
FORTISBC INC.**MANAGEMENT DISCUSSION & ANALYSIS**

For the Three Months Ended March 31, 2021

May 4, 2021

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, 2021 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, 2020, with 2019 comparatives, prepared in accordance with US GAAP.

In this MD&A, FortisBC Pacific refers to the Corporation’s parent, FortisBC Pacific Holdings Inc., FEI refers to FortisBC Energy Inc., FHI refers to FortisBC Holdings Inc., and Fortis refers to the Corporation’s ultimate parent, Fortis Inc.

FORWARD-LOOKING STATEMENT

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

The forward-looking information in this MD&A includes, but is not limited to, 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 its parent FortisBC Pacific, and debenture issuances.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: absence of the COVID-19 pandemic impacts; 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 agree to renew power supply contracts; 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: COVID-19 pandemic risk; 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; capital resources and liquidity risk; competitiveness and commodity price risk; power purchase and capacity sale contracts risk; electricity supply 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, 2020.

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 182,500 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity. The Corporation’s business includes four hydroelectric generating plants and approximately 7,300 kilometers of transmission and distribution power lines, and has a historical 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 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 FBC’s MRP application for the years 2020 to 2024 (“MRP Decision”). The approved MRP includes, amongst other items, a level of operation and maintenance expense per customer indexed for inflation less a fixed productivity adjustment factor, a forecast approach to growth and sustainment capital, a number of service quality indicators designed to ensure the Corporation maintains service levels, and a 50/50 sharing between customers and the Corporation of variances from the allowed Return on Equity (“ROE”).

Variances from the allowed ROE subject to sharing include 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.

The MRP Decision approved updated FBC depreciation rates for property, plant and equipment and intangible assets, as well as updates to the provisions for removal costs collected as a component of depreciation on an accrual basis. These updates are effective for 2020 and have resulted in a net depreciation rate effect that is comparable to net depreciation rates previously in effect.

As part of the MRP Decision, FBC received approval to maintain the allocation of overhead costs to property, plant and equipment and intangible assets, which relate to the overall capital expenditure program.

In February 2021, the BCUC approved a January 1, 2020 rate increase of 1.0 per cent over 2019 rates as well as a January 1, 2021 rate increase of 4.36 per cent over 2020 rates. These rate increases include a 2020 forecasted average rate base of \$1,412 million and a 2021 forecasted average rate base of \$1,479 million.

Allowed Return on Equity and Capital Structure

In January 2021, the BCUC announced that a Generic Cost of Capital (“GCOC”) Proceeding will be initiated in the spring of 2021, which will include a review of the deemed common equity component of total capital structure and the allowed ROE on common equity for regulated utilities in BC effective January 1, 2022. During March 2021, registered participants were invited to comment on the scope of the proceeding, including whether the proposed effective date should remain. Further process on the Proceeding has yet to be communicated.

COVID-19 Customer Recovery Fund Deferral Account

In response to the impact of the global COVID-19 pandemic on British Columbians, FEI applied for and received a final decision in June 2020 from the BCUC for approval of the COVID-19 Customer Recovery Fund deferral account which provides relief offerings in the form of bill payment deferrals and bill credits to certain eligible customers, and to capture the otherwise uncollectible revenues from the Corporation's customers resulting from the COVID-19 pandemic which could otherwise have an impact on net earnings.

As at March 31, 2021, the balance of the COVID-19 Customer Recovery Fund deferral account was \$1 million (December 31, 2020 - \$1 million), which includes a \$1 million estimate of the expected uncollectible revenues related to COVID-19, the offset of which has been recognized as a credit loss allowance. The method of recovery 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. However, for those customers provided relief in the form of three-month bill payment deferrals, repayment plans began in the third quarter of 2020.

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, 2021 and 2020.

As part of the MRP for the years 2020 to 2024, the BCUC has approved the continuation of 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

Quarters Ended March 31	2021	2020	Variance
Electricity sales (GWh)	933	915	18
<i>(\$ millions)</i>			
Revenue	116	111	5
Power purchase costs	40	39	1
Operating costs	21	21	-
Property and other taxes	5	4	1
Depreciation and amortization	16	15	1
Total expenses	82	79	3
Operating income	34	32	2
Add: Other income	1	1	-
Less: Finance charges	18	18	-
Earnings before income taxes	17	15	2
Income tax expense	2	1	1
Net earnings	15	14	1

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the quarter ended March 31, 2021 as compared to March 31, 2020:

Quarter		
Item	Increase (Decrease) (\$ millions)	Explanation
Net earnings	1	<p>Net earnings for the quarter ended March 31, 2021 were \$15 million compared to \$14 million for the same period in 2020. The increase was primarily due to:</p> <ul style="list-style-type: none"> a higher investment in regulated assets, and higher favourable variances attributable to timing of operating costs for the quarter, as compared to those allowed in rates, net of amounts shared with customers, as compared to the same period in 2020. <p>Both 2021 and 2020 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.</p>
Revenue	5	<p>The increase in revenue as compared to the same period in 2020 was primarily due to:</p> <ul style="list-style-type: none"> an increase in electricity sales volumes, and an increase in revenue approved for rate-setting purposes resulting from higher investment in regulated assets, partially offset by a decrease in revenue associated with regulatory deferrals. <p>Electricity sales volumes were higher than the same quarter in the previous year primarily due to higher average residential consumption, in part due to the impact of the COVID-19 pandemic resulting in more customers working from home during the first quarter of 2021, which was not a contributing factor in the comparable period.</p> <p>Variances between revenue associated with actual consumption and those revenues forecast for rate-setting purposes are captured in a regulatory deferral flow-through account, for which the income statement offset is recognized in alternative revenue, resulting in no net impact on total revenue compared to what is approved in rates.</p>

SUMMARY OF QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended June 30, 2019 through March 31, 2021. 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
<i>(\$ millions)</i>		
March 31, 2021	116	15
December 31, 2020	114	12
September 30, 2020	99	10
June 30, 2020	88	17
March 31, 2020	111	14
December 31, 2019	109	11
September 30, 2019	95	10
June 30, 2019	87	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, with lower net earnings in the third quarter and higher net earnings in the first and fourth quarters due to variances in customer load as a result of weather. 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.

March 2021/2020 – Net earnings increased primarily due to a higher investment in regulated assets during 2021 and higher favourable variances attributable to timing of operation and maintenance costs incurred, as compared to operating costs allowed in rates, net of amounts shared with customers.

December 2020/2019 – Net earnings increased primarily due to a higher investment in regulated assets during 2020 and higher favourable variances attributable to timing of operating costs incurred, as compared to operating costs allowed in rates, net of amounts shared with customers.

September 2020/2019 - Net earnings were consistent with the same period in 2019 as the earnings from a higher investment in regulated assets during 2020 were offset by a lower favourable variance attributable to timing of operating costs incurred as compared to operating costs allowed in rates.

June 2020/2019 – Net earnings were higher primarily due to higher investment in regulated assets and higher favourable variances from the allowed ROE under the MRP, net of amounts shared with customers, as compared to the sharing of variances in operating costs during the same period in 2019 under the PBR plan.

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between March 31, 2021 and December 31, 2020:

Balance Sheet Account	Increase (Decrease) (\$ millions)	Explanation
Property, plant and equipment, net	10	The increase was primarily due to capital expenditures of \$27 million incurred during the quarter, and a \$2 million increase in accrued capital expenditures, partially offset by: <ul style="list-style-type: none"> depreciation expense, excluding net salvage provision, of \$14 million, \$2 million of net adjustments in finance leases and Asset Retirement Obligations, the offset of which has been recognized in regulatory assets, costs of removal of \$1 million incurred, which are recognized against the net salvage provision in regulatory liabilities, and contributions in aid of construction of \$2 million.
Regulatory assets (current and long-term)	11	The increase was primarily due to changes in the Brilliant Power Purchase Agreement (“BPPA”) asset and obligation under finance lease and an increase in regulated deferred income tax liabilities, the offsets of which were both deferred as regulatory assets, and an increase in Demand Side Management (“DSM”) expenditures, partially offset by amortization of regulatory assets.
Credit facilities	(13)	The decrease was primarily a result of net repayments on the credit facilities with seasonal cash flows provided by operations.
Accounts payable and other current liabilities	18	The increase was primarily due to timing of interest payments on debentures, timing of property tax accruals and higher power purchase accruals.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Requirements and Liquidity

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

It is expected that operating expenses, interest costs, and other working capital will generally be paid out of operating cash flows, with varying levels of residual cash available for capital expenditures and/or dividend payments. Cash flow is also required to fund capital expenditure programs; regulated deferral accounts, and those regulatory mechanisms that capture revenue shortfalls and incremental costs incurred beyond the control of the Corporation; and investments in DSM. Funding requirements are expected to be financed from a combination of borrowings under the credit facility, equity injections from FortisBC Pacific, and long-term debenture issuances in accordance with the deemed regulatory capital structure approved by the BCUC of 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 under the "COVID-19 Pandemic" and "Capital Resources and Liquidity" risks in the Business Risk Management section of the Corporation's MD&A for the year ended December 31, 2020, there could be higher than normal working capital deficiencies in the short-term and, if required, the Corporation would seek additional liquidity from a number of sources including equity injections from FortisBC Pacific, accessing the debt capital markets, and increasing the size of the committed credit facilities.

Summary of Consolidated Cash Flows

Quarters Ended March 31	2021	2020	Variance
<i>(\$ millions)</i>			
Cash flows provided by (used for)			
Operating activities	55	53	2
Investing activities	(27)	(26)	(1)
Financing activities	(25)	(22)	(3)
Net change in cash	3	5	(2)

Operating Activities

Cash provided by operating activities was \$2 million higher compared to the same period in 2020, primarily due to changes in regulatory assets and liabilities and higher net earnings, after non-cash adjustments, partially offset by a decrease in working capital relating to accounts payable.

Investing Activities

Cash used for investing activities was \$1 million higher compared to the same period in 2020 primarily due to a higher investment in DSM activities.

Financing Activities

Cash used for financing activities was \$3 million higher compared to the same period in 2020, primarily driven by higher net repayments of credit facilities between years. In addition, during the first quarter of 2020, there was a \$60 million repayment of Fortis demand loans partially offset by proceeds from a \$50 million issuance of common shares to help finance the equity portion of the Corporation's capital expenditure program, for which there was not similar financing activities during the current quarter.

During the quarter ended March 31, 2021, FBC paid common share dividends of \$12 million (2020 - \$11 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, 2020.

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, 2020, which are summarized in the table below:

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

Credit Facilities

As at March 31, 2021, 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:

<i>(\$ millions)</i>	March 31, 2021	December 31, 2020
Operating credit facility	150	150
Demand overdraft facility	10	10
Draws on operating credit facility	(56)	(69)
Credit facilities available	104	91

In addition to the above, during the first quarter of 2020, the Corporation repaid \$60 million in demand loans to its ultimate parent, Fortis, using funds received from the issuance of \$50 million in common shares and through cash from operations. 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. At the time the demand loans were issued to FBC, the proceeds were used to pay down the Corporation's credit facilities.

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 2021 projected capital expenditures are approximately \$153 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 2021 projected capital expenditures are more significant projects, including the Corra Linn Dam Spillway Gates Replacement and Upper Bonnington Old Unit Refurbishment projects, among others, which are described in the MD&A for the year ended December 31, 2020.

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 not completing the 2021 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 and FHI. 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)	Quarters Ended March 31	
	2021	2020
Operating costs charged to FortisBC Pacific (a)	2	2
Operating costs charged to FEI (b)	1	1
Total related party recoveries	3	3

(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:

(\$ millions)	Quarters Ended March 31	
	2021	2020
Operating costs charged by FEI (a)	2	1
Operating costs charged by FHI (b)	1	1
Total related party costs	3	2

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

(b) The Corporation was charged by FHI for management services and board of director costs, as well as Fortis corporate management services and other compensation.

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:

(\$ millions)	March 31, 2021		December 31, 2020	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
FEI	-	(2)	-	(2)
FortisBC Pacific	1	-	-	-
Total due from (due to) related parties	1	(2)	-	(2)

FINANCIAL INSTRUMENTS

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.

		As at			
		March 31, 2021		December 31, 2020	
(\$ millions)	Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt	Level 2	810	971	810	1,082

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

ACCOUNTING MATTERS

New Accounting Policies

FBC considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). During the first quarter of 2021, there were no ASUs issued by FASB and adopted by FBC that have a material impact on the Condensed Consolidated Interim Financial Statements.

Future Accounting Pronouncements

Any ASUs issued by FASB, but not yet adopted by FBC, 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 ("COPE") now referred to as MoveUP. The first 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, expires on March 31, 2022.

The collective agreement between the Corporation and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") was ratified in February 2021 and expires on January 31, 2023. 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, 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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