FORTISBC INC.

MANAGEMENT DISCUSSION & ANALYSIS
For the Year Ended December 31, 2018

February 14, 2019

The following FortisBC Inc. ("FBC" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2018 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is presented in Canadian dollars. The MD&A should be read in conjunction with the Corporation's Annual Audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2018 and 2017, prepared in accordance with US GAAP.

In this MD&A, FortisBC Pacific refers to the Corporation's parent, FortisBC Pacific Holdings Inc., FEI refers to FortisBC Energy Inc., WELP refers to the Waneta Expansion Limited Partnership which Fortis owned a 51 per cent of during 2018, FHI refers to FortisBC Holdings Inc., and Fortis refers to the Corporation's ultimate parent, Fortis Inc. During January 2019, Fortis announced the sale of its 51 per cent interest in WELP to parties not related to Fortis.

FORWARD-LOOKING STATEMENT

Certain statements in this MD&A contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation's expectations to meet interest payments on outstanding indebtedness from operating cash flows; the Corporation's expected level of capital expenditures and its expectations to finance those capital expenditures through credit facilities, equity injections from its parent FortisBC Pacific, and debenture issuances; and the Corporation's estimated contractual obligations.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2023 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; no adverse affect of the Indigenous peoples' settlement process on the Corporation; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; the ability of the Corporation to attract and retain a skilled workforce; absence of information technology infrastructure failure; absence of cyber-security failure; continued electricity demand; the ability to arrange sufficient and cost effective financing; no material adverse rating actions by credit rating agencies; that counterparties do not default on power supply contracts; and no weather related demand loss or significant and sustained loss of precipitation over the headwaters of the Kootenay River system.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); continued reporting in accordance with US GAAP risk; asset breakdown, operation, maintenance and expansion risk; environment, health and safety matters risk including operational liability risks; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks involving Indigenous peoples; labour relations risk; employee future benefits risk; human resources risk; information technology infrastructure risk; cyber-security risk; interest rates risk; impact of changes in economic conditions risk; capital resources and liquidity risk; competitiveness and commodity price risk; power purchase and capacity sale contracts risk; weather related risk; and other risks described in the Corporation's most recent Annual Information Form

("AIF"). For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in this MD&A.
All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

CORPORATE OVERVIEW

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 175,900 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity. The Corporation's business includes four hydroelectric generating plants, approximately 7,300 kilometers of transmission and distribution power lines, and a peak demand of 746 MW.

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 operates primarily under a cost of service regulation as prescribed by the BCUC. The Corporation applies to the BCUC for approval of annual revenue requirements based on forecast costs of service, including, but not limited to, power purchases, operating expenses, depreciation and amortization, income taxes, interest on debt and a return on equity ("ROE"). From 2014 through 2019, the regulatory framework includes some performance-based rate setting attributes.

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

REGULATION

Customer Rates and Deferral Mechanisms

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

Variances from regulated forecasts used to set rates for electricity revenue and power purchase costs are flowed back to customers in future rates through approved regulatory deferral mechanisms and therefore these variances do not have an impact on net earnings in either 2018 or 2017. As part of the 2014 Performance Based Ratemaking ("PBR") Application decision received in September 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.

Multi-year Performance Based Ratemaking Plan for 2014 to 2019 ("2014 PBR Application")

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 a 50/50 sharing of variances ("Earnings Sharing Mechanism") 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 January 2017, the BCUC issued its decision on FBC's 2017 rates. The decision results in a 2017 average rate base of approximately $1,285 million and a rate increase of 2.76 per cent over 2016 rates.

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.

In December 2018, the BCUC issued its decision on FBC's 2019 delivery rates on an interim basis pending the BCUC's decision regarding FBC's 2019-2022 Demand Side Management ("DSM") Expenditures Application. The interim rates decision resulted in a 2019 average rate base of approximately $1,341 million and no increase to rates. 2019 rates would have otherwise decreased had FBC not requested in the application to defer a revenue surplus for the year which will be refunded to customers in future rates. The DSM Expenditures Application decision is expected in the first quarter of 2019.

In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return.

CONSOLIDATED RESULTS OF OPERATIONS

	Quarter			Year		
Periods Ended December 31	**2018**	2017	Variance	**2018**	2017	Variance
Electricity sales (GWh)	**839**	869	**(30)**	**3,250**	3,305	**(55)**
($ millions)						
Total revenues [1]	**107**	102	**5**	**391**	381	**10**
Power purchase costs	**40**	41	**(1)**	**135**	141	**(6)**
Operating costs [2]	**25**	18	**7**	**80**	65	**15**
Property and other taxes	**4**	4	**-**	**16**	16	**-**
Depreciation and amortization	**16**	15	**1**	**61**	62	**(1)**
Total expenses	**85**	78	**7**	**292**	284	**8**
Operating income	**22**	24	**(2)**	**99**	97	**2**
Add: Other income [2]	**1**	-	**1**	**3**	2	**1**
Less: Finance charges	**10**	9	**1**	**40**	37	**3**
Earnings before income taxes	**13**	15	**(2)**	**62**	62	**-**
Income tax expense	**1**	3	**(2)**	**12**	12	**-**
Net earnings	**12**	12	**-**	**50**	50	**-**

[1] 2018 total revenues have been presented pursuant to adopting Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, using the modified retrospective method which does not require restatement of prior periods and therefore did not affect the revenue or net earnings comparison for the periods ended December 31.

[2] The components of 2018 and 2017 operating costs and other income have been presented pursuant to adopting Accounting Standards Update ("ASU") No. 2017-07*, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* which requires restatement of 2017 comparatives for presentation purposes. This resulted in a retrospective $1 million reclassification from operating costs to other income for the year ended December 31, 2017. There was no effect on the net earnings comparison for the periods ended December 31.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the three months ended December 31, 2018 as compared to December 31, 2017:

Quarter		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Net earnings	**-**	Net earnings for the three months ended December 31, 2018 were $12 million, consistent with net earnings in the same period of 2017 as the net earnings from higher investment in regulated assets during 2018 were offset by lower interest savings. Both 2018 and 2017 net earnings are based on an allowed ROE of 9.15 per cent and a deemed equity component of capital structure of 40 per cent.
Total revenues	**5**	Total revenues include revenue from contracts with customers, which includes tariff revenues, as well as fees charged for tariff-based customer connections, revenue from non-tariff sources for surplus capacity sales, revenue from third party contract work, and pole attachment revenue. Also included in total revenues is alternative revenue, which includes the Corporation's Earnings Sharing Mechanism and Flow-through variances related to tariff-based revenue. Lastly, total revenues include other revenue,

Quarter		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
		which is primarily comprised of regulatory deferral adjustments that capture variances from regulated forecast items, excluding formulaic operation and maintenance costs. If such regulatory deferral adjustments recognized in the current period are owed to, or recoverable from, customers in future rates, they are recognized as either other expense or other revenue, respectively. There were lower electricity sales volumes compared to the same period in 2017 primarily due to lower average consumption as a result of warmer weather conditions in the fourth quarter of 2018 as compared to the fourth quarter of 2017. The lower consumption resulted in lower revenue from contracts with customers, but was offset by an equal alternative revenue amount resulting in no impact on total revenues. The increase in total revenues was primarily due to higher revenue recognized from third party contract work and higher surplus power sales, partially offset by an increase in the current year regulatory flow-through liability account that captures variances from regulated forecast items.
Operating costs	**7**	Operating costs include operating and maintenance expenses, water fees and wheeling. The increase in operating costs was primarily a result of higher costs associated with third party contract work relating to revenue from contracts with customers.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the twelve months ended December 31, 2018 as compared to December 31, 2017:

Year		
Item	**Increase (Decrease)** ($ millions)	**Explanation**
Net earnings	**-**	Net earnings for the twelve months ended December 31, 2018 were $50 million, consistent with net earnings in the same period of 2017. The increase in net earnings from higher investment in regulated assets during 2018 was offset by lower interest savings and a one-time income tax gain recognized in the second quarter of 2017 for the previous disposition of non-regulated assets and for which there was no comparable tax savings in 2018.
Total revenues	**10**	The increase in total revenues was due to the same reasons as identified in the quarter. For the twelve months ended December 31, 2018, there were lower electricity sales volumes compared to the same period in 2017 primarily due to lower average consumption as a result of unfavourable weather conditions in 2018 combined with more favourable weather conditions in 2017. The lower consumption resulted in lower revenue from contracts with customers, but was offset by an equal alternative revenue amount resulting in no impact on total revenues.
Power purchase costs	**(6)**	The decrease in power purchase costs was primarily due to lower purchase volumes driven by a decrease in electricity sales and lower average power purchase prices during the first and second quarters of 2018.
Operating costs	**15**	The increase in operating costs was primarily a result of increased costs associated with third party contract work relating to revenue from contracts with customers, as well as higher wheeling costs, water fees and labour costs.
Depreciation and amortization	**(1)**	The decrease in depreciation and amortization was primarily due to higher amortization of certain regulatory assets during 2017, partially offset by higher depreciable asset base compared to the prior year.
Finance charges	**3**	The increase in finance charges was primarily a result of $75 million issuance of unsecured Medium Term Note Debentures ("MTN Debentures") in December 2017, for which the proceeds were used to repay lower interest bearing credit facilities.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2017 through December 31, 2018. The information has been obtained from the Corporation's Unaudited Condensed Consolidated Interim Financial Statements. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarter Ended	**Revenues**	**Net Earnings**
($ millions)		
December 31, 2018	107	12
September 30, 2018	92	10
June 30, 2018	84	15
March 31, 2018	108	13
December 31, 2017	102	12
September 30, 2017	90	10
June 30, 2017	82	15
March 31, 2017	107	13

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

December 2018/2017 – Net earnings were consistent with net earnings in the same period of 2017 as the increase in net earnings from higher investment in regulated assets was offset by lower interest savings.

September 2018/2017 - Net earnings were consistent between periods as the net earnings from higher investment in regulated assets during 2018 was offset by lower interest savings.

June 2018/2017 - Net earnings were consistent with net earnings in the same period of 2017 as higher investment in regulated assets was offset by a one-time income tax gain recognized in the second quarter of 2017 for the previous disposition of non-regulated assets and for which there was no comparable tax savings in 2018.

March 2018/2017 – Net earnings were consistent between periods.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Financial Position between December 31, 2018 and December 31, 2017:

Balance Sheet Account	**Increase (Decrease)** ($ millions)	**Explanation**
Regulatory assets (current and long-term)	**11**	The increase was primarily due to DSM expenditures of $5 million, the recognition of $6 million relating to the Brilliant Power Purchase Agreement ("BPPA") asset and obligation under capital lease and an increase of $9 million in regulated deferred income tax liabilities, the offsets of which were deferred as regulatory assets, partially offset by a $5 million decrease in the employee future benefits AOCI regulatory asset and current year amortization of regulatory assets.
Property, plant and equipment, net	**37**	The increase was primarily due to capital expenditures of $100 million incurred during the year, which includes sustainment and growth capital expenditures, as well as the Corra Linn Dam Spillway Gates Replacement and Upper Bonnington Old Unit Refurbishment projects, less: • depreciation expense, excluding net salvage provision, of $39 million, • decrease in capital lease assets of $4 million mainly due to depreciation, the offset of which has been recognized in regulatory

Balance Sheet Account	Increase (Decrease) ($ millions)	Explanation
		assets, • costs of removal of $7 million incurred, which are recognized against the net salvage provision in regulatory liabilities, and • contributions in aid of construction of $13 million received.
Credit facilities	**14**	The increase was primarily due to higher borrowings to finance the debt portion of the Corporation's 2018 capital expenditure program.
Accounts payable and other current liabilities	**14**	The increase was primarily due to timing of payments for power purchases and capital expenditures and a higher credit balance relating to the customer equal payment plan.
Regulatory liabilities (current and long-term)	**11**	The increase was primarily due to the collection of $4 million in salvage provision, net of actual removal costs incurred, and an increase in regulatory flow-through deferral adjustments owing back to customers in future rates.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Years Ended December 31	2018	2017	Variance
($ millions)			
Cash flows provided by (used for)			
Operating activities	**128**	104	24
Investing activities	**(98)**	(92)	(6)
Financing activities	**(30)**	(12)	(18)
Net change in cash	**-**	-	-

Operating Activities

Cash provided by operating activities was $24 million higher compared to the same period in 2017. The increase was primarily due to changes in non-cash working capital relating to accounts payable and other current liabilities, current regulatory assets and liabilities, and income taxes payable.

Investing Activities

Cash used for investing activities was $6 million higher compared to the same period in 2017 primarily due to higher investment in DSM expenditures and higher property, plant and equipment expenditures, including those related to the Corra Linn Dam Spillway Gates Replacement and Upper Bonnington Old Unit Refurbishment projects, partially offset by higher contributions in aid of construction received.

Financing Activities

Cash used for financing activities was $18 million higher compared to the same period in 2017 primarily due to the proceeds received in 2017 from the $75 million debenture issuance, which were used to repay existing credit facilities.

During 2018, FBC paid common share dividends of $44 million (2017 - $47 million) to its parent company, FortisBC Pacific.

Contractual Obligations

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 (b)	**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 (c)	**12**	**8**	**1**	**1**	**1**	**-**	**1**
Totals	**6,682**	**187**	**171**	**193**	**164**	**188**	**5,779**

[1] Excludes unamortized debt issuance costs.

(a) Power purchase obligations of FBC include:

- Waneta Expansion Capacity Agreement ("WECA"): In 2010, FBC 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 FBC's ultimate parent, Fortis, which owned a 51 per cent interest during 2018, and a wholly-owned subsidiary of each of Columbia Power Corporation ("CPC") and Columbia Basin Trust ("CBT"). The WECA allows FBC 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.
- BCH Power Purchase Agreement ("BCH PPA"): In 2013, FBC 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.
- 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 which was accepted by the BCUC in April 2015. As at December 31, 2018, the total power purchase obligations outstanding under the CEPSA were approximately $10 million through to the first quarter of 2020. 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 renewed 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) Capital lease obligations, which are inclusive of principal payments, imputed interest and executory costs, are as follows:

- In 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 CPC and the 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. FBC has accounted for this arrangement as a capital lease asset and obligation in its financial statements and recognizes the payments, as approved for setting customer rates, in power purchase costs.
- In 2003, the Corporation began operating the Brilliant Terminal Station ("BTS") under an agreement the term of which expires in 2056. The agreement provides that FBC pay a charge related to the recovery of the capital cost of the BTS and related operating costs. FBC has accounted for this arrangement as a

capital lease asset and obligation in its financial statements and recognizes the payments, as approved for setting customer rates, in operating costs.

(c) 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 communication cable in 2019.

In addition to the items in the table above, the Corporation has issued commitment letters to customers who may meet the criteria to obtain energy efficiency funding under the DSM Program approved by the BCUC. As at December 31, 2018, the Corporation had issued $2 million of commitment letters to these customers.

Capital Structure

The Corporation's principal business of regulated electricity generation, transmission and distribution requires ongoing access to capital in order to allow the Corporation to fund the maintenance, replacement and expansion of infrastructure. The Corporation maintains a capital structure in line with the deemed regulatory capital structure approved by the BCUC at 40 per cent equity and 60 per cent debt. This capital structure excludes the financing of goodwill and other non-regulated items that do not impact the deemed capital structure.

Credit Ratings

Debentures issued by the Corporation are rated by DBRS Limited ("DBRS") and Moody's Investors Service ("Moody's"). The ratings assigned to the debentures issued by the Corporation are reviewed by these agencies on an ongoing basis.

The table below summarizes the ratings assigned to the Corporation's debentures as at December 31, 2018.

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

During 2018, Moody's and DBRS issued updated credit rating reports confirming the Corporation's debenture rating and outlook.

Projected Capital Expenditures

The Corporation continually updates its capital expenditure programs and assesses current and future operating, maintenance, replacement, expansion and removal expenditures that will be incurred in the ongoing operation of its business. The initial approval from the BCUC to proceed with capital projects can occur through a number of processes, including revenue requirement applications and Certificate of Public Convenience and Necessity ("CPCN") applications. Once the projects are approved, the regulatory process allows for capital project costs to be reviewed by the BCUC subsequent to the capital project being completed and in service to confirm that all costs are recoverable in customer rates.

The 2019 projected capital expenditures are approximately $108 million, inclusive of AFUDC and excluding customer contributions in aid of construction, and are necessary to provide service, public and employee safety, and reliability of supply of electricity to the Corporation's customer base. Included in these projected capital expenditures are more significant projects further described below.

Corra Linn Dam Spillway Gates Replacement

In 2016, the Corporation filed a CPCN application with the BCUC for the construction and operation of 14 replacement spillway gates and upgrades to the associated structures at the Corra Linn Dam in order to align with industry standards, meet current regulation and minimize the risks to public and employee safety. In 2017, the BCUC approved the CPCN which included estimated project costs of $63 million. Construction commenced in 2017 with an estimated completion date of 2021.

Upper Bonnington Old Unit Refurbishment.

In 2016, the Corporation filed a special projects application with the BCUC for the refurbishment of Upper Bonnington generating units in order to extend their life and reduce safety and environmental risks associated with the potential failures of the aged equipment. In 2017, the BCUC approved the application which included estimated project costs of $32 million. Construction commenced in 2017 with an estimated completion date of 2020.

Cash Flow Requirements

The Corporation's cash flow requirements fluctuate seasonally based on electricity consumption. The Corporation maintains adequate committed credit facilities.

It is expected that operating expenses and interest costs will generally be paid out of operating cash flows, with varying levels of residual cash available for capital expenditures and/or dividend payments. Cash required to complete capital expenditure programs is also expected to be financed from a combination of borrowings under credit facilities, equity injections from FortisBC Pacific, and debenture issuances.

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

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. The $150 million operating credit facility matures in April 2023.

($ millions)	**December 31, 2018**	December 31, 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

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2018, the Corporation had no material off-balance sheet arrangements, with the exception of letters of credit outstanding of $1 million (2017 - $1 million) primarily to support the funding of one of the Corporation's pension plans and a wheeling agreement.

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 FEI, FHI and WELP, primarily under the 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
Operating costs charged to FortisBC Pacific (a)	**7**	7
Electricity revenue recovered from FEI (b)	**1**	1
Operating costs 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
Operating costs charged by WELP (a)	**1**	-
Operating costs charged by Fortis (b)	**3**	2
Operating costs charged by FEI (c)	**6**	5
Operating costs charged by FHI (d)	**1**	1
Total related party costs	**58**	54

(a) The Corporation was charged by WELP 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) The Corporation was charged by Fortis for corporate management services and other compensation.

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

(d) The Corporation was charged by FHI for management services and board of director costs.

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, are as follows as at December 31:

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

(a) Included in accounts receivable in 2017 is an amount due from Fortis related to the allocation from Fortis to FBC of the Part VI.1 tax associated with preference share dividends.

BUSINESS RISK MANAGEMENT

The Corporation is subject to a variety of risks and uncertainties that may have a material adverse effect on the Corporation's results of operations and financial position.

Regulatory Approval and Rate Orders

The regulated operations of the Corporation are subject to the uncertainties faced by regulated companies. These uncertainties include the approval by the BCUC of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on and of rate base. The ability of the Corporation to recover the actual costs of providing services and to earn the approved rates of return is impacted by achieving the forecasts established in the rate-setting process. The cost for upgrading existing facilities and adding new facilities requires the approval of the BCUC for inclusion in the rate base. There is no assurance that capital projects perceived as required by the management of the Corporation will be approved or that conditions to such approval will not be imposed.

Through the regulatory process, the BCUC approves the ROE that the Corporation is allowed to earn and the deemed capital structure. Fair regulatory treatment that allows the Corporation a reasonable opportunity to earn a fair risk adjusted rate of return comparable to that available on alternative, similar risk investments is essential for maintaining service quality as well as on-going capital attraction and growth. There can be no assurance that the rate orders issued by the BCUC will permit the Corporation to recover all costs actually incurred and to earn the expected or fair rate of return.

Rate applications that reflect cost of service and establish revenue requirements are subject to either a public hearing process which may be oral or written, or a negotiated settlement. The BCUC had approved a PBR rate-setting methodology for the Corporation for a term of 2014 through 2019, after an extensive public hearing process. Rates during this term will be determined through a review process which occurs on an annual basis. There can be no assurance that the rate orders issued will permit the Corporation to recover all costs actually incurred and to earn the expected rate of return.

A failure to obtain rates that recover the costs of providing service and provide a reasonable opportunity to earn an appropriate ROE and capital structure as applied for may adversely affect the business carried on by the Corporation, the undertaking or timing of proposed upgrades or expansion projects, ratings assigned by rating agencies, the issue and sale of securities, and other matters which may, in turn, have a material adverse effect on the Corporation's results of operations and financial position.

There is legislation in BC which enables the BCUC to impose administrative monetary penalties on the Corporation, upon finding contravention of a BCUC order, rule, or standard. The penalty amount varies depending on the nature of the violation and it is not recoverable from customers.

Continued Reporting in Accordance with US GAAP

In December 2017, the Ontario Securities Commission ("OSC") approved the extension of the Corporation's exemptive relief order which permits the Corporation to continue reporting in accordance with US GAAP, until the earliest of: (i) January 1, 2024; (ii) the first day of the financial year that commences after the Corporation ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the International Accounting Standards Board ("IASB") for the mandatory application of a standard within International Financial Reporting Standards ("IFRS") specific to entities with activities subject to rate regulation.

The IASB has released an interim, optional standard on Regulatory Deferral Accounts and continues to work on a project focusing on accounting specific to rate-regulated activities. It is not yet known when this project will be completed or whether IFRS will, as a result, include a permanent mandatory standard to be applied by entities with activities subject to rate regulation.

The Corporation continues to closely monitor the efforts of the IASB to issue a permanent standard specific to entities with activities subject to rate regulation. In the event that such a standard will not be issued before, or issued with an effective date after, the expiry of the OSC relief order, the Corporation will consider seeking an extension to the OSC relief order. If the OSC relief does not continue as detailed above, the Corporation would then be required to become a United States Securities and Exchange Commission ("SEC") registrant in order to continue reporting under US GAAP or adopt IFRS.

In the absence of a permanent standard for rate-regulated activities or continued OSC relief, adopting IFRS could result in volatility in the Corporation's earnings as compared to what would otherwise be recognized under US GAAP.

Asset Breakdown, Operation, Maintenance and Expansion

The Corporation's assets require ongoing maintenance, replacement and expansion. Accordingly, to ensure the continued performance of the physical assets, the Corporation determines expenditures that should be made to maintain, replace and expand the assets. The Corporation could experience service disruptions and increased costs if it is unable to maintain, replace or expand its asset base. The inability to recover, through approved rates, the costs of capital expenditures that the Corporation believes are necessary to maintain, replace, expand and remove its assets, the failure by the Corporation to properly implement or complete approved capital expenditure programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation continually updates its capital expenditure programs and assesses current and future operating, maintenance, replacement, expansion and removal expenses that will be incurred in the ongoing operation of its business. Management's analysis is based on assumptions as to costs of services and equipment, regulatory requirements, revenue requirement approvals, and other matters, which involve some degree of uncertainty. It is uncertain whether capital expenditures will, in all cases, receive regulatory approval for recovery in future customer rates. The inability to recover these capital expenditures could have a material adverse effect on the Corporation's results of operations and financial position.

Environment, Health and Safety Matters

The Corporation is subject to numerous laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment and health and safety, for which the Corporation incurs compliance costs. The process of obtaining environmental permits and approvals, including any necessary environmental assessment, can be lengthy, contentious and expensive. Potential environmental damage and costs could arise due to a variety of events, including severe weather and other natural disasters, human error or misconduct, or equipment failure. However, there can be no assurance that such costs will be recoverable through rates and, if substantial, unrecovered costs could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation is exposed to environmental risks that owners and operators of properties in BC generally face. These risks include the responsibility of any current or previous owner or operator of a contaminated site for remediation of the site, whether or not such person actually caused the contamination. In addition, environmental and safety laws make owners, operators and persons in charge of management and control of facilities subject to prosecution or administrative action for breaches of environmental and safety laws, including the failure to obtain certificates of approval. It is not possible to predict with absolute certainty the position that a regulatory authority will take regarding matters of non-compliance with environmental and safety laws. Changes in environmental, health and safety laws could also lead to significant increases in costs to the Corporation.

Although most of the Corporation's generating and transmission facilities have been in place for many years with no apparent adverse environmental impact, environmental assessments and approvals may be required in the ordinary course of business for existing and future facilities.

Extreme climatic factors could potentially cause government authorities to adjust water flows on the Kootenay River, on which the Corporation's dams and related facilities are located, in order to protect the environment. This adjustment could affect the amount of water available for generation at the Corporation's plants or at plants operated by parties contracted to supply energy to the Corporation.

The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes, the use and handling of chemical substances, environmental management for sensitive species and their habitat and conducting environmental impact assessments and remediation. It is possible that other developments may lead to increasingly strict environmental and safety laws, regulations and enforcement policies and claims for damages to property or persons resulting from the Corporation's operations, any one of which could result in substantial costs or liabilities to the Corporation. Any regulatory changes that impose additional environmental restrictions or requirements on the Corporation or its customers could adversely affect the Corporation through increased operating and capital costs.

Scientists and public health experts in Canada, the United States and other countries are studying the possibility that exposure to electro-magnetic fields from power lines, household appliances and other electricity sources may cause health problems. If it were to be concluded that electro-magnetic fields present a health hazard, litigation could result and the Corporation could be required to take mitigation measures on its facilities. The costs of litigation, damages awarded and mitigation measures could be material.

Spills and leaks can occur in the operation of electricity generation and transmission facilities, including, primarily the release of substances such as oil into water or onto land. In addition, historical spills may result in the accumulation of hydrocarbons and polychlorinated biphenyls ("PCB") contaminants in land primarily at substation sites. The Corporation responds to spills and leaks and takes remedial steps in accordance with environmental regulations and standards and sound industry practice; however, there can be no assurance that the Corporation will not be obligated to incur further expenses in connection with changes in environmental regulations and standards or as a result of historical contamination.

Electricity transmission and distribution facilities have the potential to cause fires as a result of equipment failure, trees falling on a transmission or distribution line or lightning strikes to wooden poles. Risks associated with fire damage are related to weather, the extent of forestation, habitation, third party facilities located near the land on which the transmission facilities are situated and third party claims for fire-fighting costs and other damages. Such claims could have a material adverse effect on the Corporation's results of operations and financial position.

Electricity transmission and distribution has inherent potential risks and there can be no assurance that substantial costs and liabilities will not be incurred. Potential environmental damage and costs could materialize due to some type of severe weather event or major equipment failure and there can be no assurance that such costs would be recoverable. Unrecovered costs could have a material adverse effect on the Corporation's results of operations and financial position.

While the Corporation maintains insurance, the insurance is subject to coverage limits as well as time sensitive claims discovery and reporting provisions and there can be no assurance that the possible types of liabilities that may be incurred by the Corporation will be covered by insurance. See "Underinsured and Uninsured Losses" below.

Weather and Natural Disasters

A major natural disaster, such as an earthquake, could severely damage the Corporation's electricity generation, transmission and distribution systems. In addition, the facilities of the Corporation could be exposed to the effects of severe weather conditions and other natural events. Although the Corporation's facilities have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. Furthermore, many of these facilities are located in remote areas which make it more difficult to perform maintenance and repairs if such assets are damaged by weather conditions or other natural events. The Corporation operates facilities in remote and mountainous terrain with a risk of loss or damage from forest fires, floods, washouts, landslides, avalanches and similar natural events. The Corporation has limited insurance against storm damage and other natural disasters. In the event of a large uninsured loss caused by severe weather conditions or other natural disasters, application would be made to the BCUC for the recovery of these costs through higher rates to offset any loss. However, there can be no assurance that the BCUC would approve any such application. Losses resulting from repair costs and lost revenues could substantially exceed insurance coverage and any increased rates. Furthermore, the Corporation could be subject to claims from its customers for damages caused by the failure to transmit or distribute electricity to them in accordance with the Corporation's contractual obligations. Thus, any major damage to the Corporation's facilities could result in lost revenues, repair costs and customer claims that are substantial in amount, and could, therefore, have a material adverse effect on the Corporation's results of operations and financial position.

Permits

The acquisition, ownership and operation of electricity businesses and assets require numerous permits, approvals and certificates from federal, provincial and local government agencies and Indigenous Peoples. For various reasons, including increased stakeholder participation, the Corporation may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approval or if the Corporation fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the Corporation's ability to properly implement or complete approved capital expenditure programs could become limited and the operation of its assets and the distribution of electricity could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Corporation's results of operations and financial position.

The Corporation's ability to generate electricity from its facilities on the Kootenay River and to receive its entitlement of capacity and energy under the second amended and restated Canal Plant Agreement (the "Canal Plant Agreement") depends upon the maintenance of its water licences issued under the *Water Act* (British Columbia). In addition, water flows in the Kootenay River are governed under the terms of the Columbia River Treaty between Canada and the United States as well as the International Joint Commission's order for Kootenay Lake. Government authorities in Canada and the United States have the power under the treaty and the International Joint Commission order to regulate water flows to protect environmental values in a manner that could adversely affect the amount of water available for the generation of power.

Underinsured and Uninsured Losses

The Corporation maintains insurance coverage with respect to potential liabilities and the accidental loss of value of certain of its assets, in amounts and with such insurers as is considered appropriate, taking into account all relevant factors, including the practices of owners of similar assets and operations. It is anticipated that such insurance coverage will be maintained. However, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation or a claim that falls within a significant self-insured retention could have a material adverse effect on the Corporation's results of operations and financial position.

In the event of an uninsured loss or liability, the Corporation would apply to the BCUC to recover the loss (or liability) through an increased tariff. However, there can be no assurance that the BCUC would approve any such application, in whole or in part. Any major damage to the Corporation's facilities could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Corporation's results of operations and financial position.

Indigenous Peoples

The Corporation provides service to customers on Indigenous Peoples lands and maintains generation, transmission and distribution facilities on lands that are subject to land claims by various Indigenous Peoples. A treaty negotiation process involving various Indigenous Peoples and the Governments of BC and Canada is underway, but the basis upon which settlements might be reached in the Corporation's service area is not clear. Furthermore, not all Indigenous Peoples are participating in the process. To date, the policy of the Government of BC has been to endeavour to structure settlements without prejudicing existing rights held by third parties such as the Corporation. However, there can be no certainty that the settlement process will not have a material adverse effect on the Corporation's results of operations and financial position.

The Supreme Court of Canada decided in 2010 that before issuing approvals for the addition of new facilities, the BCUC must consider whether the Crown has a duty to consult Indigenous Peoples and to accommodate, if necessary, and if so whether the consultation and accommodation by the Crown have been adequate. This may affect the timing, cost and likelihood of the BCUC's approval of certain of the Corporation's capital projects.

Labour Relations

The Corporation employs members of labour unions that have entered into collective bargaining agreements with the Corporation. The provisions of such collective bargaining agreements affect the flexibility and efficiency of the business carried on by the Corporation. There can be no assurance that current relations will continue in future negotiations or that the terms under the present collective bargaining agreements will be renewed.

The inability to maintain, or to renew, the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes, that are not provided for in approved rates and that could have a material adverse effect on the Corporation's results of operations and financial position.

Employee Future Benefits

The Corporation maintains defined benefit pension plans and supplemental pension arrangements. There is no certainty that the plan assets will be able to earn the assumed rate of returns. Market driven changes impacting the performance of the plan assets may result in material variations in actual return on plan assets from the assumed return on the assets causing material changes in net benefit costs. Net benefit cost is impacted by, among other things, the discount rate, changes in the expected mortality rates of plan members, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other assumptions, including the assumed discount rate, may also result in future contributions to pension plans that differ significantly from current estimates as well as causing material changes in net benefit cost.

There is also measurement uncertainty associated with net benefit cost, future funding requirements, the net accrued benefit asset and projected benefit obligation due to measurement uncertainty inherent in the actuarial valuation process.

Net benefit cost variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Human Resources

The ability of the Corporation to deliver service in a cost-effective manner is dependent on the ability of the Corporation to attract, develop and retain skilled workforces. Like other utilities across Canada, the Corporation is faced with demographic challenges relating to such skilled workforces. The inability to attract, develop and retain skilled workforces could have a material adverse effect on the Corporation.

Information Technology Infrastructure

The ability of the Corporation to operate effectively is dependent upon managing and maintaining information systems and infrastructure that support the operation of distribution, transmission and generation facilities; provide customers with billing and consumption information; and support the financial and general operating aspects of the business. The reliability of the communication infrastructure and supporting systems are also necessary to provide important safety information. System failures could have a material adverse effect on the Corporation.

Cyber-Security

The Corporation operates critical energy infrastructure in its service territory and, as a result, is exposed to the risk of cyber-security violations. Unauthorized access to corporate and information technology systems due to hacking, viruses and other causes could result in service disruptions and system failures. In addition, in the normal course of operation, the Corporation requires access to confidential customer data, including personal and credit information, which could be exposed in the event of a security breach. A security breach could have a material adverse effect on the Corporation's results of operations and financial position.

Interest Rates

The Corporation is exposed to interest rate risks associated with floating rate debt and refinancing of its long-term debt. Regulated interest expense variances from forecast for rate-setting purposes are recovered through future rates using a regulatory deferral account approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material adverse effect on the Corporation's results of operations and financial position.

Impact of Changes in Economic Conditions

A general and extended decline in BC's economy or in that of the Corporation's service area in particular, would be expected to have the effect of reducing demand for electricity over time. Electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income, energy prices, housing starts and customer growth. In addition, electricity demand by some of the Corporation's industrial customers could exhibit variations in demand or load in such circumstances.

Regulated electricity revenue variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these variances could have a material adverse effect on the Corporation's results of operations and financial position.

A severe and prolonged downturn in economic conditions could have a material adverse effect on the Corporation despite regulatory measures available for compensating for reduced demand which could have a material adverse effect on the Corporation.

Capital Resources and Liquidity

The Corporation's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The Corporation's ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the regulatory environment in BC, regulatory decisions regarding capital structure and ROE, the results of operations and financial position of the Corporation, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. Funds generated from operations, after payment of expected expenses (including interest payments on any outstanding debt), may not be sufficient to fund the repayment of all outstanding liabilities when due and anticipated capital expenditures. There can be no assurance that sufficient capital will be available on acceptable terms to fund capital expenditures and to repay existing debt.

Generally, the Corporation is subject to financial risk associated with changes in the credit ratings assigned by credit rating agencies. Credit ratings impact the level of credit risk spreads on new long-term debt issues and on the Corporation's credit facilities. A change in the credit ratings could potentially affect access to various sources of capital and increase or decrease the Corporation's finance charges. Certain of the Corporation's agreements could require additional credit collateral, such as letters of credit, should there be a deterioration in the Corporation's credit ratings or creditworthiness. Global financial crises have placed scrutiny on rating agencies and rating agency criteria that may result in changes to credit rating practices and policies.

Volatility in the global financial and capital markets may increase the cost of and affect the timing of issuance of long-term capital by the Corporation.

Competitiveness and Commodity Price Risk

While the Corporation currently meets the majority of its current customer supply requirements from its own generation and long-term power purchase contracts, a portion of the customer load is supplied from the market in the form of short-term and spot market power purchases. The commodity price associated with the cost of purchased power is affected by changes in world oil prices, natural gas prices and water levels on a regional basis. Purchase power cost variances from forecast for rate-setting purposes are recovered through future rates using a regulatory deferral account approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these costs could have a material effect on the Corporation's results of operations and financial position. If the Corporation's price of electricity becomes too high or uncompetitive with other electricity providers or the price of other forms of energy, the Corporation's ability to recover its cost of service may be negatively affected.

The Corporation's indirect customers are directly served by the Corporation's wholesale customers, who themselves are municipal utilities. Those utilities may be able to obtain alternate sources of energy supply which would result in decreased demand, higher rates and, in an extreme case, could ultimately lead to an inability to fully recover the Corporation's cost of service in rates charged to customers.

Power Purchase and Capacity Sale Contracts

The Corporation has entered into power purchase contracts and resale contracts for excess capacity. The Corporation may not be able to secure extensions of power purchase contracts at their expiration dates or, if the agreements are not extended, an alternate supply of similarly-priced electricity. In addition, the Corporation may not be able to secure additional capacity resale contracts. The Corporation is also exposed to risk in the event of non-performance by counterparties to the various power purchase and resale contracts.

Weather Related Risk

Fluctuations in the amount of electricity used by customers can vary significantly in response to seasonal changes in weather. Cool summers may reduce air-conditioning demand, while warm winters may reduce electric heating load. Electricity revenue variances from forecast for rate-setting purposes are recovered through future rates using regulatory deferral accounts approved by the BCUC. There can be no assurance that such deferral mechanisms will exist in the future as they are dependent on future regulatory decisions and orders. An inability to flow through these revenue variances could have a material adverse effect on the Corporation's results of operations and financial position.

Prolonged adverse weather conditions could lead to a significant and sustained loss of precipitation over the headwaters of the Kootenay River system, which could reduce the Corporation's entitlement to capacity and energy under the Canal Plant Agreement.

FINANCIAL INSTRUMENTS

Fair Value Estimates

The following table summarizes the fair value measurements of the Corporation's long-term debt as of December 31, 2018 and 2017, all of which is Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at its carrying value:

	2018		2017	
($ millions)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long-term debt, including current portion [1,2]	**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.

[2] 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. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment.

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

NEW ACCOUNTING POLICIES

Standard	Effective Date	Description	Effect on FBC
Revenue from Contracts with Customers	January 1, 2018	ASC Topic 606, *Revenue from Contracts with Customers*, 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.
Improving The Presentation of Net Periodic Pension Cost and Net Periodic	January 1, 2018	ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* requires current service costs to be disaggregated and	On adoption, the Corporation applied the presentation guidance retrospectively and the capitalization guidance prospectively. This resulted in a retrospective $1 million reclassification from operation and

Standard	Effective Date	Description	Effect on FBC
Postretirement Benefit Cost		grouped in the 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.	maintenance expense to other income for the year ended December 31, 2017.
Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	January 1, 2020	ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* 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 early adopted this ASU during the third quarter of 2018 using the retrospective approach, which did not have a material impact on the Consolidated Financial Statements for the years ended December 31, 2018 and 2017.

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.

Standard	Effective Date	Description	Expected Effect on FBC
Leases	January 1, 2019	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 allowed 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. The Corporation is continuing to assess the presentation and disclosure requirements of ASC 842.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's Condensed Consolidated Interim 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 Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates and judgments are 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 in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are recognized in the period in which they become known. The Corporation's critical accounting estimates are discussed below.

Regulation

Generally, the accounting policies of the Corporation's regulated operations are subject to examination and approval by the regulatory authority, the BCUC. These accounting policies may differ from those used by entities not subject to rate regulation. The timing of the recognition of certain assets, liabilities, revenues and expenses, as a result of regulation, may differ from that otherwise expected using US GAAP for entities not subject to rate regulation. Regulatory assets and regulatory liabilities arise as a result of the rate-setting process and have been recognized based on previous, existing or expected regulatory orders or decisions. Certain estimates are 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. The final amounts approved by the regulatory authority for deferral as regulatory assets and regulatory liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates are recognized in earnings in the period in which they become known. 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. As at December 31, 2018, the Corporation recognized $351 million in current and long-term regulatory assets (2017 - $340 million) and $33 million in current and long-term regulatory liabilities (2017 - $22 million).

Depreciation, Amortization and Removal Costs

Depreciation and amortization are estimates based primarily on the useful life of assets. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2018, the Corporation's property, plant and equipment and intangible assets were $1,591 million, or approximately 71 per cent of total assets, compared to $1,554 million, or approximately 71 per cent of total assets as at December 31, 2017. Changes in depreciation and amortization rates may have a significant impact on the Corporation's consolidated depreciation and amortization expense.

As part of the customer rate-setting process, appropriate depreciation and amortization rates are approved by the BCUC. The depreciation and amortization periods used and the associated rates are reviewed on an ongoing basis to ensure they continue to be appropriate. From time to time, independent third-party depreciation studies are performed and based on the results of these depreciation studies, the impact of any over-or-under depreciation and amortization as a result of actual experience differing from that expected and provided for in previous depreciation and amortization rates is generally reflected in future depreciation and amortization rates and expense.

As approved by the BCUC, effective January 1, 2016 a net salvage provision is collected as a component of depreciation on an accrual basis, with actual removal costs incurred drawing down the regulatory liability balance. Removal costs are the direct costs incurred by the Corporation in taking assets out of service.

Assessment for Impairment of Goodwill

The Corporation is required to perform, at least on an annual basis, an impairment test for goodwill, and any impairment provision has to be charged to earnings. In addition, the Corporation also performs an impairment test if any event occurs or if circumstances change that would indicate that the fair value was below its carrying value. No such event or change in circumstances occurred during 2018 or 2017.

As at December 31, 2018 goodwill totaled $235 million (2017 - $235 million).

During 2018, the Corporation performed an annual assessment of goodwill and 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.

Employee Future Benefits

The Corporation's defined benefit pension plans and supplemental pension arrangements and Other Post-Employment Benefits plan are subject to judgments utilized in the actuarial determination of the net benefit cost and related obligation. The main assumptions utilized by management in determining net benefit cost and obligation are the discount rate for the projected benefit obligation and the expected long-term rate of return on plan assets.

The assumed long-term rate of return on the defined benefit pension plan assets, for the purpose of determining pension net benefit cost for 2018, was 6.00 per cent. This is consistent with the 6.00 per cent assumed long-term rate of return used for 2017. As two of the Corporation's defined benefit pension plans have excess interest indexing provisionwhere a portion of investment returns are allocated to provide for indexing of pension benefits, the projected benefit obligations for these two plans may vary based on the expected long-term rate of return on plan assets.

The assumed discount rate, used to measure the projected pension benefit obligations on the measurement date of December 31, 2018, and to determine net pension cost for 2019, is 3.75 per cent, which is a an increase from the assumed discount rate of 3.50 per cent used to measure the projected benefit obligations as at December 31, 2017, and to determine net pension cost for 2018.

The long-term rate of return is based on the expected average return of the assets over a long period given the relative asset mix. The discount rate is determined with reference to the current market rate of interest on high quality debt instruments with cash flows that match the time and amount of expected benefit payments.

The Corporation expects net benefit pension cost for 2019 related to its defined benefit pension plans, prior to regulatory adjustments, to be $2 million, a decrease of $1 million compared to 2018, which is primarily due to a decrease in current service costs.

The following table provides the sensitivities associated with a 100 basis point change in the expected long-term rate of return on pension plan assets and the discount rate on 2018 net benefit pension cost, and the related projected benefit obligations recognized in the Corporation's consolidated financial statements:

Increase (decrease) ($ millions)	**Net Benefit Cost**	**Projected Benefit Obligation**
1% increase in the expected rate of return	**(2)**	**-**
1% decrease in the expected rate of return	**-**	**(12)**
1% increase in the discount rate	**(3)**	**(39)**
1% decrease in the discount rate	**5**	**50**

The above table reflects the changes before the effect of any regulatory deferral mechanism approved by the BCUC. The Corporation currently has in place BCUC approved mechanisms to defer variations in pension net benefit costs from forecast net benefit costs, used to set customer rates, as a regulatory asset or liability.

Other significant assumptions applied in measuring net benefit pension cost and/or the projected benefit obligation include the average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates.

The Corporation's OPEB plan is also subject to judgments utilized in the actuarial determination of the OPEB net benefit cost and related projected benefit obligation. Except for the assumption of the expected long-term rate of return on plan assets, the above assumptions, along with health care cost trends, were also utilized by management in determining OPEB plan net benefit cost and projected benefit obligation. The Corporation currently has in place a BCUC approved mechanism to defer variations in OPEB net benefit costs from forecast OPEB net benefit costs, used to set customer rates, as a regulatory asset or liability.

As at December 31, 2018, the Corporation had a pension projected benefit net liability of $25 million (2017 - $30 million) and an OPEB projected benefit liability of $26 million (2017 - $27 million). During 2018, the Corporation recorded pension and OPEB net benefit cost, inclusive of regulatory adjustments, of $6 million (2017 - $7 million).

Asset Retirement Obligations ("AROs")

FBC has recorded an ARO associated with the removal of PCB contaminated oil from its electrical equipment. AROs are legal obligations associated with the retirement of long-lived assets. A liability is recorded in the period in which the obligation can be reasonably estimated at the present value of the estimated fair value of the future costs. The determination of the ARO depends upon management's best estimates relating to factors such as timing, amount and nature of future cash flows necessary to discharge the legal obligation and comply with existing legislation or regulations, as well as the use of a credit-adjusted risk-free rate for measurement purposes. There are uncertainties in estimating future asset retirement costs due to potential external events such as changing legislation or regulations and advances in remediation technologies. It is possible that volumes of contaminated assets, inflation assumptions, cost estimates to perform the work and the assumed pattern of annual cash flows may differ significantly from the Corporation's current assumptions. In addition, in order to remove certain PCB-contaminated oil, the ability to take maintenance outages in critical facilities may impact the timing of expenditures. The ARO may change from period to period because of the changes in the estimation of these uncertainties.

Revenue Recognition

The Corporation recognizes revenue on an accrual basis. Recording revenue on an accrual basis requires use of estimates and assumptions. Customer bills are issued throughout the month based on meter readings or estimates that establish electricity consumption by customers since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers for the period since the last meter reading at the approved rates. The development of the sales estimates requires analysis of consumption on a historical basis in relation to key inputs, such as the current price of electricity, population growth, economic activity, weather conditions and system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments to electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2018, the amount of accrued unbilled revenue recorded in accounts receivable was approximately $22 million (2017 - $25 million) on annual electricity revenues of $355 million (2017 - $347 million).

Income Taxes

Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences between the carrying value of assets and liabilities in the consolidated financial statements and their tax values. A deferred income tax asset or liability is determined for each temporary difference based on enacted income tax rates and laws in effect when the temporary differences are expected to be recovered or settled. Deferred income tax assets are assessed for the likelihood that they will be recovered from future taxable income. To the extent recovery is not considered more likely than not, a valuation allowance is recognized against earnings in the period when the allowance is created or revised. Estimates of the provision for current income taxes, deferred income tax assets and liabilities, and any related valuation allowance, might vary from actual amounts incurred.

During the year ended December 31, 2017, the Province of BC enacted a corporate income tax rate increase of 1.00 per cent effective January 1, 2018. As a result, the combined Federal and BC provincial corporate tax rate increased from 26.00 per cent to 27.00 per cent in 2018.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth information derived from audited financial statements for the years ended December 31, 2018, 2017 and 2016. These results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Years Ended December 31	**2018**	2017	2016
($ millions)			
Revenues	**391**	381	361
Net earnings attributable to controlling interest	**50**	50	49
Total assets	**2,238**	2,189	2,144
Long-term debt, excluding current portion	**729**	729	654
Dividends on common shares	**44**	47	53

2018/2017 - Revenues increased $10 million over 2017 and net earnings were consistent. For a discussion of the reasons for the increase in revenues and net earnings, refer to the "Consolidated Results of Operations" section of this MD&A. The increase in total assets was mainly due to capital expenditures, which included sustainment capital as well as major project expenditures discussed further under "Projected Capital Expenditures".

2017/2016 - Revenues increased $20 million over 2016 and net earnings increased $1 million over 2016. The increase in electricity revenue was primarily due to an increase in electricity sales as well as a 2.76 per cent rate increase effective January 1, 2017. Net earnings were higher for the year ended December 31, 2017 primarily due to higher investment in regulated assets, partially offset by a gain on the sale of the non-regulated WPP assets, which was recognized in the first quarter of 2016.

OTHER DEVELOPMENTS

Collective Agreements

There are two collective agreements between the Corporation and Local 378 of the Canadian Office and Professional Employees Union ("COPE") now referred to as MoveUP. In October 2018, a memorandum of agreement was reached which extends the expiry of the first collective agreement, representing employees in specified occupations in the areas of administration and operations support, by one year to December 31, 2019. The second collective agreement, representing customer service employees, expires on March 31, 2022.

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expires on January 31, 2021. IBEW represents employees in specified occupations in the areas of generation, transmission and distribution.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 2,191,510 common shares, all of which are owned by FortisBC Pacific, an indirect wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

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

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