# FORTISBC INC.

## MANAGEMENT DISCUSSION & ANALYSIS

For the Three Months Ended March 31, 2020

**May 5, 2020**

*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 2020 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 three months ended March 31, 2020 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, 2019, with 2018 comparatives, prepared in accordance with US GAAP.*

*In this MD&A, FortisBC Pacific refers to the Corporation's parent, FortisBC Pacific Holdings Inc., FEI refers to FortisBC Energy Inc., WELP refers to the Waneta Expansion Limited Partnership which Fortis owned a 51 per cent interest of during part of 2019, FHI refers to FortisBC Holdings Inc., and Fortis refers to the Corporation's ultimate parent, Fortis Inc. During April 2019, Fortis completed 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 ability to capture incremental deferral costs and unrecovered customer revenues in the Corporation's COVID-19 Customer Recovery Fund or the Corporation's existing regulatory mechanisms which were in place during previous regulatory frameworks and have been applied to continue under the Corporation's Multi-year Rate Plan application (the "MRP Application") effective 2020; the expected date of the British Columbia Utility Commission ("BCUC")'s decision in response to the Corporation's MRP Application; 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; the Corporation's estimated contractual obligations; and the expectation that certain impacts of the Coronavirus Disease 2019 ("COVID-19") pandemic will be mitigated through the continued use of regulatory deferral mechanisms.

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 climate change impacts; 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 effect 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; no weather related demand loss or significant and sustained loss of precipitation over the headwaters of the Kootenay River system; and absence of the COVID-19 pandemic impacts.

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; climate change risk; weather and natural disasters risk; permits risk; underinsured and uninsured losses; risks related to Indigenous rights and engagement; 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; COVID-19 pandemic risk; capital resources and liquidity risk; competitiveness and commodity price risk; counterparty credit risk; electricity supply and weather related risks; 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 this MD&A and the Corporation's MD&A and AIF for the year ended December 31, 2019.

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

## CORPORATE OVERVIEW

The Corporation is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 179,200 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 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

**COVID-19 Customer Recovery Fund Deferral Account**

In response to the rapidly growing impact of the global COVID-19 pandemic on British Columbians, FBC applied and received interim approval from the BCUC in April 2020 to provide the following deferral and relief offerings to its customers:

i. three-month bill payment deferral to residential customers, and to small commercial customers who have been directly impacted financially as a result of the COVID-19 pandemic;

ii. bill relief in the form of bill credits for three months to small commercial customers that have closed their businesses due to the COVID-19 pandemic; and

iii. establish a rate base deferral account for the COVID-19 Customer Recovery Fund to record and track unrecovered revenue resulting from customers being unable to pay their bills, any bill payment deferrals provided to customers and subsequent payments of those deferred amounts, and any bill credits provided to customers resulting from the COVID-19 pandemic.

This approval was granted on an interim basis to allow the BCUC to conduct its public review process before issuing a final decision.

The COVID-19 Customer Recovery Fund deferral account is expected to capture the otherwise uncollectible revenues associated with providing the deferral and relief offerings to the Corporation's customers, which could otherwise have an impact on net earnings.

Other than amounts that are captured in the COVID-19 Customer Recovery Fund deferral account, the Corporation's other regulatory mechanisms which were in place during previous ratemaking frameworks and have been proposed under the MRP Application effective 2020 include deferral accounts that capture revenue shortfalls and flow-through treatment for incremental costs that qualify as significant and beyond the control of the Corporation.

The disposition of the COVID-19 Customer Recovery Fund deferral account will be the subject of a future rate filing once the extent of the financial impact on customers due to the COVID-19 pandemic is known. Cash inflows from customers that are delayed or not received due to the COVID-19 pandemic are expected to be financed as described in the "Cash Flow Requirements and Liquidity" section of this MD&A.

**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 for the quarters ended March 31, 2020 and 2019. As part of the Performance Based Ratemaking Plan for the years 2014 to 2019 ("PBR"), the Corporation had a flow-through deferral account that captured variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flowed those variances through customer rates in the following year.

As part of the proposed Multi-Year Rate Plan for the years 2020 to 2024 ("MRP"), the majority of regulatory deferral mechanisms previously in place under the PBR, including those regulatory mechanisms that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation, have been requested to continue and apply in 2020 and beyond. The continued application of regulatory deferral mechanisms has been reflected in the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2020 and should be considered in conjunction with the "Regulatory Approval and Rate Orders" described in the Business Risk Management section of the Corporation's MD&A for the year ended December 31, 2019.

**Multi-Year Rate Plan for 2020 to 2024**

In March 2019, FBC filed an application with the BCUC requesting approval of an MRP for the years 2020 to 2024. The MRP Application proposes a rate-setting framework that includes, amongst other items, a level of operation and maintenance expense per customer indexed for inflation, a forecast approach to growth and sustainment capital, a 50/50 sharing between customers and the Corporation of variances from the allowed Return on Equity ("ROE"), targeted incentives for the Corporation related to power supply costs, emissions reductions and customer engagement, and an innovation fund recognizing the need to accelerate investment in clean energy innovation. FBC is also seeking approval of updated depreciation rates and a number of service quality indicators designed to ensure the Corporation maintains service levels. The regulatory process to review this application has concluded, with a decision expected by mid-2020.

In November 2019, the BCUC approved a rate increase of 1.0 per cent over 2019 rates pursuant to the MRP, on an interim and refundable basis, effective January 1, 2020. Interim rates will remain in place pending a final determination on 2020 rates by the BCUC.

## CONSOLIDATED RESULTS OF OPERATIONS

| **Quarters Ended March 31** | **2020** | 2019 | Variance |
|---|---|---|---|
| **Electricity sales** *(GWh)* | **915** | 949 | (34) |
| *($ millions)* | | | |
| **Revenue** | **111** | 113 | (2) |
| Power purchase costs | **39** | 40 | (1) |
| Operating costs | **21** | 19 | 2 |
| Property and other taxes | **4** | 4 | - |
| Depreciation and amortization | **15** | 15 | - |
| **Total expenses** | **79** | 78 | 1 |
| **Operating income** | **32** | 35 | (3) |
| Add: Other income | **1** | 1 | - |
| Less: Finance charges | **18** | 18 | - |
| **Earnings before income taxes** | **15** | 18 | (3) |
| Income tax expense | **1** | 4 | (3) |
| **Net earnings** | **14** | 14 | - |

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the quarter ended March 31, 2020 as compared to March 31, 2019:

| **Quarter** | | |
|---|---|---|
| **Item** | **Increase (Decrease)** *($ millions)* | **Explanation** |
| Net earnings | - | Net earnings for the quarter ended March 31, 2020 were consistent with the same period in 2019 as the earnings from a higher investment in regulated assets during 2020 were offset by the timing of operating costs incurred. Net earnings for the quarter ended March 31, 2020 were not significantly impacted by the COVID-19 pandemic.<br>Both 2020 and 2019 net earnings are based on an allowed return on equity of 9.15 per cent and a deemed equity component of capital structure of 40 per cent. |
| Revenue | **(2)** | The decrease in revenue as compared to the same period in 2019 was primarily due to:<br>• a decrease in electricity sales due to lower average residential consumption as a result of colder weather conditions in the first quarter of 2019 that impacted heating loads,<br>• a decrease in surplus power sales, partially offset by<br>• revenue adjustments associated with regulatory deferrals, including flow-through mechanisms and revenue surpluses and deficiencies,<br>• and an increase in revenues associated with third party contract work. |
| Income tax expense | **(3)** | The decrease in income tax expense was primarily due to lower earnings before tax, higher deductible temporary difference associated with property, plant and equipment due to the June 2019 enactment of the new enhanced capital cost allowance rules and lower taxable temporary differences associated with certain regulatory deferrals. |

## SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended June 30, 2018 through March 31, 2020. 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** |
|---|---|---|
| *($ millions)* | | |
| March 31, 2020 | 111 | 14 |
| December 31, 2019 | 109 | 11 |
| September 30, 2019 | 95 | 10 |
| June 30, 2019 | 87 | 15 |
| March 31, 2019 | 113 | 14 |
| December 31, 2018 | 107 | 12 |
| September 30, 2018 | 92 | 10 |
| June 30, 2018 | 84 | 15 |

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.

Historical revenues and net earnings by quarter may not be indicative of future interim revenues and net earnings that could potentially be impacted by the short and long-term effect of the COVID-19 pandemic, as further described in the Business Risk Management section of this MD&A.

**March 2020 / 2019** – Net earnings were consistent with the same period in 2019. Net earnings for the quarter ended March 31, 2020 were not significantly impacted by the COVID-19 pandemic.

**December 2019 / 2018** – Net earnings decreased primarily due to lower interest savings, partially offset by higher investment in regulated assets.

**September 2019 / 2018** - Net earnings were consistent with the same period in 2018.

**June 2019 / 2018** - Net earnings were consistent with the same period in 2018.

## CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between March 31, 2020 and December 31, 2019, none of which are impacted by the COVID-19 pandemic, unless otherwise noted:

| **Balance Sheet Account** | **Increase** ($ millions) | **Explanation** |
|---|---|---|
| Regulatory assets (current and long-term) | **15** | The increase was primarily due to Demand Side Management expenditures of $1 million, the recognition of $9 million relating to the Brilliant Power Purchase Agreement ("BPPA") asset and obligation under finance lease and an increase of $5 million in regulated deferred income tax liabilities, the offsets of which were deferred as regulatory assets, partially offset by amortization of regulatory assets of $1 million. Additionally, approximately $1 million was recognized as an addition to regulatory assets associated with the COVID-19 Customer Recovery Fund deferral account, with the offset recognized as an allowance against trade receivables. |
| Property, plant and equipment, net | **10** | The increase was primarily due to capital expenditures of $27 million incurred during the quarter, 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:<br>• depreciation expense, excluding net salvage provision, of $10 million,<br>• a $3 million decrease in accrued capital expenditures,<br>• decrease in finance lease assets of $1 million due to depreciation, the offset of which has been recognized in regulatory assets,<br>• costs of removal of $1 million incurred, which are recognized against the net salvage provision in regulatory liabilities, and<br>• contributions in aid of construction of $2 million received. |
| Accounts payable and other current liabilities | **22** | The increase was primarily due to timing of interest payments on debentures and higher power purchase accruals. |
| Due to parent company | **(60)** | The decrease was due to the repayment of Fortis demand loans during the quarter. |
| Common shares | **50** | The increase was due to a $50 million equity issuance during the quarter, the proceeds of which were used to repay Fortis demand loans. Equity issuances also support the equity component of FBC's capital expenditure program. |

## LIQUIDITY AND CAPITAL RESOURCES

### Summary of Consolidated Cash Flows

| **Quarters Ended March 31** | **2020** | 2019 | Variance |
|---|---|---|---|
| *($ millions)* | | | |
| Cash flows provided by (used for) | | | |
| Operating activities | **53** | 35 | 18 |
| Investing activities | **(26)** | (24) | (2) |
| Financing activities | **(22)** | (10) | (12) |
| Net change in cash | **5** | 1 | 4 |

### Operating Activities

Cash provided by operating activities was $18 million higher compared to the same period in 2019, primarily due to changes in working capital relating to higher trade accounts payable and the timing of normal course power purchase and interest payments.

### Investing Activities

Cash used for investing activities was $2 million higher compared to the same period in 2019 primarily due to higher capital expenditures.

### Financing Activities

Cash used for financing activities was $12 million higher compared to the same period in 2019. The change was primarily driven by a $60 million repayment of Fortis demand loans partially offset by proceeds from a $50 million issuance of common shares in the first quarter of 2020 to help finance the equity portion of the Corporation's capital expenditure program.

During the quarter ended March 31, 2020, FBC paid common share dividends of $11 million (2019 - $12 million) to its parent company, FortisBC Pacific.

### Contractual Obligations

The Corporation's contractual obligations have not materially changed from those disclosed in the MD&A for the year ended December 31, 2019.

### 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, 2019, which are summarized in the table below:

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

### Cash Flow Requirements and Liquidity

In the normal course of operations, absent the effects of the COVID-19 pandemic, the Corporation's cash flow requirements fluctuate seasonally based on the demand for electricity and the timing of power purchases. The Corporation maintains a committed credit facility that adequately meets any working capital deficiencies not funded through cash flow from operations, and for financing the debt component of the Corporation's capital expenditure program.

It is expected that operating expenses, interest costs, and other working capital will generally be paid out of operating cash flows, with varying levels of residual cash available for capital expenditures and/or dividend payments. Cash flow is also required to fund capital expenditure programs; regulated deferral accounts, including the COVID-19 Customer Recovery Fund and those regulatory mechanisms that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation; and investments in Demand Side Management. All of these funding requirements are expected to be financed from a combination of borrowings under the credit facility, equity injections from FPHI, and long-term debenture issuances in accordance with the deemed regulatory capital structure approved by the BCUC of 40 per cent equity and 60 per cent debt.

The 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.

Due to the economic condition of certain of the Corporation's customers, the overall demand for electricity and billings and recovery of revenues could be affected by the COVID-19 pandemic as described in the Business Risk Management section of this MD&A and the "Capital Resources and Liquidity" risk described in the Corporation's MD&A for the year ended December 31, 2019. As a result of the COVID-19 pandemic, there could be higher than normal working capital deficiencies in the short-term and liquidity may be impacted due to disruptions associated with operating cash flows and revenues and the ability to access cash through debt markets or equity from its parent. If required, the Corporation would seek additional liquidity from a number of sources, including equity injections from FPHI, accessing the debt capital markets and increasing the size of the committed credit facilities.

**Credit Facilities**

As at March 31, 2020, 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 2024.

The following summary outlines the Corporation's credit facilities:

| *($ millions)* | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| Operating credit facility | **150** | 150 |
| Demand overdraft facility | **10** | 10 |
| Draws on operating credit facility | **(64)** | (62) |
| Draws on overdraft facility | **-** | (3) |
| Letters of credit outstanding | **(2)** | (2) |
| Credit facilities available | **94** | 93 |

In addition to the above, during the fourth quarter of 2019 the Corporation borrowed $60 million from its ultimate parent, Fortis. These demand loans were unsecured, due on demand, and carried interest equivalent to what the Corporation would pay when drawing on its operating credit facility. The proceeds from the demand loans were used to pay down the Corporation's credit facilities. During the first quarter of 2020, the Fortis demand loans were repaid using funds received from the issuance of $50 million in common shares and through cash from operations.

## 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 2020 projected capital expenditures are approximately $140 million, inclusive of allowance for funds used during construction 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. In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return.

Included in these 2020 projected capital expenditures are the current year costs of construction for the Corra Linn Dam Spillway Gates Replacement and Upper Bonnington Old Unit Refurbishment projects which were described in the MD&A for the year ended December 31, 2019.

While the Corporation intends to execute on its capital expenditure program while considering current COVID-19 pandemic safety restrictions in place, any new or additional restrictions would increase the risk of completing the 2020 capital work as forecast.

## 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, to provide or receive services, materials, and power purchases under the Waneta Expansion Capacity Agreement ("WECA"). 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:

| | Quarters Ended March 31 | |
|---|---|---|
| *($ millions)* | **2020** | 2019 |
| Operating costs charged to FortisBC Pacific (a) | **2** | 2 |
| Operating costs charged to FEI (b) | **1** | 2 |
| Total related party recoveries | **3** | 4 |

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

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

**Related Party Costs**

The amounts charged by Fortis and other related parties under common control were as follows:

| | Quarters Ended March 31 | |
|---|---|---|
| *($ millions)* | **2020** | 2019 |
| Operating costs charged by Fortis (a) | **-** | 1 |
| Operating costs charged by FEI (b) | **1** | 1 |
| Operating costs charged by FHI | **1** | - |
| Power purchase costs charged by WELP (c) | **-** | 16 |
| Total related party costs | **2** | 18 |

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

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

(c) The Corporation was charged by WELP for purchasing capacity pursuant to the WECA. During January 2019, Fortis announced the sale of its 51 per cent interest to CPC and CBT, which are parties not related to Fortis. The transaction closed April 16, 2019, after which time WELP ceased to be a related party to the Corporation.

**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, and due to parent company on the Consolidated Balance Sheets, are as follows:

| | **March 31, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| *($ millions)* | **Amount Due From** | **Amount Due To** | Amount Due From | Amount Due To |
| Due to parent company (a) | **-** | **-** | - | (60) |
| Accounts receivable or accounts payable and other current liabilities: | | | | |
| FortisBC Pacific | **1** | **-** | - | - |
| FHI | **-** | **(1)** | - | (1) |
| Total due from (due to) related parties | **1** | **(1)** | - | (61) |

(a) During the fourth quarter of 2019 the Corporation entered into demand loans with its ultimate parent, Fortis. These demand loans are unsecured, due on demand, and bear interest equivalent to draws on its operating credit facility.

# FINANCIAL INSTRUMENTS

**Financial Instruments Not Measured At Fair Value**

The following table includes the carrying value and estimated fair value of the Corporation's long-term debt:

| | | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|
| *($ millions)* | Fair Value Hierarchy | **Carrying Value** | **Estimated Fair Value** | Carrying Value | Estimated Fair Value |
| Long-term debt [1] | Level 2 | **735** | **895** | 735 | 950 |

[1] Carrying value excludes unamortized debt issuance costs.

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 |
|---|---|---|---|
| Measurement of Credit Losses on Financial Instruments | January 1, 2020 | Effective January 1, 2020, the Corporation adopted Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. The new guidance also requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance. | The Corporation records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible. The allowance for doubtful accounts that is estimated is based on historical experience, current conditions, reasonable and supportable economic forecasts and accounts receivable aging. It is evaluated based on historical and expected credit loss patterns, reasonable and supportable forecasts and customer type. The Corporation recognized an additional $1 million adjustment to the allowance against trade receivables as a result of additional information around current conditions obtained after March 31, 2020. Accounts receivable are written-off in the period in which the receivable is deemed uncollectible. |

# CRITICAL ACCOUNTING ESTIMATES

The following estimates and judgements, which are included in the Corporation's "Critical Accounting Estimates" section of the Corporation's MD&A for the year ended December 31, 2019 were assessed as at March 31, 2020 to take into consideration the COVID-19 pandemic as described in the Business Risk Management section of this MD&A.

**Assessment for Impairment of Goodwill**

The effects of the COVID-19 pandemic represent an overall deterioration in general economic conditions, which could require an entity to assess whether it is a triggering event that requires testing goodwill for impairment at the reporting unit level. As at March 31, 2020, FBC management qualitatively evaluated how the COVID-19 pandemic could affect its long-term assumptions and cash flows and determined that it is more likely than not that the fair value of the reporting unit is greater than its carrying value and therefore no impairment testing was required.

**Employee Future Benefits**

The effects of the COVID-19 pandemic on capital markets to date are expected to cause a significant decline in the fair value of the Corporation's defined benefit pension plan assets. However, there is not a requirement to remeasure such defined benefit pension plan assets on an interim basis and therefore the Corporation intends to remeasure its pension plan assets in the normal course as at December 31, 2020. While there could be significant actuarial unrealized losses on plan assets at the end of the year, such losses are captured in regulatory deferral mechanisms, rather than the income statement, that have been in place during prior regulatory frameworks and have been incorporated into the MRP Application effective 2020.

**Revenue Recognition**

The effects of the COVID-19 pandemic did not significantly affect how the Corporation recognized revenue for the three months ended March 31, 2020, however, going forward and as approved by the BCUC, FBC will be offering bill relief in the form of bill credits for three months to small commercial customers that have closed their businesses. Accordingly, FBC will need to evaluate the requirement of contract collectibility when recognizing revenue from contracts with customers in future periods. The assessment of revenue recognition in future periods will also consider the application of the Corporation's flow-through deferral account, that currently captures the variances in the forecast versus actual customer revenue; existing regulatory deferral mechanisms; and the COVID-19 Customer Recovery Fund deferral account, which was recently approved by the BCUC and captures uncollectible revenues associated with the COVID-19 pandemic.

## 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. The first collective agreement, representing employees in specified occupations in the areas of administration and operations support, expired December 31, 2019. Bargaining between FBC and COPE continues. 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.

## 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, 2019, other than as noted below:

**COVID-19 Pandemic**

Certain risks and uncertainties of the Corporation, which may be relevant as a result of the COVID-19 pandemic, are outlined in the Business Risk Management section of FBC's MD&A for the year ended December 31, 2019. Among the risks the Corporation is monitoring are the "Impact of Changes in Economic Conditions" business risk, which states that an extended period of economic decline, which in the case of the COVID-19 pandemic would be characterized by closure of businesses and disruptions to workplaces, could result in a reduction of demand for electricity and could have an adverse effect on the Corporation.

The impact of the COVID-19 pandemic on the Corporation's operational and financial performance is not known at the time of filing this MD&A, therefore the assessment is expected to evolve through the duration of the pandemic. While the following potential impacts to the Corporation may not materialize or change, they are being considered and monitored. At the time of filing this MD&A, potential areas that could be impacted include, but are not limited to, availability of personnel, electricity loads and revenues, customer retention, the timing of capital expenditures, supply chain, the amount and timing of operating and maintenance expenses, ability to access debt markets, valuation of defined benefit pension plans, timing of regulatory filings and proceedings, application of regulatory deferral mechanisms, valuation of goodwill, valuation of long-lived assets, accounts receivable valuation and timing of collection of receivables from customers that are dependent on the economic impact of the pandemic.

Certain of these potential impacts are expected to be mitigated through the continued use of regulatory deferral mechanisms, including those that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation. The nature of the Corporation's regulatory deferral mechanisms allow for recovery through customer rates in subsequent years. While many sectors of the population are expected to be impacted by the pandemic, the Corporation has a diverse customer base to which it delivers electricity, including residential, commercial, wholesale, and industrial customers.

The duration and extent of the pandemic will continue to inform the assessment of the financial impacts on the Corporation's operations, financial condition, and liquidity. At the time of filing this MD&A, there is uncertainty around both the duration and the extent of the virus' impact and therefore it is unclear as to whether the COVID-19 pandemic will have a material adverse effect on the Corporation.

**Impact of Changes in Economic Conditions**

A general and extended decline in BC's economy, such as what could occur with the COVID-19 pandemic, could lead to reductions in energy demand over time. Current expectations are that the COVID-19 pandemic will not materially affect the overall demand for energy supply, or revenues, as the impact of lower demand for certain commercial customers who have restrictions in place may be offset by increased demand by residential customers.

Changes in economic conditions could lead to an increased risk of impairment of long-lived assets, which are tested for impairment at the enterprise level on the group of assets for the entire regulated utility. These assets form part of the rate base that is approved for recovery through tariffs, including the most recently approved interim rate increase, as part of the rate-setting process. At the time of filing this MD&A, there is nothing to suggest these assets are not recoverable through rates, and as a result, there was no impairment of long-lived assets as at March 31, 2020.

## OUTSTANDING SHARE DATA

As at the filing date of this MD&A, the Corporation had issued and outstanding 2,691,510 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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