
FORTISBC ENERGY INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the quarter and six months ended June 30, 2022

July 27, 2022

The following FortisBC Energy Inc. (“FEI” or the “Corporation”) Management Discussion & Analysis (“MD&A”) has been prepared in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. Financial information for 2022 and comparative periods contained in the following MD&A has been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and is presented in Canadian dollars. The MD&A should be read in conjunction with the Corporation’s Unaudited Condensed Consolidated Interim Financial Statements and notes thereto for the quarter and six months ended June 30, 2022, prepared in accordance with US GAAP and the Corporation’s Annual Audited Consolidated Financial Statements and notes thereto together with the MD&A for the year ended December 31, 2021, with 2020 comparatives, prepared in accordance with US GAAP.

In this MD&A, FHI refers to the Corporation’s parent, FortisBC Holdings Inc., FBC refers to FortisBC Inc., FAES refers to FortisBC Alternative Energy Services Inc., ACGS refers to Aitken Creek Gas Storage ULC, and Fortis refers to the Corporation’s ultimate parent, Fortis Inc.

FORWARD-LOOKING STATEMENT

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

The forward-looking information in this MD&A includes, but is not limited to, statements regarding the Corporation’s expected level of capital expenditures, including forecasted project costs, and its expectations to finance those capital expenditures through credit facilities, equity injections from FHI and debenture issuances; the final investment decision associated with the pipeline expansion to the proposed Eagle Mountain Woodfibre Liquefied Natural Gas (“Woodfibre LNG”) site; and the Corporation’s estimated contractual obligations.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders (including absence of administrative monetary penalties); the competitiveness of natural gas pricing when compared with alternate sources of energy; absence of climate change impacts; absence of adverse weather conditions and natural disasters; absence of environmental damage and health and safety issues; absence of asset breakdown; the availability of natural gas supply; the ability to maintain and obtain applicable permits; the Indigenous engagement process will not delay or otherwise impact the Corporation’s ability to obtain government or regulatory approvals; the adequacy of the Corporation’s existing insurance arrangements; the ability to arrange sufficient and cost effective financing; no material adverse rating actions by credit rating agencies; continued energy demand; continued population growth and new housing starts; the ability to hedge certain risks including no counterparties to derivative instruments failing to meet obligations; the ability of the Corporation to attract and retain a skilled workforce; the ability to maintain and renew collective bargaining agreements on acceptable terms; no material change in employee future benefit costs; absence of information technology infrastructure failure; absence of cybersecurity failure; absence of pandemic and public health crises impacts; and the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to 2027 or earlier.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk (including the risk of imposition of administrative monetary penalties); competitiveness and commodity price risk; climate change risk; weather and natural disasters risk; environment, health and safety matters risk; natural gas supply risk; asset breakdown, operation, maintenance and expansion risk; permits risk; risks related to Indigenous rights and engagement; underinsured and uninsured losses; capital resources and liquidity risk; interest rates risk; impact of changes in economic conditions risk; counterparty credit risk; human resources risk; labour relations risk; employee future benefits risk; information technology infrastructure risk; cybersecurity risk; pandemic and public health crises risk;

continued reporting in accordance with US GAAP risk; and other risks described in the Corporation's most recent Annual Information Form ("AIF"). For additional information with respect to these risk factors, reference should be made to the "Business Risk Management" section of the MD&A and AIF for the year ended December 31, 2021.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

CORPORATE OVERVIEW

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 1,068,700 residential, commercial, industrial, and transportation customers in more than 135 communities. The Corporation provides transmission and distribution services to its customers, and obtains natural gas and renewable gas supplies on behalf of most residential, commercial, and industrial customers. Gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

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

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

REGULATION

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

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

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

In December 2021, the BCUC approved a January 1, 2022 delivery rate increase of 8.07 per cent over 2021 rates. This delivery rate increase includes a 2022 forecast average rate base of \$5,409 million.

Allowed Return on Equity and Capital Structure

In January 2021, the BCUC announced that a Generic Cost of Capital Proceeding (the "GCOC Proceeding") was being initiated, including a review of the deemed common equity component of total capital structure and the allowed ROE on common equity for regulated utilities in BC. The BCUC has determined the GCOC Proceeding will move forward in two stages. The first stage will address the allowed return on equity and deemed equity component of capital structure for FEI and FBC and the effective date for any change, whether re-establishment of a formulaic ROE automatic adjustment mechanism is warranted and if so, what it would look like and when it would take effect, and the criteria or other triggers for a future cost of capital proceeding. Other utilities will be reviewed in Stage 2. The BCUC has also determined it will address deferral account financing costs after the completion of both Stages 1 and 2. FEI and FBC submitted evidence in support of their respective cost of capital as part of Stage 1 of the GCOC Proceeding on January 31, 2022 and the review process for that evidence is underway.

Customer Rates and Deferral Mechanisms

Customer rates include both the delivery charge and the cost of natural gas, consisting of the commodity cost and the storage and transport cost. 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 natural gas revenue and cost of natural gas are flowed back to customers in future rates through approved regulatory deferral mechanisms and therefore these variances do not have an impact on net earnings for the quarters ended June 30, 2022 and 2021.

FEI reviews the costs of natural gas with the BCUC either quarterly or annually to ensure the rates passed on to customers are fair and reflect actual costs. FEI received approval to increase the commodity rate effective October 1, 2021, January 1, 2022, and July 1, 2022. FEI also received approval to decrease the storage and transport rate, net of the refund of the Midstream Cost Reconciliation Account (“MCRA”) regulatory liability, effective January 1, 2022.

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

CONSOLIDATED RESULTS OF OPERATIONS

Periods ended June 30	Quarter ended			Six months ended		
	2022	2021	Variance	2022	2021	Variance
Gas sales (petajoules)	47	42	5	128	122	6
<i>(\$ millions)</i>						
Revenue	396	316	80	1,090	902	188
Cost of natural gas	182	106	76	536	361	175
Operation and maintenance	69	70	(1)	134	136	(2)
Property and other taxes	19	18	1	37	36	1
Depreciation and amortization	76	71	5	152	143	9
Total expenses	346	265	81	859	676	183
Operating income	50	51	(1)	231	226	5
Add: Other income	38	3	35	42	5	37
Less: Finance charges	68	37	31	104	73	31
Earnings before income taxes	20	17	3	169	158	11
Income tax (recovery) expense	(5)	3	(8)	26	34	(8)
Net earnings	25	14	11	143	124	19

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the quarter ended June 30, 2022 as compared to June 30, 2021:

Quarter		
Item	Increase (Decrease) (\$ millions)	Explanation
Net earnings	11	<p>Net earnings for the quarter ended June 30, 2022 were \$25 million compared to \$14 million for the same period in 2021. The increase was primarily due to:</p> <ul style="list-style-type: none"> a \$9 million higher income tax benefit as a result of the Corporation implementing a tax loss utilization plan (“TLUP”) in the second quarter of 2022, where no similar TLUP was implemented in 2021, and a higher investment in regulated assets. <p>Both 2022 and 2021 net earnings are based on an allowed ROE of 8.75 per cent and a deemed equity component of capital structure of 38.5 per cent.</p>
Revenue	80	<p>The increase in revenue was primarily due to:</p> <ul style="list-style-type: none"> a higher cost of natural gas recovered from customers, as approved by the BCUC, and an increase in revenue approved for rate-setting purposes, resulting from higher investment in regulated assets, partially offset by

Quarter		
Item	Increase (Decrease) (\$ millions)	Explanation
		<ul style="list-style-type: none"> a decrease in revenue associated with regulatory deferrals, and a refund of the MCRA gas storage and transport cost regulatory liability, compared to the prior year recovery of the MCRA gas storage and transport cost regulatory asset. <p>Gas sales volumes were higher than the same quarter in the previous year, primarily due to higher consumption by residential and commercial customers. The variance between revenue associated with actual consumption and revenue forecasted for rate-setting purposes is captured either in the Revenue Stabilization Adjustment Mechanism ("RSAM") deferral account or the flow-through deferral account, for which the income statement offsets are recognized in alternative revenue and other revenue, resulting in no impact on total revenue.</p>
Cost of natural gas	76	<p>The increase was primarily due to:</p> <ul style="list-style-type: none"> a higher commodity cost, approved by the BCUC, of \$4.503 per gigajoule ("GJ") for the second quarter of 2022, as compared to \$2.844 per GJ for the second quarter of 2021, a higher storage and transport cost, approved by the BCUC, of \$1.505 per GJ for 2022, as compared to \$1.350 per GJ for 2021, and an increase in total consumption by those customers receiving bundled natural gas services from FEI, which includes both delivery service and the supply of gas commodity, partially offset by a refund of the MCRA gas storage and transport cost regulatory liability, compared to the prior year recovery of the MCRA gas storage and transport cost regulatory asset. <p>Customers that purchase bundled services from FEI require the Corporation to not only provide delivery service, but also provide the gas commodity, which entails managing the commodity portfolio including the costs to procure, store and transport the gas. During the second quarter of 2022, volumes provided to customers under bundled services were higher compared to the same quarter in 2021 while volumes provided to customers that received only delivery service were lower compared to the same quarter in 2021. The higher volumes provided to customers under bundled services drove a higher cost of natural gas in the second quarter of 2022.</p>
Depreciation and amortization	5	The increase was primarily due to higher amortization of regulatory assets, as well as a higher depreciable asset base compared to the prior year.
Other income	35	<p>Other income primarily consists of dividend income from TLUP structures, the equity component of allowance for funds used during construction ("AFUDC"), and the non-service cost component of pension and other post-employment benefits, which is recognized as a credit to other income. As part of the TLUP implemented in 2022, the Corporation received dividend income from FHI relating to a \$3,000 million investment in preferred shares.</p> <p>The increase was primarily due to higher dividend income due to FEI having a TLUP in place in the second quarter of 2022, where no similar TLUP was implemented in 2021, an increase in the non-service cost component of pension and other post-employment benefits, and a higher equity component of AFUDC in 2022.</p>
Finance charges	31	The increase was primarily due to FEI having a TLUP in place in the second quarter of 2022, where no similar TLUP was implemented in 2021.
Income tax expense	(8)	The decrease was primarily due to a higher TLUP tax recovery, and higher deductible temporary differences associated with property, plant and equipment, partially offset by higher net taxable temporary differences associated with certain regulatory deferrals and pension expense, and higher earnings before income tax.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the six months ended June 30, 2022 as compared to June 30, 2021:

Six months		
Item	Increase (Decrease) (\$ millions)	Explanation
Net earnings	19	Net earnings for the six months ended June 30, 2022 were \$143 million compared to \$124 million for the same period in 2021. The increase was primarily due to the same reasons as identified in the quarter, as well as lower operating costs, the variances of which are retained by the utility.
Revenue	188	The increase in revenue was primarily due to the same reasons as identified in the quarter. For the six months ended June 30, 2022, gas sales volumes were higher compared to the same period in 2021 primarily due to the same reasons as identified in the quarter.
Cost of natural gas	175	The increase was primarily due to the same reasons as identified in the quarter.
Depreciation and amortization	9	The increase was primarily due to the same reasons as identified in the quarter.
Other income	37	The increase was primarily due to the same reasons as identified in the quarter.
Finance charges	31	The increase was primarily due to the same reasons as identified in the quarter.
Income tax expense	(8)	The decrease was primarily due to the same reasons as identified in the quarter.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended September 30, 2020 through June 30, 2022. 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	Revenue	Net Earnings (Loss) ¹
<i>(\$ millions)</i>		
June 30, 2022	396	25
March 31, 2022	694	118
December 31, 2021	590	78
September 30, 2021	222	(20)
June 30, 2021	316	14
March 31, 2021	586	110
December 31, 2020	476	78
September 30, 2020	195	(14)

¹ Net earnings (loss) attributable to controlling interest.

A summary of the past eight quarters reflects the seasonality associated with the Corporation's business. Due to the seasonal nature of natural gas consumption patterns, the natural gas transmission and distribution operations of FEI normally generate higher net earnings in the first and fourth quarters and lower net earnings in the second quarter, which are partially offset by net losses in the third quarter. As a result of the seasonality, interim net earnings are not indicative of net earnings on an annual basis.

June 2022/2021 – Net earnings were higher due to a \$9 million higher income tax benefit as a result of the Corporation implementing a TLUP in the second quarter of 2022, where no similar TLUP was implemented in 2021; and higher investment in regulated assets.

March 2022/2021 – Net earnings were higher primarily due to higher investment in regulated assets as well as lower operating costs, the variances of which are retained by the utility.

December 2021/2020 – Net earnings were consistent with the same period in 2020.

September 2021/2020 – Net losses were higher due to a \$9 million lower income tax benefit as a result of the Corporation implementing a TLUP in the second quarter of 2020, where no similar TLUP was implemented in 2021; partially offset by higher investment in regulated assets.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between June 30, 2022 and December 31, 2021:

Balance Sheet Account	Increase (Decrease) (\$ millions)	Explanation
Accounts receivable, net	(143)	The decrease was primarily due to: <ul style="list-style-type: none"> • lower tariff-based trade receivables, as a result of seasonality of sales, partially offset by • higher gas cost mitigation receivables, and • higher cash collateral paid for natural gas contracts.
Inventories	20	The increase was primarily due to a higher weighted average cost of natural gas in storage, partially offset by lower volumes of natural gas in storage due to seasonal drawdowns.
Regulatory assets (current and long-term)	126	The increase was primarily due to: <ul style="list-style-type: none"> • a higher Commodity Cost Reconciliation Account regulatory asset due to increases in commodity costs exceeding those costs recovered in customer rates, • an increase in deferred income tax liabilities, the offset of which is deferred as a regulatory asset, • an increase in Demand Side Management (“DSM”) expenditures, and • the change in fair market value of natural gas derivatives.
Property, plant and equipment, net	143	The increase was primarily due to capital expenditures of \$256 million and \$5 million in equity AFUDC, partially offset by: <ul style="list-style-type: none"> • depreciation expense, excluding net salvage provision, of \$94 million, • contributions in aid of construction (“CIAC”) of \$11 million, • costs of removal of \$10 million incurred, which are recognized against the net salvage provision in regulatory liabilities, and • changes in accrued capital expenditures of \$3 million.
Credit facility	(147)	The decrease was primarily a result of net repayments from seasonal operating cash flows as well as proceeds received from a \$150 million equity injection from the Corporation’s parent company, FHI, during the first quarter of 2022.
Regulatory liabilities (current and long-term)	92	The increase was primarily due to: <ul style="list-style-type: none"> • a higher MCRA regulatory liability due to higher mitigation activities, partially offset by higher midstream costs incurred compared to those refunded in customer rates, • a higher RSAM regulatory liability due to variances in gas use for residential and commercial customers, and • an increase in the net salvage provision.
Deferred income tax	24	The increase was primarily due to higher deductible temporary differences associated with property, plant and equipment, and higher deductible temporary differences associated with taxable deposits received during the fourth quarter of 2021, partially offset by the recognition of loss carryforwards to reduce future year’s taxes, and higher taxable temporary differences associated with certain deferral asset and liability accounts.
Common shares	150	The increase was due to a \$150 million FEI equity issuance during the first quarter of 2022, the proceeds of which were used to repay credit facilities in support of the equity component of FEI’s capital expenditure program.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Requirements and Liquidity

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

It is expected that operating expenses, interest costs, and other working capital will generally be paid out of operating cash flows, with varying levels of residual cash available for capital expenditures and dividend payments. Cash flow is also required to fund capital expenditure programs; pre-development capital costs; regulated deferral accounts, and those regulatory mechanisms that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation; and investments in DSM and natural gas for transportation programs under the Greenhouse Gas Reductions Regulations. Funding requirements are expected to be financed from a combination of cash flow from operations, borrowings under the credit facility, equity injections from FHI, and long-term debenture issuances in accordance with the deemed regulatory capital structure approved by the BCUC of 38.5 per cent equity and 61.5 per cent debt. The approved capital structure could change depending on the outcome of the GCOC Proceeding discussed in the "Regulation" section of this MD&A.

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

Summary of Consolidated Cash Flows

Six months ended June 30	2022	2021	Variance
<i>(\$ millions)</i>			
Cash flows from (used in)			
Operating activities	394	381	13
Investing activities	(289)	(233)	(56)
Financing activities	(109)	(124)	15
Net change in cash	(4)	24	(28)

Operating Activities

Cash from operating activities was \$13 million higher compared to the same period in 2021, primarily due to changes in regulatory assets and liabilities related to changes in the MCRA and RSAM deferral accounts, and higher net earnings, after non-cash adjustments, partially offset by lower cash from working capital related to changes in accounts receivable and inventories.

Investing Activities

Cash used in investing activities was \$56 million higher in 2022 compared to the same period in 2021 primarily due to higher capital expenditures, partially offset by higher customer CIAC and lower investment in DSM activities.

Financing Activities

Cash used in financing activities was \$15 million lower compared to the same period in 2021, primarily driven by proceeds from a \$150 million issuance of common shares during the six months ended June 30, 2022, which were used to repay a lower balance of existing credit facilities, as compared to the same period in 2021, where net proceeds from an issuance of \$150 million of unsecured MTN Debentures and proceeds from a \$100 million issuance of common shares were used to repay a higher balance of existing credit facilities.

During the six months ended June 30, 2022, FEI paid common share dividends of \$113 million (2021 - \$110 million) to its parent company, FHI.

Contractual Obligations

During the six months ended June 30, 2022, the Corporation's contractual obligations have not changed materially from those disclosed in the MD&A for the year ended December 31, 2021, with the exception of those presented in the following table:

As at June 30, 2022	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
<i>(\$ millions)</i>							
Gas purchase obligations (a)	4,826	668	326	236	237	220	3,139

(a) The Corporation enters into contracts to purchase natural gas, renewable gas, and natural gas transportation and storage services from various suppliers. These contracts are used to ensure that there is an adequate supply of natural gas to meet the needs of customers and to minimize exposure to market price fluctuations. The gas purchase obligations are based on gas commodity indices that vary with market prices. The amounts disclosed reflect index prices that were in effect at June 30, 2022. The renewable gas supply obligations disclosed reflect the contracted price per GJ between the Corporation and the suppliers.

During the first quarter of 2022, FEI signed a long-term supply agreement to acquire renewable natural gas from a portfolio of landfill sites over a 20-year period, up to a maximum annual volume of 8 petajoules. The BCUC approved the agreement in March 2022.

During the second quarter of 2022, the Corporation signed a separate long-term supply agreement which allows FEI to acquire renewable natural gas from an anaerobic digester facility over a 20-year period up to a maximum annual volume of approximately 1.3 petajoules. The BCUC approved the agreement in June 2022.

Credit Ratings

There have been no changes to the Corporation's credit ratings from those disclosed in the MD&A for the year ended December 31, 2021, which are summarized in the table below:

Rating Agency	Credit Rating	Type of Rating	Outlook
DBRS Morningstar	A	Unsecured Debentures	Stable
Moody's	A3	Unsecured Debentures	Stable

Credit Facilities

As at June 30, 2022, the Corporation had a \$700 million syndicated operating credit facility in place, which matures in July 2026, and a \$55 million uncommitted letter of credit facility in place which matures in March 2023.

The following summary outlines the Corporation's credit facilities:

<i>(\$ millions)</i>	June 30, 2022	December 31, 2021
Operating credit facility	700	700
Letter of credit facility	55	55
Draws on operating credit facility	(95)	(242)
Letters of credit outstanding	(39)	(42)
Credit facilities available	621	471

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 2022 projected capital expenditures are approximately \$618 million, inclusive of AFUDC and excluding customer CIAC, and are necessary to provide service, public and employee safety, and reliability of supply of natural gas to the Corporation’s customer base. In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return. The 2021 capital expenditures were \$475 million, inclusive of AFUDC and excluding CIAC.

Included in these 2022 projected capital expenditures are certain amounts related to FEI’s more significant projects, including the Inland Gas Upgrade, Pattullo Gas Line Replacement, Okanagan Capacity Upgrade, Tilbury LNG Storage Expansion, Transmission Integrity Management Capabilities (“TIMC”), Tilbury Phase 1B Expansion Project, and Advanced Metering Infrastructure Project, which were described in the MD&A for the year ended December 31, 2021.

FEI’s disclosure around its significant capital projects has not changed materially from those disclosed in the MD&A for the year ended December 31, 2021, with the exception of the following updates.

In May 2022, FEI’s CPCN application for the Coastal Transmission System (“CTS”) component of TIMC, in the amount of approximately \$119 million, was approved by the BCUC.

With respect to further Tilbury expansion, in July 2022 FEI’s parent company entered into an agreement with an Indigenous community to provide an option to purchase equity in certain future regulated LNG investments, if the parties are able to satisfy certain obligations. Any proposed transaction is subject to regulatory approvals and certain conditions precedent.

With respect to FEI’s proposed Eagle Mountain Woodfibre Gas Pipeline project, in April 2022 Woodfibre LNG Limited issued a Notice to Proceed to its prime contractor for the proposed LNG site in Squamish, BC, however FEI’s project remains contingent on certain conditions of Woodfibre LNG and on FEI receiving the remaining regulatory and permitting approvals.

In addition to these significant projects, FEI has a DSM Expenditures Plan which delivers a portfolio of energy efficiency and conservation measures and activities which align with government policy and the Corporation’s 30BY30 Target to reduce its customer’s emissions. In July 2022, FEI filed a DSM Expenditures Plan to invest approximately \$141 million in 2023.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FHI, ultimate parent, Fortis, and other related companies under common control, including FBC and ACGS, in financing transactions and to provide or receive services and materials. The following transactions were measured at the exchange amounts unless otherwise indicated.

Related Party Recoveries

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

(\$ millions)	Quarter ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Operation and maintenance expense charged to FBC (a)	2	1	4	3
Operation and maintenance expense charged to FHI (b)	1	1	1	1
Other income received from FHI (c)	33	-	33	-
Total related party recoveries	36	2	38	4

(a) The Corporation charged FBC for natural gas sales, office rent, management services, and other labour.

(b) The Corporation charged FHI for office rent, management services and other labour.

(c) The Corporation received dividend income from FHI relating to a \$3,000 million (2021 - \$nil) investment in preferred shares, as part of a TLUP implemented in the second quarter of 2022.

Related Party Costs

The amounts charged by the Corporation's parent and other related parties under common control were as follows:

(\$ millions)	Quarter ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Operation and maintenance expense charged by FBC (a)	2	2	3	3
Operation and maintenance expense charged by FHI (b)	3	3	6	6
Finance charges paid to FHI (c)	32	-	32	-
Gas storage and purchases charged by ACGS (d)	7	7	20	15
Total related party costs	44	12	61	24

(a) FBC charged the Corporation for electricity purchases, management services, and other labour.

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

(c) FHI charged the Corporation interest on \$3,000 million (2021 - \$nil) of intercompany subordinated debt, as part of a TLUP implemented in the second quarter of 2022.

(d) ACGS charged the Corporation for the lease of natural gas storage capacity and natural gas purchases.

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:

(\$ millions)	June 30, 2022		December 31, 2021	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
FBC	-	-	1	-
FHI	-	(3)	-	(2)
ACGS	-	(2)	-	(5)
Total due from (due to) related parties	-	(5)	1	(7)

FINANCIAL INSTRUMENTS

Derivative Instruments

There were no material changes with respect to the nature and purpose, methodologies for fair value determination, and carrying values of the Corporation's natural gas contract derivatives from that disclosed in the MD&A for the year ended December 31, 2021. Additional details are provided in the notes to the Condensed Consolidated Interim Financial Statements.

As at June 30, 2022, natural gas contract derivatives were not designated as hedges and any unrealized gains or losses associated with changes in the fair value of the derivatives were deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC, and as shown in the following table:

(\$ millions)	June 30, 2022	December 31, 2021
Unrealized net loss recorded to current regulatory assets	(15)	-

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's Consolidated Statements of Cash Flows.

Financial Instruments Not Measured At Fair Value

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

(\$ millions)	Fair Value Hierarchy	As at		December 31, 2021	
		June 30, 2022	June 30, 2022	Carrying Value	Estimated Fair Value
		Carrying Value	Estimated Fair Value		
Long-term debt	Level 2	3,145	3,019	3,145	3,817

ACCOUNTING MATTERS

New Accounting Policies

FEI considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). During the six months ended June 30, 2022, there were no ASUs issued by FASB that have a material impact on the Condensed Consolidated Interim Financial Statements.

Future Accounting Pronouncements

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

OTHER DEVELOPMENTS

Collective Agreements

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

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers (“IBEW”) expires on March 31, 2024. The IBEW represents employees in specified occupations in the areas of transmission and distribution.

BUSINESS RISK MANAGEMENT

The business risks of the Corporation remain substantially unchanged from those outlined in the Corporation’s MD&A for the year ended December 31, 2021 with the exception of the following updates.

Continued Reporting in Accordance with US GAAP

In May 2022, the Corporation’s principal regulator, the British Columbia Securities Commission (“BCSC”) 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, 2027; (ii) the first day of the Corporation’s financial year that commences after the Corporation ceases to have rate-regulated activities; and (iii) the first day of the Corporation’s financial year that commences on or following the later of (a) the effective date prescribed by the International Accounting Standards Board (“IASB”) for a Mandatory Rate-regulated Standard, and (b) two years after the IASB publishes the final version of a Mandatory Rate-regulated Standard.

OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 357,212,009 common shares, all of which are owned by FHI, a directly wholly-owned subsidiary of Fortis.

ADDITIONAL INFORMATION

Additional information about FEI, 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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