FortisBC Inc.

An indirect subsidiary of Fortis Inc.

Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

Independent Auditor’s Report

To the Shareholder and Board of Directors of
FortisBC Inc.

Opinion

We have audited the consolidated financial statements of FortisBC Inc. (the “Corporation”), which comprise the consolidated balance sheet as at December 31, 2018 and 2017, and the consolidated statements of earnings, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018 and 2017, the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:
Management’s Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brian Groves.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia

February 14, 2019

FortisBC Inc.
Consolidated Balance Sheets
As at December 31
(in millions of Canadian dollars)

ASSETS	2018	2017
Current assets		
Accounts receivable (notes 4 and 22)	**$ 53**	$ 51
Prepaid expenses	**2**	2
Other assets (note 5)	**1**	1
Regulatory assets (note 8)	**6**	5
Total current assets	**62**	59
Property, plant and equipment, net (note 6)	**1,534**	1,497
Intangible assets, net (note 7)	**57**	57
Regulatory assets (note 8)	**345**	335
Other assets (note 5)	**5**	6
Goodwill (note 9)	**235**	235
TOTAL ASSETS	**$ 2,238**	$ 2,189
LIABILITIES AND EQUITY		
Current liabilities		
Credit facilities (note 21)	**$ 68**	$ 54
Accounts payable and other current liabilities (notes 10 and 22)	**76**	62
Current portion of capital lease obligations (note 12)	**1**	1
Regulatory liabilities (note 8)	**14**	7
Total current liabilities	**159**	124
Long-term debt (note 11)	**729**	729
Capital lease obligations (note 12)	**322**	319
Regulatory liabilities (note 8)	**19**	15
Deferred income taxes (note 19)	**175**	167
Other liabilities (notes 13 and 15)	**57**	64
Total liabilities	**1,461**	1,418
Commitments and contingencies (note 23)		
Equity		
Common shares [a] (note 14)	**219**	219
Additional paid-in capital	**322**	322
Retained earnings	**236**	230
Total equity	**777**	771
TOTAL LIABILITIES AND EQUITY	**$ 2,238**	$ 2,189

[a] Par value of $100 each; 500 million authorized common shares; 2.2 million issued and outstanding at December 31, 2018 and 2017.

Approved on behalf of the Board:

(Signed by) Brenda Eaton
Director

(Signed by) Roger Dall'Antonia
Director

The accompanying notes are an integral part of these Consolidated Financial Statements.

FortisBC Inc.
Consolidated Statements of Earnings
For the years ended December 31
(in millions of Canadian dollars)

	2018	2017
Revenue (notes 2 and 16)	**$ 391**	$ 381
Expenses		
Power purchase costs (notes 2, 12 and 22)	**135**	141
Operating costs (notes 2, 12 and 22)	**80**	65
Property and other taxes	**16**	16
Depreciation and amortization (notes 6, 7 and 8)	**61**	62
Total expenses	**292**	284
Operating income	**99**	97
Other income (note 2)	**3**	2
Finance charges (note 17)	**40**	37
Earnings before income taxes	**62**	62
Income tax expense (note 19)	**12**	12
Net earnings	**$ 50**	$ 50

FortisBC Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31
(in millions of Canadian dollars)

	Common Shares	Additional Paid-in Capital	Retained Earnings	Total
As at December 31, 2016	$ 219	$ 322	$ 227	$ 768
Net earnings	-	-	50	50
Dividends on common shares	-	-	(47)	(47)
As at December 31, 2017	219	322	230	771
Net earnings	**-**	**-**	**50**	**50**
Dividends on common shares	**-**	**-**	**(44)**	**(44)**
As at December 31, 2018	**$ 219**	**$ 322**	**$ 236**	**$ 777**

The accompanying notes are an integral part of these Consolidated Financial Statements.

FortisBC Inc.
Consolidated Statements of Cash Flows
For the years ended December 31
(in millions of Canadian dollars)

	2018	2017
Operating activities		
Net earnings	**$ 50**	$ 50
Adjustments for non-cash items		
Depreciation and amortization (notes 6, 7 and 8)	**61**	62
Equity component of allowance for funds used during construction (note 6)	**(1)**	(1)
Change in regulatory assets and liabilities	**4**	3
Change in non-cash working capital (note 18)	**14**	(10)
Cash from operating activities	**128**	104
Investing activities		
Property, plant and equipment additions (note 18)	**(100)**	(98)
Intangible asset additions	**(6)**	(7)
Contributions in aid of construction	**13**	13
Change in other long-term assets and liabilities	**(5)**	-
Cash used in investing activities	**(98)**	(92)
Financing activities		
Net proceeds from (repayment of) credit facilities	**14**	(40)
Proceeds from issuance of long-term debt (note 11)	**-**	75
Dividends on common shares	**(44)**	(47)
Cash used in financing activities	**(30)**	(12)
Net change in cash	**-**	-
Cash at beginning of year	**-**	-
Cash at end of year	**$ -**	$ -

Supplementary Information to Consolidated Statements of Cash Flows (note 18).

The accompanying notes are an integral part of these Consolidated Financial Statements.

1. DESCRIPTION OF THE BUSINESS

FortisBC Inc. ("FBC" or the "Corporation") is a wholly-owned subsidiary of FortisBC Pacific Holdings Inc. ("FortisBC Pacific") which is an indirect wholly-owned subsidiary of Fortis Inc. ("Fortis"). Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 175,900 customers directly and indirectly. The Corporation's business includes four hydroelectric generating plants, approximately 7,260 kilometers of transmission and distribution power lines, and a peak demand of 746 MW.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These Consolidated Financial Statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and are presented in Canadian dollars unless otherwise specified. In management's opinion, the Consolidated Financial Statements include all adjustments that are necessary to present fairly the consolidated financial position of the Corporation.

The Consolidated Financial Statements include the accounts of the Corporation and its wholly-owned partnership and subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through February 14, 2019, the date these Consolidated Financial Statements were issued, was completed to determine whether any circumstances warranted recognition or disclosure of events or transactions in the Consolidated Financial Statements as at December 31, 2018. Subsequent events have been appropriately disclosed in these Consolidated Financial Statements.

Regulation

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, and financing.

The Corporation's Consolidated Financial Statements have been prepared in accordance with US GAAP, including certain accounting treatments that differ from those for enterprises not subject to rate regulation. The impacts of rate regulation on the Corporation's operations for the years ended December 31, 2018 and 2017 are described in these "Summary of Significant Accounting Policies", note 3 "Regulatory Matters", note 6 "Property, Plant and Equipment", note 7 "Intangible Assets", note 8 "Regulatory Assets and Liabilities", note 12 "Capital Lease Obligations", note 13 "Other Liabilities", note 15 "Employee Future Benefits", note 17 "Finance Charges", and note 19 "Income Taxes".

When the BCUC issues decisions affecting the financial statements, the effects of the decision are usually recorded in the period in which the decision is received. In the event that a regulatory decision is received after the balance sheet date but before the Consolidated Financial Statements are issued, the facts and circumstances are reviewed to determine whether or not it is a recognized subsequent event.

Cash

Cash includes cash and short-term deposits with maturities of three months or less from the date of deposit.

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects management's best estimate of losses on the accounts receivable balances. The Corporation maintains an allowance for doubtful accounts that is estimated based on a variety of factors including accounts receivable aging, historical experience and other currently available information, including events such as customer bankruptcy and current economic conditions. Interest is charged on overdue accounts receivable balances. Accounts receivable are written-off in the period in which the receivable is deemed uncollectible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Regulatory Assets and Liabilities

The BCUC has the general power to include or exclude costs, revenues, losses or gains in the rates of a specified period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs incurred that will be, or are probable to be, recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenue associated with amounts that will be, or are expected to be, refunded to customers through the rate-setting process.

All amounts deferred as regulatory assets and liabilities are subject to regulatory approval. As such, the BCUC could alter the amounts subject to deferral, at which time the change would be reflected in the Consolidated Financial Statements. For regulatory assets and liabilities which are amortized, the amortization is approved by the BCUC. Certain remaining recovery and settlement periods are those expected by management and the actual recovery or settlement periods could differ based on regulatory approval.

Inventories

Inventories represent materials and supplies held for day-to-day operations and for the maintenance of property, plant and equipment. Inventory held for construction or used only in connection with an item of property, plant and equipment is classified as property, plant and equipment. Inventory is measured at the lower of average cost and net realizable value.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and unamortized contributions in aid of construction ("CIAC"). Cost includes all direct expenditures, betterments and replacements and as prescribed by the BCUC, an allocation of overhead costs and both a debt and an equity component of allowance for funds used during construction ("AFUDC") at approved rates.

Certain additions to property, plant and equipment are made with the assistance of CIACs from customers when the estimated revenue is less than the cost of providing service or when special equipment is needed to supply the customers' specific requirements.

Depreciation is based on rates approved by the BCUC and is calculated on a straight-line basis on the investment in property, plant and equipment commencing at the beginning of the year following when the asset is available for use.

As approved by the BCUC, the remaining book value after the removal of property, plant and equipment is charged to accumulated depreciation. It is expected that these amounts charged to accumulated depreciation will be reflected in future depreciation expense when refunded or collected in customer rates.

As approved by the BCUC, removal costs are collected as a component of depreciation on an accrual basis, with actual removal costs incurred drawing down the accrual balance. Removal costs are the direct costs incurred by the Corporation in taking assets out of service, whether through actual removal of the asset or through disconnection from the transmission or distribution system.

Intangible Assets

Intangible assets are comprised of right of ways and software not directly attributable to the operation of property, plant and equipment and are recorded at cost less accumulated amortization. Included in the cost of intangible assets are all direct expenditures, betterments and replacements and as prescribed by the BCUC, an allocation of overhead costs and both a debt and equity component of AFUDC at approved rates.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is based on rates approved by the BCUC and is calculated on a straight-line basis commencing at the beginning of the year following when the asset is available for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset may be impaired. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

No impairment provision has been determined for the years ended December 31, 2018 and 2017.

Leases

Leases that transfer to the Corporation substantially all of the risks and benefits incidental to ownership of the leased item are capitalized at the present value of the minimum lease payments. Included as capital leases are any arrangements that qualify as leases by conveying the right to use a specific asset.

Capital leases are amortized over the lease term, except where ownership of the asset is transferred at the end of the lease term, in which case capital leases are amortized over the estimated service life of the underlying asset. Where the BCUC has approved recovery of the arrangements as operating leases for rate-setting purposes that would otherwise qualify as capital leases for financial reporting purposes, specifically the Brilliant Power Purchase Agreement ("BPPA") and the Brilliant Terminal Station ("BTS") included in note 12 "Capital Lease Obligations", the timing of the expense recognition related to the lease is modified to conform with the rate-setting process. Therefore, the total interest and depreciation expense recognized during a period equals the power purchase costs or operating lease rental expense included in allowable costs for rate-making purposes during that period with the difference recognized as a regulatory asset to be recovered from customers over the term of the related arrangements.

Operating lease payments are recognized as an expense in earnings on a straight-line basis over the lease term.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset and eventual disposition. If the carrying amount of an asset exceeds its estimated future cash flows and eventual disposition, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Asset-impairment testing is carried out at the enterprise level to determine if assets are impaired. The recovery of regulated assets' carrying value, including a fair return on capital or assets, is provided through customer electricity rates approved by the BCUC. The net cash inflows for the Corporation are not asset-specific but are pooled for the entire regulated utility. There was no impairment of regulated long-lived assets for the years ended December 31, 2018 and 2017.

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. Goodwill is carried at initial cost less any write-down for impairment.

Impairment is performed if any event occurs or if circumstances change that would indicate that the fair value of the Corporation was below its carrying value. If that is the case, goodwill is written down to estimated fair value and an impairment loss is recognized. No such event or changes in circumstances occurred during 2018 or 2017.

Otherwise, the Corporation performs an annual assessment of goodwill which was performed by the Corporation during 2018 and it was concluded that it is more likely than not that the fair value of the reporting unit was greater than the carrying value and that goodwill was not impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset Retirement Obligations

The Corporation recognizes the fair value of a future Asset Retirement Obligation ("ARO") as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

The fair value of the ARO is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the ARO is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Changes in the obligation due to the passage of time are recognized as a regulatory asset using the effective interest method. Changes in the obligation due to changes in estimated cash flows are to be recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

The Corporation has AROs for which the obligations cannot be reasonably estimated at this time. These AROs are primarily associated with the Corporation's hydroelectric generating facilities and assets associated with interconnection facilities. While each of the foregoing will have legal asset retirement obligations (i.e. land and environmental remediation and/or removal of assets), the final date of removal of the related assets and the costs to do so cannot be reasonably determined at this time. There is a reasonable expectation that asset retirement costs would be recoverable through future rates.

Revenue Recognition

Revenue from Contracts with Customers

Electricity revenue is billed at rates approved by the BCUC and is bundled to include the cost of generating, transmitting and distributing electricity. The rate includes customer service as well as other corporate and service functions.

The majority of the Corporation's revenue is derived from electricity sales to residential, commercial, wholesale, and industrial customers. Most of the Corporation's contracts have a single performance obligation, the delivery of electricity. Substantially all of the Corporation's performance obligations are satisfied over time as electricity is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress, kilowatt hours ("kWh") delivered. The billing of electricity sales is based on the reading of customer meters, which occurs on a systematic basis throughout the month. Electricity that is consumed but not yet billed to customers is estimated and accrued as revenue at each reporting date. No component of the transaction price is allocated to unsatisfied performance obligations.

Other contract revenue from customers includes surplus capacity sales, third party contract work and pole attachments. Surplus capacity sales are recognized when the capacity or energy is delivered at the amount of consideration set out in the contracts. Third party contract revenue relates to operations, maintenance and management services rendered to third party owned hydroelectric generation facilities and is recognized as services are provided. Pole attachment revenue is earned from third party attachments to utility infrastructure and is recognized over time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Alternative Revenue

Alternative revenue programs allow utilities to adjust future rates in response to past activities or completed events if certain criteria established by the BCUC are met. The Corporation has identified its Earnings Sharing Mechanism and Flow-through variances related to tariff-based revenue as alternative revenue.

The Earnings Sharing Mechanism allows for a 50/50 sharing of variances from the formula-driven operation and maintenance expenses and capital expenditures approved as part of the annual revenue requirements. This mechanism is in place until the expiry of the current performance based rate setting plan in 2019. In addition, alternative revenue includes variances in the forecast versus actual customer revenue in a flow-through deferral account to be either refunded to or recovered from customers in rates within two years.

Other Revenue (Expense)

Other revenue (expense) is primarily comprised of regulatory deferral adjustments resulting primarily from cost recovery variances in regulated forecasts used to set rates for electricity revenue. As part of the Multi-year Performance Based Ratemaking Plan for 2014 to 2019 ("2014 PBR Application") decision received, effective January 1, 2014 and effective through to the end of the PBR term, the Corporation has a flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

The Corporation disaggregates revenue by type of customer, as disclosed in note 16. This represents the level of disaggregation used by the Corporation to evaluate performance.

Employee Future Benefits

The Corporation sponsors a number of post-employment benefit plans. These plans include defined benefit, unfunded supplemental, and various other post-employment benefit ("OPEB") plans.

The cost of pensions and OPEBs earned by employees are actuarially determined as an employee accrues service. The Corporation uses the projected benefit pro-rata method based on years of service, management's best estimates of expected returns on plan assets, salary escalation, retirement age, mortality and expected future health-care costs. The discount rate used to value liabilities is based on Corporate AA bond yields with cash flows that match the timing and amount of the expected benefit payments under the plans. The Corporation uses a measurement date of December 31 for all plans.

The expected return on plan assets is based on management's estimate of the long-term expected rate of return on plan assets and the fair market value of plan assets.

Adjustments, in excess of 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets that result from changes in assumptions and experience gains and losses, are amortized straight-line over the expected average remaining service life, or the expected average remaining life expectancy, of the employee group covered by the plans. Experience will often deviate from the actuarial assumptions resulting in actuarial gains and losses.

The Corporation records the funded or unfunded status of its defined benefit pension plans and OPEB plans on the balance sheet. Unamortized balances relating to past service costs and net actuarial gains and losses have been recognized in regulatory assets and are expected to be recovered from customers in future rates. Subsequent changes to past service costs and net actuarial gains and losses are recognized as an expense, where required by the BCUC, or otherwise as a change in the regulatory asset or liability. The Corporation also provides a defined contribution pension arrangement to certain employees not covered by the defined benefit plans. Defined contribution plan costs are expensed by the Corporation as contributions are payable.

The Corporation capitalizes the eligible portion of the current service cost component of net benefit cost. The remaining portion of current service cost not capitalized is grouped in the Consolidated Statements of Earnings with other employee compensation costs arising from services rendered. The non-service cost components of net benefit cost are presented in other income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. The fair values of the Corporation's financial instruments reflect point-in-time estimates based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future consolidated earnings or cash flows. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Corporation is required to record all derivative instruments at fair value except those which qualify for the normal purchases and normal sales exception.

Derivative Financial Instruments

Derivative instruments are recognized as either assets or liabilities on the balance sheet and are measured at fair value, unless they meet the normal purchases and normal sales scope exception. The Corporation continually assesses its contracts, including its power purchase agreements, to determine whether they meet the criteria of a derivative, and if so, whether they qualify for the normal purchases and normal sales scope exception.

Debt Issuance Costs

Costs incurred to arrange debt financing are recognized as a direct deduction from the carrying amount of the debt liability and are accounted for using the effective interest method over the life of the related financial liability.

Sales Taxes

In the course of its operations, the Corporation collects sales taxes from its customers. When customers are billed, a current liability is recognized for the sales taxes included on the customer's bill. This liability is settled when the taxes are remitted to the appropriate government authority. The Corporation's revenue excludes the sales taxes.

Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not (greater than a 50 per cent chance) to be realized.

The deferred income tax assets and liabilities are measured using enacted income tax rates and laws that will be in effect when the temporary differences are expected to be recovered or settled. As a result of rate regulation, deferred income taxes incurred related to regulated operations have been offset by a corresponding regulatory asset or liability resulting in no impact on net earnings. Current income tax expense or recovery is recognized for the estimated income taxes payable or receivable in the current year.

As approved by the BCUC, the Corporation recovers income tax expense in customer rates based only on income taxes that are currently payable for regulatory purposes, except for certain regulatory asset and liability accounts specifically prescribed by the BCUC. Therefore, current customer rates do not include the recovery of deferred income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for regulatory purposes, as these taxes are expected to be collected in rates when they become payable. An offsetting regulatory asset or liability is recognized for the amount of income taxes that is expected to be collected in rates once the amount becomes payable.

Any difference between the expense recognized and that recovered from customers in current rates for income tax expense that is expected to be recovered, or refunded, in future customer rates is subject to deferral treatment as described in note 8 "Regulatory Assets and Liabilities".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation recognizes a tax benefit if it is more likely than not that a tax position taken or expected to be taken in a tax return will be sustained upon examination by taxing authorities based on the merits of the position. The tax benefit recognized in the financial statements is measured based on the largest amount of benefit that is greater than 50 per cent likely to be realized upon settlement. The difference between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to this guidance represents an unrecognized tax benefit.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense.

Segment Reporting

The Corporation has a single reportable segment.

Use of Accounting Estimates

The preparation of the Corporation's financial statements in accordance with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, regulatory decisions, current conditions and various other assumptions believed to be reasonable under the circumstances. The use of estimates is described in the "Summary of Significant Accounting Policies", in note 8 "Regulatory Assets and Liabilities", and note 23 "Commitments and Contingencies". Certain estimates are also necessary since the regulatory environment in which the Corporation operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known.

New Accounting Policies

Revenue from Contracts with Customers

Effective January 1, 2018, FBC adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard clarifies the principles for recognizing revenue and enables users of financial statements to better understand and consistently analyze an entity's revenues across industries and transactions. The Corporation adopted the new revenue recognition guidance using the modified retrospective transition method, under which comparative periods are not restated and the cumulative impact of applying the standard is recognized at the date of initial adoption supplemented by additional disclosures. Upon adoption, there were no adjustments to the opening balance of the Corporation's retained earnings as there were no changes to the timing of how revenue is recognized.

The Corporation elected three practical expedients in implementing ASC 606, *Revenue from Contracts with Customers*. The Corporation applied a portfolio approach in evaluating consideration from residential and commercial customers. The Corporation also applied a practical expedient to consideration received from certain customers on a tariff schedule and did not adjust the promised amount of consideration for the effect of a significant financing component because FBC expects that the period between the transfer of electricity to the customer and the customer's payment for that service will be one year or less. Finally, FBC elected to recognize revenue in the amount to which FBC has a right to invoice the customer.

The adoption of this standard did not materially change the Corporation's accounting policy for recognizing revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Effective January 1, 2018, the Corporation adopted Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which requires current service costs to be disaggregated and grouped in the Consolidated Statement of Earnings with other employee compensation costs arising from services rendered. The other components of net benefit costs must be presented separately and outside of operating income. Additionally, only the service cost component is eligible for capitalization. On adoption, the Corporation applied the presentation guidance retrospectively and the capitalization guidance prospectively. This resulted in retrospective $1 million reclassification from operation and maintenance expense to other income for the year ended ended December 31, 2017.

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

During the third quarter of 2018, the Corporation early adopted ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software. Accordingly, the amendments in this update require a customer in a hosting arrangement that is a service contract to follow the guidance in ASC 350, *Intangibles - Goodwill and Other*, to determine whether implementation costs should be capitalized or expensed. The Corporation adopted this ASU using the retrospective approach, which did not have a material impact on these Consolidated Financial Statements.

Future Accounting Pronouncements

FBC considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by FBC. Any ASUs not included below were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the Consolidated Financial Statements.

Leases

ASU No. 2016-02, Leases (ASC Topic 842), issued in February 2016, is effective for FBC January 1, 2019, and is to be applied using a modified retrospective approach or an optional transition method with implementation options, referred to as practical expedients. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures.

FBC has selected the optional transition method which allows entities to continue to apply the current lease guidance in the comparative periods presented in the year of adoption and apply the transition provisions of the new guidance on the effective date of the new guidance. FBC elected a package of practical expedients that allows it to not reassess the lease classification of existing leases or whether existing contracts, including land easements, are or contain a lease.

Upon adoption, FBC will recognize right-of-use assets and corresponding lease liabilities for operating leases primarily related to office facilities. FBC has not identified an adjustment to opening retained earnings, and there will be no impact on earnings or cash flows. FBC is continuing to assess the presentation and disclosure requirements of ASC 842.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective for FBC January 1, 2020, and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses.

Fair Value Measurement Disclosures

ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, issued in August 2018, is effective for FBC January 1, 2020 and is to be primarily applied on a restrospective basis, with certain disclosures requiring prospective application. Principally, it improves the effectiveness of financial statement note disclosures by clarifying what is required and important to users of the financial statements.

Pensions and Other Postretirement Plan Disclosures

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for FBC January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other postretirement plans and clarifies disclosure requirements.

3. REGULATORY MATTERS

Multi-year Performance Based Ratemaking Plan for 2014 to 2019

In September 2014, the BCUC issued its decision on FBC’s 2014 PBR Application. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period, 2014 to 2019, are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.03 per cent each year. The PBR Plan also includes Earnings Sharing Mechanism that requires a 50/50 sharing of variances from the formula-driven operation and maintenance expenses and capital expenditures over the PBR period, and a number of service quality measures designed to ensure FBC maintains service levels. It also sets out the requirements for an annual review process which provides a forum for discussion between FBC and interested parties regarding its current performance and future activities.

In July 2018, the BCUC approved FBC’s 2018 interim rates on a permanent basis. The rates decision resulted in a 2018 average rate base of approximately $1,321 million and no increase to customer rates. 2018 rates would have otherwise increased had there not been approval to defer a revenue deficiency for the year. The revenue deficiency from FBC’s 2018 rate decision will be recovered from customers in future rates.

4. ACCOUNTS RECEIVABLE

The timing of revenue recognition, billings, and cash collections results in billed and unbilled accounts receivable. The opening and closing balances of the Corporation’s accounts receivable as at December 31 were as follows:

($ millions)	**2018**	2017
Billed accounts receivable from contracts with customers	**25**	18
Accrued unbilled revenue from contracts with customers	**22**	25
Trade accounts receivable	**6**	7
Amounts due from related parties	**-**	2
Income and other taxes receivable	**1**	-
Other [1]	**1**	1
Allowance for doubtful accounts	**(2)**	(2)
Total accounts receivable	**53**	51

[1] Other receivables include receivables not related to contracts with customers.

5. OTHER ASSETS

($ millions)	**2018**	2017
Inventories	**1**	1
Pension asset (note 15)	**5**	6
Total other assets	**6**	7
Less: current portion[1]	**1**	1
Total long-term other assets	**5**	6

[1] The current portion of other assets is inventories.

6. PROPERTY, PLANT AND EQUIPMENT

December 31, 2018	**Cost**	**Accumulated Depreciation**	**Book Value**	**Weighted Average Depreciation Rate**
($ millions)				
Generation	**268**	**(64)**	**204**	**1.6%**
Transmission	**722**	**(216)**	**506**	**1.9%**
Distribution	**596**	**(110)**	**486**	**2.2%**
Plant, buildings and equipment	**192**	**(90)**	**102**	**5.0%**
Assets under capital lease	**295**	**(82)**	**213**	**2.0%**
Assets under construction	**23**	**-**	**23**	**-**
Total property, plant and equipment	**2,096**	**(562)**	**1,534**	

December 31, 2017	Cost	Accumulated Depreciation	Book Value	Weighted Average Depreciation Rate
($ millions)				
Generation	251	(60)	191	1.6%
Transmission	698	(204)	494	1.9%
Distribution	574	(101)	473	2.2%
Plant, buildings and equipment	188	(86)	102	5.1%
Assets under capital lease	293	(77)	216	2.0%
Assets under construction	21	-	21	-
Total property, plant and equipment	2,025	(528)	1,497	

As allowed by the BCUC, during the year ended December 31, 2018, the Corporation capitalized an allowance for debt and equity funds used during construction at approved rates of $1 million (2017 - $1 million) and $1 million (2017 - $1 million), respectively, and approved capitalized overhead costs of $9 million (2017 - $9 million).

Depreciation of property, plant and equipment, including a net salvage provision, for the year ended December 31, 2018 totaled $49 million (2017 - $47 million).

Included in property, plant and equipment are ARO costs totaling $2 million (2017 - $2 million). Depreciation of $nil (2017 - $nil) on the asset retirement costs was recorded in other recoverable costs in regulatory assets (note 8). The corresponding liability has been recorded as an ARO in other liabilities (note 13).

Assets under capital lease include the BPPA and BTS arrangements. Depreciation of $5 million (2017 - $5 million) on the BPPA asset under capital lease was recorded in the BPPA lease costs regulatory asset (note 8) and depreciation of $1 million (2017 - $1 million) on the BTS asset under capital lease was recorded in the BTS lease costs regulatory asset (note 8).

7. INTANGIBLE ASSETS

December 31, 2018	Cost	Accumulated Amortization	Book Value
($ millions)			
Software	**88**	**(63)**	**25**
Land rights	**37**	**(5)**	**32**
Total intangible assets	**125**	**(68)**	**57**

December 31, 2017	Cost	Accumulated Amortization	Book Value
($ millions)			
Software	85	(59)	26
Land rights	36	(5)	31
Total intangible assets	121	(64)	57

There was no impairment of intangible assets for the years ended December 31, 2018 and 2017.

Amortization of intangible assets for the year ended December 31, 2018 totaled $6 million (2017 - $5 million).

Amortization of software is recorded on a straight-line basis using an average amortization rate of 6.6 per cent (2017 – 6.6 per cent). Amortization of land rights is recorded on a straight-line basis using an amortization rate of 1.3 per cent (2017 – 1.3 per cent).

Included in the cost of land rights at December 31, 2018 was $16 million (2017 - $15 million) not subject to amortization.

For intangibles subject to amortization at December 31, 2018, the amortization expense is estimated to average approximately $6 million annually for each of the next five years.

8. REGULATORY ASSETS AND LIABILITIES

Based on existing regulatory orders or the expectation of future regulatory orders, the Corporation has recorded the following amounts, net of income tax and amortization where applicable, which are expected to be recovered from or refunded to customers as at December 31:

($ millions)	2018	2017	Remaining Recovery Period (Years)
Regulatory assets			
Energy efficiency and conservation program (i)	**24**	22	10
Pension and OPEB unrecognized actuarial losses and past service costs (note 15) (ii)	**28**	34	Ongoing
Pension and OPEB transition and variance asset (iii)	**2**	2	5
BPPA lease costs (note 12) (iv)	**104**	98	38
BTS lease costs (note 12) (v)	**6**	6	30
Regulated asset for deferred income taxes (note 19) (vi)	**178**	169	Ongoing
Income taxes recoverable on OPEBs (vii)	**5**	5	Ongoing
Meter retirement costs (viii)	**1**	2	1
Other recoverable costs (ix)	**3**	2	Various
Total regulatory assets	**351**	340	
Less: current portion	**6**	5	
Long-term portion of regulatory assets	**345**	335	

8. REGULATORY ASSETS AND LIABILITIES (continued)

($ millions)	2018	2017	Remaining Recovery Period (Years)
Regulatory liabilities			
Flow-through variances (x)	**14**	9	1
Net salvage provision (xi)	**16**	12	Ongoing
Pension and OPEB Cost Variance (xii)	**1**	-	3
Debt issuance costs under effective interest method (xiii)	**1**	1	32
Other refundable costs (ix)	**1**	-	Various
Total regulatory liabilities	**33**	22	
Less: current portion	**14**	7	
Long-term portion of regulatory liabilities	**19**	15	

Net amortization expense of regulatory assets and liabilities, excluding a net salvage provision, for the year ended December 31, 2018 totaled $6 million (2017 - $10 million).

(i) Energy Efficiency and Conservation Program

The Corporation provides energy management services to promote energy efficiency programs for its customers. As required by BCUC order, the Corporation has capitalized all expenditures (except certain defined costs) and the regulatory asset represents the unamortized balance of the energy management program. The regulatory asset balance is expected to be recovered from customers in future rates over an average of 10 years as approved by the BCUC.

(ii) Pension and OPEB Unrecognized Actuarial Losses and Past Service Costs

The net funded status, being the difference between the fair value of plan assets and the projected benefit obligation for pensions and OPEBs, is required to be recognized on the Corporation's balance sheet under ASC Topic 715, *Compensation – Retirement Benefits*. The amount required to make this net funded status adjustment, which would otherwise be recognized in Accumulated Other Comprehensive Income ("AOCI"), has instead been deferred within regulatory assets. The balance represents the deferred portion of the expense relating to pensions and OPEBs that is expected to be recovered from customers in future rates as the deferred amounts are included as a component of future net benefit cost.

(iii) Pension and OPEB Transition and Variance Asset

Up until the end of 2011, a cumulative difference existed between the pension and OPEB amounts to be recognized under ASC Topic 715 and the pension and OPEB amounts recovered in rates as approved by the BCUC. This cumulative transitional amount, which was measured as of January 1, 2000, would otherwise be recognized in retained earnings but instead has been approved by the BCUC for deferral as a regulatory asset to be collected from customers over a term of twelve years beginning on January 1, 2012. This regulatory asset balance is not subject to a regulatory return.

(iv) BPPA Lease Costs

The depreciation on the BPPA capital lease asset (note 6) and the interest expense associated with the BPPA lease obligation (note 12) are not being fully recovered by the Corporation in current customer rates since those rates include only the payments set out under the BPPA. The BPPA payments, including the related operating costs, are recovered as power purchase costs rather than as capital lease depreciation and interest expense. The regulatory asset balance represents the deferred portion of the cost of the lease that is expected to be recovered from customers in future rates over the term of the arrangement, which ends in 2056, and is not subject to a regulatory return.

8. REGULATORY ASSETS AND LIABILITIES (continued)

(v) BTS Lease Costs

The depreciation on the BTS capital lease asset (note 6), the interest expense associated with the BTS obligation (note 12) and the related operating costs are not being fully recovered by the Corporation in current customer rates since those rates include only the recovery of the BTS as an operating lease with associated operating costs. The regulatory asset balance represents the deferred portion of the cost of the lease that is expected to be recovered from customers in future rates over the term of the arrangement, and is not subject to a regulatory return.

(vi) Regulated Asset for Deferred Income Taxes

FBC recognizes deferred income taxes and liabilities and related regulatory liabilities and assets for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future rates. Included in deferred income tax assets and liabilities are the future income tax effects of the subsequent settlement of the related regulatory liabilities and assets through customer rates. The regulatory asset balance is expected to be recovered from customers in future rates when the deferred taxes become payable, and is not subject to a regulatory return.

(vii) Income Taxes Recoverable on OPEBs

The BCUC allows OPEB plan costs to be collected in customer rates on an accrual basis, rather than on a cash basis, which creates timing differences for income tax purposes. As approved by the BCUC, the tax effect of this timing difference is deferred as a regulatory asset and will be reduced as cash payments for OPEB plans exceed required accruals and amounts collected in customer rates. This regulatory asset balance is expected to be recovered from customers in future rates, and is not subject to a regulatory return.

(viii) Meter Retirement Costs

As ordered by the BCUC, these are costs associated with the retirement of meters replaced with advanced meter infrastructure. This regulatory balance is expected to be recovered from customers in future rates, and is not subject to a regulatory return.

(ix) Other Recoverable and Refundable Costs

Regulatory assets and liabilities that have been aggregated in the tables above as other items relate to many smaller deferral accounts. These accounts have either been approved by the BCUC for recovery from or refund to customers or are expected to be approved. The approved amounts are being amortized over various periods depending on the nature of the costs.

(x) Flow-through Variances

As part of the regulatory decision on the 2014 PBR Application and effective January 1, 2014 through to the end of the PBR term, the Corporation has a flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

The flow-through variance regulatory liability includes the current year's flow-through variance, the over or under amortization of prior years' flow-through variance, and the BCUC approved Earnings Sharing Mechanism deferral account that captures 50/50 sharing of variances from formula-driven operation and maintenance expenses and capital expenditures, to be refunded to customers. This regulatory liability is not subject to a regulatory return.

(xi) Net Salvage Provision

The net salvage provision account captures the provision for costs which will be incurred to remove assets from service in a future period. As actual removal costs are incurred, the net salvage provision account is drawn down. As at December 31, 2018, $11 million (2017 - $10 million) was collected from customers through depreciation expense to offset future removal costs which may be incurred. Actual removal costs incurred for the year ended December 31, 2018 were $7 million (2017 - $4 million).

8. REGULATORY ASSETS AND LIABILITIES (continued)

(xii) Pension and OPEB Cost Variance

As approved by the BCUC, the pension and OPEB cost variance account accumulates differences between pension and OPEB expenses that are approved for recovery in rates and the actuarially determined pension and OPEB expense. The regulatory liability balance is expected to be returned to customers in future rates over 3 years, and is not subject to a regulatory return.

(xiii) Debt Issuance Costs Under Effective Interest Method

This balance represents the cumulative difference between applying the effective interest method for amortizing debt issuance costs and the straight-line amortization method used in setting customer rates. This regulatory liability represents the cumulative difference between the two amortization methods which will be refunded to customers over the term of the outstanding debt through future rates, and is not subject to a regulatory return.

9. GOODWILL

On May 31, 2004, Fortis, through a wholly owned subsidiary, acquired all of the issued and outstanding shares of FBC. The consideration paid for this acquisition has been recorded in the Corporation's financial statements using push-down accounting. In addition to goodwill of $220 million (2017 - $220 million) for the excess of the purchase price paid by Fortis over the fair value of the net assets acquired, the Corporation has recognized additional paid-in capital related to the push-down of the acquisition accounting.

FBC has also recognized a total of $15 million (2017 - $15 million) in goodwill related to the excess of the purchase price over the fair value of the net assets of electric utility businesses acquired by the Corporation in the Princeton area on December 31, 2006 and the Kelowna area on March 29, 2013.

There was no impairment of goodwill for the years ended December 31, 2018 and 2017.

10. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

($ millions)	**2018**	2017
Trade accounts payable	**24**	17
Power purchase and wheeling accruals	**4**	5
Customer deposits	**13**	7
Interest payable	**7**	7
Employee compensation and benefits payable	**13**	11
Other current liabilities	**1**	1
Pension and other post-employment benefits (note 15)	**1**	1
Amounts due to related parties (note 22)	**12**	12
Income and other taxes payable	**1**	1
Total accounts payable and other current liabilities	**76**	62

11. LONG-TERM DEBT

($ millions)	2018	2017
Secured Debentures		
Series G 8.8% due August 28, 2023	**25**	25
Unsecured Debentures		
Series I 7.81% due December 1, 2021	**25**	25
Series 05-1 5.60% due November 9, 2035	**100**	100
Series 07-1 5.90% due July 4, 2047	**105**	105
Medium Term Note Debentures Series 1 6.10% due June 2, 2039	**105**	105
Medium Term Note Debentures Series 2 5.00% due November 24, 2050	**100**	100
Medium Term Note Debentures Series 3 4.00% due October 28, 2044	**200**	200
Medium Term Note Debentures Series 4 3.62% due December 6, 2049	**75**	75
Total long-term debt	**735**	735
Less: debt issuance costs	**6**	6
Total long-term debt, net of debt issuance costs	**729**	729

Secured and Unsecured Debentures

The Series G secured debentures are collateralized by a fixed and floating first charge on the assets of the Corporation. The secured Series G and unsecured Series I debentures are guaranteed by FortisWest Inc., a subsidiary of Fortis.

The Corporation's secured and unsecured debentures are redeemable in whole or in part at the option of the Corporation at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption.

On December 4, 2017, FBC entered into an agreement with a Canadian Chartered bank to sell $75 million of unsecured Medium Term Note Debentures ("MTN Debentures") Series 4. The MTN Debentures bear interest at a rate of 3.62 per cent to be paid semi-annually and mature on December 6, 2049. The closing of the issuance occurred on December 6, 2017, with net proceeds being used to repay existing credit facilities.

The Corporation has externally imposed capital requirements to which it is subject to that include interest coverage ratios and limitations on the amount of debt that can be incurred relative to equity. The Corporation is in compliance with these externally imposed capital requirements as at December 31, 2018.

See note 23 "Commitments and Contingencies" for principal payments required over the next five years and thereafter.

12. CAPITAL LEASE OBLIGATIONS

The present value of the minimum lease payments for capital leases required over the next five years and thereafter are as follows:

($ millions)	BTS Lease	BPPA Lease	Total
2019	**3**	**41**	**44**
2020	**3**	**41**	**44**
2021	**3**	**42**	**45**
2022	**3**	**43**	**46**
2023	**3**	**44**	**47**
Thereafter	**53**	**1,834**	**1,887**
Less: amounts representing imputed interest and executory costs	**45**	**1,745**	**1,790**
Total capital lease obligations	**23**	**300**	**323**
Less: current portion	**1**	**-**	**1**
Long-term portion of capital lease obligations	**22**	**300**	**322**

12. CAPITAL LEASE OBLIGATIONS (continued)

BPPA Capital Lease

On May 3, 1996 an order was granted by the BCUC approving the 60-year BPPA for the sale of the output of the Brilliant hydroelectric plant located near Castlegar, BC. The Brilliant plant is owned by the Brilliant Power Corporation ("BPC"), a corporation owned equally by the Columbia Power Corporation ("CPC") and the Columbia Basin Trust ("CBT"). FBC operates and maintains the Brilliant plant for the BPC in return for a management fee. In exchange for the specified take-or-pay amounts of power, the BPPA requires semi-annual payments based on a return on capital, which is composed of the original plant capital charge and periodic upgrade capital charges, which are both subject to fixed annual escalators, as well as sustaining capital charges, and operating expenses. The BPPA includes a market related price adjustment after 30 years of the 60-year term. Due to the fixed annual escalators, presently the interest expense on the capital lease obligation exceeds the required payments and therefore the capital lease obligation increases through 2024 and subsequently decreases for the remainder of the term. Approximately 94 per cent of the output from the 149 MW Brilliant hydroelectric plant is being purchased by FBC through the BPPA.

The BPPA lease obligation bears interest at a composite rate of approximately 5 per cent. Of the $29 million (2017 - $29 million) of interest expense relating to the BPPA obligation and $5 million (2017 - $5 million) of depreciation expense relating to the BPPA capital lease asset, a total of $28 million (2017 - $27 million) was recognized in power purchase costs for 2018, as approved by the BCUC, with the balance of $6 million (2017 - $7 million) deferred as part of the regulatory asset balance in note 8 "Regulatory Assets and Liabilities".

BTS Capital Lease

On July 15, 2003, the Corporation began operating the BTS under an agreement the term of which expires in 2056 (the "BTS Obligation"). The agreement provides that FBC will pay a charge related to the recovery of the capital cost of the BTS and related operating costs. The BTS Obligation bears interest at a composite rate of approximately 9 per cent.

Of the $2 million (2017 - $2 million) of interest expense relating to the BTS Obligation and $1 million (2017 - $1 million) of depreciation expense relating to the BTS capital lease asset, a total of $3 million (2017 - $3 million) was recognized in operating costs for 2018, as approved by the BCUC, with the balance of $nil (2017 - $nil) deferred as part of the regulatory asset balance in note 8 "Regulatory Assets and Liabilities".

13. OTHER LIABILITIES

($ millions)	**2018**	2017
Pension and OPEB liabilities (note 15)	**55**	62
Asset retirement obligation	**2**	2
Total other liabilities	**57**	64

Asset Retirement Obligation

FBC has recognized an ARO based on an estimate of the fair value and timing of estimated future expenditures associated with the removal of insulating oil in certain electrical equipment that is contaminated with polychlorinated biphenyls ("PCBs"). The determination of the ARO is based on PCB regulations under the Canadian Environmental Protection Act, 1999 which govern the management and storage of PCBs as well as impose timelines for disposal based on certain criteria including type of equipment, in-use status and PCB-contamination thresholds. The Corporation must identify and remove certain levels of PCBs in certain of its electrical equipment assets by 2025 to be compliant with the PCB regulations.

FBC records an ARO liability in the period in which it is incurred if a reasonable estimate of fair value can be determined. The Corporation's ARO is based on a best estimate of the present value of the future expenditures expected to be required to comply with existing regulations.

There were no expenditures or revisions to estimates of the ARO during 2018 or 2017. Interest accretion recognized was $nil (2017 - $nil).

13. OTHER LIABILITIES (continued)

The asset retirement cost has been capitalized to property, plant and equipment (note 6). Actual costs incurred upon settlement of an ARO are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the ARO and the remaining balance is expected to be recognized as a regulatory asset or liability at that time.

Total estimated undiscounted future cash flows required to comply with the PCB regulations is approximately $3 million. These expenditures are expected to be incurred over the period from 2019 to 2025 as follows:

($ millions)	
2019	**-**
2020	**1**
2021	**-**
2022	**1**
2023	**-**
Thereafter	**1**
Total estimated undiscounted future cash flows	**3**

The credit-adjusted risk-free discount rates used to calculate the present value of the above obligation is 3.0 per cent.

14. SHARE CAPITAL

Authorized Share Capital

The Corporation is authorized to issue 500,000,000 common shares, with a par value of $100 each and 500,000,000 preferred shares, with a par value of $25 each, issuable in series.

Common Shares

Issued and outstanding common shares are as follows:

	2018		2017	
	Number of Shares	**Amount ($ millions)**	Number of Shares	Amount ($ millions)
Outstanding, beginning of year	**2,191,510**	**219**	2,191,510	219
Issued	**-**	**-**	-	-
Outstanding, end of year	**2,191,510**	**219**	2,191,510	219

15. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans, supplemental unfunded arrangements, and defined contribution plans. In addition to pensions, the Corporation provides other post-employment benefits ("OPEB") for certain of its retired employees.

Defined Benefit Pension Plans

The Corporation sponsors three defined benefit pension plans, one of which is closed to new entrants. Retirement benefits are based on employees' years of credited service and remuneration. Corporation contributions to the plans are based upon independent actuarial valuations. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were as at December 31, 2016 and the date of the next required valuations will be as at December 31, 2019.

Supplemental Plans

Certain employees are eligible to receive supplemental benefits. The supplemental plans provide pension benefits in excess of statutory limits and are unfunded.

Defined Contribution Plans

The Corporation's cost related to the defined contribution arrangement is based upon a percentage of employee earnings. The Corporation's 2018 net benefit cost related to this arrangement was $1 million (2017 - $2 million).

15. EMPLOYEE FUTURE BENEFITS (continued)

Other Post-Employment Benefits

The Corporation provides certain retired employees with OPEBs that include, depending on circumstances, supplemental health, dental and life insurance coverage. OPEBs are unfunded and the annual net benefit cost is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health-care cost escalation. The most recent actuarial valuation was completed as at December 31, 2016 and the next valuation is expected to be as at December 31, 2019.

The financial positions of the Corporation's defined benefit pension and supplemental plans and OPEB plans are as follows:

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2018**	2017	**2018**	2017
Change in fair value of plan assets				
Balance, beginning of year	**203**	189	**-**	-
Actual return on plan assets	**-**	15	**-**	-
Employer contributions	**5**	5	**1**	1
Employee contributions	**3**	3	**-**	-
Benefits paid	**(9)**	(9)	**(1)**	(1)
Fair value, end of year	**202**	203	**-**	-
Change in projected benefit obligation				
Balance, beginning of year	**233**	216	**27**	33
Employee contributions	**3**	3	**-**	-
Current service cost	**6**	6	**1**	1
Interest costs	**8**	8	**1**	1
Benefits paid	**(9)**	(9)	**(1)**	(1)
Actuarial (gain) loss	**(14)**	9	**(2)**	(7)
Balance, end of year [1]	**227**	233	**26**	27
Unfunded status	**(25)**	(30)	**(26)**	(27)

[1] The accumulated benefit obligation for defined benefit pension plans, excluding assumptions about future salary levels, was $207 million (2017 - $211 million).

The following table summarizes the employee future benefit assets and liabilities and their classification in the Consolidated Balance Sheets. The total pension and OPEB liability recognized on the Consolidated Balance Sheets was $55 million (2017 - $62 million).

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2018**	2017	**2018**	2017
Other assets (note 5)	**(5)**	(6)	**-**	-
Accounts payable and other current liabilities (note 10)	**-**	-	**1**	1
Other liabilities (note 13)	**30**	36	**25**	26
Net liability	**25**	30	**26**	27

15. EMPLOYEE FUTURE BENEFITS (continued)

The net benefit cost for the Corporation's defined benefit pension and supplemental plans and OPEB plans are as follows:

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2018**	2017	**2018**	2017
Service costs	**6**	6	**1**	1
Interest costs	**8**	8	**1**	1
Expected return on plan assets	**(12)**	(11)	**-**	-
Amortization:				
Actuarial losses	**2**	2	**-**	-
Past service costs	**(1)**	(1)	**-**	-
Regulatory adjustment	**-**	-	**1**	1
Net benefit cost	**3**	4	**3**	3

As a result of adopting ASU No. 2017-07, the components of net benefit cost, other than the service cost component, are included in other income in the Consolidated Statements of Earnings for the years ended December 31, 2018 and 2017.

Defined Benefit Pension Plan Assets

As at December 31, 2018 and 2017 the assets of the Corporation's defined benefit pension plans were invested on a weighted average as follows:

	Target Allocation	2018	2017
Equities	**40% - 50%**	**46%**	51%
Fixed income	**30% - 60%**	**38%**	34%
Real estate	**0% - 20%**	**16%**	15%
		100%	100%

The investment policy for defined benefit plan assets is to optimize the risk-return ratio using a portfolio of various asset classes. FBC's primary investment objectives are to secure registered pension plans, and maximize investment returns in a cost effective manner while not compromising the security of the respective plans. The pension plans use quarterly rebalancing in order to achieve the target allocations while complying with the constraints of the Pension Benefits Standards Act of British Columbia and the Income Tax Act. The pension plans utilize external investment managers to execute the investment policy. Assets in the plans are held in trust by independent third parties. The pension plans do not directly hold any shares of FBC's parent or affiliated companies.

The fair value measurements of the Corporation's defined benefit pension plan assets by fair value hierarchy level, which are described in further detail in note 20 "Financial Instruments", are as follows:

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
($ millions)				
Cash	**1**	**-**	**-**	**1**
Equities	**92**	**-**	**-**	**92**
Fixed income	**-**	**77**	**-**	**77**
Real estate	**-**	**-**	**32**	**32**
	93	**77**	**32**	**202**

15. EMPLOYEE FUTURE BENEFITS (continued)

2017	Level 1	Level 2	Level 3	Total
($ millions)				
Equities	103	-	-	103
Fixed income	-	70	-	70
Real estate	-	-	30	30
	103	70	30	203

The following table is a reconciliation of changes in the fair value of defined benefit pension plan assets that have been measured using Level 3 inputs for the years ended December 31, 2018 and 2017:

($ millions)	**2018**	2017
Balance, beginning of year	**30**	27
Actual return on plan assets relating to assets still held at the reporting date	**2**	3
Balance, end of year	**32**	30

There were no transfers into or out of Level 3 during the years ended December 31, 2018 and 2017.

Significant Actuarial Assumptions

The significant weighted average actuarial assumptions used to determine the projected benefit obligation and the net benefit cost are as follows:

	Defined Benefit Pension and Supplemental Plans		**OPEB Plans**	
($ millions)	**2018**	2017	**2018**	2017
Projected benefit obligation				
Discount rate as at December 31	**3.75%**	3.50%	**3.75%**	3.50%
Rate of compensation increase	**3.00%**	3.00%	**-**	-
Net benefit cost				
Discount rate as at January 1	**3.50%**	3.75%	**3.50%**	3.75%
Expected rate of return on plan assets	**6.00%**	6.00%	**-**	-

The assumed health care cost trend rates for OPEB plans are as follows:

	2018	2017
Health care trend rate:		
Initial rate at December 31	**5.00%**	5.00%
Annual rate of decline in trend rate	-	-
Ultimate health care cost trend rate	**5.00%**	5.00%
Year ultimate rate reached	**2018**	2018

15. EMPLOYEE FUTURE BENEFITS (continued)

A one per cent change in assumed health care cost trend rates would have the following effects on the Corporation's OPEB plans:

2018	1% Increase in Rate	1% Decrease in Rate
($ millions)		
Increase (decrease) in benefit obligation	**3**	**(2)**
Increase (decrease) in service and interest costs	**-**	**-**

The following table provides the components and changes of the regulatory assets during the year that would otherwise have been recognized in other comprehensive income and AOCI and have not yet been recognized as components of periodic net benefit cost. The total unrecognized actuarial losses and past service costs for pension and OPEB that was recognized as a regulatory asset was $28 million (2017 - $34 million).

	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
($ millions)	**2018**	2017	**2018**	2017
Regulatory asset, beginning of year	**37**	33	**(3)**	4
Net actuarial (gain) loss	**(2)**	5	**(3)**	(7)
Amortization of actuarial losses	**(2)**	(2)	**-**	-
Amortization of past service credit	**1**	1	**-**	-
Regulatory asset, end of year (note 8)	**34**	37	**(6)**	(3)

Net actuarial losses of $1 million and past service credit of $1 million will be amortized from regulatory assets into pension net benefit costs during 2019. Net actuarial losses of $nil will be amortized from regulatory assets into OPEB net benefit costs during 2019.

Funding Contributions

Under the terms of the defined benefit pension plans, the Corporation is required to provide pension funding contributions, including current service, solvency and special funding amounts. The Corporation's estimated 2019 contributions are $4 million (2018 - $5 million).

The Corporation's estimated 2019 OPEB contributions are $1 million (2018 - $1 million).

Benefit Payments

The following table provides the amount of benefit payments expected to be made over the next 10 years.

($ millions)	Defined Benefit Pension and Supplemental Plans	OPEB Plans
2019	**9**	**1**
2020	**9**	**1**
2021	**10**	**1**
2022	**10**	**1**
2023	**11**	**1**
2024-2027	**60**	**5**
	109	**10**

16. REVENUE

The following table presents the disaggregation of the Corporation's revenues by type of customer for the years ended December 31:

($ millions)	**2018**	2017[1]
Residential	**181**	177
Commercial	**96**	93
Wholesale	**47**	47
Industrial	**30**	30
Total electric revenue	**354**	347
Other contract revenue [2]	**34**	17
Revenue from contracts with customers	**388**	364
Alternative revenue	**(4)**	(3)
Other revenue	**7**	20
Total revenues	**391**	381

[1] As a result of adopting ASC Topic 606 using the modified retrospective approach, 2017 comparative figures have not been restated in the Consolidated Statements of Earnings. Therefore, the 2017 comparative figures disclosed in this note in accordance with the new revenue guidance are provided for information purposes only.

[2] Other contract revenue includes customer connection fees, surplus capacity sales, third party contract work and pole attachments.

17. FINANCE CHARGES

($ millions)	**2018**	2017
Interest on long-term debt [1] (note 11)	**39**	36
Interest on short-term debt [2] (note 21)	**2**	2
Debt component of AFUDC (note 6)	**(1)**	(1)
Total finance charges	**40**	37

[1] Includes amortization of debt issuance costs.

[2] Includes capitalized interest on certain non-rate base regulatory assets and liabilities.

18. SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the Consolidated Statements of Cash Flows for the years ended December 31 are as follows:

($ millions)	2018	2017
Interest paid	**40**	38
Income taxes paid	**11**	15

Significant Non-Cash Transactions

($ millions)	2018	2017
Change in accrued capital expenditures	**(1)**	-
Change in regulated asset for deferred income taxes (note 8)	**(9)**	(15)
Change in regulated asset for BPPA lease costs (note 8)	**(6)**	(7)
Pension and OPEB unrecognized actuarial losses and past service costs regulatory asset (note 8)	**6**	3

Changes in Non-Cash Working Capital

($ millions)	2018	2017
Accounts receivable	**(2)**	3
Accounts payable and other current liabilities	**16**	(8)
Net current regulatory assets and liabilities	**-**	(5)
Change in non-cash working capital per statements of cash flows	**14**	(10)

The non-cash investing activities balances as at December 31 were as follows:

($ millions)	2018	2017
Accrued capital expenditures	**12**	13

19. INCOME TAXES

Deferred Income Taxes

Deferred income taxes are provided for temporary differences. Deferred income tax assets and liabilities comprised the following:

($ millions)	2018	2017
Deferred income tax liability (asset)		
Property, plant and equipment	**166**	160
Intangible assets	**12**	9
Regulatory assets	**11**	10
Regulatory liabilities	**(5)**	(3)
Debt issuance costs	**2**	1
Employee future benefits	**(8)**	(8)
Other	**(3)**	(2)
Net deferred income tax liability	**175**	167

19. INCOME TAXES (continued)

Provision for Income Taxes

($ millions)	2018	2017
Current income taxes expense	12	12
Deferred income taxes expense	9	15
Regulatory adjustment (note 8)	(9)	(15)
Deferred income taxes expense, net of regulatory adjustment	-	-
Income taxes expense	12	12

Variation in Effective Income Tax Rate

Income taxes vary from the amount that would be computed by applying the Canadian federal and BC combined statutory income tax rate of 27.0 per cent (2017 – 26.0 per cent) to earnings before income taxes as shown in the following table:

	2018	2017
Combined statutory income tax rate	27.0%	26.0%
($ millions)		
Statutory income tax rate applied to earnings before income taxes	17	16
Items capitalized for accounting but expensed for income tax purposes	(3)	(3)
Difference between capital cost allowance and amounts expensed for accounting purposes	(4)	(4)
Difference between regulatory accounting items and amounts claimed for tax purposes	2	3
Actual income taxes expense	12	12
Effective income tax rate	19.5%	19.1%

Taxation years 2013 and prior are no longer subject to examination in Canada. An examination of the open tax years subsequent to 2013 by the Canada Revenue Agency could result in a change in the liability for unrecognized tax benefits.

As at December 31, 2018, the Corporation had no non-capital or capital losses carried forward.

20. FINANCIAL INSTRUMENTS

The Corporation categorizes financial instruments into the three level hierarchy based on inputs used to determine the fair value:

Level 1: Fair value determined using unadjusted quoted prices in active markets;
Level 2: Fair value determined using pricing inputs that are observable; and
Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

Financial Instruments Not Carried at Fair Value

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The Corporation uses the following methods and assumptions for estimating the fair value of financial instruments:

- The carrying values of cash, accounts receivable, accounts payable, other current assets and liabilities and borrowings under the credit facilities on the Consolidated Balance Sheets of the Corporation approximate their fair values due to the short-term nature of these financial instruments. These items have been excluded from the table below.

- For long-term debt, the Corporation uses quoted market prices when available. When quoted market prices are not available, the fair value is determined by discounting the future cash flows of the specific debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Corporation does not intend to settle long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

The use of different estimation methods and market assumptions may yield different estimated fair value amounts. The following table includes the carrying value and estimated fair value of the Corporation's long-term debt as at December 31:

		2018		2017	
($ millions)	**Fair Value Hierarchy**	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt [1]	Level 2	**735**	**848**	735	902

[1] Includes secured and unsecured debentures for which the carrying value is measured at cost. Carrying value excludes unamortized debt issuance costs of $6 million (2017 - $6 million).

21. CREDIT FACILITIES

As at December 31, 2018, the Corporation had bank credit facilities of $160 million, comprised of a $150 million operating credit facility and a $10 million demand overdraft facility. During 2018, the $150 million operating credit facility was amended such that it now matures in April 2023.

Borrowings under the Corporation's operating credit facilities bear interest at prime or the certificate of deposit offered rate for bankers' acceptances plus a margin. The margin applied is based on FBC's debt ratings provided by its credit rating agencies. The demand overdraft facility bears interest at prime, which at December 31, 2018, was 3.95 per cent (2017 - 3.20 per cent).

The following summary outlines the Corporation's credit facilities as at December 31:

($ millions)	**2018**	2017
Operating credit facility	**150**	150
Demand overdraft facility	**10**	10
Draws on operating credit facility	**(66)**	(50)
Draws on overdraft facility	**(2)**	(4)
Letters of credit outstanding	**(1)**	(1)
Credit facilities available	**91**	105

22. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FortisBC Pacific, ultimate parent, Fortis, and other related companies under common control, including FortisBC Energy Inc. ("FEI"), FortisBC Holdings Inc. ("FHI") and the Waneta Expansion Limited Partnership ("WELP"), primarily under the Waneta Expansion Capacity Agreement ("WECA"), to provide or receive services and materials. 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 years ended December 31 were as follows:

($ millions)	**2018**	2017
Operation and maintenance expense charged to FortisBC Pacific (a)	**7**	7
Electricity revenue recovered from FEI (b)	**1**	1
Operation and maintenance expense charged to FEI (c)	**7**	7
Total related party recoveries	**15**	15

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

(b) The Corporation charged FEI for electricity sales.

(c) The Corporation charged FEI for management services and other labour.

Related Party Costs

The amounts charged by Fortis and other related parties under common control for the years ended December 31 were as follows:

($ millions)	**2018**	2017
Power purchase costs charged by WELP (a)	**47**	46
Operation and maintenance expense charged by WELP (a)	**1**	-
Operation and maintenance expense charged by Fortis (b)	**3**	2
Operation and maintenance expense charged by FEI (c)	**6**	5
Operation and maintenance expense charged by FHI (d)	**1**	1
Total related party costs	**58**	54

(a) WELP charged the Corporation for purchasing capacity pursuant to the WECA and for a portion of water fees. During January 2019, Fortis announced the sale of its 51 per cent interest to CPC and CBT, which are parties not related to Fortis.

(b) Fortis charged the Corporation for corporate management services and other compensation.

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

(d) FHI charged the Corporation for management services and board of director costs.

22. RELATED PARTY TRANSACTIONS (continued)

Balance Sheet Amounts

The amounts due from related parties, included in accounts receivable 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 as at December 31:

	2018		2017	
($ millions)	**Amount Due From**	**Amount Due To**	Amount Due From	Amount Due To
Fortis	**-**	**-**	1	-
FEI	**-**	**-**	1	(1)
WELP	**-**	**(12)**	-	(11)
Total due from (due to) related parties	**-**	**(12)**	2	(12)

23. COMMITMENTS AND CONTINGENCIES

Commitments

The following table sets forth the Corporation's estimated contractual obligations due in the years indicated:

As at December 31, 2018	**Total**	**Due Within 1 Year**	**Due in Year 2**	**Due in Year 3**	**Due in Year 4**	**Due in Year 5**	**Due After 5 Years**
($ millions)							
Power purchase obligations (a)	**2,947**	**97**	**87**	**83**	**81**	**80**	**2,519**
Capital lease obligations (note 12)	**2,113**	**44**	**45**	**46**	**46**	**47**	**1,885**
Interest obligations on long-term debt	**875**	**38**	**38**	**38**	**36**	**36**	**689**
Long-term debt [1]	**735**	**-**	**-**	**25**	**-**	**25**	**685**
Other (b)	**12**	**8**	**1**	**1**	**1**	**-**	**1**
Totals	**6,682**	**187**	**171**	**193**	**164**	**188**	**5,779**

[1] Excludes unamortized debt issuance costs.

(a) In addition to the BPPA, which has been recognized as a capital lease obligation (note 12), the Corporation's power purchase obligations consist of the following:

Waneta Expansion Capacity Agreement ("WECA")

In 2010, FortisBC entered into an agreement to purchase capacity from the Waneta Expansion, a 335 MW hydroelectric generating facility adjacent to the existing Waneta Plant on the Pend d'Oreille River in BC. The Waneta Expansion is owned by a limited partnership, the limited partners of which are FortisBC's ultimate parent, Fortis, which owned a 51 per cent interest during 2018, and a wholly-owned subsidiary of each of CPC and CBT. It allows FortisBC to purchase capacity over 40 years, beginning April 1, 2015. The WECA was accepted by the BCUC in May 2012. During January 2019, Fortis announced the sale of its 51 per cent interest to CPC and CBT, which will not affect the amount or timing of purchases under the WECA.

BC Hydro Power Purchase Agreement ("BCH PPA")

In 2013, FortisBC entered into the BCH PPA to purchase up to 200 MW of capacity and 1,752 GWh per year of associated energy for a 20 year term beginning October 1, 2013. The BCH PPA was approved by the BCUC in May 2014 and was effective July 1, 2014. The capacity and energy to be purchased under this agreement do not relate to a specific plant. The BCH PPA meets the exemption for normal purchases and as such is not required to be recorded at fair value as a derivative.

23. COMMITMENTS AND CONTINGENCIES (continued)

Capacity and Energy Purchase and Sale Agreement ("CEPSA")

In 2015, FBC entered into the CEPSA which allows FBC to purchase all of its market energy requirements from Powerex and for FBC to sell any surplus capacity to Powerex that may be available after FBC meets its load requirements. The CEPSA was accepted by the BCUC in April 2015 and became effective beginning May 2015. As at December 31, 2018, the total power purchase obligations outstanding under the CEPSA were approximately $10 million through to the end of 2019. The energy purchases under the CEPSA do not relate to specific plants and the output being purchased does not constitute a significant portion of the output of a specific plant.

Brilliant Expansion Capacity and Energy Purchase Agreement

During September 2017, FortisBC entered into an agreement to purchase capacity and energy from CPC, acting on behalf of the Brilliant Expansion Power Corporation, from January 2018 through to December 2027. The agreement was accepted by the BCUC in October 2017.

(b) Included in other contractual obligations are building leases, vehicle leases, defined benefit pension plan funding obligations, asset retirement obligations, and a commitment to purchase fibre optic cable in 2019.

Legal Proceedings

The Province of BC filed a claim in the BC Supreme Court on June 8, 2012 claiming on its behalf, and on behalf of approximately 17 homeowners, damages suffered as a result of a landslide caused by a dam failure in Oliver, BC in 2010. The Province alleges in its claim that the dam failure was caused by the defendants, including FBC, through the use of a road on top of the dam. The Province estimates its damages, and the damages of the homeowners on whose behalf it is claiming, to be approximately $15 million. FBC has notified its insurers of this claim. In December 2017, FBC was advised by counsel for the Province that the Province is requesting that all defendants agree to a consent dismissal order which will dismiss the claim without costs to any party. FBC has agreed to the consent dismissal order and in July 2018 a consent dismissal order was filed in the Supreme Court Registry. As the claim has been dismissed, by consent, no amount has been accrued in the financial statements and this claim is now closed.

24. GUARANTEES

The Corporation had letters of credit outstanding at December 31, 2018 totaling $1 million (2017 - $1 million) primarily to support the funding of one of the Corporation's pension plans and a wheeling agreement.