
FORTISBC INC.**MANAGEMENT DISCUSSION & ANALYSIS**

For the Quarter Ended March 31, 2023

May 2, 2023

The following FortisBC Inc. ("FBC" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2023 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is presented in Canadian dollars. The MD&A should be read in conjunction with the Corporation's Unaudited Condensed Consolidated Interim Financial Statements and notes thereto for the quarter ended March 31, 2023 prepared in accordance with US GAAP and the Corporation's Annual Audited Consolidated Financial Statements and notes thereto together with the MD&A for the year ended December 31, 2022, with 2021 comparatives, prepared in accordance with US GAAP.

In this MD&A, FortisBC Pacific refers to the Corporation's parent, FortisBC Pacific Holdings Inc., FEI refers to FortisBC Energy Inc., FHI refers to FortisBC Holdings Inc., and Fortis refers to the Corporation's ultimate parent, Fortis Inc.

FORWARD-LOOKING STATEMENT

Certain statements in this MD&A contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). 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 in this MD&A includes, but is not limited to, statements regarding the Corporation's expectation that the British Columbia Utilities Commission (the "BCUC") will issue a decision in its current General Cost of Capital Proceeding (the "GCOC Proceeding") by mid-2023; the Corporation's expectation that the size of its existing operating credit facility is adequate to accommodate any changes to the approved capital structure resulting from the outcome of the GCOC Proceeding; the Corporation's expected level of capital expenditures, including forecasted project costs, and its expectations to finance those capital expenditures through credit facilities, equity injections from FortisBC Pacific, and debenture issuances; and the Corporation's estimated contractual obligations.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders (including absence of administrative monetary penalties); continued electricity demand; absence of climate change impacts; absence of adverse weather conditions and natural disasters; absence of environmental damage and health and safety issues; absence of asset breakdown; no weather related demand loss or significant and sustained loss of precipitation over the headwaters of the Kootenay River system; the ability to maintain and obtain applicable permits; the Indigenous engagement process will not delay or otherwise impact the Corporation's ability to obtain government or regulatory approvals; the adequacy of the Corporation's existing insurance arrangements; the ability to arrange sufficient and cost effective financing; no material adverse rating actions by credit rating agencies; that counterparties agree to renew power supply contracts; the ability of the Corporation to attract and retain a skilled workforce; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; absence of information technology infrastructure failure; absence of cybersecurity failure; absence of pandemic and public health crises impacts; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2027 or earlier; and the absence of legal, administrative and other proceedings.

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. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); competitiveness and commodity price risk; climate change risk; weather and natural disasters risk; environment, health and safety matters risk; asset breakdown, operation, maintenance and expansion risk; electricity supply risks; permits risk; risks related to Indigenous rights and engagement; underinsured and

uninsured losses; capital resources and liquidity risk; interest rates risk; impact of changes in economic conditions risk; power purchase and capacity sale contracts risk; human resources risk; labour relations risk; employee future benefits risk; information technology infrastructure risk; cybersecurity risk; pandemic and public health crises risk; continued reporting in accordance with US GAAP risk; legal, administrative and other proceedings risk; and other risks described in the Corporation's most recent Annual Information Form ("AIF"). For additional information with respect to these risk factors, reference should be made to the "Business Risk Management" section of the Corporation's MD&A and AIF for the year ended December 31, 2022.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement 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.

CORPORATE OVERVIEW

The Corporation is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 188,500 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity. The Corporation's business includes four hydroelectric generating plants, approximately 7,300 kilometers of transmission and distribution power lines, and a historical peak demand of 835 megawatts, which occurred during the fourth quarter of 2022.

The Corporation is regulated by the BCUC. Pursuant to the *Utilities Commission Act* (British Columbia), the BCUC regulates such matters as rates, construction plans, and financing.

The Corporation is an indirect, wholly owned subsidiary of Fortis, a leader in the North American regulated electric and natural gas utility industry. Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

REGULATION

Decision on Multi-Year Rate Plan ("MRP") for 2020 to 2024

In June 2020, the BCUC issued its decision on FBC's MRP application for the years 2020 to 2024 ("MRP Decision"). The approved MRP includes, amongst other items, a level of operation and maintenance expense per customer indexed for inflation less a fixed productivity adjustment factor, a forecast approach to growth and sustainment capital, a number of service quality indicators designed to ensure the Corporation maintains service levels, and a 50/50 sharing between customers and the Corporation of variances from the allowed Return on Equity ("ROE").

Variances from the allowed ROE subject to sharing include other revenue and certain components of operating and maintenance costs, as well as variances in the utility's regulated rate base amounts, while variances associated with revenues and other expenses, including those that are not controllable or associated with clean growth expenditures, are subject to flow-through treatment and refunded to or recovered from customers.

In December 2022, the BCUC approved permanent rates to be effective January 1, 2023. As part of the approval, FBC was directed to remove certain expenditures from rate base and to establish a rate base deferral account to capture any variances in the approved rate increase resulting from final determinations on Stage 1 of the GCOC Proceeding. FBC had requested an interim rate increase of 3.98 per cent over 2022 rates and a 2023 forecast average rate base of \$1,675 million. In January 2023, FBC filed an application to reconsider the BCUC's decision to reduce its rate base by \$28 million, and to request that the BCUC maintain FBC's 2023 rates as interim pending the outcome of Stage 1 of the GCOC Proceeding. The application was approved by the BCUC in April 2023.

Allowed Return on Equity and Capital Structure

In January 2021, the BCUC announced that a GCOC Proceeding was being initiated, including a review of the deemed common equity component of total capital structure and the allowed ROE on common equity for regulated utilities in BC. The BCUC has determined the GCOC Proceeding will move forward in two stages. The first stage will address the allowed ROE and deemed equity component of capital structure for FBC and FEI and the effective date for any change, whether re-establishment of a formulaic ROE automatic adjustment mechanism is warranted and if so, what it would look like and when it would take effect, and the criteria or other triggers for a future cost of capital proceeding. Other utilities will be reviewed in Stage 2. The BCUC has also determined it will address deferral account financing costs after the completion of both Stages 1 and 2. During 2022, as part of Stage 1 of the GCOC Proceeding, FBC and FEI submitted evidence in support of their

respective cost of capital, after which a regulatory review process took place which included various forms of evidence, an oral hearing, and a final argument, which was filed in December 2022. The final stages of argument were completed in February 2023. A decision from the BCUC is expected by mid-2023.

Customer Rates and Deferral Mechanisms

The Corporation's customer rates are based on estimates and forecasts. In order to manage the variances from forecast associated with some of these estimates and to manage volatility in rates, a number of regulatory deferral accounts are in place.

Variances from regulated forecasts used to set rates for electricity revenue and power purchase costs are flowed back to customers in future rates through approved regulatory deferral mechanisms and therefore these variances do not have an impact on net earnings for the quarters ended March 31, 2023 and 2022.

As part of the MRP for the years 2020 to 2024, the BCUC has approved certain regulatory deferral mechanisms, including those that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation. These deferral mechanisms capture variances from regulated forecasts and flow them through customer rates in subsequent years. Variances from the allowed ROE, including most components of operating and maintenance costs, as well as variances in the utility's regulated rate base amounts, are shared.

CONSOLIDATED RESULTS OF OPERATIONS

Quarter ended March 31	2023	2022	Variance
Electricity sales (<i>gigawatt hours</i>)	971	968	3
<i>(\$ millions)</i>			
Revenue	137	126	11
Power purchase costs	47	43	4
Operating costs	23	26	(3)
Property and other taxes	5	4	1
Depreciation and amortization	24	17	7
Total expenses	99	90	9
Operating income	38	36	2
Add: Other income	1	1	-
Less: Finance charges	20	18	2
Earnings before income taxes	19	19	-
Income tax expense	1	2	(1)
Net earnings	18	17	1

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the quarter ended March 31, 2023 as compared to March 31, 2022:

Quarter		
Item	Increase (Decrease) <i>(\$ millions)</i>	Explanation
Net earnings	1	Net earnings for the quarter ended March 31, 2023 were \$18 million compared to \$17 million for the same period in 2022. The increase was primarily due to a higher investment in regulated assets. Both 2023 and 2022 net earnings are based on an allowed ROE of 9.15 per cent and a deemed equity component of capital structure of 40 per cent. The Corporation's capital structure could change depending on the outcome of the GCOC Proceeding discussed in the "Regulation" section of this MD&A.
Revenue	11	The increase in revenue was primarily due to: <ul style="list-style-type: none"> an increase in revenue associated with regulatory deferrals, an increase in amortization of certain regulatory deferrals through revenue,

Quarter		
Item	Increase (Decrease) (\$ millions)	Explanation
		<ul style="list-style-type: none"> an increase in revenue approved for rate-setting purposes resulting primarily from a higher investment in regulated assets, and an increase in electricity sales volumes, partially offset by a decrease in revenue associated with third party contract work. <p>Electricity sales volumes were higher than the same quarter in the previous year primarily due to higher industrial loads, partially offset by lower consumption by residential and commercial customers.</p> <p>Variances between revenue associated with actual consumption and those revenues forecast for rate-setting purposes are captured in a regulatory deferral flow-through account, for which the income statement offset is recognized in alternative revenue, resulting in no net impact on total revenue compared to what is approved in rates.</p>
Power purchase costs	4	The increase was primarily due to higher average power purchase prices.
Operating costs	(3)	The decrease was primarily due to lower costs associated with third party contract work relating to revenue from contracts with customers, partially offset by inflationary increases contributing to an overall increase in expenses.
Depreciation and amortization	7	The increase was primarily due to higher amortization of regulatory deferrals, as well as a higher depreciable asset base compared to the same period in 2022.
Finance charges	2	The increase was primarily due to a higher rate on borrowings on credit facilities compared to the prior year, as well as the issuance of Medium Term Note ("MTN") Debentures at the end of the first quarter of 2022, which was used to repay credit facilities carrying lower rates.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth quarterly information for each of the eight quarters ended June 30, 2021 through March 31, 2023. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarter ended (\$ millions)	Revenue	Net Earnings
March 31, 2023	137	18
December 31, 2022	132	12
September 30, 2022	112	13
June 30, 2022	104	19
March 31, 2022	126	17
December 31, 2021	129	13
September 30, 2021	104	11
June 30, 2021	105	17

A summary of the past eight quarters reflects the seasonality associated with the Corporation's business. FBC's operations generally produce higher net earnings in the second quarter due to the timing of power purchases, with lower net earnings in the third quarter and higher net earnings in the first and fourth quarters due to increase in customer load as a result of cooler weather. Certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result of the seasonality, interim net earnings are not indicative of net earnings on an annual basis.

March 2023/2022 – Net earnings increased primarily due to a higher investment in regulated assets.

December 2022/2021 – Net earnings decreased primarily due to lower favourable variances attributable to operating costs incurred, as compared to those allowed in rates, net of amounts shared with customers, partially offset by a higher investment in regulated assets.

September 2022/2021 – Net earnings increased primarily due to a higher investment in regulated assets.

June 2022/2021 – Net earnings increased primarily due to a higher investment in regulated assets and higher favourable variances attributable to timing of operating costs incurred, as compared to those allowed in rates, net of amounts shared with customers.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between March 31, 2023 and December 31, 2022:

Balance Sheet Account	Increase (Decrease) (\$ millions)	Explanation
Regulatory assets (current and long-term)	15	The increase was primarily due to changes in the Brilliant Power Purchase Agreement ("BPPA") asset and obligation under finance lease and an increase in regulated deferred income tax liabilities, the offsets of which were both deferred as regulatory assets.
Credit facilities	(41)	The decrease was primarily a result of net repayments with proceeds received from a \$40 million equity injection from the Corporation's parent company, FortisBC Pacific.
Common shares	40	The increase was due to a \$40 million equity issuance during the first quarter, the proceeds of which were to repay credit facilities in support of the equity component of FBC's capital expenditure program.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Requirements and Liquidity

In the normal course of operations, the Corporation's cash flow requirements fluctuate seasonally based on the demand for electricity and the timing of power purchases. The Corporation maintains a committed credit facility that adequately meets any working capital deficiencies not funded through cash flow from operations, and for financing the debt component of the Corporation's capital expenditure program.

It is expected that operating expenses, interest costs, and other working capital will generally be paid out of operating cash flows, with varying levels of residual cash available for capital expenditures and dividend payments. Cash flow is also required to fund capital expenditure programs; regulated deferral accounts, and those regulatory mechanisms that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation; and investments in Demand Side Management ("DSM"). Funding requirements are expected to be financed from a combination of cash flow from operations, borrowings under the credit facility, equity injections from FortisBC Pacific, and long-term debenture issuances in accordance with the deemed regulatory capital structure approved by the BCUC of 40 per cent equity and 60 per cent debt. The approved capital structure could change depending on the outcome of the GCOC Proceeding discussed in the "Regulation" section of this MD&A, however the size of the Corporation's existing operating credit facility is considered adequate to accommodate any changes to the approved capital structure.

The Corporation's ability to service its debt obligations and pay dividends on its common shares is dependent on the financial results of the Corporation. Depending on the timing of cash payments, borrowings under the Corporation's credit facility may be required from time to time to support the servicing of working capital deficiencies and payment of dividends. The Corporation may have to rely upon the proceeds of new debenture issuances to meet its principal debt obligations when they become due.

Summary of Consolidated Cash Flows

Quarter ended March 31	2023	2022	Variance
<i>(\$ millions)</i>			
Cash flows from (used in)			
Operating activities	45	47	(2)
Investing activities	(28)	(28)	-
Financing activities	(14)	(14)	-
Net change in cash	3	5	(2)

Operating Activities

Cash from operating activities was \$2 million lower compared to the same period in 2022 primarily due to changes in regulatory assets and liabilities, partially offset by higher net earnings after non-cash adjustments.

Investing Activities

Cash used in investing activities was consistent with the same period in 2022.

Financing Activities

Cash used in financing activities was consistent with the same period in 2022.

During the quarter ended March 31, 2023, FBC paid common share dividends of \$13 million (2022 - \$12 million) to its parent company, FortisBC Pacific.

Contractual Obligations

The Corporation's contractual obligations have not materially changed from those disclosed in the MD&A for the year ended December 31, 2022.

Credit Ratings

There have been no changes to the Corporation's credit ratings from those disclosed in the MD&A for the year ended December 31, 2022, which are summarized in the table below:

Rating Agency	Credit Rating	Type of Rating	Outlook
DBRS Morningstar	A (low)	Secured and Unsecured Debentures	Stable
Moody's	Baa1	Unsecured Debentures	Stable

In March 2023, DBRS Morningstar issued an updated credit rating report, confirming the Corporation's debenture rating and outlook.

Credit Facilities

As at March 31, 2023, the Corporation had a \$150 million operating credit facility in place, which matures in April 2027, and a \$10 million demand overdraft facility.

The following summary outlines the Corporation's credit facilities:

<i>(\$ millions)</i>	March 31, 2023	December 31, 2022
Operating credit facility	150	150
Demand overdraft facility	10	10
Draws on operating credit facility	(24)	(63)
Draws on overdraft facility	-	(2)
Credit facilities available	136	95

PROJECTED CAPITAL EXPENDITURES

The Corporation continually updates its capital expenditure programs and assesses current and future operating, maintenance, replacement, expansion and removal expenditures that will be incurred in the ongoing operation of its business.

The initial approval from the BCUC to proceed with capital projects can occur through a number of processes, including revenue requirement applications and Certificate of Public Convenience and Necessity applications. Once the projects are approved, the regulatory process allows for capital project costs to be reviewed by the BCUC subsequent to the capital project being completed and in service to confirm that all costs are recoverable in customer rates.

The 2023 projected capital expenditures are approximately \$132 million, inclusive of allowance for funds used during construction ("AFUDC") and excluding customer contributions in aid of construction ("CIAC"), and are necessary to provide service, public and employee safety, and reliability of supply of electricity to the Corporation's customer base. In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return. The 2022 annual capital expenditures were \$130 million, inclusive of AFUDC and excluding CIAC.

In addition to the projected capital expenditures, FBC has a DSM Expenditures Plan which delivers a portfolio of energy efficiency and conservation measures and activities which was accepted by the BCUC in December 2022. The DSM Expenditures Plan will result in approximately \$83 million of expenditures incurred from 2023 to 2027 as rate base additions.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FortisBC Pacific, its ultimate parent, Fortis, and other related companies under common control, including FEI and FHI. The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

The amounts charged to the Corporation's parent and other related parties under common control for the quarters ended March 31 were as follows:

<i>(\$ millions)</i>	2023	2022
Operating costs charged to FortisBC Pacific (a)	2	2
Operating costs charged to FEI (b)	2	1
Total related party recoveries	4	3

(a) The Corporation charged its parent, FortisBC Pacific, for management services, labour, and materials.

(b) The Corporation charged FEI for electricity sales, management services, and other labour.

Related Party Costs

The amounts charged by related parties under common control for the quarters ended March 31 were as follows:

<i>(\$ millions)</i>	2023	2022
Operating costs charged by FEI (a)	2	2
Operating costs charged by FHI (b)	1	1
Total related party costs	3	3

(a) FEI charged the Corporation for natural gas purchases, office rent, management services, and other labour.

(b) FHI charged the Corporation for management services and governance costs.

Balance Sheet Amounts

The amounts due from related parties, included in accounts receivable and other current assets on the Consolidated Balance Sheets, and the amounts due to related parties, included in accounts payable and other current liabilities on the Consolidated Balance Sheets, were as follows:

(\$ millions)	March 31, 2023		December 31, 2022	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
FortisBC Pacific	1	-	-	-
FHI	-	-	-	(1)
Total due from (due to) related parties	1	-	-	(1)

FINANCIAL INSTRUMENTS

Financial Instruments Not Measured At Fair Value

The following table includes the carrying value, excluding unamortized debt issuance costs and including current and long-term portions, and estimated fair value of the Corporation's long-term debt.

(\$ millions)	Fair Value Hierarchy	As at		December 31, 2022	
		March 31, 2023		Carrying Value	Estimated Fair Value
		Carrying Value	Estimated Fair Value		
Long-term debt	Level 2	885	841	885	813

Power purchase contracts that have been designated as normal purchase or normal sale contracts are not reported at fair value under the accounting rules for derivatives. They are accounted for on an accrual basis.

ACCOUNTING MATTERS

New Accounting Policies

FBC considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). During the quarter ended March 31, 2023, there were no ASUs issued by FASB that have a material impact on these Condensed Consolidated Interim Financial Statements.

Future Accounting Pronouncements

Any ASUs issued by FASB that are not included in this MD&A were assessed and determined to be either not applicable to the Corporation or not expected to have a material impact on these Condensed Consolidated Interim Financial Statements.

OTHER DEVELOPMENTS

Collective Agreements

There are two collective agreements between the Corporation and Local 378 of the Canadian Office and Professional Employees Union now referred to as MoveUP. The first collective agreement, representing employees in specified occupations in the areas of administration and operations support, expires on June 30, 2023. The second collective agreement, representing customer service employees, expired on March 31, 2022 and negotiations are ongoing.

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expired on January 31, 2023 and is currently under negotiation. The IBEW represents employees in specified occupations in the areas of generation, transmission and distribution.

BUSINESS RISK MANAGEMENT

The business risks of the Corporation remain substantially unchanged from those outlined in the Corporation's MD&A for the year ended December 31, 2022.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 3,391,510 common shares, all of which are owned by FortisBC Pacific, an indirect wholly owned subsidiary of Fortis.

ADDITIONAL INFORMATION

Additional information about FBC, including its AIF, can be accessed at www.fortisbc.com or www.sedar.com. The information contained on, or accessible through, either of these websites is not incorporated by reference into this document.

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