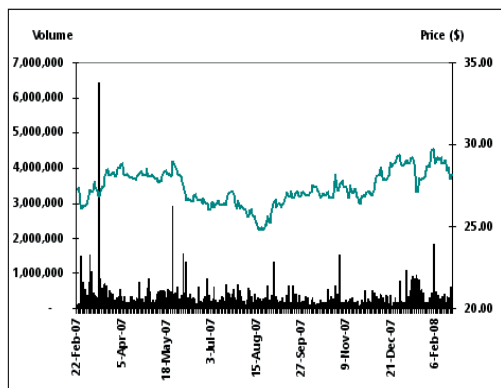


Fortis Inc.
(FTS - \$28.20)
Initiating Coverage

Outperform
Target Price: \$33.00



Market Capitalization (\$ million)	4,386
Outstanding Number of Shares (million)	156
Dividend Yield (%)	3.55

(\$ million except per share data)	2007	2008E	2009E
Revenues	2,718	3,733	3,957
EBITDA	814	1,116	1,204
EPS	1.40	1.58	1.89

Citadel Securities Estimates

Fortis Inc. is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in 5 Canadian provinces and 3 Caribbean countries. It owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels & commercial real estate in Canada.

February 25, 2008

Highlights

At this time in the economic cycle, investors are looking for a safe haven in defensive stocks. Fortis is one of them.

The management team of Fortis has a proven track record in growing the Company. Terasen acquisition completed in May 2007 was the major factor to almost double the Company's assets in a year.

The company is tapping into the economic growth in Western Canada and the Caribbean especially in recent years. Important additions to the Company's asset size include FortisAlberta and FortisBC in 2004, Caribbean expansion and acquisition of hospitality operations in 2006 & 2007 and finally the Terasen acquisition in 2007.

As the largest investor-owned distribution utility in Canada, Fortis serves almost two million gas and electricity customers. In addition to its regulated holdings, which include a natural gas utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries, Fortis also owns non-regulated generation assets (primarily hydroelectric) across Canada, in Belize and in upper New York State. Additional diversification to Fortis' portfolio comes with hotels and commercial real estate.

Growth in asset size is combined with a commitment to shareholders. Dividends of Fortis have been increasing for the last 35 years consecutively.

As a blue-chip, dividend-paying company in a defensive industry with a good valuation, Fortis is one of our top picks this year. We are initiating coverage on Fortis with \$33.00 target price and "Outperform" recommendation.

Executive Summary

At this time in the economic cycle, investors are looking for a safe haven in defensive stocks. Fortis Inc. is one of them. The utility business is a highly regulated, capital-intensive and stable-growth industry. As the largest investor-owned distribution utility in Canada, Fortis is strategically positioned in this sector. Recent acquisitions and investments in Western Canada and the Caribbean have helped to solidify this strategic positioning even further.

Today Fortis serves almost two million gas and electricity customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Fortis also owns non-regulated generation assets (primarily hydroelectric) across Canada, in Belize and in upper New York State. Hotels and commercial real estate help to diversify the company's portfolio.

The management team of Fortis has a proven track record in growing the company by ensuring compliance with existing regulations and keeping their eyes on emerging ones. With their strategy of keeping the profitability and risk of the business at comparable level with the Company's peers while growing it at above average rate, the Company has almost doubled in asset size in a year and is now seven times larger than it was in 2000 and 10 times larger than a decade ago.

This growth is both organic and also fueled by strategic acquisitions. Especially in recent years, the Company has started to tap into the economic boom in Western Canada and the Caribbean. Significant additions include FortisAlberta and FortisBC in 2004, a Caribbean expansion and acquisition of hospitality operations in 2006 & 2007, and the Terasen Gas acquisition in 2007. Terasen acquisition was the biggest acquisition in the Company's history.

Growth in asset size is one strength; commitment to shareholders is another. Fortis' Dividends have been increasing consecutively for the last 35 years. Although past performance does not guarantee future results, it is a strong indication of management's growth strategy.

As a blue-chip, dividend-paying company in a defensive industry with a good valuation, Fortis is one of our top picks this year. However, while evaluating investment alternatives, investors should be aware of certain risks. The Company's operations, for one, are dependent on regulations. Also, the Company has been using debt as a preferred financing source. And Fortis has international exposure. Therefore, any adverse changes in the regulatory arena, interest rates, currency fluctuations, or natural disasters may affect its performance negatively.

We are initiating coverage on Fortis with \$33.00 target price and our recommendation is "Outperform".

Fortis

Fortis is a diversified, international utility holding company that owns subsidiaries principally engaged in the regulated distribution of electricity and gas. Regulated utility assets comprise approximately 92 per cent of the Corporation's total assets with the balance comprised primarily of non-regulated generation operations and commercial real estate and hotel investments owned and operated through its non-utility subsidiary. Fortis segments its utility operations by franchise area and, depending on regulatory requirements, by the nature of the assets.

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Explanations of Regulatory Terms

Cost of Service - Rate orders issued by the regulatory authority establish the Company's revenue requirements. That revenue is required to recover approved costs with the distribution business and also provide a rate of return on a deemed capital structure applied to rate-based assets. It is not possible to recover the variance if it occurs. But certain prescribed costs are eligible for deferral account treatment.

Performance-Based Rate (PBR) Setting (for Fortis BC) - The PBR framework allows for the equal sharing between customers and the Company of variances above or below the allowed return on equity (ROE) within a prescribed band.

PBR (TGV) - 100 per cent retention of earnings from lower-than-forecasted operating and maintenance costs but no relief from increased operating and maintenance costs

Terasen Gas Companies

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Gas and propane distribution and transmission
Location	Populous lower mainland, Vancouver Island and the interior of British Columbia.
Regulations	<p>Cost of Service/Return on Equity</p> <p>Terasen Gas Inc (TGI) and Terasen Gas Vancouver Island (TGVI) operate under cost-of-service regulation and performance-based rate setting methodologies as described by BCUC. ROE automatic-adjustment formula tied to long-term Canada bond yields</p> <p>For TGI: 2006 allowed ROE: 8.80% 2007 allowed ROE: 8.37% 2008 allowed ROE: 8.62%</p> <p>For TGVI: 2006 allowed ROE: 9.50% 2007 allowed ROE: 9.07% 2008 allowed ROE: 9.32%</p> <p>Allowed Common Equity: 35% and 40% for TGI and TGVI, respectively.</p> <p>Regulatory Commission: British Columbia Utilities Commission (BCUC)</p>
Capacity/Service	Terasen Gas serves over 918,000 customers or 96% of natural gas users in British Columbia.

As the latest acquisition of Fortis Inc., Terasen is comprised of three wholly owned subsidiaries (TGI, TGVI and Terasen Gas Whistler Inc (TGWI)). TGI provides gas distribution services to an area that extends from Vancouver to the Fraser Valley and the interior of British Columbia. TGVI owns a combined gas distribution and transmission system servicing customers along the Sunshine Coast and in various communities from the Greater Vancouver area across the Georgia Strait to Vancouver Island and the distribution system on Vancouver Island and along the Sunshine Coast of British Columbia. TGWI provides propane distribution services to approximately 2,400 customers in the Whistler area.

On June 19, 2007, Standard & Poor's raised Terasen's unsolicited long-term corporate credit and senior unsecured debt credit ratings on TGI to "A" from "BBB." This upgrade brought S&P back in line with the solicited credit ratings of Terasen by DBRS and Moody's Investors Service.

FortisAlberta

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Distribution of electricity
Location	Southern and Central Alberta
Regulations	<p>Cost of Service/Return on Equity -ROE automatic-adjustment formula tied to long-term Canada bond yields</p> <p>2006 allowed ROE: 8.93% 2007 allowed ROE: 8.51% 2008 allowed ROE: 8.75%</p> <p>Allowed Common Equity: 37%</p> <p>Regulatory Commission: Alberta Utilities Commission (AUC)</p>
Capacity/Service	FortisAlberta distributes electricity to over 448,000 customers.

FortisAlberta's business is the ownership and operation of regulated facilities that distribute electricity generated by other market participants from high-voltage transmission substations to end-use customers. FortisAlberta is not involved in generation, transmission or the direct sale of electricity.

FortisAlberta is one of the companies that Fortis acquired from Aquila, Inc., along with FortisBC, for \$1.5 billion in May 2004.

FortisBC

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Integrated electric utility operation
Location	Southern interior of British Columbia
Regulations	<p>Cost of Service/Return on Equity</p> <p>Both cost-of-service and performance-based rating regulation. PBR mechanism through 2008, with option to continue in 2009 -50/50 sharing of earnings above or below the allowed ROE up to an achieved ROE that is 200 basis points above or below the allowed ROE.</p>

FortisBC (Cont'd)

Regulations (cont'd)	<p>ROE automatic-adjustment formula tied to long-term Canada bond yields</p> <p>2006 allowed ROE: 9.20% 2007 allowed ROE: 8.77% 2008 allowed ROE: 9.02%</p> <p>Allowed Common Equity: 40%</p> <p>Regulatory Commission: British Columbia Utilities Commission (BCUC)</p>
Capacity/Service	<p>The Company serves approximately 154,000 customers directly and indirectly in the southern interior of British Columbia. FortisBC owns four regulated hydroelectric generating plants with a combined capacity of 223 MW. During 2007, energy output was increased by 11,000 MW hours as a result of negotiated adjustments to the Canal Plant Agreement with BC Hydro.</p>

FortisBC also operates the 450-MW Waneta hydroelectric generating facility owned by Teck Cominco Metals Ltd.; the 149-MW Brilliant hydroelectric plant; the 185-MW Arrow Lakes hydroelectric plant owned by Columbia Power Corporation and the Columbia Basin Trust; and the distribution system owned by the City of Kelowna. The former Princeton Light and Power Company, Limited was purchased in 2005 and wound up by FortisBC on January 1, 2007. Princeton's assets and liabilities were assumed by FortisBC then.

The transmission and distribution assets consist of approximately 6,900 kilometers of transmission and distribution power lines and 64 distribution substations.

FortisBC intends to file its 2009 and 2010 Capital Plan and 2009 revenue requirements with BCUC in the third quarter of 2008.

Newfoundland Power

Fortis Inc. Ownership (%)	100% of common shares
Segment	Regulated Utilities - Canadian
Operation	Integrated electric generation, transmission and distribution
Location	Newfoundland
Regulations	Cost of Service/Return on Equity -ROE automatic-adjustment formula tied to long-term Canada bond yields

Newfoundland Power (Cont'd)

Regulations (cont'd)	2006 allowed ROE: 9.24% +/- 50bps 2007 allowed ROE: 8.60% +/- 50bps 2008 allowed ROE: 8.95% +/- 50bps Allowed Common Equity: 45% Regulatory Commission: Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB)
Capacity/Service	As the principal distributor of electricity in Newfoundland, the company serves approximately 232,000 customers in the Province, and has an installed generating capacity of 139 MW, of which 96 megawatts is hydroelectric generation.

Newfoundland Power is the principal distributor of electricity on the island portion of Newfoundland and Labrador. It owns and operates 29 small generating stations and approximately 11,000 kilometers of transmission and distribution lines. Approximately 90 per cent of the electricity that Newfoundland Power sells to its customers is purchased from Newfoundland and Labrador Hydro, a provincial Crown Corporation. The remainder of its energy requirements is generated by the Company itself.

Newfoundland Power received approval of a Negotiated Settlement Agreement (NSA) by the PUB in December 2007 for its 2008 rates. The 2.8% rate increase is largely driven by higher amortization costs.

Maritime Electric

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Integrated electric generation, transmission and distribution
Location	Prince Edward Island
Regulations	Cost of Service/Return on Equity 2006 allowed ROE: 10.25% 2007 allowed ROE: 10.25% 2008 allowed ROE: 10.00% Allowed Common Equity: 40%

Maritime Electric (Cont'd)

Regulations (cont'd)	Regulatory Commission: Island Regulatory and Appeals Commission (IRAC)
Capacity/Service	Maritime Electric is the principal distributor of electricity on Prince Edward Island, serving approximately 72,000 customers. The Company also maintains on-Island generating facilities with a combined capacity of 150MW.

Maritime Electric purchases most of its energy from New Brunswick Power, a provincial Crown corporation. Maritime Electric's system is connected to the mainland power grid via two submarine cables under the Northumberland Strait, which are leased from the provincial government.

The PEI government expects to see an increased reliance by Maritime Electric on renewable energy sources, such as wind-powered energy, located on the Island. By 2010, Maritime Electric will be required to obtain at least 15 per cent of its annual energy requirements from renewable sources.

FortisOntario

Fortis Inc. Ownership (%)	100%
Segment	Regulated Utilities - Canadian
Operation	Integrated electric generation, transmission and distribution (Canadian Niagara Power, including the operations of Port Colborne Hydro and Cornwall Electric.)
Location	Ontario
Regulations	<p>Canadian Niagara Power – Cost of Service/ROE Cornwall Electric – Price cap with commodity cost flow-through</p> <p>2006 allowed ROE: 9.00% 2007 allowed ROE: 9.00% 2008 allowed ROE: 9.00%</p> <p>Allowed Common Equity: 50%</p> <p>Regulatory Commission: Ontario Energy Board (OEB) for Canadian Niagara Power. The Company has a franchise agreement for Cornwall Electric.</p>

FortisOntario (Cont'd)

Capacity/Service	In total, FortisOntario's distribution operations serve approximately 52,000 customers in the Fort Erie, Port Colborne, Cornwall, and Gananoque areas of Ontario. Canadian Niagara Power owns international transmission facilities at Fort Erie as well as a 10 per cent interest in each of Westario Power and Rideau St. Lawrence, two regional electric-distribution companies that together serve over 27,000 customers.
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Canadian Niagara Power purchases its power requirements for Fort Erie and Port Colborne from the Independent Electricity System operator in Ontario. In Gananoque, Canadian Niagara Power's distribution system is embedded within Hydro One Networks. Approximately 83 per cent of energy requirements for Gananoque are met through monthly energy purchases from Hydro One Networks and the remaining 17 per cent is purchased from six hydroelectric generating plants owned by Fortis Properties.

Cornwall Electric purchases 98 per cent of its power requirements from Hydro-Québec Energy Marketing Inc. under two fixed-term contracts. The first contract, which represents approximately 37 per cent of the power supply, expires in 2019. The second contract, which supplies the remainder of the power from Hydro-Québec Energy Marketing, is a 24-month rolling contract expiring in 2008. FortisOntario's 5-MW gas-fired cogeneration plant generates the remaining two per cent of the power requirement in Cornwall.

Cornwall Electric is subject to a 35-year franchise agreement with the City of Cornwall, dated July 31, 1998. Rates under the agreement are subject to a price cap with commodity cost flow-through. The base revenue requirement is adjusted annually for inflation, load growth and customer growth. In November 2004, the OEB granted Cornwall Electric a distribution licence valid until December 2019. The licence acknowledges the existing service territory and franchise agreements. Prior to this date, Cornwall Electric had been granted an interim distribution licence.

Belize Electricity

Fortis Inc. Ownership (%)	70.1%
Segment	Regulated Electric Utilities - Caribbean
Operation	Generation, transmission and distribution of electricity
Location	Belize, Central America
Regulations	<p>Four-year cost-of-service/return-on-assets agreements with market-based returns</p> <p>2006 allowed ROA: 10.00 - 15.00%</p> <p>2007 allowed ROA: 10.00 - 15.00%</p> <p>2008 allowed ROA: 10.00 - 15.00%</p> <p>Regulatory Commission: Public Utilities Commission (PUC).</p>
Capacity/Service	Belize Electricity is the principal distributor of electricity in Belize serving approximately 73,000 customers. The Company has an installed generating capacity of 36 MW.

Belize Electricity meets its energy demand from multiple sources, which include power purchases from:

- (i) CFE, the Mexican state-owned power company;
- (ii) the Mollejon and Chalillo hydroelectric facilities owned and operated by BECOL;
- (iii) Its own diesel-fired and gas turbine generation.

All major load centers are connected to Belize's national electricity system, which is connected to the Mexican electricity system, allowing Belize Electricity to optimize its power-supply options.

Fortis Turks & Caicos

Fortis Inc. Ownership (%)	100%
Segment	Regulated Electric Utilities - Caribbean
Operation	Generation, transmission and distribution of electricity
Location	Turks and Caicos Islands
Regulations	<p>Cost of Service/Return on Assets</p> <p>2006 allowed ROA: 17.50%</p> <p>2007 allowed ROA: 17.50%</p> <p>2008 allowed ROA: 17.50%</p> <p>Regulatory Authority: Energy Commission</p>

Fortis Turks & Caicos (Cont'd)

Capacity/Service	The Company is the principal distributor of electricity on the Turks and Caicos islands, serving more than 8,700 customers. The company has a combined diesel-fired generating capacity of 48 MW.
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Caribbean Utilities

Fortis Inc. Ownership (%)	54%
Segment	Regulated Electric Utilities - Caribbean
Operation	Generation, transmission and distribution of electricity
Location	Grand Cayman, Cayman Islands
Regulations	<p>Cost of Service/Return on Assets</p> <p>Price-cap adjustment mechanism tied to consumer price indices (effective 2008 under proposed new licence)</p> <p>2006 allowed ROA: 15.00%</p> <p>2007 allowed ROA: 15.00%</p> <p>2008 allowed ROA: 9.00 - 11.00% (proposed)</p> <p>Regulatory Commission: Electricity Regulatory Authority (effective 2008 under proposed new licence)</p>
Capacity/Service	Caribbean Utilities is the sole provider of electricity on Grand Cayman serving more than 23,000 customers. The company has installed generating capacity of 137 MW.

On November 7, 2006, Fortis acquired an additional 16 per cent ownership interest in Caribbean Utilities and now owns approximately 54 per cent of this company. Caribbean Utilities is a public company traded on the Toronto Stock Exchange (TSX: CUP.U) and has an April 30th fiscal year end.

Non-Regulated - Fortis Generation

Location	Plants	Fuel	Capacity (MW)
Ontario	8	Hydro, thermal	88
Belize	2	Hydro	32
Central Newfoundland	2	Hydro	36
Upper New York State	4	Hydro	23
British Columbia	1	Hydro	16
Total	17		195

Annual energy sales from non-regulated generation assets decreased to 1,122 GWh in 2007 from 1,203 GWh in 2006.

Non-regulated generation operations in Ontario include those of FortisOntario and the former FortisOntario Generation. On December 14, 2005, FortisOntario Generation was transferred from FortisOntario to Fortis Properties and was amalgamated with CNE Energy on January 1, 2006. One year later, CNE Energy amalgamated with Fortis Properties. FortisOntario includes 75 MW of water-right entitlement associated with the Niagara Exchange Agreement and the operation of a 5-MW gas-fired cogeneration plant in Cornwall. Fortis Properties' generating operations in Ontario consist of six small hydroelectric generating stations with a combined capacity of approximately 8 MW.

During 2005, the assets related to the 75 MW of water-right entitlement were written down as a result of the implementation of the Niagara Exchange Agreement. The Niagara Exchange Agreement assigns FortisOntario's water rights on the Niagara River to OPGI and facilitates the irrevocable exchange of 75 MW of wholesale electric power supply to FortisOntario from OPGI until April 30, 2009 in exchange for FortisOntario's agreement not to seek renewal of the water entitlement at that time.

Non-regulated generation operations in Belize consist of the operations of BECOL. BECOL operates both the 25-MW Mollejon hydroelectric generating facility and the 7-MW Chalillo hydroelectric generating facility and sells the entire output to Belize Electricity under a 50-year power purchase agreement and a franchise agreement.

Non-regulated generation operations in central Newfoundland are conducted through the Corporation's indirect 51 per cent interest in the Exploits Partnership, a venture with Abitibi-Consolidated that constructed, installed and now operates additional capacity at Abitibi-Consolidated's hydroelectric generating plant at Grand Falls-Windsor and redeveloped the forestry company's hydroelectric generating plant at Bishop Falls.

The Exploits Partnership project was completed in November 2003. Abitibi-Consolidated continues to utilize the historical annual generation of approximately 450 GWh while the additional energy, approximately 140 GWh, produced from the new facilities is sold to Newfoundland Hydro under a 30-year take-or-pay power purchase agreement, which is exempt from regulation and expires in 2033.

Non-regulated generation operations in British Columbia consist of the 16-MW run-of-river Walden hydroelectric power plant near Lillooet, British Columbia. This plant sells its entire output to BC Hydro under a power purchase agreement expiring in 2013. Generation operations in British Columbia were acquired as part of FortisBC in May 2004.

Non-regulated generation operations in Upper New York State include four hydroelectric generating stations with a combined generating capacity of 23 MW under licenses from FERC. These generating stations operate as FortisUS Energy, which became a direct subsidiary of Fortis Properties on January 1, 2005, by way of a transfer from its subsidiary Maritime Electric. Effective January 1, 2007, two of the power purchase agreements were renewed and all four plants are now selling energy to National Grid at market rates.

Non-regulated - Fortis Properties

Fortis Properties owns and operates 19 hotels with more than 3,500 rooms in eight Canadian provinces and approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

In 2007, Fortis Properties derived approximately 31% of its revenue from real estate operations and 69% of its revenue from hotel operations.

Strategy and Outlook

The Corporation's principal business – regulated utilities – is capital intensive, and Fortis expects that most of its capital expenditures for the next five years will relate primarily to Terasen, FortisAlberta and FortisBC. Consolidated utility capital expenditures for this period are expected to be over \$4 billion.

Fortis also expects to focus its capital on funding further acquisitions of utility assets. The Corporation will continue to pursue acquisition opportunities both in and outside of Canada.

As well, Fortis will pursue growth in its non-regulated businesses including hydroelectric generation, hotels, and real estate. Fortis will maintain approximately 15-20% of its assets in non-utility businesses since these businesses are providing flexibility in financing and tax planning.

The primary objectives of the Company are that:

- Earnings should continue at a rate commensurate with that of a well-run North American utility
- Risks should not be substantially greater than associated with the operations of a similar-size North American utility
- Growth in assets and market cap should be greater than the average of other North American public gas and electric corporations of similar size.

Management

The management team at Fortis is lean but has a very successful track record: it has grown significantly in a highly regulated industry through strategic acquisitions and very skillful digestion of these acquisitions. Shareholders have benefited as a result.

H. Stanley Marshall – President, Chief Executive Officer. Mr. Marshall joined Newfoundland Power Inc. in 1979 and was appointed President and Chief Executive Officer of Fortis Inc. in 1996. A native of Carbonear, Newfoundland, Mr. Marshall earned a Bachelor of Applied Science Degree in Chemical Engineering from the University of Waterloo and Bachelor of Laws at Dalhousie University. He is a member of the Law Society of Newfoundland and Labrador and a registered professional Engineer. Mr. Marshall serves on the Boards of all Fortis utilities in Western Canada and the Caribbean and the Board of Fortis Properties Corporation and is a Director of Toromont Industries Ltd.

Barry V. Perry – Vice President, Chief Financial Officer. Most recently, Mr. Perry held the position of Vice President, Finance and Chief Financial Officer of Newfoundland Power. Previously he held the position of Vice President Treasurer with a global forest products company and Corporate Controller with a large crude oil refinery.

Active in the business community, Mr. Perry is a member of the Finance and Taxation Committee of the Canadian Electrical Association and a member of the By-laws Advisory Committee for the Institute of Chartered Accountants of Newfoundland.

Ronald W. McCabe - General Counsel and Corporate Secretary and Donna G. Hynes - Assistant Secretary and Manager, Investor and Public Relations.

Industry

Domestic Energy Production by Energy Source (petajoules)					
	2002	2003	2004	2005	2006*
Petroleum (Crude Oil and gas plant NG liquids)	6,049	6,365	6,517	6,404	6,739
Natural Gas	6,660	6,462	6,524	6,373	6,588
Hydroelectricity	1,245	1,198	1,207	1,289	1,271
Nuclear	824	817	986	1,009	1,090
Coal	1,430	1,326	1,476	1,494	1,554
Renewable and Other	631	633	657	681	707
Total	16,839	16,801	17,367	17,250	17,949

*estimates

Source: Statistics Canada, National Energy Board

Canada is not only self sufficient in terms of electricity generation and distribution, it is a net exporter thanks to the abundance of natural resources such as water and coal. However, there is always a need for sustainability of supply in the long term. Following is a list of factors affecting the supply-demand balance of Canada's electricity market across provinces:

Sources of generation – In 2006, hydro generation accounted for 59% of electric power in Canada while nuclear energy provided about 16% of the country's total electricity production.

Depending on proximity to natural sources of generation, some provinces such as Quebec, Manitoba, British Columbia, and Newfoundland and Labrador, are known as hydro-based provinces. On the other hand, thermal-based jurisdictions such as Nova Scotia, Saskatchewan and Alberta rely primarily on coal while other provinces like New Brunswick and PEI use mostly oil. In Ontario, nuclear power accounts for more than half of total electricity generation (and New Brunswick has also nuclear power plants). Cost is the differentiating factor. Changes in the price of oil, coal and natural gas price, especially for thermal resources, create significant volatility with respect to the cost of electricity. Provinces are looking for ways to keep costs down. Recent increases in the price of fossil fuels, for example, have adversely affected the cost structure of electricity generation. In 2006, the proportion of electricity generated in Canada using fossil fuels declined by 7.0%.

Aging infrastructure – Although hydro generation seems less affected by volatility in commodity markets, their aging transmission and distribution lines are a significant issue. In addition, the cost of building new generation facilities is an important factor in determining where new sources of generation will be located. Currently most alternative and renewable energy sources are more costly than thermal-based generation. The good news is that technological advances are helping to reduce the cost for many alternative and renewable resources. The bad news is that combined generation from wind, solar and tidal sources in 2006 represented less than 0.5% of total generation.

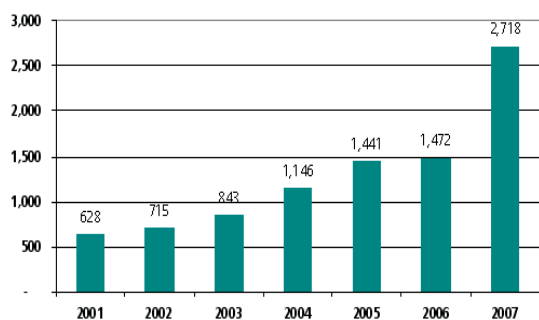
But there is hope for renewable energy sources. Wind generation has been growing significantly in Canada according to the Statistics Canada. Wind generation capacity in Canada more than doubled in 2006 and continued to grow in 2007. The largest increase was posted in Ontario. According to the Canadian Wind Energy Association, Canada's current installed capacity is 1,856 MW – enough to power 560,000 Canadian homes or the equivalent of 0.8 % of the total electricity demand. There are provincial wind policies in place, mostly setting targets for generation coming from renewable energy sources. Although these targets are not necessarily mandatory, factoring the volatile energy prices into the picture, there is good business sense in reaching them. The estimated total economic impact of the wind industry in Canada was approximately \$1.5 billion in 2006.

Market structures – Canada is a net electricity exporter. The trade between certain Canadian provinces and the U.S. (north-south grid) is better than inter-provincial trade among Canadian provinces (east-west grid) because, historically, inter-provincial trade was not considered economically attractive. Hydro-based provinces, in particular, prefer to export some of their production. The revenue generated by this export trade returns to taxpayers in the form of lower prices or as a contribution to government revenues.

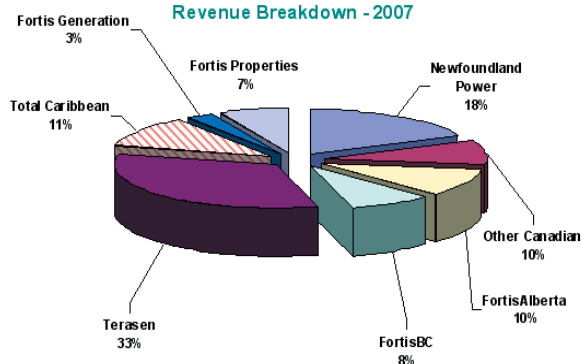
Regulatory environment – A traditional vertically integrated market structure has been abandoned in many provinces. Alberta and Ontario opened their markets to wholesale and retail competition; other provinces partially restructured their markets or have maintained existing models. British Columbia, Saskatchewan, Québec, and New Brunswick have wholesale access and retail access to large industrial users while Manitoba allows wholesale access only. Although the objective is to encourage competition and, thereby obtain efficiencies, in many provinces, there is a debate over the success of restructuring in terms of reaching intended objectives. Except for Alberta and Ontario, pricing structure is a regulated cost-of-service rate.

Financial Analysis

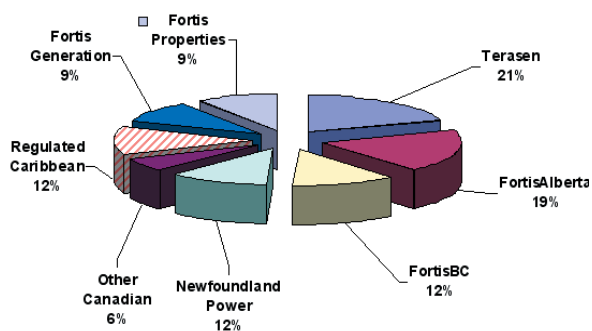
Revenues (million \$)



Revenue Breakdown - 2007



Segmented Net Earnings - 2007*

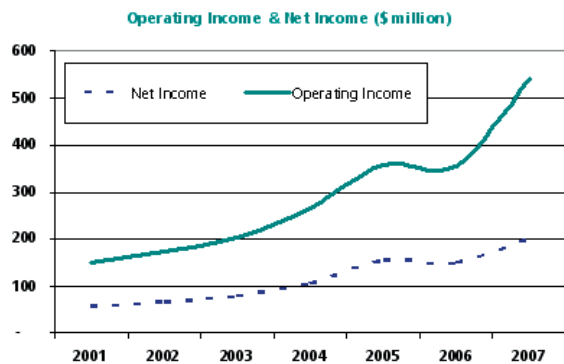


The five-year average revenue growth of Fortis is approximately 33% (CAGR is 173%), which is significantly above the industry average. Most of this growth is generated by acquisitions. The Company's revenues were considerably boosted by the acquisition of FortisAlberta and FortisBC in 2004 and Terasen in 2007. Recently announced year-end results have shown that Fortis increased its revenues by 85% in 2007, thanks primarily to the acquisition of Terasen, which is responsible for 62% of the growth over three quarters. According to our calculations, acquisition of Fortis Turks and Caicos in August 2006 and inclusion of its full-year financials in the consolidated revenues of 2007 as well as that of the Caribbean Utilities had an impact of approximately 15 -25% in overall revenue growth. Therefore, we have determined that the organic growth rate of the Company was approximately 5% for the year 2007.

In 2007, 79% of the Company's total revenue was derived from the Canadian regulated segment -- including Terasen (34%). The largest share in the regulated electricity group belongs to Newfoundland Power, which contributed 18% of the total revenue of Fortis Inc. Fortis Properties revenue contributed 7% and the Caribbean 11%.

During 2007, FortisAlberta added 18,000 customers bringing the total number of customers to over 448,000. An increase in the number of customers, an increase in the distribution rates, franchise fee revenue, net transmission revenue, and other increases resulted in an almost 8% growth in this subsidiary's revenue. Although the operating expenses were higher in 2007, FortisAlberta managed to boost its earnings by 14%.

* Before corporate and other net expenses



In 2007, Fortis BC's electricity sales were negatively affected by warmer temperatures and reduced industrial loads associated with plant optimization by a significant industrial customer. Yet this subsidiary achieved sales and revenue growth during the year. Higher electricity rates, lower energy supply costs and corporate taxes helped FortisBC increase its earnings for the year by 15%.

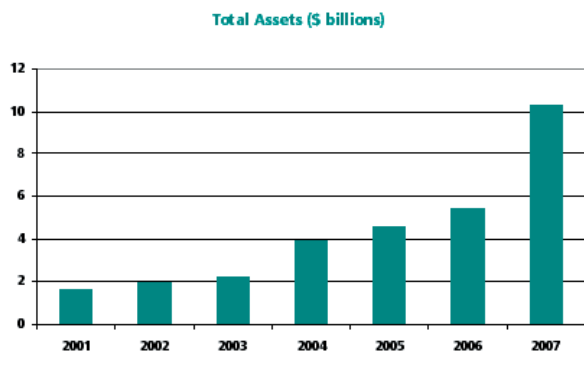
Fortis' flagship company, Newfoundland Power, had a mediocre year in 2007 with 16% revenue growth due to flow-through of high energy supply costs and no earnings growth. Although Newfoundland Power had increased electricity sales, this was partially offset by a decrease in electricity rates due to a lower allowed ROE.

Higher average consumption due to cooler-than-normal weather conditions experienced on PEI and Ontario resulted in higher electricity sales for Maritime Electric and FortisOntario. However, in Ontario, the subsidiary lost a major industrial customer and another industrial customer temporarily shut down its operations. Therefore, this segment's revenues grew a modest 4% in 2007. Thanks to the one-time gain at FortisOntario and increased electricity sales and rates, this segment increased its earnings by 14%.

There are a few changes on the Caribbean operations of Fortis. In November 2006, Fortis acquired an additional 16% interest in Caribbean Utilities, bringing its total interest to 54%. Also, Fortis acquired two companies in the Turks and Caicos, and 2007 was the first year of ownership of Fortis Turks & Caicos and therefore a full year of consolidation of its financial results in the Company's 2007 year-end statements. The impacts of consolidating aside, higher electricity sales and lower finance charges at Belize Electricity were partially offset by the impact of stronger Canadian dollar and lower earnings in Caribbean Utilities.

On the generation front, revenues were lower due to decreased production (lower rainfall), partially offset by higher average wholesale energy prices in Ontario and the flow-through of increased energy supply-related costs in central Newfoundland. Earnings were lower primarily due to lower production.

Fortis Properties, on the other hand, had a very good year with 17% revenue growth and 26% earnings growth. The growth of the Company's hospitality operations in western Canada and favorable corporate tax adjustment contributed to the bright performance of this subsidiary.



Constituents of "the Corporation and Other" segment have changed this year. On top of the usual expense and revenue items not specifically related to any other reportable segment, interest on debt incurred directly by Terasen Inc. and the financial results of CWLP are also added. CWLP is a non-regulated shared-service business in which Terasen holds a 30% interest. Although the revenues for this group increased by 144%, it posted a loss of \$61 million mainly due to \$70 million in finance charges for the year.

Although the Company's EBITDA margin declined to 30% in 2007, its five-year average of this ratio (33%) is still comparable with its peers. Operating income in 2007 grew 52%, of which Terasen's growth accounted for 39%. This is an important ratio considering that one of Terasen's most profitable quarters (the first quarter) is not included in this figure. Seasonality is a factor in Terasen's earnings since the first and fourth quarters are the company's best quarters in terms of profitability.

In terms of its asset size, Fortis has almost doubled in the last years. Today the Company is seven times bigger than it was in 2000 and ten times bigger than it was a decade ago. Important additions to the Company's asset size include the Terasen acquisition in 2007, FortisAlberta and FortisBC in 2004, Caribbean expansion and acquisition of hospitality operations in 2006, and an hotel acquisition in 2007. Regulated assets constitute the majority of the Company's total assets.

In addition to strategic acquisitions, Fortis continuously invests in subsidiaries. The Company's capex budget averaged approximately 30% of its sales in the last five years. As the Company's strategy suggests, Fortis will continue to grow its principal business: ownership and operation of regulated utilities. The Company also keeps 15% - 25% of its assets in non-utility businesses. These businesses not only support its utility enterprises but also provide the Company flexibility in financial and tax planning that is not generally possible for utilities because of regulatory and public policy constraints.

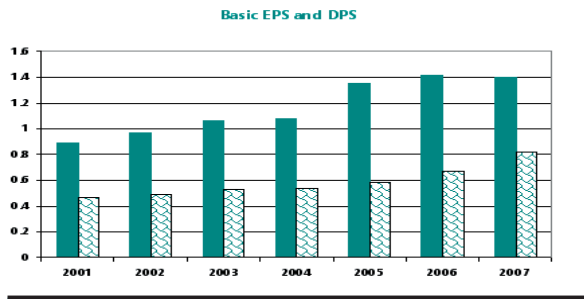
As the Company forecasted in its 2008 capex budget, \$890 million will be spent for the subsidiaries as shown in the table below. Fortis expects to use approximately 50% of this budget for growth and 35% for ensuring continued and enhanced performance, reliability and safety of generation and transmission/distribution assets. The remaining 15% will be spent on the facilities and for equipment, vehicles, information systems, and other assets.

Gross Capex - 2007 and 2008 (Forecasted)								
(\$ million)	Terasen	FortisAlberta	FortisBC	NF Power	Other Reg (Canadian)	Regulated Caribbean	Non-Regulated	Total
2007	120	285	147	72	38	106	22	790
2008	250	264	136	53	38	101	48	890

Among the significant capital projects planned, TGVI's liquefied natural gas (LNG) storage facility on Vancouver Island is expected to be completed by 2011 at a cost of \$175 - \$200 million. It will allow more efficient use of TGI's existing pipeline system and result in improved reliability and security of supply during system interruptions or in times of high demand. Construction is expected to begin in April 2008 based on conditional approval from BCUC in November 2007. Additionally, FortisAlberta, FortisBC and Fortis Generation have ongoing capital projects that are expected to be completed between 2009 and 2011.

Debt has always been a preferred form of financing for the Company, and accounts for almost 54% of total assets (preference shares excluded). The Company borrowed \$603 million under committed credit facilities and issued \$797 million of long-term debt in 2007. Fortis also assumed Terasen's consolidated debt, \$2.4 billion, as part of the acquisition. The debt-to-equity ratio has increased steadily to 2.03 from 1.59 over the last five years mainly due to the Company's financing strategy. Along with the increasing indebtedness, the interest coverage ratio of Fortis has been declining (1.81 for 2007), though it is still within an acceptable range.

Well-recognized debt rating agencies also agree on the Company's financial strength. DBRS rated Fortis at BBB (high) and S&P Rating Services confirmed it with A- (raised after the acquisition of Terasen).



The Company has a reputation for increasing dividends, which it has done for 35 consecutive years. The payout ratio for 2007 was 58.6%, which is above its peers. The average payout ratio for the last five years is 50%. In 2007, the Company issued 44.3 million common shares for gross proceeds of \$1.15 billion to finance part of the acquisition of Terasen. With this dilution, the EPS of the Company declined although the net income rose 31%.

Valuation

We have used three methods to value Fortis. The first is the Discounted Cash Flow (DCF) method. In order to estimate and discount the future cash flows of the Company, certain assumptions had to be made:

- 2008 will be another year of high growth for Fortis mainly due to the full-year consideration of Terasen's financials. Considering that one of Terasen's best quarters was not accounted for in the Fortis 2007 financials, most of the new growth will come from Terasen. Keeping other segments relatively conservative, we assumed that FortisAlberta and FortisBC would continue to take advantage of the economic growth and investments made previously. The Caribbean will be another growing segment of the Company. Overall, we assumed that total revenue will grow approximately 37% in 2008. From 2008 on, we assumed that the Company would grow by 6% over the long term. The loss of revenue from Ontario generation in 2009 is the only expected hiccup in the Company's estimated revenue stream, which is not expected to have a significant affect. This loss (of revenue and earnings) is expected to be partially offset by Vaca Hydroelectric generating facility being online in late 2009.
- We assumed that the operating margin of Fortis would gradually increase over the next five years. For 2008, our estimate is 21%.
- Our DCF scenario is based on the current status of the Company with an assumption of "no acquisition." Although this is highly unlikely, with no specific data on prospective acquisitions, this is the most conservative scenario.
- Our capex assumption is based on the Company's plan of \$4 billion in five years. Also, Fortis forecasts a budget of \$890 million for 2008 capital expenditures. We assume that Fortis would finance this budget 60% by debt.
- We calculated the weighted average cost of capital as 7% for the Company using its current borrowing rate and cost of equity derived from the CAPM run for Fortis.

We also used a Dividend Discount Model to determine a target value for Fortis. In this method, we used the same cost of equity that we derived for the DCF method. We assumed that the Company would keep its payout ratio unchanged for the next five years and after five years, the stable growth rate would settle at 3%.

The last method that we applied for the Company's valuation is Market Multiples. Selected multiples are P/E, P/S, P/BV and EBITDA Margin. The peer group consists of Canadian Utilities, Atco Ltd, Emera Inc., Epcor Power, Algonquin Power, Northland Power, and Transalta Corporation.

According to weighted average of these methods, we reached a target price of \$33.00.

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