

interest rates, market conditions and credit. The increasing geographic and business diversity of the Corporation's portfolio of assets effectively reduces its relative exposure to any particular negative event. In 1987, when Fortis was incorporated, Newfoundland Power represented 100 per cent of the Corporation's assets. As of December 31, 2001, the assets of Newfoundland Power represented 42.2 per cent of the total assets of the Corporation.

Regulation: The Corporation's utilities are subject to regulatory risk. The impact of this risk to Fortis is mitigated by the diversity of regulatory environments in which the Corporation's operating companies operate. The rate of return on rate base of Newfoundland Power is subject to adjustment based on a formula. As a result of the current automatic adjustment formula, Newfoundland Power's maximum allowable earnings for 2002 will decrease from that in 2001. The evolving electric utility environment in New Brunswick, to which Maritime Electric is tied by legislation, may necessitate regulatory changes for the Company. Recent amendments to the Regulation Act permit Maritime Electric to recover energy costs above an established benchmark and provide for a cost of capital adjustment mechanism. Significant changes to customer rates resulting from these adjustment mechanisms could lead to pressure on Maritime Electric's allowed return. Belize Electricity is subject to the risk associated with the uncertainties inherent in a regulatory environment undergoing transformation. The Company is working closely with the Government of Belize to implement the new regulatory framework. Canadian Niagara Power is subject to the risk associated with the uncertainty of the changing regulatory environment in Ontario.

Energy Prices: Most Fortis utilities purchase electricity for resale and, consequently, are exposed somewhat to energy price risk.

The energy rate charged to Newfoundland Power by Newfoundland Hydro was last set by the PUB in 1992. Newfoundland Hydro has requested a rate increase from the PUB. Newfoundland Power has the ability to pass

through increases in rates from Newfoundland Hydro to customers. Further, a Rate Stabilization Account limits Newfoundland Power's exposure to ongoing changes in energy prices as price increases flow through to customers.

Maritime Electric has exposure to increases in the price of oil as the cost of energy purchased under the Energy Purchase Agreement with NB Power is based upon the price of residual fuel oil. The Company is also exposed to increases in energy costs associated with curtailment of supply by NB Power. However, with the recent renegotiation of its energy contracts, Maritime Electric has been able to reduce its exposure to volatility in the price of oil. Under the expired Agreement, approximately 35 per cent of Maritime Electric's energy portfolio was tied to the price of oil. The new energy mix will reduce that exposure to approximately 13 per cent. The remaining exposure to increases in the price of oil is mitigated by the recent changes in the legislation governing Maritime Electric. Under the legislation, Maritime Electric can pass through increases in the cost of energy above an established benchmark to customers. The Company is participating in discussions regarding formation of a Regional Transmission Organization, which would provide Maritime Electric with additional options to purchase electricity.

In 2000, the PUC in Belize established a CPRSA which limits Belize Electricity's exposure to changes in energy prices. The Company purchases energy from Comision Federal de Electricidad, the Mexican state-owned power company, and BECOL under long-term contracts.

Canadian Niagara Power has water and power exchange agreements with Ontario Power Generation Inc. and Hydro One Inc. which limit the Company's exposure to changes in energy prices. Canadian Niagara Power uses forward contracts to sell its excess electricity into the United States, thereby limiting exposure to changing market conditions.

Weather: The assets of Belize Electricity are exposed to hurricane risk. The Company's plant and equipment, with the exception of its transmission and distribution assets, are