
FORTISBC INC.**MANAGEMENT DISCUSSION & ANALYSIS**

For the quarter ended March 31, 2024

April 30, 2024

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 2024 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, 2024 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, 2023, with 2022 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, 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); absence of climate change impacts; absence of adverse weather conditions and natural disasters; absence of environmental, health and safety issues; the ability to maintain, replace or expand the Corporation's assets; 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 obtain and maintain applicable permits; that 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 (including absence of adverse rating actions by credit rating agencies); absence of interest costs risks; continued electricity demand; 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 damages, fines, or penalties arising from 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 costs 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, 2023.

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 191,400 customers directly and indirectly. 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.

The Corporation is regulated by the British Columbia Utilities Commission ("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

Allowed Return on Equity and Capital Structure

In September 2023, the BCUC issued its decision on Stage 1 of the Generic Cost of Capital ("GCOC") Proceeding ("GCOC Stage 1 Decision") for FBC and FEI. In its decision, the BCUC determined that FBC's deemed equity component of capital structure and allowed ROE will change from 40 per cent and 9.15 per cent to 41 per cent and 9.65 per cent, respectively, effective January 1, 2023. The 2023 year-to-date net impact of the change in cost of capital was recognized in the third quarter of 2023. The BCUC also determined that neither a formulaic ROE automatic adjustment mechanism nor specific criteria or other triggers for future cost of capital proceedings are warranted, and instead will remain in effect until otherwise determined by the BCUC.

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 2023, the BCUC approved a 2024 rate increase of 6.74 per cent over 2023 rates and a 2024 forecast average rate base of \$1,715 million.

Rate Framework for 2025 to 2027 ("Rate Framework")

In April 2024, FBC and FEI filed an application with the BCUC requesting approval of a Rate Framework for the years 2025 to 2027. The Rate Framework builds upon the current MRP and for FBC includes, amongst other items, a revised level of operation and maintenance expense per customer indexed for inflation less a fixed productivity adjustment factor, a forecast approach to growth, sustainment and other capital, an updated set of service quality indicators designed to ensure the Corporation maintains service levels, and a continued 50/50 sharing between customers and the Corporation of variances from the allowed ROE. The Rate Framework also proposes a continuation of the main deferral mechanisms currently in place under the MRP. The regulatory process will continue throughout 2024.

Customer Rates and Deferral Mechanisms

The Corporation's customer rates are based on estimates and forecasts. In order to manage volatility in rates arising from variances from forecast associated with these costs, 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, 2024 and 2023.

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. The Rate Framework for the years 2025 to 2027 also proposes a continuation of the main deferral mechanisms currently in place under the existing MRP.

CONSOLIDATED RESULTS OF OPERATIONS

Quarter ended March 31	2024	2023	Variance
Electricity sales (<i>gigawatt hours</i>)	976	971	5
<i>(\$ millions)</i>			
Revenue	141	137	4
Power purchase costs	49	47	2
Operating costs	24	23	1
Property and other taxes	5	5	-
Depreciation and amortization	22	24	(2)
Total expenses	100	99	1
Operating income	41	38	3
Add: Other income	1	1	-
Less: Finance charges	20	20	-
Earnings before income taxes	22	19	3
Income tax expense	3	1	2
Net earnings	19	18	1

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the quarter ended March 31, 2024 as compared to March 31, 2023:

Quarter	Increase (Decrease) <i>(\$ millions)</i>	Explanation
Item		
Net earnings	1	Net earnings for the quarter ended March 31, 2024 were \$19 million compared to \$18 million for the same period in 2023. The increase was primarily due to an increase in FBC's deemed equity component of capital structure from 40 per cent to 41 per cent, and an increase in allowed ROE from 9.15 per cent to 9.65 per cent, resulting from the GCOC Stage 1 Decision that was received in September 2023. The net impact of the change in cost of capital was \$1 million in the quarter. Net earnings for the first quarter of 2023 were based on an allowed ROE of 9.15 per cent and a deemed equity component of capital structure of 40 per cent. In addition to the above, the increase in net earnings was due to a higher investment in regulated assets.

Quarter		
Item	Increase (Decrease) (\$ millions)	Explanation
Revenue	4	<p>The increase was primarily due to:</p> <ul style="list-style-type: none"> • an increase in revenue approved for rate-setting purposes, resulting primarily from higher power supply costs and a higher investment in regulated assets as well as collecting in rates the 2024 impact of the GCOC Stage 1 Decision, • an increase in revenue from a higher volume of electricity sales, and • an increase in surplus power sales, partially offset by • a decrease in revenue associated with regulatory deferrals. <p>Electricity sales volumes were higher primarily due to increased consumption by residential customers due to comparatively colder weather early in the quarter.</p> <p>Variances between revenue associated with actual consumption and revenue forecasted 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 in the current year.</p>
Power purchase costs	2	The increase was primarily due to higher average power purchase prices as well as higher volumes of power purchased driven by the increase in electricity sales.
Depreciation and amortization	(2)	The decrease was primarily due to lower amortization of regulatory deferrals included in customer rates as compared to the same period in 2023.
Income tax expense	2	The increase was primarily due to higher pre-tax earnings and lower deductible temporary differences associated with property, plant and equipment.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth quarterly information for each of the eight quarters ended June 30, 2022 through March 31, 2024. 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	Revenue	Net Earnings
<i>(\$ millions)</i>		
March 31, 2024	141	19
December 31, 2023	142	15
September 30, 2023	124	15
June 30, 2023	110	18
March 31, 2023	137	18
December 31, 2022	132	12
September 30, 2022	112	13
June 30, 2022	104	19

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 2024/2023 – Net earnings increased primarily due to a change in cost of capital resulting from the GCOC Stage 1 Decision, the impact of which was \$1 million in the quarter. The increase was also due to a higher investment in regulated assets.

December 2023/2022 – Net earnings increased primarily due to a change in cost of capital resulting from the GCOC Stage 1 Decision, the impact of which was \$1 million in the quarter. The increase was also due to interest and tax variances retained by the utility, and a higher investment in regulated assets, partially offset by lower favourable variances attributable to operating costs incurred, as compared to those allowed in rates, net of amounts shared with customers

September 2023/2022 – Net earnings increased primarily due to a change in cost of capital resulting from the GCOC Stage 1 Decision. The year-to-date net impact of the change in cost of capital was \$3 million and was recognized in the third quarter due to the timing of receiving the BCUC’s decision, which included an effective date of January 1, 2023.

June 2023/2022 – Net earnings decreased primarily due to lower favourable variances attributable to timing of operating costs for the quarter, as compared to those allowed in rates, net of amounts shared with customers, partially offset by a higher investment in regulated assets.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between March 31, 2024 and December 31, 2023:

Balance Sheet Account	Increase (Decrease) (\$ millions)	Explanation
Accounts receivable	13	The increase was due to higher tariff-based receivables as a result of higher sales represented in accounts receivable as at March 31, 2024 compared to December 31, 2023, as well as a higher income tax receivable.
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.

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 41 per cent equity and 59 per cent debt.

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 (\$ millions)	2024	2023	Variance
Cash flows from (used in)			
Operating activities	36	45	(9)
Investing activities	(28)	(28)	-
Financing activities	(5)	(14)	9
Net change in cash	3	3	-

Operating Activities

Cash from operating activities was \$9 million lower compared to the same period in 2023 primarily due to changes in working capital, partially offset by changes in regulatory assets and liabilities and higher net earnings after non-cash adjustments.

Investing Activities

Cash used in investing activities was consistent with the same period in 2023.

Financing Activities

Cash used in financing activities was \$9 million lower compared to the same period in 2023 primarily due to net proceeds provided by credit facilities, as opposed to the same period in 2023 where net repayments on credit facilities were primarily offset by a common share issuance of \$40 million.

During the quarter ended March 31, 2024, FBC paid common share dividends of \$13 million (2023 - \$13 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, 2023.

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, 2023, which are summarized in the table below:

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

In March 2024, Morningstar DBRS issued an updated credit rating report, confirming the Corporation's debenture rating and outlook.

Credit Facilities

As at March 31, 2024, 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:

(\$ millions)	March 31, 2024	December 31, 2023
Operating credit facility	150	150
Demand overdraft facility	10	10
Draws on operating credit facility	(118)	(110)
Credit facilities available	42	50

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 2024 projected capital expenditures are approximately \$134 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 2023 annual capital expenditures were \$127 million, inclusive of AFUDC and excluding CIAC.

FBC's disclosure around its significant capital projects has not changed materially from those disclosed in the MD&A for the year ended December 31, 2023.

DSM Expenditures Plan

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 is expected to result in approximately \$83 million of expenditures incurred from 2024 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 were as follows:

<i>(\$ millions)</i>	2024	2023
Operating costs charged to FortisBC Pacific (a)	3	2
Operating costs charged to FEI (b)	2	2
Total related party recoveries	5	4

(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 were as follows:

<i>(\$ millions)</i>	2024	2023
Operating costs charged by FEI (a)	3	2
Operating costs charged by FHI (b)	1	1
Total related party costs	4	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, and the amounts due to related parties, included in accounts payable and other current liabilities, were as follows:

(\$ millions)	March 31, 2024		December 31, 2023	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
FortisBC Pacific	2	-	1	-
Fortis	-	-	1	-
FEI	-	(1)	-	(1)
Total due from (due to) related parties	2	(1)	2	(1)

FINANCIAL INSTRUMENTS

Financial Instruments Not Carried 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, 2023	
		March 31, 2024	As at	Carrying Value	Estimated Fair Value
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt	Level 2	860	824	860	849

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, 2024, there were no ASUs issued by FASB that have a material impact on the Condensed Consolidated Interim Financial Statements.

Future Accounting Pronouncements

The following updates have been issued by FASB, but have not yet been adopted by the Corporation. 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 the Condensed Consolidated Interim Financial Statements.

Improvements to Income Tax Disclosures

ASU No. 2023-09, *Improvements to Income Tax Disclosures*, issued in December 2023, is effective for the Corporation January 1, 2025 on a prospective basis, with retrospective application and early adoption permitted. Principally, it requires additional disclosure of income tax information by jurisdiction to reflect an entity's exposure to potential changes in tax legislation, and associated risks and opportunities. The Corporation is assessing the impact of adoption of this ASU on the disclosures to its consolidated 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, expired on June 30, 2023 and is currently under negotiation. The second collective agreement, representing customer service employees, was ratified during 2023 and expires on March 31, 2027.

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, 2023.

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.sedarplus.ca. The information contained on, or accessible through, either of these websites is not incorporated by reference into this document.

For further information, please contact:

Ian Lorimer
Vice President, Finance and Chief Financial Officer
Tel: 250-469-8013
Email: ian.lorimer@fortisbc.com

FortisBC Inc.
300 - 750 Vaughan Avenue
Kelowna, British Columbia V1Y 7E4

Website: www.fortisbc.com