
FORTISBC INC.**MANAGEMENT DISCUSSION & ANALYSIS**

For the Three and Six Months Ended June 30, 2019

August 1, 2019

The following FortisBC Inc. ("FBC" or the "Corporation") Management Discussion & Analysis ("MD&A") has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2019 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 and six months ended June 30, 2019 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, 2018, with 2017 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 2018, 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 expected date of the British Columbia Utility Commission's decision in response to the Corporation's Multi-year Rate Plan application (the "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; and the Corporation's estimated contractual obligations.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include but are not limited to: receipt of applicable regulatory approvals and requested rate orders; absence of administrative monetary penalties; the ability to continue to report under US GAAP beyond the Canadian securities regulators exemption to the end of 2023 or earlier; absence of asset breakdown; absence of environmental damage and health and safety issues; absence of adverse weather conditions and natural disasters; ability to maintain and obtain applicable permits; the adequacy of the Corporation's existing insurance arrangements; no adverse 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; and no weather related demand loss or significant and sustained loss of precipitation over the headwaters of the Kootenay River system.

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

("AIF"). For additional information with respect to these risk factors, reference should be made to the Corporation's MD&A and AIF for the year ended December 31, 2018.

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

CORPORATE OVERVIEW

FBC is an integrated, regulated electric utility operating in the southern interior of British Columbia ("BC"), serving approximately 177,100 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

Customer Rates and Deferral Mechanisms

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

Variances from regulated forecasts used to set rates for electricity revenue and power purchase costs are flowed back to customers in future rates through approved regulatory deferral mechanisms and therefore these variances do not have an impact on net earnings in either 2019 or 2018. As part of FBC's Multi-year Performance Based Ratemaking Plan for the years 2014 to 2019 ("PBR Application"), the Corporation has a flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

Performance Based Ratemaking Plan for 2014 to 2019

In September 2014, the British Columbia Utilities Commission ("BCUC") issued its decision on FBC's PBR Application setting out the rate-setting framework for the years 2014 to 2019.

In the second quarter of 2019, the BCUC issued its decision on FBC's 2019 rates. The decision resulted in a 2019 average rate base of approximately \$1,342 million and no increase to rates. 2019 rates would have otherwise decreased had FBC not requested in the application to defer a revenue surplus for the year, which will be refunded to customers in future rates.

Multi-Year Rate Plan for 2020 to 2024

In March 2019, FBC filed its MRP Application, an application with the BCUC requesting approval of a Multi-year Rate Plan 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, targeted incentives for the Corporation related to power supply costs, emissions reduction 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 will continue through 2019, with a decision expected in the first half of 2020.

Cost of Service Analysis and Rate Design

In February 2019, the BCUC approved FBC's request to return to a single, flat rate for its residential electricity customers over a period of five years instead of the two-tiered rate, also known as the residential conservation rate, that was put in place in 2012. The first part of the phase-in period will begin July 1, 2019, and will gradually reduce the higher tier rate and increase the lower tier rate until a single, flat rate is established by 2023. These changes have no impact to net earnings or total revenues.

CONSOLIDATED RESULTS OF OPERATIONS

Periods Ended June 30	Quarter			Year to Date		
	2019	2018	Variance	2019	2018	Variance
Electricity sales (GWh)	725	722	3	1,674	1,642	32
(\$ millions)						
Revenue	87	84	3	200	192	8
Power purchase costs	16	18	(2)	55	62	(7)
Operating costs	18	17	1	38	37	1
Property and other taxes	4	4	-	8	8	-
Depreciation and amortization	16	15	1	31	30	1
Total expenses	54	54	-	132	137	(5)
Operating income	33	30	3	68	55	13
Add: Other income	1	-	1	2	1	1
Less: Finance charges	18	10	8	36	20	16
Earnings before income taxes	16	20	(4)	34	36	(2)
Income tax expense	1	5	(4)	5	8	(3)
Net earnings	15	15	-	29	28	1

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the three months ended June 30, 2019 as compared to June 30, 2018:

Quarter		
Item	Increase (Decrease) (\$ millions)	Explanation
Net earnings	-	Net earnings for the quarter ended June 30, 2019 were \$15 million, consistent with net earnings in the same period of 2018. Both 2019 and 2018 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	3	Electricity sales volumes were comparable to the same period of 2018. The increase in total revenue was primarily due to an increase in revenues associated with third party contract work for specific project work completed in the period and higher amortization of prior year flow-through variances returned to customers, partially offset by \$2 million in revenue surplus recognized as a result of the BCUC decision to not increase FBC's 2019 customer rates, and instead defer the revenue surplus for the year to be refunded to customers in future rates.
Power purchase costs	(2)	As a result of adopting Accounting Standards Codification ("ASC") 842, power purchase costs in the amount of \$7 million for the second quarter of 2019, which relate to the Brilliant Power Purchase Agreement ("BPPA") finance lease, have been reclassified to finance charges. The offsetting \$5 million increase in power purchase costs was primarily due to higher average power purchase prices compared to the second quarter of 2018.
Operating costs	1	An increase of \$2 million, primarily due to an increase in costs associated with third party contract work for specific project work completed in the period, was partially offset by a reclassification of \$1 million to finance charges for

Quarter		
Item	Increase (Decrease) (\$ millions)	Explanation
		the second quarter of 2019, which relates to the Brilliant Terminal Station ("BTS") finance lease, as a result of adopting ASC 842.
Finance charges	8	As a result of adopting ASC 842, interest on finance leases related to the BPPA and the BTS have been reclassified from power purchase costs and operating costs, respectively, effective January 1, 2019, which increased finance charges by \$8 million for the second quarter of 2019. All other finance charges were consistent with the same period in 2018.
Income tax expense	(4)	The decrease was primarily due to lower earnings before income taxes, higher deductible temporary differences arising from regulatory deferral accounts, and higher deductible temporary differences associated with property, plant, and equipment resulting from the June 2019 enactment of new enhanced Capital Cost Allowance ("CCA") rules.

The following table outlines net earnings and the significant variances in the Consolidated Results of Operations for the six months ended June 30, 2019 as compared to June 30, 2018:

Year to Date		
Item	Increase (Decrease) (\$ millions)	Explanation
Net earnings	1	Net earnings for the six months ended June 30, 2019 were \$29 million compared to \$28 million for the same period in 2018. The increase was primarily due to a higher investment in regulated assets.
Revenues	8	<p>Electricity sales volumes were higher primarily due to increased average consumption by residential customers due to colder weather in the first quarter of 2019 and higher industrial customer loads. Higher consumption compared to what is approved in rates results in increased electric revenue, but is offset by an equal alternative revenue amount resulting in no impact on total revenue.</p> <p>The increase in revenues was primarily due to higher industrial customer loads, higher surplus power sales, and an increase in revenues associated with third party contract work, partially offset by \$3 million in revenue surplus recognized as a result of the BCUC decision to not increase FBC's 2019 customer rates, and instead defer the revenue surplus for the year to be refunded to customers in future rates.</p>
Power purchase costs	(7)	As a result of adopting ASC 842, power purchase costs in the amount of \$15 million for the six months ended June 30, 2019, which relates to the BPPA finance lease, have been reclassified to finance charges. The offsetting \$8 million increase in power purchase costs was primarily due to higher purchase volumes, driven by an increase in electricity sales, and higher average power purchase prices.
Operating costs	1	An increase of \$2 million, primarily due to an increase in costs associated with third party contract work was partially offset by a reclassification of \$1 million to finance charges for the six months ended June 30, 2019, which relate to the BTS finance lease, as a result of adopting ASC 842.
Finance charges	16	As a result of adopting ASC 842, interest on finance leases related to the BPPA and the BTS have been reclassified from power purchase costs and operating costs, respectively, effective January 1, 2019, which had an impact of increasing finance charges by \$16 million for the six months ended June 30, 2019. All other finance charges were consistent with the same period in 2018.
Income taxes	(3)	The decrease in income taxes for the six months ended June 30, 2019 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, 2017 through June 30, 2019. 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)		
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
March 31, 2018	108	13
December 31, 2017	102	12
September 30, 2017	90	10

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.

June 2019/2018 – Net earnings were consistent with net earnings in the same period of 2018.

March 2019/2018 – Net earnings were higher primarily due to higher investment in regulated assets and higher operation and maintenance expense savings for the quarter, net of the regulated Earnings Sharing Mechanism.

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

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

CONSOLIDATED FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets between June 30, 2019 and December 31, 2018:

Balance Sheet Account	Increase (\$ millions)	Explanation
Property, plant and equipment, net	20	The increase was primarily due to capital expenditures of \$48 million incurred during the six months ended June 30, 2019, which includes sustainment and growth capital, as well as the Corra Linn Dam Spillway Gates Replacement and Upper Bonnington Old Unit Refurbishment projects, partially offset by: <ul style="list-style-type: none"> depreciation expense, excluding net salvage provision, of \$20 million, decrease in finance lease assets of \$2 million due to depreciation, the offset of which has been recognized in regulatory assets, costs of removal of \$2 million incurred, which are recognized against the net salvage provision in regulatory liabilities, and contributions in aid of construction of \$4 million.
Credit facilities	13	The increase was primarily due to higher borrowings to finance the debt portion of the Corporation's 2019 capital expenditure program.
Accounts payable and other current liabilities	(10)	The decrease was primarily due to lower power purchase accruals and trade payables, partially offset by higher property tax payable.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Consolidated Cash Flows

Six Months Ended June 30	2019	2018	Variance
(\$ millions)			
Cash flows provided by (used for)			
Operating activities	60	65	(5)
Investing activities	(50)	(46)	(4)
Financing activities	(10)	(19)	9
Net change in cash	-	-	-

Operating Activities

Cash provided by operating activities was \$5 million lower compared to the same period in 2018 primarily due to changes in income taxes receivable and changes in regulatory assets and liabilities.

Investing Activities

Cash used for investing activities was \$4 million higher compared to the same period in 2018 due to higher investment in Demand Side Management expenditures as well as lower contributions in aid of construction.

Financing Activities

Cash used for financing activities was \$9 million lower compared to the same period in 2018 due to higher net proceeds from credit facilities.

During the three and six months ended June 30, 2019, FBC paid common share dividend of \$11 million (2018 - \$11 million) and \$23 million (2018 - \$22 million), respectively, 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, 2018.

Credit Ratings

There have been no changes to the Corporation's credit ratings from those reported in the Corporation's MD&A for the year ended December 31, 2018, 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

Projected Capital Expenditures

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

The 2019 projected capital expenditures are approximately \$116 million, inclusive of AFUDC and excluding customer contributions in aid of construction, and are necessary to provide service, public and employee safety, and reliability of supply of electricity to the Corporation's customer base. In addition to the rate base amounts approved in annual regulatory decisions, multi-year projects under construction earn a regulated return.

Included in these projected capital expenditures are more significant projects related to the Corra Linn Dam Spillway Gates Replacement and the Upper Bonnington Old Unit Refurbishment reported in the Corporation's MD&A for the year ended December 31, 2018.

Credit Facilities

As at June 30, 2019, 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)	June 30, 2019	December 31, 2018
Operating credit facility	150	150
Demand overdraft facility	10	10
Draws on operating credit facility	(79)	(66)
Draws on overdraft facility	(2)	(2)
Letters of credit outstanding	(1)	(1)
Credit facilities available	78	91

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 WECA. WELP ceased to be a related party to the Corporation as of April 16, 2019. 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)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Operating costs charged to FortisBC Pacific (a)	2	2	4	4
Operating costs charged to FEI (b)	1	2	3	4
Total related party recoveries	3	4	7	8

(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)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Power purchase costs charged by WELP (a)	1	4	17	19
Operating costs charged by WELP (a)	-	1	-	1
Operating costs charged by Fortis (b)	1	-	2	1
Operating costs charged by FEI (c)	2	1	3	2
Total related party costs	4	6	22	23

(a) 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 parties not related to Fortis. The transaction closed April 16, 2019, after which time WELP ceased to be a related party to the Corporation.

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

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

Balance Sheet Amounts

The amounts due from related parties, included in accounts receivable on the Consolidated Balance Sheets, and the amounts due to related parties, included in accounts payable and other current liabilities on the Consolidated Balance Sheets, are as follows:

(\$ millions)	June 30, 2019		December 31, 2018	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
FortisBC Pacific	1	-	-	-
WELP	-	-	-	(12)
Total due from (due to) related parties	1	-	-	(12)

FINANCIAL INSTRUMENTS

Financial Instruments Not Measured At Fair Value

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

(\$ millions)	Fair Value Hierarchy	June 30, 2019		December 31, 2018	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion ¹	Level 2	735	954	735	848

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
Leases	January 1, 2019	<p>ASU No. 2016-02, <i>Leases</i> (ASC 842), requires lessees to recognize a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional quantitative and qualitative disclosures.</p> <p>When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognized. At inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised.</p> <p>Leases with a term of twelve months or less are not recorded on the balance sheet but are recognized as lease expense straight-line over the lease term.</p>	<p>FBC applied the transition provisions as of the adoption date and did not retrospectively adjust prior periods. FBC elected a package of implementation options, referred to as practical expedients, that allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the lease classification of existing leases; or (iii) the initial direct costs for existing leases. For operating leases, the future lease payments include both lease components (e.g., rent, real estate taxes and insurance costs) and non-lease components (e.g., common area maintenance costs), which FBC accounts for as a single lease component. The Corporation has not elected to combine lease and non-lease components for the finance leases. Also, the Corporation utilized the hindsight practical expedient to determine the lease term. Upon adoption, the Corporation did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net earnings or cash flows. As at June 30, 2019, the Corporation recognized \$1 million of right-of-use assets and lease liabilities primarily related to office facilities. Additionally, this adoption resulted in finance lease costs previously recognized in power purchase costs and operating costs to be reclassified and presented within depreciation and finance charges, with no effect on net earnings.</p>

FUTURE ACCOUNTING PRONOUNCEMENTS

FBC considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The ASUs issued by FASB, but not yet adopted by FBC, were assessed and determined to be either not applicable to the Corporation or not expected to have a material impact on the Consolidated 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. In October 2018, a memorandum of agreement was reached which extends the expiry of the first collective agreement, representing employees in specified occupations in the areas of administration and operations support, by one year to December 31, 2019. The second collective agreement, representing customer service employees, expires on March 31, 2022.

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

OUTSTANDING SHARE DATA

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

ADDITIONAL INFORMATION

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

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