" means the Resort Municipality of Whistler.

1.0 CORPORATE STRUCTURE

The 2013 Annual Information Form has been prepared in accordance with National Instrument 51-102 - *Continuous Disclosure Obligations*. Financial information has been prepared in accordance with US GAAP and is presented in Canadian dollars unless otherwise specified.

Except as otherwise stated, the information in the 2013 Annual Information Form is given as of December 31, 2013.

Fortis includes forward-looking information in the 2013 Annual Information Form within the meaning of applicable securities laws in Canada. 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 2013 Annual Information Form, including the 2013 MD&A incorporated herein by reference, includes, but is not limited to, statements regarding: the principal business of Fortis remaining the ownership and operation of regulated electric and gas utilities; the Corporation's primary focus on Canada and the United States in the acquisition of regulated utilities; the pursuit of growth in the Corporation's non-regulated businesses in support of its regulated utility growth strategy; the expected capital investment in Canada's electricity sector over the 20-year period through 2030 to maintain system reliability; the expected timing of closing the acquisition of UNS Energy by Fortis and the expectation that the acquisition will be accretive to earnings per common share of Fortis in the first full year after closing, excluding one-time acquisition-related expenses; the expected increase in the Corporation's rate base at the time of closing the acquisition of UNS Energy; forecast 2014 midyear rate base for the Corporation's largest regulated utilities; the Corporations consolidated forecast gross capital expenditures for 2014 and in total over the five years 2014 through 2018; UNS Energy's forecast capital program for 2015 through 2018; the financing costs the Corporation expects to incur in 2014 associated with the convertible debentures represented by installment receipts; the expected net proceeds from the final installment of the convertible debentures; various natural gas investment opportunities that may be available to the Corporation; the nature, timing and amount of certain capital projects and their expected costs and time to complete; the expectation that the Corporation's significant capital expenditure program will support continuing growth in earnings and dividends; the assurance that capital projects perceived as required or completed by the Corporation's regulated utilities will be approved or that conditions to such approvals will not be imposed; the expectation that the Corporation's regulated utilities could experience disruptions and increased costs if they are unable to maintain their asset base; the expectation that cash required to complete subsidiary capital expenditure programs will be sourced from a combination of cash from operations, borrowings under credit facilities, equity injections from Fortis and long-term debt offerings; the expectation that the Corporation's subsidiaries will be able to source the cash required to fund their 2014 capital expenditure programs; the expected consolidated long-term debt maturities and repayments in 2014 and on average annually over the next five years; the expectation that the Corporation and its subsidiaries will continue to have reasonable access to capital in the near to medium terms; the expectation that the combination of available credit facilities and relatively low annual debt maturities and repayments will provide the Corporation and its subsidiaries with flexibility in the timing of access to capital markets; the expectation that the Corporation and its subsidiaries will remain compliant with debt covenants during 2014; the expectation that any increase in interest expense and/or fees associated with renewed and extended credit facilities will not materially impact the Corporation's consolidated financial results for 2014; the expected timing of filing of regulatory applications and of receipt of regulatory decisions; the estimated impact a decrease in revenue at Fortis Properties' Hospitality Division would have on annual basic earnings per common share; the expectation of no 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 2014; the expectation that counterparties to derivative instruments will continue to meet their obligations; and the expectation that consolidated defined benefit net pension cost for 2014 will be comparable to that in 2013 and that there is no assurance that the pension plan assets will earn the assumed long-term rates of return in the future.

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 material adverse regulatory decisions being received, and the expectation of regulatory stability; FortisAlberta's continued recovery of its cost of service and ability to earn its allowed ROE under performance-based rate-setting, which commenced for a five-year term effective January 1, 2013; the receipt of UNS Energy common shareholder approval and certain regulatory and government approvals required to close the acquisition of UNS Energy; the receipt of the final installment of the convertible debentures; no significant variability in interest rates; 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 events; the continued ability to maintain the gas and electricity systems to ensure their continued performance; no severe and prolonged downturn in economic conditions; no significant decline in capital spending; no material capital project and financing cost overrun related to the construction of the Waneta Expansion; sufficient liquidity and capital resources; the expectation that the Corporation will receive appropriate compensation from the GOB for fair value of the Corporation's investment in Belize Electricity that was expropriated by the GOB; the expectation that BECOL will not be expropriated by the GOB; the continuation of regulator-approved mechanisms to flow through the cost of natural gas and energy supply costs in customer rates; the ability to hedge exposures to fluctuations in foreign exchange rates, natural gas prices, electricity prices and fuel prices; 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, fuel and electricity supply; continuation and regulatory approval of power supply and capacity purchase contracts; the ability to fund defined benefit pension plans, earn the assumed long-term rates of return on the related assets and recover net pension costs in customer rates; no significant changes in government energy plans and environmental laws that may materially negatively affect the operations and cash flows of the Corporation and its subsidiaries; no material change in public policies and directions by governments that could materially negatively affect the Corporation and its subsidiaries; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; the ability to report under US GAAP beyond 2018 or the adoption of International Financial Reporting Standards after 2018 that allows for the recognition of regulatory assets and liabilities; the continued tax-deferred treatment of earnings from the Corporation's Caribbean operations; continued maintenance of information technology infrastructure; continued 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. Risk factors which could cause results or events to differ from current expectations are detailed under the heading "Business Risk Management" in the MD&A for the year ended December 31, 2013 and in continuous disclosure materials filed from time to time with Canadian securities regulatory authorities. Key risk factors for 2014 include, but are not limited to: uncertainty of the impact a continuation of a low interest rate environment may have on the allowed ROE at certain of the Corporation's regulated utilities in western Canada; uncertainty regarding the treatment of certain capital expenditures at FortisAlberta under the newly implemented PBR mechanism; risks relating to the ability to close the acquisition of UNS Energy Corporation, the timing of such closing and the realization of the anticipated benefits of the acquisition; risk associated with the amount of compensation to be paid to Fortis for its investment in Belize Electricity that was expropriated by the GOB; and the timeliness of the receipt of the compensation and the ability of the GOB to pay the compensation owing to Fortis.

All forward-looking information in the 2013 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; (xi) designate 10,000,000 First Preference Shares, Series H and 10,000,000 First Preference Shares, Series I on January 20, 2010; (xii) designate 8,000,000 First Preference Shares, Series J on November 8, 2012; and (xiii) designate 12,000,000 First Preference Shares, Series K and 12,000,000 First Preference Shares, Series L on July 11, 2013.

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. On November 13, 2012, Fortis issued 8,000,000 First Preference Shares, Series J. On July 10, 2013, the 5,000,000 First Preference Shares, Series C were redeemed by the Corporation. On July 18, 2013, Fortis issued 10,000,000 First Preference Shares, Series K.

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 the largest investor-owned gas and electric distribution utility in Canada. The Corporation serves more than 2.4 million customers across Canada and in New York State and the Caribbean. Its regulated holdings account for 90% of total assets and include electric distribution utilities in five Canadian provinces, New York State and two Caribbean countries, and natural gas utilities in British Columbia, Canada and New York State. Fortis owns non-regulated hydroelectric generation assets in Canada, Belize and Upstate New York. The Corporation's non-utility investment is comprised of hotels and commercial real estate in 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 13, 2014. 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, 2013, or the total revenue of which individually constituted less than 10% of the Corporation's 2013 consolidated revenue. Additionally, the principal subsidiaries together comprise approximately 81% of the Corporation's consolidated assets as at December 31, 2013 and approximately 77% of the Corporation's 2013 consolidated revenue.

Principal Subsidiaries		
Subsidiary	**Jurisdiction of Incorporation**	**Percentage of votes attaching to voting securities beneficially owned, controlled or directed by the Corporation**
FHI	British Columbia, Canada	100
Central Hudson (1)	New York State, United States	100
FortisAlberta (2)	Alberta, Canada	100
FortisBC Inc.(3)	British Columbia, Canada	100
Newfoundland Power	Newfoundland and Labrador, Canada	94 (4)

(1) *CH Energy Group, a New York State corporation, owns all of the shares of Central Hudson. FortisUS, a Delaware corporation, owns all of the shares of CH Energy Group. FortisUS Holdings, a Canadian corporation, owns all of the shares of FortisUS. Fortis owns all of the shares of FortisUS Holdings.*

(2) *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.*

(3) *FortisBC Pacific Holdings, a British Columbia corporation, owns all of the shares of FortisBC Inc. FortisWest, a Canadian corporation, owns all of the shares of FortisBC Pacific Holdings. Fortis owns all of the shares of FortisWest.*

(4) *Fortis owns all of the common shares; 16,513 First Preference Shares, Series A; 51,231 First Preference Shares, Series B; 15,100 First Preference Shares, Series D; and 182,300 First Preference Shares, Series G of Newfoundland Power which, as at March 13, 2014, represented 94% of its voting securities. The remaining 6% 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 34% from approximately $13.4 billion as at December 31, 2010 to approximately $17.9 billion as at December 31, 2013. The Corporation's shareholders' equity has also grown 49% from approximately $4.3 billion as at December 31, 2010 to approximately $6.4 billion as at December 31, 2013. Net earnings attributable to common equity shareholders have increased from $320 million in 2010 to $353 million in 2013.

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 organic growth through the Corporation's consolidated capital expenditure program and growth through acquisitions.

The Corporation's gross consolidated capital expenditures for 2013 were approximately $1.2 billion, which marks the fifth consecutive year that capital investment has surpassed $1 billion. Organic asset growth at the regulated utilities has been driven by the capital expenditure programs in western Canada. Total assets at FortisAlberta and the FortisBC gas and electric utilities have grown by approximately 38% and 14%, respectively, over the past three years. Organic growth at non-regulated operations has been driven by approximately $579 million in total that has been spent on the Waneta Expansion since construction began in late 2010.

Over the past three years, Fortis has also increased its regulated utility investments through acquisitions. In June 2013 Fortis acquired all the outstanding shares of CH Energy Group for US$1.5 billion, including the assumption of US$518 million of debt on closing. CH Energy Group is an energy delivery company headquartered in Poughkeepsie, New York. Its main business, Central Hudson, is a regulated T&D utility serving approximately 300,000 electric customers and 77,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. In March 2013, FortisBC Electric acquired the electrical utility assets of the City of Kelowna for approximately $55 million, which allows FortisBC Electric to directly serve some 15,000 customers formerly served by the City. FortisBC Electric had provided the City with electricity under a wholesale tariff and had operated and maintained the City's electrical utility assets under contract since 2000. In 2012, Fortis acquired the electricity distribution assets of Port Colborne for $7 million and acquired TCU for $8 million, net of debt assumed. The Corporation also increased its non-regulated investments over the last three years, through the acquisition of two hotels in Canada.

The GOB expropriated the Corporation's investment in Belize Electricity in June 2011. As a result of no longer controlling the operations of the utility, the Corporation discontinued the consolidation method of accounting for Belize Electricity, effective June 20, 2011. As at December 31, 2013, the book value of the expropriated investment, including foreign exchange impacts, was $108 million. For further information on the expropriation of Belize Electricity, refer to the "Business Risk Management - Expropriation of Shares in Belize Electricity" section of the Corporation's MD&A.

2.2 Pending Acquisition

In December 2013 Fortis entered into an agreement and plan of merger to acquire UNS Energy (NYSE:UNS) for US$60.25 per common share in cash, representing an aggregate purchase price of approximately US$4.3 billion, including the assumption of approximately US$1.8 billion of debt on closing. UNS Energy is a vertically integrated utility services holding company, headquartered in Tucson, Arizona, engaged through three subsidiaries in the regulated electric generation and energy delivery business, primarily in the State of Arizona, serving approximately 656,000 electricity and gas customers.

The closing of the acquisition, which is expected to occur by the end of 2014, is subject to receipt of UNS Energy common shareholder approval and certain regulatory and government approvals, including approval by the ACC and FERC, and compliance with other applicable U.S. legislative requirements and the satisfaction of customary closing conditions. In January 2014 Fortis and UNS Energy filed a joint application with the ACC seeking approval of the acquisition. The FERC application was filed in February 2014. UNS Energy mailed proxy materials to its shareholders and expects the shareholder vote on the transaction to occur on March 26, 2014.

For the purpose of financing the acquisition, in December 2013 the Corporation obtained a commitment letter from a syndicate of banks led by The Bank of Nova Scotia to provide an aggregate of $2 billion non-revolving term credit facilities, consisting of a $1.7 billion short-term bridge facility, repayable in full nine months following its advance, and a $300 million medium-term bridge facility, repayable in full on the second anniversary of its advance.

To finance a portion of the pending acquisition of UNS Energy, in January 2014 Fortis, through a direct wholly owned subsidiary, completed the sale of $1.8 billion aggregate principal amount of 4% convertible unsecured subordinated debentures, represented by Installment Receipts.

The debentures were sold on an installment basis at a price of $1,000 per debenture, of which $333 was paid on closing and the remaining $667 is payable on a date to be fixed following satisfaction of all conditions precedent to the closing of the acquisition of UNS Energy. Prior to the final installment date, the debentures are represented by Installment Receipts. The Installment Receipts began trading on the TSX on January 9, 2014 under the symbol "FTS.IR". The debentures will not be listed. The debentures will mature on January 9, 2024 and bear interest at an annual rate of 4% per $1,000 principal amount of debentures until and including the final installment date, after which the interest rate will be 0%.

At the option of the investors and provided that payment of the final installment has been made, each debenture will be convertible into Common Shares of Fortis at any time after the final installment date but prior to maturity or redemption by the Corporation at a conversion price of $30.72 per common share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of debentures.

For additional information with respect to the debentures, refer to the "Significant Items – Convertible Debentures Represented by Installment Receipts" section of the Corporation's MD&A.

2.3 Outlook

Fortis is focused on closing the UNS Energy acquisition by the end of 2014. The acquisition is consistent with the Corporation's strategy of investing in high-quality regulated utility assets in Canada and the United States and is expected to be accretive to earnings per common share of Fortis in the first full year after closing, excluding one-time acquisition-related costs. The acquisition lessens the business risk for Fortis by enhancing the geographic diversification of the Corporation's regulated assets, resulting in no more than one-third of total assets being located in any one regulatory jurisdiction.

At the time of closing the acquisition of UNS Energy, the Corporation's consolidated rate base is expected to increase by approximately US$3 billion, and Fortis utilities will serve more than 3,000,000 electricity and gas customers.

Following closing of the acquisition of UNS Energy, regulated utilities in the United States will represent approximately one-third of total assets, and regulated utilities and hydroelectric generation assets will comprise approximately 97% of the Corporation's total assets.

The Corporation expects earnings per common share growth in 2015 and beyond as a result of contributions from the Central Hudson and UNS Energy acquisitions, and the completion of the Waneta Expansion in 2015 and the Tilbury LNG facility expansion in 2016, which will support continuing growth in dividends.

Over the five-year period 2014 through 2018, the Corporation's capital program is expected to exceed $6.5 billion, and will support continuing growth in earnings and dividends. Additionally, UNS Energy has forecast that its capital program for 2015 through 2018 will be approximately $1.5 billion (US$1.4 billion).

The approximate breakdown of the capital spending expected to be incurred over the five-year period 2014 through 2018, excluding UNS Energy, is as follows: 50% at Canadian Regulated Electric Utilities, driven by FortisAlberta; 27% at Canadian Regulated Gas Utilities; 11% at Central Hudson; 5% at Caribbean Regulated Electric Utilities and the remaining 7% at non-regulated operations. Capital expenditures at the regulated utilities are subject to regulatory approval. Over the five-year period, on average annually, the approximate breakdown of the total capital spending to be incurred is as follows: 37% to meet customer growth; 46% to ensure continued and enhanced performance, reliability and safety of generation and T&D assets, i.e., sustaining capital expenditures; and 17% for facilities, equipment, vehicles, information technology and other assets.

Gross consolidated capital expenditures for 2014 are expected to be approximately $1.4 billion, as summarized in the following table. Planned capital expenditures are based on detailed forecasts of energy demand, weather, cost of labour and materials, as well as other factors, including economic conditions, which could change and cause actual expenditures to differ from forecasts.

Forecast Gross Consolidated Capital Expenditures [(1)] **Year Ending December 31, 2014**	
	($ millions)
FortisBC Energy Companies	329
Central Hudson	122
FortisAlberta	413
FortisBC Electric	130
Newfoundland Power	105
Other Canadian Electric Utilities	56
Regulated Electric Utilities - Caribbean	61
Non-Regulated - Fortis Generation	131
Non-Regulated - Non-Utility [(2)]	83
Total	**1,430**

(1) *Relates to forecast cash payments to acquire or construct utility capital assets, non-utility capital assets and intangible assets, as would be reflected on the consolidated statement of cash flows. Excludes the non-cash equity component of allowance for funds used during construction.*

(2) *Includes forecast capital expenditures of approximately $13 million at FAES, which is reported in the Corporate and Other segment*

The most significant capital projects for 2014 include the continuation of the Waneta Expansion, with approximately $126 million expected to be spent in 2014, and the expansion of the Tilbury LNG facility at FEI. In November 2013 the Government of British Columbia announced the exemption of the Tilbury LNG Facility expansion from a Certificate of Public Convenience and Necessity review by the BCUC. The expansion is expected to include a second LNG tank and a new liquefier, both to be in service in 2016. The expansion will increase LNG production and storage capabilities. The Tilbury LNG Facility expansion is subject to additional regulatory and environmental permits and approvals. The Government of British Columbia imposed an upper limit of $400 million for project costs associated with the expansion, with approximately $100 million expected to be spent in 2014.

The Corporation's subsidiaries expect to have reasonable access to long-term capital in 2014 to fund their capital expenditure programs.

Forecast 2014 midyear rate base for the Corporation's largest regulated utilities is provided in the following table.

Forecast 2014 Midyear Rate Base	
	($ billions)
FortisBC Energy Companies	3.7
Central Hudson	1.1
FortisAlberta	2.5
FortisBC Electric	1.2
Newfoundland Power	1.0

3.0 DESCRIPTION OF THE BUSINESS

Fortis is principally an international gas and electric distribution utility holding company. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets. Fortis also holds investments in non-regulated generation and non-utility assets, which are treated as two separate segments. The Corporation's reporting segments allow senior management to evaluate the operational performance and assess the overall contribution of each segment to the long-term objectives of Fortis. Each entity within the reporting segments operates with substantial autonomy, 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 Gas & Electric Utility - United States; (iii) Regulated Electric Utilities - Canadian; (iv) Regulated Electric Utilities - Caribbean; (v) Non-Regulated - Fortis Generation; (vi) Non-Regulated – Non-Utility; and (vii) 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 *FortisBC Energy Companies*

The Regulated Gas Utilities - Canadian segment comprises the natural gas T&D business of the FortisBC Energy companies, which primarily includes FEI, FEVI and FEWI.

FEI is the largest distributor of natural gas in British Columbia, serving approximately 850,000 customers in more than 100 communities. Major areas served by FEI are Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central Interior regions of British Columbia.

FEVI owns and operates the natural gas transmission pipeline from the Greater Vancouver area across the Georgia Strait to Vancouver Island, and serves approximately 103,000 customers on Vancouver Island and along the Sunshine Coast of British Columbia.

FEWI owns and operates the natural gas distribution system in Whistler, British Columbia, which provides service to approximately 3,000 customers.

In addition to providing T&D services to customers, the FortisBC Energy companies also obtain natural gas supplies on behalf of most residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and, through FEI's Southern Crossing pipeline, from Alberta.

The FortisBC Energy companies own and operate approximately 46,000 kilometres of natural gas pipelines and met a peak day demand of 1,341 TJ in 2013.

Market and Sales

Annual natural gas sales volumes at the FortisBC Energy companies increased to 200 PJ in 2013 from 199 PJ in 2012. Revenue decreased to $1,378 million in 2013 from $1,426 million in 2012. The decrease in revenue was primarily due to an overall lower cost of natural gas charged to customers and decreases in the allowed ROE and equity component of capital structure. The decrease was partially offset by an increase in the delivery component of customer rates effective January 1, 2013.

The following table compares the composition of 2013 and 2012 revenue and natural gas volumes of the FortisBC Energy companies by customer class.

FortisBC Energy Companies Revenue and Gas Volumes by Customer Class				
	Revenue (%)		**PJ Volumes (%)**	
	2013	2012	**2013**	2012
Residential	**56.1**	55.7	**37.5**	36.7
Commercial	**29.6**	30.1	**23.5**	23.6
Industrial	**3.0**	3.9	**2.5**	3.0
	88.7	89.7	**63.5**	63.3
Transportation	**6.5**	6.0	**30.5**	31.2
Other [(1)]	**4.8**	4.3	**6.0**	5.5
Total	**100.0**	100.0	**100.0**	100.0

(1) *Includes amounts under fixed-revenue contracts and revenue from sources other than from the sale of natural gas*

Gas Purchase Agreements

In order to ensure supply of adequate resources to provide reliable natural gas deliveries to its customers, the FortisBC Energy companies purchase supplies from a limited list of producers, aggregators and marketers, while adhering to standards of counterparty creditworthiness and contract execution and/or management policies. FEI contracts for approximately 119 PJ of baseload and seasonal supply to meet the requirements of both FEI and FEWI, of which 104 PJ is sourced in northeastern British Columbia and transported to FEI's system on Spectra Energy's westcoast pipeline T-South system, and 15 PJ is comprised of Alberta-sourced supply, transported into British Columbia via TransCanada's Alberta and British Columbia systems, and then through FEI's Southern Crossing pipeline. FEVI contracts for about 11 PJ of annual supply comprised of baseload and seasonal contracts, primarily sourced in British Columbia. 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 that range from one to ten years in length.

Through the operation of regulatory deferrals, any difference between the forecast cost of natural gas purchases, as reflected in residential and commercial customer rates, and the actual cost of natural gas purchases is recovered from, or refunded to, customers in future rates.

Core market customers rely upon the FortisBC Energy companies to procure and deliver gas supply on their behalf, while transportation-only industrial customers are responsible for procuring and delivering their own gas supply directly to the FortisBC Energy companies' system, which is then delivered to their operating premises by the FortisBC Energy companies. FEI and FEVI contract for transportation capacity on third-party pipelines, such as those owned by Spectra Energy and TransCanada, which are regulated by the NEB, to transport gas supply from various market hubs and locations to FEI's system, which is then transported to the FEVI and FEWI systems. The FortisBC Energy companies pay both fixed and variable charges for the use of transportation capacity on these pipelines, which are recovered through rates paid by core market customers. The FortisBC Energy companies contract for firm transportation capacity in order to ensure they are able to meet their obligations to supply customers within their broad operating region under all reasonable demand scenarios.

Gas Storage and Peak-Shaving Arrangements

The FortisBC Energy companies incorporate peak shaving and gas storage facilities into their portfolio to:

(i) supplement contracted baseload and seasonal gas supply in the winter months while injecting excess baseload supply to refill storage in the summer months;
(ii) mitigate the risk of supply shortages during cooler weather and a peak day;
(iii) more effectively manage the cost of gas during winter months; and
(iv) balance daily supply and demand on the distribution system, mainly over the course of the winter months.

FEI holds approximately 31.4 PJ of total storage capacity, consisting of on-system peak-shaving LNG facilities owned by FEI and FEVI, and off-system capacity contracted with third parties. The Tilbury LNG storage facility provides FEI with 0.61 PJ of total storage capacity and 0.16 PJ per day of deliverability for storage withdrawals. FEI contracts with FEVI for an additional 1.42 PJ of storage capacity and 0.14 PJ per day withdrawal capability from FEVI's Mt. Hayes LNG facility. FEI also contracts for off-system storage capacity from external parties 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. The resources held by FEI are also used to serve FEWI.

FEVI holds a total of 3 PJ of storage capacity, including on-system capacity provided by the Mount Hayes LNG storage facility and off-system capacity contracted with third parties. The Mount Hayes LNG storage facility provides FEVI with both peaking gas supply and system capacity during extreme cold events and emergencies.

Off-System Sales

The FortisBC Energy companies engage in off-system sales activities which allow for the recovery of, or mitigation of, costs on any unutilized supply and/or pipeline and storage capacity that is available once customers' daily load requirements are met. Under the GSMIP revenue-sharing model, which is approved by the BCUC, the FortisBC Energy companies can earn an incentive payment for its mitigation activities based on the total savings generated for customers. Historically, FEI has earned approximately $1 million annually through the GSMIP while the remaining savings are credited back to customers through reduced rates. In the gas contract year ended October 31, 2013, total net revenue was approximately $49 million as a result of FEI's mitigation activities, on which FEI would earn an incentive payment of approximately $1 million pending approval by the BCUC.

The current GSMIP program, approved by the BCUC following a review of the program in 2011, defines the revenue sharing between customers and the shareholder. The program has been in effect since November 1, 2011 and the BCUC recently approved a three-year extension of the program for the period November 1, 2013 to October 31, 2016 and, effective November 1, 2013, extended the program to include mitigation activities performed by FEI on behalf of FEVI.

Price Risk Management Plan

In the past, FEI and FEVI have engaged in price risk management activities to minimize the exposure to fluctuations in the market price of natural gas. These have typically included the use of derivative instruments which were pursuant to a BCUC-approved PRMP. The primary objectives of the price risk management strategy incorporated in the PRMP were to reduce price volatility and ensure, to the extent possible, that natural gas commodity costs remain competitive against electricity rates. In July 2010 the BCUC ordered a review of FEI's and FEVI's PRMP hedging strategy in the context of the *Clean Energy Act* (British Columbia) and the expectation of increased domestic natural gas supply. In July 2011 following a comprehensive review process, the BCUC concluded that the hedging strategy was no longer in the best interests of customers and directed FEI to suspend the majority of its gas commodity hedging activities. FEI was further directed to manage hedges already in place through to expiry.

The existing hedging contracts will continue in effect through to their maturity and the FortisBC Energy companies' ability to fully recover the commodity cost of gas in customer rates remains unchanged. FEI currently has hedges in place through to the end of March 2014 from previously approved PRMPs. Similarly, FEVI has hedges in place through to October 2014.

Unbundling

The FEI Customer Choice Program allows eligible FEI commercial and residential customers to choose to buy their natural gas supply from FEI or directly from third-party marketers. FEI continues to provide the delivery service of the natural gas to all its customers.

The Customer Choice Program has been in place since November 2004 for commercial customers and November 2007 for residential customers. As at December 31, 2013, of the approximate 78,000 eligible commercial customers, approximately 7,600 were participating in the program by purchasing their commodity supply from alternate providers. Similarly, of the approximate

765,000 eligible residential customers approximately 38,000 were participating in the program as at December 31, 2013.

Legal Proceedings

In April 2013 FHI and Fortis were named as defendants in an action in the British Columbia Supreme Court by the Coldwater Indian Band. The claim is in regard to interests in a pipeline right of way on reserve lands. The pipeline on the right of way was transferred by FHI (then Terasen Inc.) to Kinder Morgan Inc. in April 2007. The Coldwater Indian Band seeks orders cancelling the right of way and claims damages for wrongful interference with the Coldwater Indian Band's use and enjoyment of reserve lands. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the 2013 Audited Consolidated Financial Statements.

FEI was the plaintiff in a British Columbia Supreme Court action against the City of Surrey in which FEI sought the court's determination on the manner in which costs related to the relocation of a natural gas transmission pipeline would be shared between the Company and the City of Surrey. The relocation was required due to the development and expansion of the City of Surrey's transportation infrastructure. FEI claimed that the parties had an agreement that dealt with the allocation of costs. The City of Surrey advanced counterclaims, including an allegation that FEI breached the agreement and that the City of Surrey suffered damages as a result. In December 2013, the court issued a decision ordering FEI and the City of Surrey to share equally the cost of the pipeline relocation. The court also decided that the City of Surrey was successful in its counterclaim that FEI breached the agreement. The amount of damages that may be awarded to the City of Surrey at a subsequent hearing cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the 2013 Audited Consolidated Financial Statements.

Human Resources

As at December 31, 2013, the FortisBC Energy companies employed 1,720 full-time equivalent employees. Approximately 71% of the employees are represented by IBEW and COPE under collective agreements.

IBEW represents employees in specified occupations in the areas of T&D. An IBEW collective agreement came into effect in mid-2012 and expires on March 31, 2015.

There are two collective agreements between FEI and COPE. The first collective agreement, representing employees in specified occupations in the areas of administration and operations support, expires on March 31, 2015. The second COPE collective agreement, representing customer service employees, expires on March 31, 2014; however, FEI has negotiated an agreement with COPE, subject to ratification, that expires on March 31, 2017.

3.2 Regulated Gas & Electric Utility - United States

3.2.1 *Central Hudson*

Central Hudson is a regulated T&D utility serving approximately 300,000 electricity customers and 77,000 natural gas customers in eight counties of New York State's Mid-Hudson River Valley. Central Hudson was acquired by Fortis as part of the acquisition of CH Energy Group in June 2013.

Central Hudson serves a territory comprising approximately 6,700 square kilometres in the Hudson Valley. Electric service is available throughout the territory, and natural gas service is provided in and about the cities of Poughkeepsie, Beacon, Newburgh, and Kingston, New York, and in certain outlying and intervening territories.

Central Hudson's electric T&D system consists of approximately 15,000 kilometres of line and met a peak demand of 1,202 MW in 2013. The Company's natural gas system consists of approximately 2,200 kilometres of T&D pipelines and met a peak demand of 125 TJ in 2013.

Market and Sales

Electricity sales year to date from acquisition were 2,629 GWh, compared to 2,665 GWh for the same period last year. Gas volumes year to date from acquisition were 9 PJ compared to 12 PJ for the same period last year. Revenue year to date from acquisition was US$321 million compared to US$318 million for the same period last year.

The following table provides the composition of Central Hudson's 2013 revenue, electricity sales, and gas volumes by customer class.

Central Hudson [(1)] **2013 Revenue and Electricity & Gas Sales by Customer Class**			
	Revenue (%)	**GWh Sales (%)**	**PJ Volumes (%)**
Residential	61.5	40.5	40.2
Commercial	29.5	38.1	37.8
Industrial	4.6	20.4	20.4
Other [(2)]	4.4	1.0	1.6
Total	100.0	100.0	100.0

(1) *The information presented is for the year ended December 31, 2013. Central Hudson was acquired by Fortis in June 2013; therefore, only financial results from the date of acquisition June 27, 2013 are reflected in the Corporation's 2013 Audited Consolidated Financial Statements.*

(2) *Includes electricity sales and gas volumes to other entities for resale and revenue from sources other than from the sale of electricity and gas*

Power Supply

Central Hudson is obligated to supply electricity to its retail electric customers. Central Hudson owns minimal generating capacity and relies on purchased capacity and energy from third-party providers to meet the demands of its full-service customers. Central Hudson's retail customers may elect to procure electricity from third-party suppliers or may continue to rely on the Company. As part of its requirement to supply customers who continue to rely on Central Hudson for their energy supply, Central Hudson is party to a revenue sharing agreement which provides that, for a 10-year period starting in 2011, Central Hudson may share in a portion of Nine Mile Point LLC's power sales revenues for electricity generated at Unit No. 2 of the Nine Mile Point Nuclear Generating Station, depending on the actual price of electricity. In 2013 actual pricing of electricity exceeded contractual pricing; therefore, there was no revenue collected by Central Hudson under the agreement. There are no circumstances under the agreement in which Central Hudson would be required to make payments.

Central Hudson entered into agreements with Entergy Nuclear Power Marketing, LLC to purchase electricity, and not capacity, on a unit-contingent basis at defined prices from January 1, 2011 through December 31, 2013. For the year ended December 31, 2013, energy supplied under these agreements cost approximately US$20 million, which represents approximately 14% of Central Hudson's full-service customer requirements.

These contracts meet the definition of a normal purchase and are, therefore, excluded from current accounting requirements related to derivatives. In the event the above-noted counterparty is unable to fulfill its commitment to deliver under the terms of the agreements, Central Hudson would obtain the supply from the NYISO market, and under the Company's current rate-making treatment, recover the full cost from customers.

Central Hudson must also acquire sufficient peak load capacity to meet the peak load requirements of its full-service customers. This capacity requirement is met through contracts with capacity providers, purchases from the NYISO capacity market, and the Company's own generating capacity. In 2013 Central Hudson's generating capacity provided less than 2% of its energy needs and the remaining 98% was from purchased power.

In November 2013 Central Hudson entered into a contract to purchase 200 MW of installed capacity from May 1, 2014 through April 30, 2017. The NYISO has been authorized by FERC to create a new capacity zone in the Lower Hudson Valley to maintain system reliability and attract investments in new and existing generation, which is expected to be implemented in May 2014. The key terms of the contract provide that Central Hudson will pay the settlement price in the NYISO Capacity Spot Market auction for the relevant month of delivery minus US$0.175 per kilowatt-month, times the contract quantity of the product delivered during the month.

Gas Purchases

In order to assure an adequate, reliable source of gas supply, Central Hudson purchases its requirements from an approved list of marketers and producers. During the winter season, Central Hudson contracts for approximately 7.61 PJ of supply to meet the requirements of its customers. Approximately 2.17 PJ of gas is sourced from Canada and is transported on the TransCanada pipeline system and Iroquois Pipeline. The remaining requirements are acquired from domestic sources and are transported on the Tennessee Gas Pipeline, Algonquin Pipeline, Millennium and Columbia Gas Pipeline systems. Central Hudson also contracts for market area storage with the Tennessee Gas Pipeline, Columbia Pipeline and Dominion Transmission. Spot gas is purchased on an as-needed basis. The majority of supply contracts in the current portfolio are seasonal for either the summer period (April to October) or the winter period (November to March) with a few contracts one year or longer in length.

Legal Proceedings

In May 2012 CH Energy Group and Fortis entered into a proposed settlement agreement with counsel to plaintiff shareholders pertaining to several complaints, which named Fortis and other defendants, which were filed in, or transferred to, the Supreme Court of the State of New York, County of New York, relating to the acquisition of CH Energy Group by Fortis. The complaints generally alleged that the directors of CH Energy Group breached their fiduciary duties in connection with the acquisition and that CH Energy Group, Fortis, FortisUS and Cascade Acquisition Sub Inc. aided and abetted that breach. The settlement agreement is subject to court approval. In February 2014 the Supreme Court of the State of New York, County of New York, issued a Consent Order preliminarily certifying the matter as a class action and providing directions leading to a Settlement Hearing to be held in June 2014.

Prior to the acquisition of CH Energy Group, various asbestos lawsuits had been brought against Central Hudson. While a total of 3,342 asbestos cases have been raised, 1,170 remained pending as at December 31, 2013. Of the cases no longer pending against Central Hudson, 2,017 have been dismissed or discontinued without payment by the Company, and Central Hudson has settled the remaining 155 cases. The Company is presently unable to assess the validity of the remaining asbestos lawsuits; however, based on information known to Central Hudson at this time, including the Company's experience in the settlement and/or dismissal of asbestos cases, Central Hudson believes that the costs which may be incurred in connection with the remaining lawsuits will not have a material effect on its financial position, results of operations or cash flows and, accordingly, no amount has been accrued in the 2013 Audited Consolidated Financial Statements.

Environmental Contingencies

Former MGP Facilities
Central Hudson and its predecessors owned and operated MGPs to serve their customers' heating and lighting needs. These plants manufactured gas from coal and oil beginning in the mid- to late 1800s with all sites ceasing operations by the 1950s. This process produced certain by-products that may pose risks to human health and the environment.

The DEC, which regulates the timing and extent of remediation of MGP sites in New York State, has notified Central Hudson that it believes the Company or its predecessors at one time owned and/or operated MGPs at seven sites in Central Hudson's franchise territory. The DEC has further requested that the Company investigate and, if necessary, remediate these sites under a Consent Order, Voluntary Clean-up Agreement or Brownfield Clean-up Agreement. Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated. As at December 31, 2013, an obligation of US$41 million was recognized in respect of MGP remediation and, based upon cost model analysis completed in 2012, it is estimated, with a 90% confidence level, that total costs to remediate these sites over the next 30 years will not exceed US$152 million.

Central Hudson has notified its insurers and intends to seek reimbursement from insurers for remediation, where coverage exists. Further, as authorized by the PSC, Central Hudson is currently permitted to defer, for future recovery from customers, differences between actual costs for MGP site investigation and remediation and the associated rate allowances, with carrying charges to be accrued on the deferred balances at the authorized pre-tax rate of return.

Eltings Corners
Central Hudson owns and operates a maintenance and warehouse facility. In the course of Central Hudson's hazardous waste permit renewal process for this facility, sediment contamination was discovered within the wetland area across the street from the main property. Based on the investigation work completed by Central Hudson, the DEC and Central Hudson agreed in late 2013 that no additional investigation efforts are necessary. As requested by the DEC, Central Hudson submitted a draft Corrective Measures Study scoping document for review by the DEC. Although the extent of the contamination has now been established, the timing and costs for any future remediation efforts cannot be reasonably estimated at this time and, accordingly, no amount has been accrued in the 2013 Audited Consolidated Financial Statements.

Human Resources

As at December 31, 2013, Central Hudson employed 884 full-time equivalent employees. Approximately 60% of the employees are represented by IBEW under a collective agreement.

IBEW represents construction and maintenance employees, customer service representatives, service workers, and clerical employees, excluding employees in managerial, professional, or supervisory positions. The agreement with IBEW expires on April 30, 2017.

3.3 Regulated Electric Utilities - Canadian

3.3.1 *FortisAlberta*

FortisAlberta is a regulated electric distribution utility in the province of Alberta. Its business is the ownership and operation of regulated electricity distribution facilities that distribute electricity, generated by other market participants, from high-voltage transmission substations to end-use customers. The Company is not involved in the generation, transmission or direct sale of electricity. FortisAlberta operates the electricity distribution system in a substantial portion of southern and central Alberta, totalling approximately 118,000 kilometres of distribution lines. Many of the Company's customers are located in rural and suburban areas around and between the cities of Edmonton and Calgary. FortisAlberta's distribution network serves approximately 518,000 customers, comprising residential, commercial, farm, oil and gas and industrial consumers of electricity, and met a peak demand of 2,613 MW in 2013.

FortisAlberta's annual energy deliveries increased to 16,934 GWh in 2013 from 16,799 GWh in 2012. Revenue was $475 million in 2013 compared to $448 million in 2012.

As a significant portion of FortisAlberta's distribution revenue is derived from fixed or largely fixed billing determinants, changes in quantities of energy delivered are not entirely correlated with changes in revenue. Revenue is a function of numerous variables, many of which are independent of actual energy deliveries.

The following table compares the composition of FortisAlberta's 2013 and 2012 revenue and energy deliveries by customer class.

FortisAlberta Revenue and Energy Deliveries by Customer Class				
	Revenue (%)		GWh Deliveries [1] (%)	
	2013	2012	**2013**	2012
Residential	**29.6**	30.5	**17.0**	16.7
Large commercial, industrial and oil field	**20.8**	20.9	**61.3**	61.9
Farms	**11.8**	12.5	**7.6**	7.5
Small commercial	**10.5**	11.0	**7.9**	7.8
Small oil field	**8.3**	8.8	**5.8**	5.7
Other [2]	**19.0**	16.3	**0.4**	0.4
Total	**100.0**	100.0	**100.0**	100.0

(1) *GWh percentages presented exclude FortisAlberta's GWh deliveries to "transmission-connected" customers. These deliveries were 6,919 GWh in 2013 and 7,195 GWh in 2012 and consisted primarily of energy deliveries to large-scale industrial customers directly connected to the transmission grid.*

(2) *Includes revenue from sources other than the delivery of energy, including that related to street-lighting services, rate riders, deferrals and adjustments*

Franchise Agreements

FortisAlberta serves customers residing within various municipalities throughout its service areas through franchise agreements between the Company and the respective municipalities. From time to time, municipal governments in Alberta give consideration to creating their own electric distribution utilities by purchasing the assets of FortisAlberta located within their municipal boundaries. Upon the termination, or in the absence of a franchise agreement, a municipality has the right, subject to AUC approval, to purchase FortisAlberta's assets within its municipal boundaries pursuant to the *Municipal Government Act* (Alberta) with the price to be as agreed by the Company and the municipality, failing which it is to be determined by the AUC. Additionally, under the *Hydro and Electric Energy Act* (Alberta), if a municipality that owns an electric distribution system expands its boundaries, it can acquire FortisAlberta's assets in the annexed area. In such circumstances, the *Hydro and Electric 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. Given the historical population and economic growth of Alberta and its municipalities, FortisAlberta is affected by transactions of this type from time to time.

FortisAlberta holds franchise agreements with 140 municipalities within its service area. In 2012 FortisAlberta received approval of a new franchise agreement template from the AUC. The new template was filed with the AUC following negotiations with the Alberta Urban Municipalities Association and consultation with municipalities. The new franchise agreement template includes a 10-year term with an option that will permit the agreement to automatically renew for a further five years. To date, FortisAlberta converted 60 of the municipalities within its service area to the new franchise agreement, and intends to convert no less than 90% of all municipalities by the end of 2015.

Human Resources

As at December 31, 2013, FortisAlberta had 1,106 full-time equivalent employees. Approximately 75% of the employees of the Company are members of the UUWA. In December 2013 FortisAlberta reached an agreement on a new four-year collective agreement with UUWA that expires on December 31, 2017.

3.3.2 *FortisBC Electric*

FortisBC Electric is an integrated, regulated electric utility that owns hydroelectric generating plants, high voltage transmission lines, and a large network of distribution assets, all of which are located in the southern interior of British Columbia. The Company serves a diverse mix of approximately 164,000 customers, of whom approximately 128,000 are served directly by the Company's assets in communities that include Kelowna, Oliver, Osoyoos, Trail, Castlegar, Creston and Rossland, while the remainder are served through the wholesale supply of power to municipal distributors. In March 2013 FortisBC Electric purchased the City of Kelowna's electrical utility assets that now allow the Company to serve directly some 15,000 customers formerly served by the City of Kelowna. In 2013 FortisBC Electric met a peak demand of 699 MW. Residential customers represent the largest customer class of the Company. FortisBC Electric's T&D assets include approximately 7,150 kilometres of T&D lines and 65 substations.

FortisBC Electric also includes the 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 hydroelectric expansion plant, both owned by CPC/CBT, and the 185-MW Arrow Lakes hydroelectric plant owned by CPC/CBT.

Market and Sales

FortisBC Electric has a diverse customer base composed primarily of residential, commercial, industrial and municipal wholesale, and other industrial customers. Annual electricity sales increased to 3,211 GWh in 2013, from 3,143 GWh in 2012. Revenue increased to $317 million in 2013 from $306 million in 2012.

The following table compares the composition of FortisBC Electric's 2013 and 2012 revenue and electricity sales by customer class.

FortisBC Electric *(1)*
Revenue and Electricity Sales by Customer Class

	Revenue (%)		**GWh Sales (%)**	
	2013	2012	**2013**	2012
Residential	**50.1**	43.9	**45.3**	38.8
Commercial	**23.2**	21.1	**23.7**	23.2
Wholesale	**15.5**	20.3	**21.6**	28.7
Industrial	**8.5**	7.1	**9.4**	9.3
Other *(2)*	**2.7**	7.6	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *Due to the acquisition of the City of Kelowna's electrical utility business in March 2013, FortisBC Electric serves directly some 15,000 customers formerly served by the City of Kelowna. As a result, revenue and GWh sales to residential, commercial and industrial customers increased for 2013 compared to 2012, and sales to wholesale customers decreased.*

(2) *Includes revenue from sources other than from the sale of electricity, including revenue of FortisBC Pacific Holdings associated with non-regulated operating, maintenance and management services*

Generation and Power Supply

FortisBC Electric meets the electricity supply requirements of its customers through a mix of its own generation and power purchase contracts. The Company owns four regulated hydroelectric generating plants on the Kootenay River with an aggregate capacity of 223 MW, which provide approximately 45% of the Company's energy needs and 30% of its peak capacity needs. FortisBC Electric meets the balance of its requirements through a portfolio of long-term and short-term PPAs.

FortisBC Electric'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 1,565 MW and located in relatively close proximity to each other, to coordinate the operation and dispatch of their generating plants.

The following table lists the plants and their respective capacity and owner.

Plant	Capacity (MW)	Owners
Canal Plant	580	BC Hydro
Waneta Dam	493	Teck Metals and BC Hydro
Kootenay River System	223	FortisBC Electric
Brilliant Dam and Expansion	269	BPC and BEPC
Total	**1,565**	

BPC, BEPC, Teck Metals and FortisBC Electric 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 coordinated operation of storage reservoirs and generating plants, to generate more power from their respective generating plants than they could if they operated independently. Under the CPA, BC Hydro takes into its system all power actually generated by the 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. Should the CPA be terminated, the output of FortisBC Electric's Kootenay River system plants would, with the water and storage authorized under its existing licences and on a long-term average, be approximately the same power output as FortisBC Electric receives under the CPA. The CPA does not affect FortisBC Electric's ownership of its physical generation assets. 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 Electric's remaining electricity supply is acquired through long-term power purchase contracts, consisting of the following:

i. a 149-MW long-term PPA with BPC terminating in 2056 (Brilliant PPA);
ii. a 200-MW PPA with BC Hydro terminating in 2033 pending regulatory approval (BC Hydro PPA);
iii. a capacity and energy purchase agreement with CPC, acting on behalf of BEPC from 2013 through 2017 (Brilliant Expansion Capacity and Energy Purchase Agreement);
iv. a number of small power purchase contracts with independent power producers; and
v. a 40-year agreement to purchase capacity from the Waneta Expansion upon completion of construction, which is expected in spring 2015 (WECA).

The majority of the above purchase contracts have been accepted by the BCUC and prudently forecast and incurred costs, thereunder, flow through to customers through FortisBC Electric's electricity rates. Although the Company can meet the majority of its customer supply requirements from its own generation and the PPAs described above, a portion of the customer load during the summer and winter peak demand periods may need to be supplied from the market in the form of short-term power purchases such as spot market and contracted capacity purchases. Costs related to such purchases are recovered through customer electricity rates, provided they are prudently incurred.

Brilliant PPA
Under the Brilliant PPA, FortisBC Electric has agreed to purchase from BPC, on a long-term basis: (i) the entitlement allocated to the Brilliant hydroelectric plant; and (ii) after the expiration of the CPA, the actual electrical output generated by the Brilliant hydroelectric plant. While the total entitlement is 985,000 MWh, FortisBC Electric does not purchase the approximate 60,000 MWh of regulated flow upgrade entitlement. However, the Company has entered into another agreement with CPC for this energy over a five-year period, as discussed below. The Brilliant PPA uses a take-or-pay contract structure which requires that FortisBC Electric pay for the Brilliant hydroelectric plant's entitlement, irrespective of whether FortisBC Electric actually takes it. FortisBC Electric does not foresee any circumstances under which the Company would be required to pay for power that it does not require. During the first 30 years of the Brilliant PPA term, FortisBC Electric pays to BPC an amount that covers the operation and maintenance costs of the Brilliant hydroelectric plant and provides a return on capital, including original purchase costs, sustaining capital costs and any life-extension investments. During the second 30 years of the Brilliant PPA term, commencing in 2026, an adjustment using a market-price mechanism based on the depreciated value of the Brilliant hydroelectric plant and

then-prevailing operating costs will be made to the amounts payable by FortisBC Electric. The Brilliant PPA provided the Company with approximately 26% of its energy requirements in 2013.

BC Hydro PPA
FortisBC Electric is a party to the BC Hydro PPA, which provides the Company with additional electricity for purposes of supplying its load requirements, up to a maximum demand of 200 MW. In 2013, energy bought pursuant to the BC Hydro PPA provided approximately 25% and 11% of FortisBC Electric's capacity and energy requirements respectively. The Company and BC Hydro have concluded negotiations on a replacement of the agreement for an additional 20-year term, which is currently pending BCUC approval. The term of the current BC Hydro PPA, which terminated in 2013, has been extended until the beginning of the month following BCUC approval.

Brilliant Expansion Capacity and Energy Purchase Agreement
In November 2012 FortisBC Electric entered into an agreement to purchase capacity and energy from 2013 through 2017 from CPC acting on behalf of BPC. The agreement was accepted by the BCUC in December 2012. The agreement allows FortisBC Electric to purchase CPC's unused CPA entitlements from the Brilliant hydroelectric plant and the Brilliant hydroelectric expansion plant, including the 60,000 MWh from the Brilliant hydroelectric plant that is not included in the Brilliant PPA. The agreement is for a total of 78,500 MWh and provided approximately 2% of FortisBC Electric's energy requirements in 2013.

Small Power Purchase Contracts
FortisBC Electric has a number of small power purchase contracts with independent power producers, which collectively provided approximately 1% of the Company's energy supply requirements in 2013. The majority of these contracts have been accepted by the BCUC.

Spot Market and Contracted Capacity Purchases
During 2013 FortisBC Electric entered into various arrangements to purchase capacity and energy from the market to meet its peak energy requirements and optimize its overall power supply portfolio. Certain of these purchases were at prevailing market prices, which were sourced from the United States and British Columbia and are typically linked to the Mid-Columbia trading hub in the U.S. Pacific Northwest. During 2010 the Company entered into an agreement to purchase fixed price, winter capacity through to February 2016 to assist in mitigating risks of market volatility and availability. Spot market contracted purchases provided approximately 15% of FortisBC Electric's energy supply requirements in 2013.

WECA
In November 2011 FortisBC Electric executed the WECA to purchase capacity over 40 years upon completion of the Waneta Expansion, which is expected in spring 2015. In May 2012 the BCUC determined that the executed agreement was accepted for filing as an energy supply contract and is in the public interest. The Waneta Expansion is 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 on an annual basis, 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. The surplus capacity, equal to 234 MW on an average annual basis, will be sold to FortisBC Electric over 40 years under the WECA. For additional information, refer to Section 3.5 of this 2013 Annual Information Form.

Legal Proceedings

The Government of British Columbia has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake in 2003, prior to the acquisition of FortisBC Electric by Fortis, and has filed and served a writ and statement of claim against FortisBC Electric dated August 2, 2005. The Government of British Columbia has disclosed that its claim includes approximately $15 million in damages as well as pre-judgment interest, but that it has not fully quantified its damages. FortisBC Electric and its insurers continue to defend the claim by the Government of British Columbia. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the 2013 Audited Consolidated Financial Statements.

The Government of British Columbia filed a claim in the British Columbia Supreme Court in June 2012 claiming on its behalf, and on behalf of approximately 17 homeowners, damages suffered as a result of a landslide caused by a dam failure in Oliver, British Columbia in 2010. The Government of British Columbia alleges in its claim that the dam failure was caused by the defendants', which include FortisBC Electric, use of a road on top of the dam. The Government of British Columbia estimates its damages and the damages of the homeowners, on whose behalf it is claiming, to be approximately $15 million. While FortisBC Electric has not been served, the Company has retained counsel and has notified its insurers. The outcome cannot be reasonably determined and estimated at this time and, accordingly, no amount has been accrued in the 2013 Audited Consolidated Financial Statements.

Human Resources

As at December 31, 2013, FortisBC Electric had 310 full-time equivalent employees. The full-time equivalent was impacted by the labour action as discussed below. Approximately 65% of the employees are represented by the IBEW and COPE. The four-year collective agreement between the Corporation and IBEW expired on January 31, 2013. IBEW represents employees in specified occupations in the areas of generation and T&D. The parties commenced negotiations in January 2013, and in March 2013 the IBEW served the Corporation 72 hours' strike notice and commenced partial job action on May 16, 2013. The labour disruption ended in December 2013 when the IBEW and FortisBC Electric agreed to binding interest arbitration. The arbitration process is scheduled to occur over the first half of 2014.

There are two collective agreements between FortisBC Electric and COPE. For the first COPE collective agreement, representing employees in specified occupations in the areas of administration and operations support, a new five-year agreement came into effect on January 1, 2014 and expires on December 31, 2018. The second COPE collective agreement, representing customer service employees, expires on March 31, 2014; however, FortisBC Electric has negotiated an agreement with COPE, subject to ratification, that expires on March 31, 2017.

3.3.3 *Newfoundland Power*

Newfoundland Power is an integrated electric utility and the principal distributor of electricity on the island portion of Newfoundland and Labrador, serving approximately 256,000 customers, or 87%, of the province's electricity consumers in approximately 600 communities. Newfoundland Power met a peak demand of 1,281 MW in 2013. The balance of the population is served by Newfoundland and Labrador's other electric utility, Newfoundland Hydro, which also serves several larger industrial customers. Newfoundland Power owns and operates approximately 11,700 kilometres of T&D lines.

Market and Sales

Annual electricity sales increased to 5,763 GWh in 2013 from 5,652 GWh in 2012. Revenue increased to $601 million in 2013 from $581 million in 2012.

The following table compares the composition of Newfoundland Power's 2013 and 2012 revenue and electricity sales by customer class.

Newfoundland Power Revenue and Electricity Sales by Customer Class				
	Revenue *(1)* **(%)**		**GWh Sales** *(1)* **(%)**	
	2013	2012	**2013**	2012
Residential	**61.5**	60.1	**61.3**	60.9
Commercial	**36.1**	36.2	**38.7**	39.1
Other *(2)*	**2.4**	3.7	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *Revenue and electricity sales reflect weather-adjusted values pursuant to Newfoundland Power's weather normalization reserve.*

(2) *Includes revenue from sources other than from the sale of electricity, including revenue deferrals*

Power Supply

Approximately 93% of Newfoundland Power's energy requirements are 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.

The purchased power rate structure is the basis upon which Newfoundland Hydro charges Newfoundland Power for purchased power and includes charges for both demand and energy purchased. The demand charge is based on applying a rate to the peak-billing demand for the most recent winter season. The energy charge is a two-block charge with a higher second-block charge set to reflect Newfoundland Hydro's marginal cost of generating electricity.

The PUB is currently considering a Newfoundland Hydro General Rate Application which will, amongst other things, establish wholesale rates for Newfoundland Power. The PUB is expected to rule on Newfoundland Hydro's General Rate Application in 2014.

In early January 2014 there was a shortage of generation supply and a series of major electrical disturbances on the electrical system which serves the island of Newfoundland. The PUB commenced an inquiry and hearing process into the supply issues and power interruptions experienced. Newfoundland Power is a party to the PUB process. The PUB indicated that it intends to issue an interim report on the matter by May 2014 and a final report in the first quarter of 2015.

Newfoundland Power operates 28 small generating facilities, which generate approximately 7% of the electricity sold by the Company. Newfoundland Power's hydroelectric generating plants have a total capacity of 97 MW. The diesel plants and gas turbines have a total capacity of approximately 5 MW and 37 MW, respectively.

Human Resources

As at December 31, 2013, Newfoundland Power had 656 full-time equivalent employees, of which approximately 55% were members of bargaining units represented by IBEW.

The Company has two collective agreements governing its union employees represented by IBEW. One bargaining unit is composed predominately of clerical employees and the other predominately of skilled trades and outside workers. Both collective agreements expire on September 30, 2014.

3.3.4 *Other Canadian Electric Utilities*

Other Canadian Electric Utilities are comprised of the operations of Maritime Electric and FortisOntario.

<u>Maritime Electric</u>
The Corporation, through FortisWest, holds all of the common shares of Maritime Electric. Maritime Electric is an integrated electric utility that directly supplies approximately 77,000 customers, constituting approximately 90% of electricity consumers on PEI. Maritime Electric purchases most of the energy it distributes to its customers from NB Power, a New Brunswick Crown corporation, through various energy purchase agreements. The Company also purchases energy from Island-based wind-powered generation owned by the PEI Energy Corporation, a provincial Crown corporation. Maritime Electric's electricity system is connected to the mainland power grid via two submarine cables between PEI and New Brunswick, which are leased from the Government of PEI. Maritime Electric owns and operates generating plants with a combined capacity of 150 MW on PEI and met a peak demand of 252 MW in 2013. Maritime Electric owns and operates approximately 5,700 kilometres of T&D lines.

<u>FortisOntario</u>
The Corporation's wholly owned regulated utility investments in Ontario, collectively FortisOntario, provide integrated electric utility service to approximately 65,000 customers in Fort Erie, Cornwall, Gananoque, Port Colborne and the District of Algoma in Ontario. FortisOntario's operations are comprised of Canadian Niagara Power, Cornwall Electric and Algoma Power. 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 271 MW in 2013. FortisOntario owns and operates approximately 3,300 kilometres of T&D lines.

Market and Sales

Annual electricity sales were 2,405 GWh in 2013 compared to 2,381 GWh in 2012. Revenue was $374 million in 2013 compared to $353 million in 2012.

The following table compares the composition of Other Canadian Electric Utilities' 2013 and 2012 revenue and electricity sales by customer class.

Other Canadian Electric Utilities Revenue and Electricity Sales by Customer Class				
	Revenue (%)		**GWh Sales (%)**	
	2013	2012	**2013**	2012
Residential	**45.1**	43.6	**44.8**	43.1
Commercial and Industrial	**48.1**	49.0	**54.6**	56.6
Other [(1)]	**6.8**	7.4	**0.6**	0.3
Total	**100.0**	100.0	**100.0**	100.0

[(1)] *Includes revenue from sources other than from the sale of electricity*

Power Supply

Maritime Electric

Maritime Electric purchased 84% of the electricity required to meet its customers' needs from NB Power in 2013. The balance was met through the purchase of wind energy produced on PEI by stations owned by the PEI Energy Corporation and from Company-owned on-Island generation. Maritime Electric's on-Island generation facilities are used primarily for peaking, submarine-cable loading issues and emergency purposes.

Maritime Electric has two take-or-pay contracts for the purchase of either energy or capacity. In 2010 the Company signed a five-year take-or-pay contract with NB Power covering the period March 1, 2011 through February 29, 2016. The contract includes fixed pricing for the entire five-year period. The other take-or-pay contract, which is for transmission capacity allowing Maritime Electric to reserve 30 MW of capacity on an international power line into the United States, expires in November 2032.

Maritime Electric has entitlement to approximately 4.7% of the output from Point Lepreau for the life of the unit. As part of its participation agreement, Maritime Electric is required to pay its share of the capital and operating costs of the unit. A major refurbishment of Point Lepreau that began in 2008 was completed and the station returned to service in November 2012. The refurbishment is expected to extend the facility's estimated life for an additional 27 years.

The *Renewable Energy Act* (PEI) requires Maritime Electric to supply 15% of its annual energy sales from renewable energy sources. In 2013 approximately 17% of Maritime Electric's annual energy sales requirement was supplied by renewable energy.

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 the five hydroelectric generating plants of the Fortis Generation East Partnership. Algoma Power purchases 100% of its energy from IESO.

Under the Standard Supply Code of the OEB, 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 substantially all of its power requirements from Hydro-Québec Energy Marketing under two fixed-term contracts. The first contract provides approximately 237 GWh of energy per year and up to 45 MW of capacity at any one time. The second contract provides 100 MW of capacity and energy and provides a minimum of 300 GWh of energy per year. Both contracts expire in December 2019.

Human Resources

As at December 31, 2013, Maritime Electric had 175 full-time equivalent employees, of which approximately 70% were represented by IBEW. A new collective agreement was ratified in November 2013 and is effective from January 1, 2014 to December 31, 2018.

As at December 31, 2013, FortisOntario had 200 full-time equivalent employees, of which approximately 59% were represented by CUPE, in Cornwall; IBEW in the Niagara region and Gananoque; and Power Workers Union, a CUPE affiliate, in the Algoma region. The expiry dates of the collective agreements are April 30, 2016; February 29, 2016 and July 31, 2016; and December 31, 2016, respectively.

3.4 Regulated Electric Utilities - Caribbean

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

Caribbean Utilities is an integrated electric utility and the sole provider of electricity on Grand Cayman, Cayman Islands, serving approximately 27,000 customers. The Company met a peak demand of approximately 97 MW in 2013. Caribbean Utilities owns and operates approximately 704 kilometres of T&D lines, including 25 kilometres of submarine cable. Fortis holds an approximate 60% (December 31, 2012 - 60%) controlling ownership interest in the utility. Caribbean Utilities is a public company traded on the TSX (TSX:CUP.U).

Fortis Turks and Caicos is comprised of FortisTCI and TCU and is the principal distributor of electricity in the Turks and Caicos Islands. Each of the Fortis Turks and Caicos utilities is an integrated electric utility and, combined, serve approximately 13,000 customers, or 98% of electricity consumers, in the Turks and Caicos Islands. The utilities met a combined peak demand of approximately 36 MW in 2013. Fortis Turks and Caicos owns and operates approximately 618 kilometres of T&D lines.

Market and Sales

Annual electricity sales were 749 GWh in 2013 compared to 728 GWh in 2012. Revenue was $290 million in 2013 compared to $273 million in 2012.

The following table compares the composition of Regulated Electric Utilities - Caribbean's revenue and electricity sales by customer class for 2013 and 2012.

Regulated Electric Utilities - Caribbean
Revenue and Electricity Sales by Customer Class

	Revenue (%)		**GWh Sales (%)**	
	2013	2012	**2013**	2012
Residential	**44.7**	44.7	**42.6**	42.4
Commercial and Industrial	**53.9**	54.2	**57.4**	57.6
Other (1)	**1.4**	1.1	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *Includes revenue from sources other than from the sale of electricity*

Power Supply

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 150 MW.

In 2012 Caribbean Utilities entered into primary and secondary fuel supply contracts with two different suppliers and is committed to purchasing approximately 60% and 40%, respectively, of the Company's diesel fuel requirements under each of the contracts. The contracts expire in July 2014 with the option to renew for two additional 18-month terms. Caribbean Utilities also entered into a five-year contract for the supply of lube oil. These contracts enable Caribbean Utilities to purchase fuel and lube oil from the suppliers on what the Company believes to be competitive terms and pricing.

Both the fuel and lube oil contracts include disaster recovery and business continuity plans in the event of foreseeable disruptions to supplies to reduce the impact on Caribbean Utilities' operations.

Fortis Turks and Caicos relies upon in-house diesel-powered generation, with an installed generating capacity of 76 MW, to produce electricity for its customers.

FortisTCI 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.

Human Resources

As at December 31, 2013, Regulated Electric Utilities - Caribbean employed 340 full-time equivalent employees. The 190 employees at Caribbean Utilities and 150 employees at Fortis Turks and Caicos are non-unionized.

3.5 Non-Regulated - Fortis Generation

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

Non-Regulated - Fortis Generation Assets			
Location	**Plants**	**Fuel**	**Capacity (MW)**
Belize	3	hydro	51
Ontario	7	hydro, thermal	13
British Columbia [(1)]	1	hydro	16
Upstate New York	4	hydro	23
Total	**15**		**103**

[(1)] *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, Fortis Generation East Partnership, and FortisUS Energy, as well as non-regulated generation assets owned by 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 19-MW Vaca hydroelectric generating facilities. All of the output of these facilities is sold to Belize Electricity under 50-year PPAs expiring in 2055 and 2060. The hydroelectric generation operations in Belize are conducted through the Corporation's indirectly wholly owned subsidiary BECOL under a franchise agreement with the GOB. In October 2011 the GOB purportedly amended the Constitution of Belize to require majority government ownership of three public utility providers, including Belize Electricity, but excluding BECOL. The GOB has also indicated it has no intention to expropriate BECOL. Fortis continues to control and consolidate the financial statements of BECOL.

Non-regulated generation operations of FortisOntario are comprised of the operation of a 5-MW gas-powered cogeneration plant in Cornwall. All thermal energy output of this plant is sold to external third parties, while the electricity output is sold to Cornwall Electric. Fortis Generation East Partnership 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 Authority, via the Hydroelectric Contract Initiative, under fixed-price contracts.

The non-regulated generation operations of FortisBC Inc. include the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia which is selling its entire output to BC Hydro. The contract with BC Hydro expired in 2013 and is subject to termination by BC Hydro with five months' notice. Non-regulated generation operations in British Columbia also include the Corporation's 51% controlling ownership interest in the Waneta Partnership, with CPC/CBT holding the remaining 49% interest. Fortis will operate and maintain the non-regulated investment when the facility comes into service, which is expected in spring 2015.

The Waneta Partnership commenced construction of the $900 million, 335-MW Waneta Expansion in late 2010, which is adjacent to the Waneta Dam and powerhouse facilities on the Pend d'Oreille River, south of Trail, British Columbia. The project is currently on schedule and within budget. Approximately $579 million in total has been spent on the Waneta Expansion since construction began, with $143 million spent in 2013. Key construction activities in 2013 included the substantial completion of civil construction of the powerhouse and tailrace structure; significant progress on the intake structure; installation of the turbine components, ancillary mechanical and electrical powerhouse services; and encapsulating of the scrollcase in concrete. During 2013, the generator step-up transformers and the first turbine runner were received on site for assembly and installation. The key offsite activity in 2013 was the successful completion of the manufacturing of the first turbine runner and turbine operating mechanism. In 2014 approximately $126 million is expected to be spent. Key project activities scheduled for 2014 include energization of the 230-kilovolt transmission line; completion of civil construction work; installation and assembly of the major components of the first and second turbine/generator units; installation of protection and control systems; and testing and commissioning. The first unit marketable power test is forecast to be completed in the fourth quarter of 2014. For additional information refer to Section 3.3.2 of this 2013 Annual Information Form.

Through FortisUS Energy, an indirectly wholly owned subsidiary, the Corporation owns and operates four hydroelectric generating facilities in Upstate New York with a combined capacity of approximately 23 MW operating under licences from FERC. 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 386 GWh in 2013 compared to 306 GWh in 2012. Revenue was $35 million in 2013 compared to $31 million in 2012.

The following table compares the composition of Fortis Generation's 2013 and 2012 revenue and energy sales by location.

Non-Regulated - Fortis Generation
Revenue and Energy Sales by Location

	Revenue (%)		**GWh Sales (%)**	
	2013	2012	**2013**	2012
Belize	**72.5**	70.2	**64.2**	65.1
Ontario	**15.6**	13.0	**13.1**	12.9
British Columbia	**5.4**	6.8	**7.9**	11.4
Upstate New York	**6.5**	5.5	**14.8**	10.6
Central Newfoundland [(1)]	**-**	4.5	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

(1) *Reflects the discontinuance of the consolidation method of accounting for the financial results of the operations in central Newfoundland, effective February 12, 2009. In March 2013 the Corporation and the Government of Newfoundland and Labrador settled all matters pertaining to the expropriation of non-regulated hydroelectric generating assets and water rights in Central Newfoundland.*

Human Resources

As at December 31, 2013, Fortis Generation employed 40 full-time equivalent employees, none of whom participate in a collective agreement.

3.6 Non-Regulated – Non-Utility

Non-Utility investments are comprised of Fortis Properties and Griffith.

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 23 hotels, comprised of more than 4,400 rooms, in eight Canadian provinces, and approximately 2.7 million square feet of commercial office and retail space, primarily in Atlantic Canada. Fortis Properties is currently constructing a 12-storey office building in downtown St. John's, Newfoundland and Labrador, for approximately $50 million. The building will feature 157,000 square feet of Class A office space. Construction is expected to be completed in the third quarter of 2014.

Revenue was $248 million in 2013 compared to $242 million in 2012. In 2013 Fortis Properties derived approximately 28% of its revenue from real estate operations and 72% of its revenue from hotel operations. Fortis Properties derived approximately 42% of its 2013 operating income from real estate operations and 58% from hotel operations.

Fortis Properties' Real Estate Division is anchored by high-quality tenants under long-term leases. The Real Estate Division ended 2013 with 92.5% occupancy, compared to 91.9% occupancy at the end of 2012. In contrast, the average national occupancy rate was 90.3% at the end of 2013, compared to 91.5% at the end of 2012.

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

Fortis Properties
Office and Retail Properties

Property	**Location**	**Type of Property**	**Gross Lease Area** *(000's square feet)*
Fort William Building	St. John's, NL	Office	188
Cabot Place I	St. John's, NL	Office	136
TD Place	St. John's, NL	Office	100
Fortis Building	St. John's, NL	Office	83
Multiple Office	St. John's, NL	Office and Retail	60
Millbrook Mall	Corner Brook, NL	Retail	118
Fraser Mall	Gander, NL	Retail	99
Marystown Mall	Marystown, NL	Retail	93
Fortis Tower	Corner Brook, NL	Office	68
Maritime Centre	Halifax, NS	Office and Retail	560
Brunswick Square	Saint John, NB	Office and Retail	513
Kings Place	Fredericton, NB	Office and Retail	293
Blue Cross Centre	Moncton, NB	Office and Retail	325
Delta Regina	Regina, SK	Office	52
Total			**2,688**

Revenue per available room at the Hospitality Division of Fortis Properties was $81.48 for 2013 up from $80.00 for 2012. The increase was the result of a 2.2% increase in average daily room rate, partially offset by a 0.3% decrease in hotel occupancy. The average daily room rate increased to $132.70 for 2013 from $129.79 for 2012, while the average occupancy for 2013 was 61.4%, down from the 61.6% achieved in 2012.

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

Fortis Properties Hotels			
Hotels	**Location**	**Number of Guest Rooms**	**Conference Facilities** *(000's square feet)*
Delta St. John's	St. John's, NL	403	21
Holiday Inn St. John's	St. John's, NL	252	12
Sheraton Hotel Newfoundland	St. John's, NL	301	18
Mount Peyton	Grand Falls-Windsor, NL	149	5
Greenwood Inn Corner Brook	Corner Brook, NL	102	5
Four Points by Sheraton Halifax	Halifax, NS	177	12
Holiday Inn Sydney - Waterfront	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	216	11
Holiday Inn Cambridge	Cambridge, ON	143	7
Holiday Inn & Suites Windsor	Windsor, ON	214	17
Greenwood Inn Calgary	Calgary, AB	210	9
StationPark All Suite Hotel	London, ON	126	2
Holiday Inn Edmonton	Edmonton, AB	224	8
Best Western Plus Winnipeg (1)	Winnipeg, MB	213	8
Hilton Suites Winnipeg Airport	Winnipeg, MB	159	9
Holiday Inn 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	Kelowna, BC	190	5
Delta Regina	Regina, SK	274	24
Total		**4,430**	**223**

(1) *In November 2013 the Greenwood Inn Winnipeg was rebranded to Best Western Plus Winnipeg.*

Human Resources

As at December 31, 2013, Fortis Properties employed approximately 2,400 full-time equivalent employees, approximately 46% of whom are represented by unions listed in the following table.

Fortis Properties Unions			
Property	**Union**	**Expiry of Agreement**	**Number of Unionized Employees**
Holiday Inn St. John's	CAW	August 31, 2015	55
Delta St. John's	UFCW	December 31, 2016	240
Greenwood Inn Corner Brook	CAW	March 11, 2016	45
East Side Mario's St. John's	CAW	July 31, 2016	98
Holiday Inn Sydney - Waterfront	CAW	September 30, 2014	70
Delta Brunswick & Brunswick Square	USW	June 30, 2016	122
Delta Regina	CEP	May 31, 2014	166
St. John's Real Estate	IBEW	April 17, 2016	7
Sheraton Hotel Newfoundland	CAW	March 31, 2015	188
Holiday Inn & Suites Windsor	UFCW	April 30, 2016	48
Mount Peyton	UFCW	December 1, 2014	56
Total			**1,095**

Griffith

On June 27, 2013 Fortis acquired all of the outstanding common shares of CH Energy Group. CH Energy Group's non-regulated operations primarily consist of Griffith, which mainly supplies petroleum products and related services to approximately 60,000 customers in the Mid-Atlantic Region of the United States. In March 2014 CH Energy Group sold Griffith.

As at December 31, 2013, Griffith employed 355 full-time equivalent employees, none of whom participate in a collective agreement.

4.0 REGULATION

The Corporation's utilities primarily operate under a cost of service methodology and are regulated by the regulatory body in its respective operating jurisdiction. 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 Corporation's MD&A and to Note 2 of the Corporation's 2013 Audited Consolidated Financial Statements.

5.0 ENVIRONMENTAL MATTERS

The Corporation and its subsidiaries are subject to various federal, provincial, state 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, federal, provincial and state 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, 2012;* (ii) *Canadian Environmental Protection Act, 1999*; (iii) *Transportation of Dangerous Goods Act and Regulations*; (iv) *Hazardous Products Act*; (v) *Canada Wildlife Act*; (vi) *Navigable Waters Protection Act*; (vii) *Canada National Parks Act*; (viii) *Fisheries Act;* (ix) *Canada Water Act;* (x) *National Fire Code of Canada;* (xi) *Pest Control Products Act and Regulations;* (xii) *PCB Regulations;* (xiii) *Species at Risk Act;* (xiv) *Ozone Depleting Substances Regulations;* (xv) *Indian Act;* (xvi) *International River Improvement Act;* and (xvii) *Migratory Birds Convention Act.*

Several key U.S. federal environmental laws and regulations affecting the operations of Central Hudson include, but are not limited to, the: (i) *Clean Water Act*; (ii) *Safe Drinking Water Act*; (iii) *Clean Air Act*; (iv) *Endangered Species Act*; (v) *Resource Conservation & Recovery Act*; (vi) *Toxic Substances Control Act*; (vii) *Comprehensive Environmental Response, Compensation, and Liability Act*; (viii) *National Environmental Policy Act*; (ix) *Emergency Planning & Community Right to Know Act*; and (x) *Pollution Prevention Act of 1990*.

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 related to natural gas discharges; (iv) risk of spills or releases into the environment arising from the improper transportation, storage, handling and disposal of other hazardous substances; (v) GHG emissions, including natural gas and propane leaks and spills and emissions from the combustion of fuel required to generate electricity; (vi) risk of fire; (vii) risk of disruption to vegetation; (viii) risk of contamination of soil and water near chemically treated poles; (ix) 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 (x) risk of responsibility for remediation of contaminated properties, whether or not such contamination resulted from the Corporation's utility operations.

There are many provincial, state, and municipal laws, regulations and guidelines that address similar environmental risks as the federal laws, regulations and guidelines, but at a provincial, state or local level. The constant evolution of environmental legislation results in ongoing risks to the Corporation, as its subsidiaries must adjust their business operations to comply.

In addition to changing air emission standards, the management of GHG emissions is a specific environmental concern of the Corporation's Regulated Utilities in Canada, primarily due to the uncertainties relating to new and emerging federal, provincial and state GHG laws, regulations and guidelines. Governmental policy direction is unfolding, however, it remains to be determined whether a GHG air emissions cap may be imposed and to what extent it will impact these utilities. Both Canada and the United States have committed to reduce GHG emissions to 17% below 2005 levels by 2020. Both countries are in the process of imposing sectoral requirements, yet it is not certain how the Corporation's subsidiaries will be impacted.

In British Columbia, the *Carbon Tax Act, Clean Energy Act, Greenhouse Gas Reduction (Cap and Trade) Act* and *Greenhouse Gas Reduction Targets Act* and anticipated cap-and-trade regulations specifically affect, or may potentially affect, the operations of the FortisBC Energy companies and FortisBC Electric. To help mitigate uncertainty, the FortisBC Energy companies participate in sector and industry groups in order to monitor the development of emerging regulation and policy.

The Government of British Columbia's Energy Plan and GHG reduction targets present risks and opportunities to the FortisBC Energy companies and, to a lesser degree, FortisBC Electric. These government initiatives continue to place pressure on natural gas consumption and its contribution to GHG emissions. The energy and GHG emissions policies in British Columbia have created opportunities for FEI through incentives to expand FEI's deployment of renewable energy, such as biogas, the establishment of a natural gas transportation program, and the expansion of its Energy Efficiency and Conservation Program. Additionally, 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.

British Columbia continues to be a participant in the Western Climate Initiative, which expects to implement a cap-and-trade program to reduce GHG emissions. FEI and FEVI are expected to be covered under the program. If implemented, the cap-and-trade program is expected to have a declining cap on emissions that all applicable facilities must meet, either by reducing emissions internally or by purchasing allowances from other facilities for release of GHG emissions over the capped amounts.

In 2011 the FortisBC Energy companies began reporting their GHG emissions pursuant to the reporting regulation under the *Greenhouse Gas Reduction (Cap and Trade) Act.* In addition, the FortisBC Energy companies continue to report their GHG emissions under Environment Canada's GHG Reporting Program. The FortisBC Energy companies have developed capabilities that will support the management of compliance requirements in an upcoming GHG emissions' trading environment, as government policy in that area evolves. The Companies will also continue to monitor and assess emerging regulations, in particular, the offset and allowance regulations.

The impact 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 Electric, about 70% at Newfoundland Power, and most of the Corporation's non-regulated generating capacity is hydroelectric, a clean energy source. The 335-MW Waneta Expansion will be a clean renewable hydroelectric energy source when it comes into service in spring 2015. Only a small portion of in-house generation at Canadian Regulated Electric Utilities uses diesel fuel. 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* (PEI) and the recent PEI Energy Accord directly impact the long-term energy supply planning process for the province of PEI. The Act required Maritime Electric to source 15% of its annual energy sales from renewable sources by 2010, which the Company met in both 2012 and 2013. Under the PEI Energy Accord, Maritime Electric and the Government of PEI are committed to work collaboratively to increase electricity produced on PEI and sold to Maritime Electric from renewable energy sources, principally wind.

Central Hudson is subject to regulation by federal, state and local authorities related to the environmental effects of its operations. The Company owns minimal generating capacity and relies on purchased capacity and energy from third-party providers. Central Hudson is, however, exposed to environmental contingencies associated with MGP's that it and its predecessors owned and operated to serve their customers' heating and lighting needs from the mid- to late 1800s to the 1950s. The DEC regulates the timing and extent of remediation of MGP sites in New York State. As at December 31, 2013, Central Hudson has recognized approximately US$41 million in associated MGP environmental remediation liabilities. As approved by the PSC, the Company is currently permitted to recover MGP site investigation and remediation costs in customer rates. For additional information, refer to the "3.2.1 Central Hudson" section of this 2013 Annual Information Form.

While there are environmental laws, regulations and guidelines affecting the Corporation's operations in Grand Cayman and Turks and Caicos Islands, 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 were extended to the Cayman Islands in 2007. 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 local government of the Cayman Islands and, accordingly, Caribbean Utilities is 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 are sourced from in-house diesel-powered generation. The more recently installed generators at Caribbean Utilities and Fortis Turks and Caicos have also been designed to provide an increased output per gallon consumed than the older generators, which generate electricity in a more efficient and environmentally friendly manner. 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 expects to complete the implementation of its EMS by the end of 2014. 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 the 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) regularly set and review environmental objectives, targets and programs; (vi) communicate openly with stakeholders including making available the utility's environmental policy and knowledge of 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 Electric, 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 FortisBC Energy companies, Central Hudson, FortisAlberta, FortisBC Electric, Newfoundland Power, Maritime Electric and FortisOntario 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 T&D operations, which is consistent with ISO 14001 guidelines. Fortis Turks and Caicos' EMS, when fully implemented, is also expected to be ISO 14001 certified. 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 last completed, 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.

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 refrigeration 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 2013 Audited Consolidated Financial Statements. With the exception of a total of approximately $3 million at FortisBC Electric and Central Hudson, liabilities with respect to asset-retirement obligations have not been recorded in the Corporation's 2013 Audited Consolidated Financial Statements, 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 2013 and, based on current laws, facts and circumstances, are not expected to have a material effect in 2014. Many of the above costs, 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 the 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 Corporation's MD&A.

6.0 RISK FACTORS

For information with respect to the Corporation's business risks, refer to the "Business Risk Management" section of the Corporation's 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 13, 2014, the following Common Shares and First Preference Shares were issued and outstanding.

Share Capital	Issued and Outstanding	Votes per Share (1)
Common Shares	214,120,742	One
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
First Preference Shares, Series J	8,000,000	None
First Preference Shares, Series K	10,000,000	None

(1) *The First Preference Shares do not have voting rights unless and until Fortis fails to pay eight quarterly dividends, whether or not consecutive, and whether such dividends have been declared.*

Convertible Debentures Represented by Installment Receipts

To finance a portion of the pending acquisition of UNS Energy, in January 2014 Fortis, through a direct wholly owned subsidiary, completed the sale of $1.8 billion aggregate principal amount of 4% convertible unsecured subordinated debentures, represented by Installment Receipts.

The debentures were sold on an installment basis at a price of $1,000 per debenture, of which $333 was paid on closing and the remaining $667 is payable on a date to be fixed following satisfaction of all conditions precedent to the closing of the acquisition. Prior to the final installment date, the debentures are represented by Installment Receipts. The Installment Receipts began trading on the TSX on January 9, 2014 under the symbol "FTS.IR". The debentures will not be listed. The debentures will mature on January 9, 2024 and bear interest at an annual rate of 4% per $1,000 principal amount of debentures until and including the final installment date, after which the interest rate will be 0%.

At the option of the investors and provided that payment of the final installment has been made, each debenture will be convertible into Common Shares of Fortis at any time after the final installment date but prior to maturity or redemption by the Corporation at a conversion price of $30.72 per common share, being a conversion rate of 32.5521 Common Shares per $1,000 principal amount of debentures.

For additional information with respect to the debentures, refer to the "Significant Items – Convertible Debentures Represented by Installment Receipts" section of the Corporation's MD&A.

Dividend Policy

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

	Dividends Declared *(per share)*		
Share Capital	**2013**	**2012**	**2011**
Common Shares	**$1.25**	$1.21	$1.17
First Preference Shares, Series C [(1)]	**$0.4862**	$1.3625	$1.3625
First Preference Shares, Series E	**$1.2250**	$1.2250	$1.2250
First Preference Shares, Series F	**$1.2250**	$1.2250	$1.2250
First Preference Shares, Series G [(2)]	**$1.1416**	$1.3125	$1.3125
First Preference Shares, Series H	**$1.0625**	$1.0625	$1.0625
First Preference Shares, Series J [(3)]	**$1.1875**	$0.3514	-
First Preference Shares, Series K [(4)]	**$0.6233**	-	-

[(1)] *In July 2013 the Corporation redeemed all the issued and outstanding First Preference Shares, Series C at a redemption price of $25.1456 per share, being equal to $25.00 plus the amount of accrued and unpaid dividends per share.*

[(2)] *The annual fixed dividend per share for the First Preference Shares, Series G was reset from $1.3125 to $0.9708 for the five-year period from and including September 1, 2013 to but excluding September 1, 2018.*

[(3)] *The First Preference Shares, Series J were issued in November 2012 at $25.00 per share and are entitled to receive cumulative dividends in the amount of $1.1875 per share annum.*

[(4)] *The Fixed Rate Reset First Preference Shares, Series K were issued in July 2013 at $25.00 per share and are entitled to receive cumulative dividends in the amount of $1.0000 per share per annum for the first six years.*

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 9, 2013, the Board declared an increase in the quarterly Common Share dividend to $0.32 per share from $0.31 per share, with the first payment made on March 1, 2014, to holders of record as of February 14, 2014. Also on December 9, 2013, the Board declared a first quarter 2014 dividend on the First Preference Shares, Series E, F, G, H, J and K in accordance with the applicable annual prescribed rate and was paid on March 1, 2014 to holders of record as of February 14, 2014.

On March 13, 2014, the Board declared a second quarter 2014 dividend of $0.32 per Common Share and a second quarter 2014 dividend on the First Preference Shares, Series E, F, G, H, J and K in accordance with the applicable annual prescribed rate. In each case, the second quarter 2014 dividends will be paid on June 1, 2014 to holders of record as of May 16, 2014.

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

In July 2013 the Corporation redeemed all of the 5,000,000 issued and outstanding 5.45% First Preference Shares, Series C at a redemption price of $25.1456 per share, being equal to $25.00 plus the amount of accrued and unpaid dividends per share.

First Preference Shares, Series E

Holders of 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. 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. 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

Holders of 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. 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 $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

Holders of the 9,200,000 First Preference Shares, Series G were 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. The annual fixed dividend rate per share for the First Preference Shares, Series G was reset to $0.9708 per share per annum for the five-year period from and including September 1, 2013 to but excluding September 1, 2018. 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 $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, 2018, 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

Holders of 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.

Holders of the 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 First Preference Shares, 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 First Preference Shares, 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 First Preference Shares, 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 First Preference Shares, 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 First Preference Shares, 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 First Preference Shares, Series I or less than 1,000,000 First Preference Shares, Series H outstanding then no automatic conversion would take place.

First Preference Shares, Series J

Holders of the 8,000,000 First Preference Shares, Series J are entitled to receive fixed cumulative preferential cash dividends at a rate of $1.1875 per share per annum. On or after December 1, 2017, the Corporation may, at its option, redeem for cash the First Preference Shares, Series J, in whole at any time or in part from time to time, at $26.00 per share if redeemed before December 1, 2018; at $25.75 per share if redeemed on or after December 1, 2018 but before December 1, 2019; at $25.50 per share if redeemed on or after December 1, 2019 but before December 1, 2020; at $25.25 per share if redeemed on or after December 1, 2020 but before December 1, 2021; and at $25.00 per share if redeemed on or after December 1, 2021 plus, in each case, all accrued and unpaid dividends up to but excluding the date fixed for redemption.

First Preference Shares, Series K

Holders of the 10,000,000 First Preference Shares, Series K are entitled to receive fixed cumulative preferential cash dividends at a rate of $1.0000 per share per annum for each year up to but excluding March 1, 2019. For each five-year period after that date, the holders of First Preference Shares, Series K 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 2.05%.

On each Series K Conversion Date, being March 1, 2019, and March 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 K, 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 K Conversion Date, the holders of First Preference Shares, Series K have the option to convert any or all of their First Preference Shares, Series K into an equal number of cumulative redeemable floating rate First Preference Shares, Series L.

Holders of the First Preference Shares, Series L 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 2.05%.

On each First Preference Shares, Series L Conversion Date, being March 1, 2024, and March 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 L 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 March 1, 2019, that is not a First Preference Shares, Series L Conversion Date, the Corporation has the option to redeem for cash all or any part of the outstanding First Preference Shares, Series L 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 First Preference Shares, Series L Conversion Date, the holders of First Preference Shares, Series L have the option to convert any or all of their First Preference Shares, Series L into an equal number of First Preference Shares, Series K.

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

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 $1 billion unsecured committed revolving corporate credit facility, maturing in July 2018, that is available for interim financing of acquisitions and for general corporate purposes. 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, 2013 and 2012, 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 utilities, that are currently rated, 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 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 13, 2014.

Fortis Credit Ratings

Company	DBRS	S&P	Moody's
Fortis	A (low), under review with developing implications (unsecured debt)	A-, negative (unsecured debt)	N/A
FHI	BBB (high), stable (unsecured debt)	N/A	Baa2, negative (unsecured debt)
FEI	A, stable (secured & unsecured debt)	N/A	A3, negative (unsecured debt)
FEVI	N/A	N/A	A3, negative (unsecured debt)
Central Hudson [(1)]	N/A	A, stable (unsecured debt)	A2, stable (unsecured debt)
FortisAlberta	A (low), positive (senior unsecured debt)	A-, negative (senior unsecured debt)	N/A
FortisBC Electric	A (low), stable (secured & unsecured debt)	N/A	Baa1, negative (unsecured debt)
Newfoundland Power	A, stable (first mortgage bonds)	N/A	A2, stable (first mortgage bonds)
Maritime Electric	N/A	A, negative (senior secured debt)	N/A
Caribbean Utilities	A (low), stable (senior unsecured debt)	A-, negative (senior unsecured debt)	N/A

(1) *Central Hudson's senior unsecured debt is also rated by Fitch Ratings at 'A, stable'.*

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 rated 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 D, 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 E; First Preference Shares, Series F; First Preference Shares, Series G; First Preference Shares, Series H; First Preference Shares, Series J; and First Preference Shares, Series K of Fortis are listed on the TSX under the symbols FTS, FTS.PR.E, FTS.PR.F, FTS.PR.G, FTS.PR.H, FTS.PR.J and FTS.PR.K, respectively. The First Preference Shares, Series C and Subscription Receipts of Fortis were previously listed on the TSX under the symbols FTS.PR.C and FTS.R, respectively. Beginning in January 2014, the Installment Receipts of Fortis began trading on the TSX under the symbol FTS.IR.

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; First Preference Shares, Series H; First Preference Shares, Series J; First Preference Shares, Series K; and Subscription Receipts on a monthly basis for the year ended December 31, 2013.

Fortis 2013 Trading Prices and Volumes						
	Common Shares			**First Preference Shares, Series C** (1)		
Month	**High ($)**	**Low ($)**	**Volume**	**High ($)**	**Low ($)**	**Volume**
January	34.85	33.92	7,028,930	25.80	25.50	37,516
February	34.89	32.89	8,565,427	25.68	25.14	371,329
March	34.29	33.21	9,213,786	25.34	25.15	176,447
April	35.08	33.06	9,634,522	25.50	25.22	263,259
May	35.14	33.00	11,446,339	25.46	25.07	191,089
June	33.32	30.70	13,177,638	25.16	25.10	30,776
July	32.95	31.25	8,084,459	25.24	25.12	4,956
August	32.45	29.92	8,815,840	-	-	-
September	31.57	29.78	13,894,725	-	-	-
October	32.80	30.76	9,216,065	-	-	-
November	32.84	31.00	9,871,013	-	-	-
December	31.68	29.51	11,521,039	-	-	-

(1) *The First Preference Shares, Series C were redeemed in July 2013.*

Fortis
2013 Trading Prices and Volumes

	First Preference Shares, Series E			First Preference Shares, Series F		
Month	**High ($)**	**Low ($)**	**Volume**	**High ($)**	**Low ($)**	**Volume**
January	27.19	26.64	38,132	26.05	25.80	63,277
February	27.03	26.30	61,519	26.25	25.74	372,278
March	26.64	26.18	161,461	26.02	25.79	68,561
April	26.83	26.27	62,483	26.17	25.65	49,615
May	26.54	26.08	151,923	26.06	25.08	133,510
June	26.27	25.95	17,127	25.12	22.89	109,880
July	26.16	25.90	25,989	24.76	23.28	93,996
August	26.15	25.15	102,324	23.64	21.51	160,433
September	26.04	25.80	277,950	24.12	21.67	268,832
October	26.16	25.90	142,029	24.77	22.87	110,290
November	26.22	25.83	110,659	24.05	23.25	83,563
December	26.25	25.62	144,603	23.51	21.66	235,877
	First Preference Shares, Series G			**First Preference Shares, Series H**		
Month	**High ($)**	**Low ($)**	**Volume**	**High ($)**	**Low ($)**	**Volume**
January	25.10	24.32	619,282	26.03	25.43	236,790
February	25.31	24.87	462,897	26.25	25.45	232,420
March	25.38	24.99	231,399	26.38	25.80	293,989
April	25.39	25.09	166,680	26.26	25.29	166,015
May	25.78	25.01	223,188	25.92	25.10	142,715
June	25.12	22.33	141,639	25.46	24.05	169,198
July	24.92	24.03	172,482	24.62	22.53	186,298
August	24.05	22.90	152,750	22.98	19.90	266,107
September	23.82	23.20	186,736	22.17	20.68	254,009
October	24.10	23.35	210,044	22.30	20.12	329,107
November	24.19	23.78	166,399	22.38	20.80	447,312
December	24.13	23.76	235,211	21.55	21.00	587,546
	First Preference Shares, Series J			**First Preference Shares, Series K** (1)		
Month	**High ($)**	**Low ($)**	**Volume**	**High ($)**	**Low ($)**	**Volume**
January	26.09	25.54	455,909	-	-	-
February	26.27	25.56	296,524	-	-	-
March	26.12	25.60	307,650	-	-	-
April	26.26	25.85	271,529	-	-	-
May	26.10	25.52	166,192	-	-	-
June	25.60	22.31	206,705	-	-	-
July	24.49	22.75	193,041	25.29	24.90	619,484
August	23.58	20.99	239,500	25.25	24.25	216,119
September	23.75	21.13	378,127	24.84	24.10	158,746
October	23.75	22.33	215,801	24.76	24.20	329,716
November	23.59	22.37	252,735	24.78	23.96	137,442
December	22.70	21.24	378,358	24.84	24.05	194,721

	Subscription Receipts (2)		
Month	**High ($)**	**Low ($)**	**Volume**
January	35.02	33.94	1,182,323
February	35.10	32.25	451,480
March	34.87	33.89	868,842
April	35.31	33.64	331,471
May	35.40	33.25	1,076,259
June	34.47	31.89	1,557,411

(1) *The First Preference Shares, Series K were issued in July 2013.*
(2) *The Subscription Receipts were converted into Common Shares in June 2013.*

10.0 DIRECTORS AND OFFICERS

The Board has governance guidelines which cover various items, including director tenure. The governance guidelines provide 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 12th 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.

Fortis Directors	
Name	**Principal Occupations Within Five Preceding Years**
PETER E. CASE *(1) (2)* Kingston, Ontario	Mr. Case, 59, 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. Mr. Case was awarded a Bachelor of Arts and an MBA from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto. He was first elected to the Board in May 2005 and has been Chair of the Audit Committee of the Board since March 2011. Mr. Case was a Director of FortisOntario from 2003 through 2010 and served as Chair of the FortisOntario Board from 2009 through 2010. He does not serve as a director of any other reporting issuer.
FRANK J. CROTHERS *(2)* Nassau, Bahamas	Mr. Crothers, 69, is Chairman and Chief Executive Officer of Island Corporate Holdings Limited, Nassau, Bahamas, a private Bahamas-based investment company with diverse interests throughout the Caribbean, North America, Australia and South Africa. For more than 35 years, he has served on many public and private sector boards. For over 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 FortisTCI, which was acquired by the Corporation in August 2006. He serves on 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 AML Limited and Templeton Mutual Funds.
IDA J. GOODREAU *(3)* Vancouver, British Columbia	Ms. Goodreau, 62, is an Adjunct Professor at Sauder School of Business, University of British Columbia. She is a past President and Chief Executive Officer of LifeLabs. Prior to joining LifeLabs in March 2009, she served as President and Chief Executive Officer of Vancouver Coastal Health Authority from 2002. Ms. Goodreau has held senior leadership roles in several Canadian and international pulp and paper and natural gas companies. She was awarded an MBA and a Bachelor of Commerce, Honours, 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 FHI and FortisBC Inc. since 2007 and 2010, respectively. Ms. Goodreau does not serve as a director of any other reporting issuer.

Fortis Directors *(continued)*	
Name	**Principal Occupations Within Five Preceding Years**
DOUGLAS J. HAUGHEY *(1) (3)* Calgary, Alberta	Mr. Haughey, 57, from August 2012 through May 2013, was Chief Executive Officer of The Churchill Corporation, a commercial construction and industrial services company focused on the western Canadian market. From 2010 through its successful sale to Pembina Pipeline in April 2012, he served as President and Chief Executive Officer of Provident Energy Ltd., an owner/operator of natural gas liquids midstream facilities. From 1999 through 2008, he held several executive roles with Spectra Energy and predecessor companies. Mr. Haughey had overall responsibility for its western Canadian natural gas midstream business, was President and Chief Executive Officer of Spectra Energy Income Fund and 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 an MBA. 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, and serves as Chair of that Board. Mr. Haughey is also a director of Keyera Corporation.
H. STANLEY MARSHALL Paradise, Newfoundland and Labrador	Mr. Marshall, 63, 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 (Chemical Engineering) and from 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 as a Director of Fortis utility subsidiaries in British Columbia, Ontario, New York and the Caribbean, as well as Fortis Properties. Mr. Marshall is also a director of Enerflex Ltd.
JOHN S. McCALLUM *(1) (2)* Winnipeg, Manitoba	Mr. McCallum, 70, 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 an MBA 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 Board in May 2005. He was previously a Director of FortisBC Inc. and FortisAlberta from 2004 through 2010 and from 2005 through 2010, respectively. Mr. McCallum also serves as a director of IGM Financial Inc. and Toromont Industries Ltd.
HARRY McWATTERS *(2)* Summerland, British Columbia	Mr. McWatters, 68, is President of Vintage Consulting Group Inc., Harry McWatters Inc., and TIME Estate Winery, all of which are engaged in various aspects of the British Columbia wine industry. He is the founder and past President of Sumac Ridge Estate Wine Group. Mr. McWatters was first elected to the Board in May 2007. He was a Director of FHI and FortisBC Inc., where he served as Chair from 2006 through 2010. Mr. McWatters does not serve as a director of any other reporting issuer.

Fortis Directors *(continued)*	
Name	**Principal Occupations Within Five Preceding Years**
RONALD D. MUNKLEY *(2) (3)* Mississauga, Ontario	Mr. Munkley, 68, 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 in his role as Chairman, President and Chief Executive Officer. Mr. Munkley led Enbridge Consumers Gas through its deregulation and restructuring in the 1990s. He graduated from Queen's University with a Bachelor of Science (Engineering), Honours. 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 also serves as a director of Bird Construction Inc.
DAVID G. NORRIS *(1) (2) (3)* St. John's, Newfoundland and Labrador	Mr. Norris, 66, a Corporate Director, was a financial and management consultant from 2001 until his retirement in December 2013. Prior to that he was Executive Vice President, Finance and Business Development of Fishery Products International Limited. Previously, he held Deputy Minister positions with the Department of Finance and Treasury Board of the Government of Newfoundland and Labrador. Mr. Norris graduated with a Bachelor of Commerce, Honours, from Memorial University of Newfoundland and an MBA from McMaster University. He was first elected to the Board in May 2005 and was appointed Chair of the Board in December 2010. Mr. Norris served as Chair of the Audit Committee of the Board from May 2006 through March 2011. He was a director of Newfoundland Power from 2003 through 2010 and served as Chair of that Board from 2006 through 2010. Mr. Norris served as a director of Fortis Properties from 2006 through 2010. He does not serve as a director of any other reporting issuer.
MICHAEL A. PAVEY *(1) (3)* Moncton, New Brunswick	Mr. Pavey, 66, 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, including Senior Vice President and Chief Financial Officer of TransAlta Corporation. Mr. Pavey graduated from University of Waterloo with a Bachelor of Applied Science (Mechanical Engineering) and from McGill University with an MBA. He served as a Director of Maritime Electric from 2001 through 2007 and was Chair of that Company's Audit and Environment Committee from 2003 through 2007. Mr. Pavey was first elected to the Board in May 2004 and was appointed Chair of the Human Resources Committee in May 2013. He does not serve as a director of any other reporting issuer.

(1) *Serves on the Audit Committee*
(2) *Serves on the Governance and Nominating Committee*
(3) *Serves on the Human Resources Committee*

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

Fortis Officers	
Name and Municipality of Residence	**Office Held**
H. Stanley Marshall Paradise, Newfoundland and Labrador	President and Chief Executive Officer (1)
Barry V. Perry Mount Pearl, Newfoundland and Labrador	Vice President, Finance and Chief Financial Officer (2)
Ronald W. McCabe St. John's, Newfoundland and Labrador	Vice President, General Counsel and Corporate Secretary (3)
James D. Spinney Mount Pearl, Newfoundland and Labrador	Treasurer (4)
Jamie D. Roberts Mount Pearl, Newfoundland and Labrador	Controller (5)
Donna G. Hynes St. John's, Newfoundland and Labrador	Assistant Secretary (6)

(1) *Mr. Marshall was appointed President and Chief Operating Officer, effective October 1, 1995. Effective May 1, 1996, Mr. Marshall became Chief Executive Officer.*
(2) *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.*
(3) *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.*
(4) *Mr. Spinney was appointed Treasurer, effective March 20, 2013. Prior to that time, Mr. Spinney was Manager, Treasury at Fortis since October 2002.*
(5) *Mr. Roberts was appointed Controller, effective March 20, 2013. Prior to that time, Mr. Roberts was Vice President, Finance and Chief Financial Officer of Fortis Properties since July 2008.*
(6) *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, 2013, the directors and officers of Fortis, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 819,243 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, 2013, the Audit Committee was composed of the following persons.

Fortis Audit Committee	
Name	**Relevant Education and Experience**
PETER E. CASE *(Chair)* 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 an MBA from Queen's University and a Master of Divinity from Wycliffe College, University of Toronto.
DOUGLAS J. HAUGHEY Calgary, Alberta	Mr. Haughey, from August 2012 through May 2013, was Chief Executive Officer of The Churchill Corporation. Prior to that, he served as President and Chief Executive Officer of Provident Energy Ltd. and held several executive roles with Spectra Energy and predecessor companies. He graduated from the University of Regina with a Bachelor of Administration and from the University of Calgary with an MBA. Mr. Haughey also holds an ICD.D designation from the Institute of Corporate Directors.
JOHN S. McCALLUM 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 an MBA from Queen's University and a PhD in Finance from the University of Toronto.
DAVID G. NORRIS St. John's, Newfoundland and Labrador	Mr. Norris was a financial and management consultant from 2001 until his retirement in December 2013. Prior to that he was Executive Vice President, Finance and Business Development of Fishery Products International Limited. He graduated with a Bachelor of Commerce, Honours, from Memorial University of Newfoundland and an MBA from McMaster University.
MICHAEL A. PAVEY Moncton, New Brunswick	Mr. Pavey 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, including Senior Vice President and Chief Financial Officer of TransAlta Corporation. Mr. Pavey graduated from University of Waterloo with a Bachelor of Applied Science (Mechanical Engineering) and from McGill University with an MBA.

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 breath 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;

"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 use reasonable efforts to satisfy itself as to the appropriateness of the Corporation's material financing and tax structures.

2.7. The Committee shall be responsible for the oversight of the Internal Auditor.

2.8. 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, tax, and non-audit services were as follows.

Fortis
External Auditor Service Fees
($ thousands)

Ernst & Young LLP	**2013**	2012
Audit Fees	**3,190**	2,484
Audit-Related Fees	**673**	806
Tax Fees	**221**	139
Non-Audit Services	**-**	138
Total	**4,084**	3,567

Audit fees were higher in 2013 mainly due to work performed by Ernst & Young LLP related to CH Energy Group's annual audit and quarterly reviews since acquisition in June 2013. The increase in tax fees was related to a capital asset review at Fortis Properties in 2013. Ernst & Young LLP did not provide any non-audit services in 2013.

12.0 TRANSFER AGENT AND REGISTRAR

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

Computershare Trust Company of Canada
9th 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.investorcentre.com/fortisinc

13.0 AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, The Fortis Building, 7th Floor, 139 Water Street, St. John's, NL, A1C 1B2. The consolidated financial statements of the Corporation for the fiscal year ended December 31, 2013 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

Reference is made to the MD&A and 2013 Audited Consolidated Financial Statements on pages 6 through 73 and pages 74 through 137, respectively, of the 2013 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.

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, will be contained in the Management Information Circular of Fortis to be dated on or about March 27, 2014 for the May 14, 2014 Annual Meeting of Shareholders. Additional financial information is also provided in the 2013 Audited Consolidated Financial Statements and the MD&A.

Requests for additional copies of the above-mentioned documents, as well as the 2013 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.